

Criteria | Corporates | General:

Methodology For Assessing Financing Contributed By Controlling Shareholders

May 15, 2025

(Editor's Note: On Aug. 26, 2025, we republished this criteria article to remove the "Key Changes" and "Impact on Outstanding Ratings" sections, both of which pertained to the initial publication of the criteria. We also added the "Revisions And Updates" section.)

These criteria establish our approach to assessing the impact on our adjusted financial metrics of financing--other than common equity--contributed by controlling shareholders. We call this noncommon equity financing in our existing methodology and refer to it as controlling-shareholder financing in this methodology. Examples of this type of financing can include preferred shares, shareholder loans, Class A units, or convertible debentures, among others. For information about the initial publication of this article as of May 15 2025, including key changes, the impact on ratings, and superseded criteria, see "Updated Methodology Published For Assessing Financing Contributed By Controlling Shareholders."

These criteria apply globally to all issuers that use the corporate methodology (which includes certain financial entities) and corporate issuers rated under the operating leasing company, investment holding company, and real estate methodologies. While the criteria apply to real estate operating companies, they don't apply to real estate investment trusts because of their different financial structures.

METHODOLOGY

Overview

This methodology describes how S&P Global Ratings treats financing, other than common equity, that is contributed by a company's controlling shareholder. We call this capital controlling-shareholder financing (CSF). These criteria do not apply to the evaluation of financing provided by non-controlling shareholders, which we analyze using our hybrid capital or ratios and adjustment methodologies (see Related Criteria).

We apply these criteria to assess whether to exclude CSF from our adjusted debt, leverage, and coverage metrics. We do this when the CSF terms indicate that this financing will act as a cushion to conserve cash and absorb any potential losses ahead of the company's debt.

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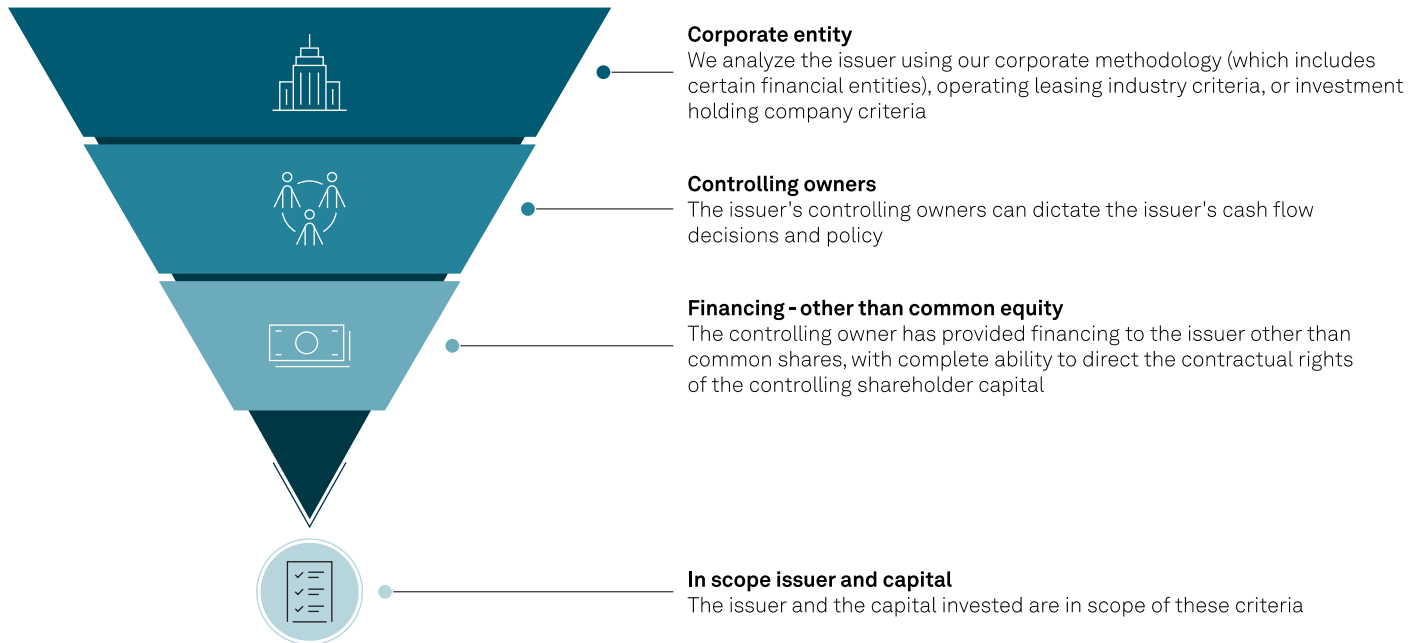
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Chart 1

When we apply these criteria



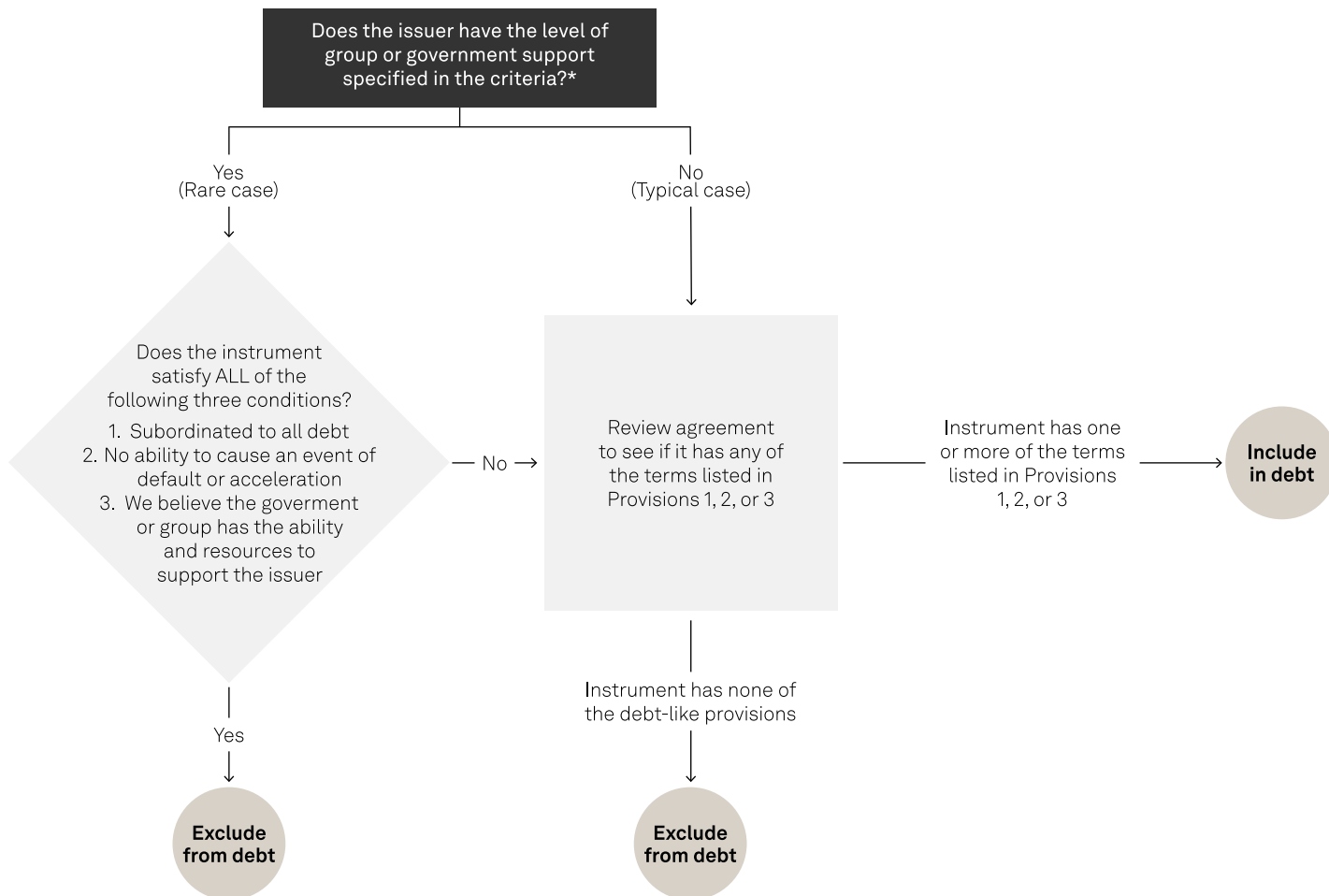
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Analytical Approach

Our starting assumption, before further analysis, is to include CSF as debt in our adjusted leverage and coverage metrics. We will exclude the CSF from our adjusted leverage and coverage metrics when we believe it will act as loss-absorbing or cash-conserving capital in times of stress.

Chart 2

Decision tree for treatment of CSF in our adjusted leverage and coverage metrics



*Specifically, we assess the issuer as having a very high (or stronger) likelihood of extraordinary government support; or a group status of highly strategic or core. Source: S&P Global Ratings. Copyright © 2025 by Standard & Poor's Financial Services LLC. All rights reserved.

We will exclude from debt when our review of all relevant CSF documentation conclusively shows that the instrument is not subject to any of the following debt-like provisions (see below sections for more details on each provision):

- Provision 1: Terms that require cash payments.
- Provision 2: Terms that provide the CSF investor with creditor protections.
- Provision 3: Structural features that incentivize CSF redemption and lead to deterioration of the issuer's creditworthiness.

We will also include the CSF as debt in our adjusted leverage and coverage metrics if we cannot obtain all relevant documentation (not only summary terms and conditions) necessary to assess the instrument.

Provision 1: Terms that require cash payments

The ability to defer cash payments during periods of financial stress is a key characteristic of equity-like instruments. Contractual terms requiring mandatory cash payments to the CSF before the company's debt matures would result in the CSF's inclusion as debt in our leverage and coverage measures.

Some examples of terms that would lead us to include the CSF as debt in our metrics under this provision include:

- Mandatory (non-deferrable) cash interest payments.
- Mandatory amortization payments.
- A final maturity date in advance of debt.
- The ability to accelerate repayment of the instrument while any higher-ranking debt is outstanding.
- Unrestricted redemption rights (through allowed repayment, calls, or other economically similar mechanisms).
- A put option that would cause it to be repaid in advance of debt.

Deferrable interest payments would not lead us, in and of themselves, to include the CSF as debt in our metrics. This is because the deferability feature allows the controlling shareholder to receive cash interest payments when the company is prospering, and to defer cash interest payments when the company is under stress.

Likewise, the ability to redeem the CSF (for example, through call options or other repayment mechanisms), in and of itself, does not automatically mean we would include the CSF in our leverage metrics. To assess the impact of these features, we focus on the extent to which they undermine the principle that the CSF will be outstanding and would be able to absorb losses or conserve cash if the company experiences credit stress.

If the CSF includes terms that enable repayment (including accelerated repayment), repurchase, or redemption without any offsetting constraints, we do not exclude the CSF from our leverage and coverage calculations. However, if strong contractual or intercreditor provisions exist to protect the credit quality of the higher-ranking obligations, we may take the view that the repayment option is neutralized and exclude the CSF from our leverage and coverage calculations. For example, this may happen if the payments are seen as similar to dividends (i.e. variable) and are either linked to a level of improved financial performance or senior lender approval is required to make any prepayment.

On the other hand, non-variable (re)payment profiles that are not dependent on the issuer's financial performance would be considered more akin to servicing a debt-like obligation than being a discretionary dividend-like payment. Likewise, if the senior debtholders provide a blanket advance approval, then the instrument would be included in our leverage and coverage calculations.

If the CSF has a maturity date that occurs before the maturity dates of higher-ranking debt, we typically include it in our leverage and coverage calculations. In rare cases, we may exclude the CSF if a clearly trivial amount of debt matures after the CSF maturity date.

Provision 2: Terms that provide the CSF investor with creditor protections

Equity-like instruments typically do not contain protective provisions that could lead to default, restructuring, or bankruptcy. For us to exclude the CSF from debt in our metrics, we must be confident that it does not contain any creditor-like protections and that it is unguaranteed, unsecured, and subordinated to the company's debt. If the CSF contains credit protective terms or lacks subordination, we include it as debt in our leverage and coverage calculations.

Some examples of terms that would lead us to include the CSF as debt in our metrics under this provision include:

- Conditions that grant security or guarantees to the CSF.
- Events of default or other rights in the CSF that could potentially lead to an issuer's payment default, bankruptcy, liquidation, or similar, including terms that grant the CSF the right to prevent or impair payments to any senior-ranking obligations.
- Senior or pari-passu ranking in payment priority with respect to the company's debt obligations in the event of bankruptcy, liquidation, or similar proceedings.

Provision 3: Structural features that incentivize CSF redemption and lead to deterioration of the issuer's creditworthiness

We review all relevant documentation for any contractual or structural features that incentivize its redemption and, in our view, could lead to deterioration in the issuer's creditworthiness. When we believe the CSF will not absorb losses or conserve cash in stress scenarios, we include the CSF as debt in our adjusted leverage and coverage metrics. We would do so regardless of what the terms and conditions in the documentation might otherwise indicate.

Some examples of when we would include the CSF in our leverage and coverage metrics are:

- The documentation requires an asset transfer to the CSF holders ahead of the full payoff of the company's debt.
- The CSF coupon rate is onerous;
- Or if there is a material increase in the cost of servicing the CSF that is likely to encourage the company to redeem the financing and negatively impact the company's creditworthiness.

When a detailed and holistic evaluation of the terms and conditions does not lead to a clear and conclusive determination that the controlling shareholders will allow the CSF to conserve cash and absorb losses in times of financial stress, we will typically include the CSF as debt in our adjusted leverage and coverage metrics.

The following are examples of elements that we consider under this provision:

- The issuer's statements regarding early redemption of the CSF.
- The issuer's past behavior concerning the use of the CSF.
- Structural features in the documentation that we believe circumvent the limitations on mandatory cash payments or creditor protections described in provisions 1 and 2; or there is reason to believe that the issuer will attempt to circumvent restrictions in the future.

Cases Where Issuers Have A Very High Or Better Likelihood Of Extraordinary Government Support, Or Highly Strategic Or Better Group Status

In certain cases, when we expect high levels of support from a parent or government, we do not assess the impact of the CSF using provisions 1 through 3. We do this when:

- We determine that an issuer is a government related entity (GRE) and we assess the likelihood of extraordinary government support as very high or better using our methodology for Rating Government-Related Entities.
- An issuer is part of a group and the issuer's group status is core or highly strategic using our Group Rating Methodology.

In those cases, we would exclude the CSF from our adjusted debt and leverage if all the following three conditions are true:

- The CSF is contractually or structurally subordinated to all debt in the capital structure.
- The CSF terms do not contain any stipulations that could cause a default or allow for payment acceleration of the CSF or debt.
- We believe that the government or parent has the ability and resources to support the issuer, and it will do so even during times of stress.

If the CSF documentation does not lead us to believe that all three of the conditions above are met, or the documentation is unclear with respect to any of the conditions, we will assess the CSF using provisions 1 through 3 above.

Cases In Which The CSF Is Also Owned by Minority Investors

There are cases when CSF is provided through an instrument funded by the controlling shareholder and by minority investors. In these cases, we evaluate, on an ongoing basis, the controlling shareholder's ability to make binding decisions for all investors on the instrument.

If the documents give the controlling shareholder the ability to make decisions that bind all the CSF investors, then we may exclude the entire amount of the instrument from our adjusted leverage and coverage calculations if the conditions in the criteria are met. If the minority investors can act independently (for example, to block interest deferral, or to request a redemption of the CSF, etc.), then we would include the entire amount of the instrument(s) as debt in our leverage and coverage calculations. We would also include the instrument as debt in our calculations if we cannot clearly discern that the controlling shareholder makes decisions that bind all the investors.

In cases of joint ventures where no investor fully controls the issuer, we assess whether the joint venture owners' interests are aligned in a manner akin to that of a controlling shareholder. If we believe that the joint venture owners' interests align and they act as if there were one controlling shareholder, we will exclude the entire amount of the instrument from our adjusted leverage and coverage calculations if the conditions in the criteria are met. If we cannot determine that there is an alignment of shareholder interests, we conclude that there is no controlling shareholder and, therefore, these criteria do not apply.

REVISIONS AND UPDATES

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Changes introduced since the original publication:

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