

Criteria | Corporates | General:

Reflecting Subordination Risk In Corporate Issue Ratings

March 28, 2018

(Editor's Note: On June 8, 2023, we republished this criteria article to make nonmaterial changes. See the "Revisions And Updates" section for details.)

OVERVIEW AND SCOPE

1. This article presents S&P Global Ratings' methodology for rating the debt of investment-grade corporate issuers and some speculative-grade corporate issuers.
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4. We use these criteria to determine issue credit ratings for debt of issuers whose long-term issuer credit ratings (ICRs) we derive using one of our corporate ratings methodologies. These issuers include:
 - Investment-grade (that is, a global scale ICR of 'BBB-' or higher) nonfinancial corporate issuers. These include national scale issuers, when the national scale rating on the issuer is derived from an investment-grade global scale credit quality level (see "National And Regional Scale Credit Ratings Methodology").
 - Speculative-grade (that is, a global scale ICR of 'BB+' or lower) nonfinancial corporate issuers domiciled in countries where we do not assign a jurisdiction ranking assessment or where we assign a jurisdiction ranking assessment of Group C (see "Methodology: Jurisdiction Ranking Assessments"). These criteria also apply to national scale issuers domiciled in Group C and in unranked jurisdictions, whose national scale rating is derived from a speculative-grade global scale credit quality level. Finally, our criteria apply to speculative-grade issuers in any Group A or B jurisdictions where we do not apply our recovery rating methodology.
 - Certain nonbank financial institutions (NBFIs) and related entities--namely asset managers and financial services finance companies (FSFCs), which apply the criteria without any modification, and financial market infrastructure companies (FMI). Appendix 8 describes how we apply the criteria to FMIs.
5. For those issuers or debt classes not in scope of these criteria, see Appendix 9: Scope Exclusions.

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- These criteria address the fundamentals set out in "Principles Of Credit Ratings," published on Feb. 16, 2011.

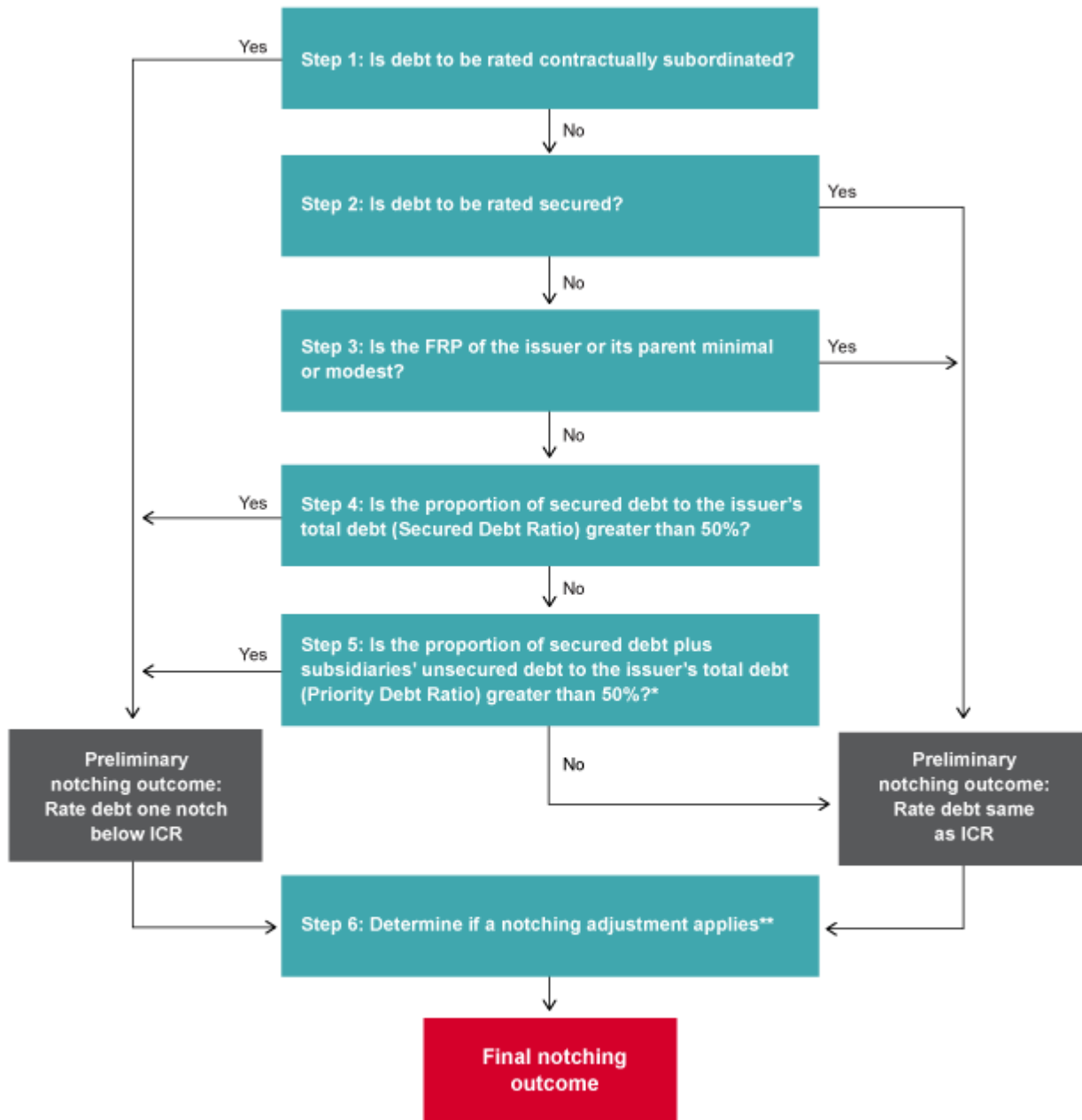
6. This paragraph has been deleted.

METHODOLOGY

7. These criteria differentiate the issue credit ratings of debt that is materially subordinated to other better-positioned or more senior-ranking debt.
8. If a debt instrument is significantly subordinated to other debt, we signal its relative disadvantage by notching the issue credit rating down once from the ICR.
9. Our notching analysis framework comprises six steps (see chart 1).

Chart 1

Reflecting Subordination Risk In Issue Ratings



* See Step 5 in Methodology section and Appendix 5 for conditions that mitigate subordination risk.

**A notching adjustment is also potentially applicable to the preliminary notching outcome of debt issued by qualifying utilities (see Appendix 1) and by qualifying issuers domiciled or operating in Group C jurisdictions (see Appendix 4).

FRP – Financial risk profile. ICR – Issuer credit rating.

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10. These criteria outline our methodology for assigning issue credit ratings that signal whether

certain debt instruments could potentially be significantly subordinated relative to other debt in the issuer's consolidated capital structure. Our methodology does not model a specific bankruptcy scenario and postdefault recovery amounts because the nature of such hypothetical developments is too uncertain to reliably forecast, especially for investment-grade issuers that are far from a potential default.

11. To apply these criteria to groups, we use the same scope of consolidation analysis as defined in "Corporate Methodology: Ratios And Adjustments," with the exception of hybrid debt and non-recourse debt, as explained in Appendix 10: Definitions and Appendix 6: Non-Recourse Debt, respectively. For a group that issues debt from more than one issuer, the six steps described below are applied to each class of debt to be rated at each entity.
 - Step 1: Determine if the debt to be rated is contractually subordinated.
12. We typically notch the issue credit rating of contractually subordinated debt down once from the ICR to signal the higher risk that this class of debt carries relative to more senior debt. Contractually subordinated debt ranks below other debt regarding claims against the issuer's assets, due to provisions in the debt instrument's documentation. When creditors explicitly agree to rank junior to other creditors, they have accepted a relatively higher risk of loss on their investment.
 - Step 2: Determine if the debt to be rated is secured.
13. Secured debt is better positioned than unsecured debt because of the additional protection that the security may provide (see our definition of secured debt in Appendix 10: Definitions). We reflect the secured lenders' priority relative to other lenders by determining a preliminary notching outcome for the secured debt at the same level as the ICR.
 - Step 3: Determine if the issuer's leverage is sufficiently low to offset potential subordination.
14. If an issuer is relatively lowly leveraged, it is less likely that the debt to be rated would be significantly disadvantaged to more senior debt.
15. We consider that issuers whose financial risk profile (FRP) assessment is "minimal" or "modest" (as defined in one of our corporate methodologies, such as "Corporate Methodology") have leverage that is low enough to limit the possibility of any lenders being significantly disadvantaged relative to other lenders. In such a case, we typically rate the debt of such issuers at the same level as the ICR of the issuer.
16. For the purpose of applying the rule in the preceding paragraph, for issuers that are members of groups (see "Group Rating Methodology" [GRM]), we use either the FRP of the ultimate parent or of the issuer itself, depending on the issuer's importance to the group's identity and strategy. For non-insulated subsidiaries, if the issuer's group status, as reflected in its GRM classification, is "core" or "highly strategic," we would use the FRP of the group. If the issuer's group status is "strategically important," "moderately strategic," or "nonstrategic," we use the FRP of the issuer's stand-alone credit profile (see "Stand-Alone Credit Profiles: One Component Of A Rating"). For insulated subsidiaries, we always use the FRP of the issuer's stand-alone credit profile.
17. If the entity or group credit profile does not have an FRP assessment because we derive the creditworthiness from a methodology that does not incorporate a FRP, we proceed to Step 4.
 - Step 4: Determine if there is a significant proportion of secured debt in the issuer's consolidated capital structure, by calculating the secured debt ratio.
18. The secured debt ratio is used to determine if there is a significant proportion of secured debt in an issuer's consolidated capital structure--that is, when the secured debt comprises more than

50% of the issuer's total consolidated debt--we consider that the unsecured debt is inherently disadvantaged because the secured lenders have priority over the unsecured lenders.

19. If the secured debt ratio is more than 50%, we view the remaining unsecured debt as likely to be significantly disadvantaged, and reflect this by determining a preliminary notching outcome for the unsecured debt that is one notch below the ICR.
 - Step 5: Determine if the total secured debt issued by the issuer and its subsidiaries--combined with the unsecured debt issued by the subsidiaries of the issuer--comprises more than half of total consolidated debt, by calculating the priority debt ratio.
20. The priority debt ratio is used to determine if there is a significant proportion of total consolidated debt issued by the issuer's subsidiaries. If subsidiary debt is significant, we believe that lenders to the issuer of the debt to be rated could be meaningfully structurally subordinated if the group's income-generating assets are located in subsidiary operating companies, rather than at the level of the issuer of the debt to be rated.
21. If the priority debt ratio is more than 50%, we consider the issuer's unsecured debt to be subordinated and determine a preliminary notching outcome that is one notch lower than the ICR. The existence of one or more of the following conditions mitigate subordination risk identified in Step 5:
 - At least 30% of the issuer's and its subsidiaries' consolidated earnings, cash flow, or other similar financial metric is derived from operating assets owned by the issuer, and/or from guarantors that provide qualifying upstream guarantees of the total debt to be rated (see the section Upstream Guarantees).
 - The issuer is a well-diversified company (see Appendix 3: Diversified Issuers).
 - The issuer is a qualifying government-related entity (GRE) (see Appendix 5: Notching Of Debt Issued By Government-Related Entities).
22. If the priority debt ratio is less than 50%, then the preliminary notching outcome is the same as our ICR on the issuer. If the priority debt ratio is more than 50%, and none of the conditions in paragraph 24 are met, the preliminary notching outcome is one notch below the ICR.
23. We typically treat the debt issued by subsidiaries that are financing vehicles as if it were issued by their immediate parent (i.e. the owner of the financial vehicle). We consider financing vehicles to be entities that exist solely to issue debt on behalf of their immediate parent and that do not own any operating assets or shares in operating subsidiaries. The ICR on the parent is typically the reference point in determining the issue credit ratings of debt issued by such financing vehicle subsidiaries.
 - Step 6: Determine if a notching adjustment applies.
24. In the vast majority of cases, the preliminary notching outcome will be the final notching outcome. However, in rare situations, we may adjust the preliminary notching outcome if we believe that such an outcome does not fully capture the debt's relative subordination or, alternatively, priority ranking. We expect to apply this adjustment rarely and only in cases where we strongly believe that conditions support a final notching outcome that is different than the preliminary outcome. If we adjust the preliminary notching outcome, the final notching outcome will result in an issue credit rating in line with, or one notch below, the ICR.
25. A notching adjustment is potentially applicable to all preliminary notching outcomes, including those assigned to debt issued by qualifying utilities (see Appendix 1: Notching Of Investment-Grade Regulated Utilities' Senior Unsecured Debt) and by qualifying issuers in Group

C jurisdictions (see Appendix 4: Notching Of Debt Issued By Companies Domiciled In Group C Jurisdictions).

UPSTREAM GUARANTEES

26. Guarantees extended by subsidiaries to parent level debt (i.e., upstream guarantees) may overcome structural subordination by putting the claims of parent company creditors *pari passu* with those of operating company creditors.
27. The two main potential risks to upstream guarantees are:
 - A court may consider an upstream guarantee to be invalid due to a lack of consideration, for example, if the subsidiary did not receive equivalent value in return for granting its guarantee; or
 - A court may consider that the guarantee has created a "fraudulent conveyance" or "preferential payment," if it deems the guarantee to have been granted to hinder or defraud certain creditors or if the subsidiary was insolvent at the time it granted the guarantee. This could happen, for example, if the parent and subsidiaries file for insolvency proceedings soon after the subsidiaries grant the upstream guarantees. Different jurisdictions typically have different look-back time periods from the time of a bankruptcy filing to determine whether an entity was insolvent prior to a bankruptcy filing. The look-back period is often one to two years.
28. For us to consider an upstream guarantee to be sufficiently able to mitigate notching of parent level debt vis-à-vis operating level debt, we generally require that the guarantee be unconditional, irrevocable, and that it meets at least one of the following conditions, subject to relevant jurisdiction-specific considerations:
 - The proceeds of the guaranteed obligation are downstreamed to the guaranteeing subsidiary/subsidiaries as an equity infusion or as a loan, thereby benefiting the subsidiary/subsidiaries that issued the guarantee(s).
 - The subsidiary is considered to be solvent at the time of granting the guarantee. For example, our view of the guarantor's creditworthiness was equivalent to at least a 'B-' global scale ICR, at the time the guarantee was put in place.
 - We rate the transaction after the legal look-back risk period in connection with fraudulent conveyance in the given jurisdiction. For example, if the look-back period is 90 days and we are rating a transaction 90 days after the upstream guarantees were put in place, this condition would be met.
 - We have a legal opinion from outside counsel that the upstream guarantees are valid.
 - On a jurisdiction-by-jurisdiction basis, we may determine different factors that can reduce, or that are required to reduce, risks in connection with the validity of upstream guarantees from subsidiaries.

APPENDIXES

1. Notching Of Investment-Grade Regulated Utilities' Senior Unsecured Debt

29. We equalize the issue credit ratings on the unsecured debt of regulated investment-grade utility operating companies with their ICRs, to reflect our view that these unsecured lenders are not significantly disadvantaged compared with more senior lenders. This approach does not affect the unsecured issue credit ratings of investment-grade unregulated parent holding companies or unregulated affiliates that issue unsecured debt, both of which are subject to the framework detailed in the Methodology section. Nor does this approach apply to contractually subordinated debt, which we generally rate one notch below the ICR (subject to the potential application of a notching adjustment).
30. The equalization of the issue credit ratings to the ICR of these utility companies is supported by empirical data and applies if all of the following conditions are met:
- The issuer is a regulated utility that offers an essential or near-essential infrastructure product, commodity, or service with little or no practical substitute; has a business model that is shielded from competition; and is subject to either comprehensive regulation by a regulatory body or to implicit oversight of its rates or tariffs, service quality, and terms of service. The regulators set rates based on some form of cost recovery, including an economic return on assets, rather than relying on a market price.
 - The utility is subject to regulatory constraints on its ability to add debt, which in our judgment would result in higher average recovery rates for unsecured creditors.
 - The utility's mortgage indenture restricts the issuance of secured debt. As a result, we expect the amount of secured debt (including utility first mortgage bonds), to be less than 70% of the book value of the utility's net property plant and equipment.
31. These industry-specific factors indicate that we can reasonably anticipate relatively good recovery rates for regulated utilities' unsecured debt. If the utility does not meet the above conditions, the debt to be rated will be analyzed according to the framework detailed in the Methodology section.
32. These utility companies are also subject to the application of Step 6 (notching adjustment) for rare situations where we may choose to rate regulated utilities' senior unsecured debt one notch below our ICR on the issuer, even if the conditions in paragraph 30 are met.

2. Implications Of Bank Loan Waivers For Issue Credit Ratings of Japanese Corporates

33. Loan waivers, mostly in the form of debt-for-equity swaps, are sometimes extended by Japanese banks to large troubled Japanese corporate borrowers. When Japanese corporates receive loan waivers from their key lender banks, they usually continue to honor other debts on a timely basis. If S&P Global Ratings believes that other debts will continue to be honored during a loan waiver process, we may assign an issue rating above the ICR to these debt obligations.
34. Generally, we are more likely to assign an issue credit rating above the ICR to debt obligations that we expect to be honored during a loan waiver, when:
- The ICR is low. Only companies with speculative-grade ICRs may benefit from upward rating adjustments due to our anticipation of a loan waiver.
 - The company is large. Historically, loan waivers are more common for large Japanese

companies.

- Lender banks have a track record of providing support. This support may include rolling over short-term financing, appointing bank personnel to key management roles within the company, or assisting in business planning. Such support would likely indicate the banks' willingness to provide further support, including loan waivers if ultimately required, to keep borrowers afloat without forcing them into legal proceedings.
 - The company's financial problems are largely attributable to its heavy debt burden, while its core business activities remain fundamentally sound.
35. We believe that the lower the ICR, the more pronounced the difference can be in the default probabilities of an issuer's debt instruments. However, we limit the issue credit rating to no more than two notches above the ICR if it is 'B-' or above. In addition, issue credit ratings that are notched up due to our expectation of a loan waiver do not exceed 'BB+'. If the ICR is 'CCC+' or below, and we are highly confident that a loan waiver will occur without the company defaulting on its other debt, the issue credit rating uplift may exceed two notches, but the issue credit rating would not exceed 'B+'.
36. We also consider potential notching down for Japanese companies' debt issues according to the main methodology framework as described in the Methodology section. To rate the debt issue, any downward notching due to subordination risk will be netted against any potential upward notching arising from expected loan waivers, as described in this section.
37. When a rated borrower receives a loan waiver, we revise the ICR to selective default ('SD'; see "Rating Implications Of Exchange Offers And Similar Restructurings, Update").

3. Diversified Issuers

38. An issuer's business or geographic diversity may improve the prospect of the residual value remaining for holding company creditors because the company's individual subsidiaries could retain value differently based on their distinct businesses, some with shortfalls and others with surpluses. Diversity could mitigate subordination when there are no cross guarantees (or similar cross support mechanisms) between the subsidiaries, and one of the following applies:
- Under our "Corporate Methodology," we assess the company's diversification/portfolio effect as "moderately diversified" or "significantly diversified"; or
 - The issuing entity has separate operating subsidiaries in at least three global regions; or the issuing entity has separate operating subsidiaries in at least three countries and we believe these countries to have low economic correlation. In addition, we believe that each of these subsidiaries (whether regional or by country) generates at least 10% and no more than 50% of the issuer's EBITDA or cash flow.
39. Diversity is likely to mitigate subordination when we have no information that leads us to believe that the current diversification benefits will dissipate in the foreseeable future, for example, because of a contemplated asset sale. If diversity is expected to diminish such that the conditions above are no longer met, we would not incorporate any benefit in our analysis.
40. For issuers that meet the conditions in paragraphs 38 and 39, a more liberal priority debt ratio may be applied to reflect the benefit the diversity of assets might provide. For such issuers, we may notch down for subordination risk if the priority debt ratio exceeds 75%.

4. Notching Of Debt Issued By Companies Domiciled In Group C Jurisdictions

41. We generally equalize the issue credit ratings with the ICRs for all issuers located (or issuers with the majority of their asset located) in certain Group C-ranked jurisdictions (see "Methodology: Jurisdiction Ranking Assessments") where we expect bankruptcy proceedings will occur, subject to meeting all of the following conditions:
- Our rule-of-law risk assessment is '4', '5', or '6';
 - Our creditor-friendliness assessment is '4' or '5'; and
 - The creditor-friendliness subfactor "Conformity of the distribution of proceeds to legal rankings of claims" is scored as '4'.
42. These companies are also subject to the application of Step 6 (notching adjustment) for rare situations where we may choose to rate a given debt issuance one notch below our ICR on the issuer, even if the conditions above are met, if specific terms or characteristics of the debt lead us to believe that notching down more appropriately captures the relative subordination of the debt.

5. Notching Of Debt Issued By Government-Related Entities

43. For all GREs, we notch down debt issues that are contractually subordinated or those that are disadvantaged relative to secured lenders as defined in Step 4 of the Methodology section. However, we equalize the issue credit ratings with the ICR for structurally subordinated debt issues of GREs that have an "almost certain" or "extremely high" likelihood of extraordinary government support when the GRE meets at least one of the following two conditions:
- The GRE or the majority of its assets is located in certain Group C-ranked jurisdictions where we expect bankruptcy proceedings will occur and the jurisdiction's: i) Rule-of-law risk assessment score is '4', '5', or '6'; ii) Creditor-friendliness assessment score is '4' or '5'; and iii) The creditor-friendliness subfactor "Conformity of the distribution of proceeds to legal rankings of claims" is scored as '4'.
 - We have concluded that the GRE would not be subject to the local insolvency regime in case of a default as discussed in the "Rating GRE debt obligations" section of "Rating Government-Related Entities: Methodology And Assumptions."
44. We also equalize the issue credit ratings with the ICR for structurally subordinated debt issues of GREs that have a "very high" or "high" likelihood of extraordinary government support in jurisdictions where we believe the government is willing and able to intervene so that structurally subordinated lenders would not have worse recovery prospects than structurally senior lenders. We equalize the ratings when all of the following conditions are met:
- The government has significant ownership interests in the domestic banking sector, which provides it with a dominant role in the allocation and enforcement of credit in the domestic market;
 - We believe that there is a significant reputational and economic incentive for the government to ensure that structurally subordinated creditors are not materially disadvantaged in a postdefault scenario; and
 - Historical recovery experience and future expected recovery outcomes are consistent with our

expectation that structurally subordinated creditors will not be materially disadvantaged in the default scenario.

45. The notching treatment of certain GREs under this Appendix reflects our expectation that the government will heavily influence a potential debt restructuring and, as a result, we cannot reliably determine how subordination to structurally prioritized debt will impact the post default recovery prospects of unsecured debtholders.

6. Non-Recourse Debt

46. We generally exclude debt that is legally non-recourse to the issuing group from both the secured debt ratio and the priority debt ratio calculations if all of the following conditions are met:
- The lenders do not have legal recourse to seek a claim on the issuer (other than the assets pledged as security) or any entities in the issuing group, and we believe that the debt would not be consolidated in a bankruptcy;
 - There are no loan documentation carve-out provisions or cross-default provisions that may allow non-recourse lenders to convert a loan into a full recourse loan in the event of bankruptcy or some other trigger, or that could result in debt of an entity in the issuing group being accelerated for repayment; and
 - We conclude that the issuing group will not have a material economic, operational, or moral imperative to support the non-recourse debt.
47. Examples of debt that may be legally non-recourse are project finance debt, non-recourse mortgages, and joint-venture debt.

7. Notching of Hybrid Capital

48. These criteria govern how much we notch down the ratings on subordinated debt and preferred stock/shares (collectively, "junior instruments" in this appendix) for subordination risk, for speculative-grade and investment-grade corporate issuers in all ranked and unranked jurisdictions. The rating on these junior instruments is derived by notching down for both (1) subordination risk, as we explain in this article, and (2) payment deferral risk, if any, as we explain in our criteria "Hybrid Capital: Methodology And Assumptions." Such notching down is cumulative, so notching down for subordination risk is in addition to any potential notching down for deferral risk.
49. Specifically, we notch down junior instruments for subordination risk as follows:
- We notch down twice for speculative-grade issuers of junior instruments in Group A and Group B jurisdictions.
 - We notch down once for speculative-grade issuers of junior instruments in Group C or unranked jurisdictions.
 - We notch down once for investment-grade issuers of junior instruments regardless of the jurisdiction ranking.

8. How We Apply The Criteria To FMI

50. We apply these criteria to all FMIs other than those identified in Appendix 9, with modifications for international central securities depositories (ICSDs), clearinghouses, and groups in which clearinghouses or ICSDs reside.

ICSDs and clearinghouses

51. ICSDs typically have large varying amounts of deposits that appear on their balance sheets but are dedicated to client-settlement activity and are invested in highly liquid, highly creditworthy instruments rather than being available to support the corporate activity of the ICSD. Similarly, clearinghouse balance sheets substantially consist of client-related assets and liabilities, such as initial margins and the replacement value of some types of unsettled trades.
52. In liquidation or resolution, clearing and settlement liabilities may be senior to senior debt or pari passu to senior debt. Therefore, we include these obligations in our analysis.
53. We apply small modifications to our criteria steps for ICSDs, clearinghouses, and groups that have clearinghouses or ICSDs as follows:
- Step 1: Clearing and settlement liabilities are typically either pari passu with or senior to senior debt based on relevant and applicable regulations, membership agreements, or similar legal or structural arrangements. If the clearing and settlement liabilities are senior to the debt to be rated, then we would treat the debt to be rated as if it were contractually subordinated as described in our criteria, and the preliminary outcome would be one notch below the ICR, unless we view the loss-allocation mechanisms as sufficiently beneficial to senior debtholders.
 - Step 2: We apply with no change.
 - Step 3: We apply with no change.
 - Step 4: We do not include clearing or settlement obligations for clearinghouses or deposits for ICSDs in the secured debt ratio.
 - Step 5: We do not include clearing or settlement obligations for clearinghouses or deposits for ICSDs in the priority debt ratio.
 - Step 6: We apply with no change.
54. "Clearing obligations" typically refer to clearing liabilities that are usually non-debt and may include initial or variation margin postings. "Settlement obligations" typically refer to member deposits lodged at ICSDs.
55. Under some regulatory regimes, clearinghouse senior debt may be subordinated to clearing obligations. This suggests that when and if an entity with clearing obligations faces distress, the clearing obligations will be fully repaid ahead of senior debt, even if this means using the non-clearing assets of the clearinghouse. When this is the case, under Step 1, senior debt is rated one notch lower than the ICR unless the presence of loss allocation or other similar recovery mechanisms would, in our view, likely avoid senior debtholders taking a greater loss than if they were pari passu with clearing obligations.
56. Loss-allocation mechanisms allow a clearinghouse (or potentially its resolution authority) to haircut certain clearing liabilities of the clearinghouse to shore up residual clearinghouse operating capacity and stave off bankruptcy. These actions, if taken, would be detrimental to clearing members, but could be beneficial to senior debtholders, because they enhance the

likelihood of senior debt repayment.

Speculative-grade issuers

57. For speculative-grade FMI issuers (that is, those with a global-scale ICR of 'BB+' or lower), we apply these criteria as described above. We do not perform a recovery analysis because we cannot determine absolute recovery with sufficient confidence. These institutions are often prudentially regulated, and there are limited examples of liquidations to determine recovery. Additionally, the history of FMI defaults is sparse, and many FMIs have been required to develop resolution and recovery plans. If an FMI defaults, we typically expect the regulator to salvage the clearing and settlement functions quickly to ensure the continued smooth operations of the national financial system, but we do not have sufficient data or historical observations to gauge the impact of those actions and how they would affect recovery prospects for debtholders of the FMI.

9. Scope Exclusions

These criteria do not apply to:

- Aircraft-backed equipment trust certificates and enhanced equipment trust certificates. We determine these issue credit ratings in accordance with "Criteria For Rating Aircraft-Backed Debt And Enhanced Equipment Trust Certificates."
- Debt issued by captive finance subsidiaries. For more detailed information see "Methodology: The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers." Similarly, we would not incorporate debt issued by captive finance subsidiaries into our notching analysis of its parent's debt, according to these criteria. For the methodology we use to assign ratings to debt issued by a captive finance subsidiary, see our criteria "Financial Institutions Rating Methodology."
- Secured and senior unsecured debt issued by companies in Group A-ranked and Group B-ranked jurisdictions in the real estate industry. We determine issue credit ratings for real estate investment-grade issuers in Group A-ranked and Group B-ranked jurisdictions according to "Key Credit Factors For The Real Estate Industry." For speculative-grade real estate issuers in those jurisdictions, we determine issue ratings according to "Recovery Rating Criteria For Speculative-Grade Corporate Issuers," unless we do not apply our recovery rating criteria in the jurisdiction. For speculative-grade real estate issuers in Group A-ranked or Group B-ranked jurisdictions where we do not apply our recovery rating criteria, we derive the issue credit ratings by applying the "Key Credit Factors For The Real Estate Industry." We derive issue credit ratings for investment-grade and speculative-grade real estate companies in Group C or in unranked jurisdictions by applying these "Reflecting Subordination Risk In Corporate Issue Ratings" criteria.
- Qualifying senior secured debt issued by investment-grade and speculative-grade utilities. We determine these issue credit ratings according to "Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property."
- Structurally enhanced debt issued by regulated utilities and transportation infrastructure companies. We determine these issue credit ratings according to "Rating Structurally Enhanced Debt Issued By Regulated Utilities And Transportation Infrastructure Businesses."
- Debt issued by some railroads. We determine these issue credit ratings according to "Railroad Equipment Trust Certificate Rating Criteria."

- Debt issued by FMIIs that undertake limited banking operations and that are subject to prudential supervision by banking regulators, such as some ICSDs. For these entities, we use the same approach as we do for banks (see "Banks: Rating Methodology And Assumptions").

10. Definitions

Debt: These criteria only consider debt that we include in our assessment of the financial risk profile of the issuer, with the exception of hybrid debt, which we take at full face value, regardless of any equity content we may assign, and with the exception of non-recourse debt, which is generally excluded if it meets the conditions described in Appendix 6: Non-Recourse Debt. We also do not include adjustments for nondebt claims, such as unfunded pension liabilities, all lease obligations, and other nondebt liabilities, according to the criteria article, "Corporate Methodology: Ratios And Adjustments." In addition, we do not include inter-company loans, nor the undrawn portion of credit facilities, in our definition of debt.

Contractually subordinated debt: Debt that, as detailed in the loan agreement or indenture, is subordinated to other debt instruments. For FMIIs with clearing and settlement liabilities that are senior to the debt to be rated, we treat the debt to be rated as if it were contractually subordinated, as described in Step 1 in Appendix 8.

Issuer: The entity that is issuing the debt to be rated.

Secured debt: Generally includes debt to which the issuer (or borrower) pledges, on a first-priority basis, asset(s) as collateral for the obligation. While the nature of such pledges (or security interest) can vary between legal jurisdictions, typical types of security interests include mortgages, floating charges, pledges, and senior liens.

Unsecured debt: Debt that is not defined as secured debt and that S&P Global Ratings uses to derive the FRP (see "Corporate Methodology"). Unsecured debt includes hybrid debt instruments at full face value.

Subsidiary: Any company owned (either wholly or partly) by the issuer, whose debt (either wholly or partly) is part of the scope of consolidation (see "Corporate Methodology: Ratios And Adjustments"), and which is used to derive the issuer's FRP. We typically treat debt issued by subsidiaries that are pure financing vehicles--that is, entities which exist solely to issue debt on behalf of their immediate parent and that do not own any operating assets or shares in operating subsidiaries--as if it were issued by the parent.

Issuing group: Includes all entities whose debt obligations may be included in the calculation of total consolidated debt--that is to say the issuing group does not include entities that have been exclusively set up for secured non-recourse borrowings.

Total consolidated debt: Unsecured debt and secured debt issued by the issuer and its subsidiaries.

Secured debt ratio: Total secured debt in an issuer's consolidated capital structure / total consolidated debt.

Priority debt ratio: (Total secured debt in the issuer's consolidated capital structure + total unsecured debt issued by an issuer's subsidiaries) / total consolidated debt.

REVISIONS AND UPDATES

This article was originally published on Sept. 21, 2017. These criteria became effective on Sept. 21, 2017.

Changes introduced after original publication:

- On March 28, 2018, we republished this article to reflect both a material and a nonmaterial change to criteria. We expanded the scope of these criteria to include financial market infrastructure companies (FMIs). We also added Appendix 8, "How We Apply The Criteria To FMIs," and modified paragraphs 4 and 6; Section 9, "Scope Exclusions"; and the definition of contractually subordinated debt in Section 10, "Definitions," to reflect this change. We also implemented a nonmaterial change to criteria following the publication of "Key Credit Factors For The Real Estate Industry" on Feb. 26, 2018, which partially superseded Section 9, "Scope Exclusions." Specifically, we will use "Key Credit Factors For The Real Estate Industry" to assign ratings to issuances by speculative-grade real estate issuers in Group A-ranked and Group B-ranked jurisdictions where we do not apply our recovery rating criteria and to determine issue credit ratings for real estate investment-grade issuers in Group A-ranked and Group B-ranked jurisdictions. These criteria no longer apply to such issue ratings.
- On Aug. 13, 2018, we republished this article to update the contact list and make minor editorial changes in Section 9, "Scope Exclusions."
- On May 22, 2019, we republished this criteria article to make nonmaterial changes. We updated criteria references and deleted paragraphs 3 and 6, which pertained to the initial publication of the criteria.
- On July 2, 2019, we republished this criteria article to make nonmaterial changes. We updated language in paragraphs 13, 19, and 21 to clarify and to align the language in these sections with the intent of the criteria and with language used throughout the rest of the criteria. Specifically, we clarified that the rating determinations resulting from steps 2, 4, and 5 lead to a preliminary notching outcome. In addition, we updated the "Related Criteria And Research" section.
- On April 14, 2020, we republished this criteria article to make nonmaterial changes to update a number of criteria references throughout the article.
- On May 26, 2020, we republished this criteria article to make nonmaterial changes to update criteria references.
- On March 23, 2022, we republished this criteria article to make nonmaterial changes to update the "Related Criteria" section and to update contact details.
- On Oct. 21, 2022, we republished this criteria article to make nonmaterial changes to update criteria references.
- On June 8, 2023, we republished this criteria article to make nonmaterial changes related to the publication of "National And Regional Scale Credit Ratings Methodology." Specifically, we updated paragraph 4 and the "Related Criteria" section.

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