RFC Process Summary:

RFC Process Summary: Management And Governance Credit Factors For Corporate Entities

January 7, 2024

On July 13, 2023, S&P Global Ratings published a request for comment (RFC) on its proposed criteria, "Management And Governance Credit Factors For Corporate Entities." Following feedback from market participants, we finalized and published our criteria on Jan. 7, 2024.

We'd like to thank investors, issuers, and other intermediaries who provided feedback. This RFC Process Summary provides an overview of the external written comments and certain other feedback we received from the market on the proposed criteria.

After careful consideration of all comments received, we did not make any significant changes to the analytical framework in response but incorporated some clarifications in the final criteria, to enhance transparency.

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External Written Comments Received From Market Participants That Led To Significant Analytical Changes To The Final Criteria

We did not receive any external written comments from market participants that led to significant analytical changes to the criteria.

External Written Comments Received From Market Participants That Did Not Lead To Significant Analytical Changes To The Final Criteria

Feedback: One market participant commented that under our ownership structure subfactor, we are likely to take a negative view of a highly concentrated shareholder structure, when in fact such ownership structures (e.g., state-owned enterprises) may have been shown to not have a negative impact on corporate decision-making and have not led to an increase in credit risk.

Response: Highly concentrated ownership structures are not automatically viewed as a governance weakness. In the ownership structure subfactor scoring guidance, we explicitly state that this subfactor can be assessed as neutral if "the entity has a controlling shareholder but has not displayed a track-record of creditor-unfriendly actions, thus supporting the conclusion that any potentially negative influence of controlling shareholders on creditors' interests is effectively offset by a sufficiently independent board, or sufficiently independent executive management team." In addition, our M&G criteria include scope for analytical judgment on case-specific matters, both at the subfactor assessment level, as well as through the potential application of the holistic modifier adjustment.

Feedback: One market participant voiced a concern over the fact that we may assign a negative assessment for a subfactor upon failure of a given entity to provide information, which it should reasonably be able and willing to provide. The specific concern raised is that issuers may not be able to closely follow the process and updates of rating agencies, thus being penalized unjustly for not providing such information.

Response: The criteria note that failure to provide information on M&G matters, that an issuer should reasonably be able and willing to provide, may support a potential negative assessment for the particular subfactor where that information is needed to arrive at an assessment for that subfactor. Such a failure could also support a negative assessment for the "management subfactor", which covers, among other parameters, information transparency. Having said that, at the onset of the initial rating process and during the normal course of surveillance, S&P Global Ratings' analysts communicate with issuers regarding the standard and timing of information we expect to receive in order to assign and to surveille the M&G assessment. Our expectations take into account jurisdictional differences with respect to official reporting and disclosure requirements.

Feedback: One market participant suggested adding a fifth M&G descriptor of very negative to better align the M&G assessment with the five descriptors scale that S&P Global applies for the capital structure and for the liquidity modifiers.

Response: We believe that a fifth M&G descriptor to the scale would add complexity but not enhance the proposal. In our view, using a four-point descriptor scale provides sufficient and meaningful differentiation.

Feedback: One market participant asked that we clarify and explain if we have changed the order in which we apply the comparable rating analysis modifier (CRA), on the anchor rating.

Response: We are not changing the order in which any of the six rating modifiers in our Corporate Methodology are applied to the anchor. The CRA modifier continues to be the last modifier that we apply to the anchor, before arriving at the stand-alone credit profile. The CRA modifier should not be confused with the holistic modifier adjustment that we have included in the M&G analysis. The latter adjustment is contained within the M&G modifier analysis and is completely sperate from the CRA. Furthermore, we should stress, as written in the revised M&G criteria, the basic preconditions for the application of the holistic modifier adjustment with the M&G analysis is that the circumstances leading to its application have not been fully captured in other components of our Corporate Methodology (for example, in the CRA).

Feedback: One market participant asked if the M&G assessment of financial sponsor-owned companies will be capped at moderately negative and preclude the use of the holistic modifier adjustment.

Response: The vast majority of financial sponsor-owned companies as defined by our Corporate Methodology will likely be assigned an M&G modifier of moderately negative or negative. However, the criteria allow for other assessments if we observe behavior or policies that warrant a different view. In addition, the potential application of the holistic modifier adjustment is not limited according to the type of ownership or control structure.

Feedback: One market participant commented that they would like to see more clarity in the scoring guidance for a negative assessment to the subfactor of board structure, composition, and effectiveness, to promote more consistent application.

Response: We believe that the scoring guidance we have provided for this subfactor, for all three of its assessment categories, is sufficiently extensive, specific, and clear to support consistency in its application.

Feedback: Two market participants commented that the holistic modifier adjustment feature seems unnecessary, preferring to see the criteria give analysts sufficient scope and comfort to assess the five subfactors appropriately.

Response: We stress that application of the holistic modifier adjustment is an option, and not an obligation. We expect this adjustment to be used in only a minority of cases. This is because analysts have more than sufficient scope to apply their analytical judgment when assessing the five individual M&G subfactors (i.e., the formulation of the preliminary M&G score). The holistic modifier adjustment, therefore, is a feature that is primarily reserved to capture and reflect circumstances or fact patterns that may impact M&G risks but are either not covered or not sufficiently reflected in the five subfactor assessments and in the preliminary M&G modifier.

Feedback: One market participant commented that the change in the naming convention of the descriptors, specifically, from fair to moderately negative, may raise red flags and has the potential to be perceived negatively by users of ratings, because the word negative carries inherent pessimism and not all investors have a deep understanding of the methodology itself.

Response: The change to the M&G descriptors aligns with the change we have made to the definitions of each of descriptor, and most importantly, to the way which we derive each descriptor (see table 7 of the criteria). This means that not all issuers currently assessed with a fair M&G modifier will be assessed as moderately negative under the revised criteria (i.e., some will transition to a neutral descriptor under the new criteria). Any company that receives a moderately negative M&G descriptor will necessarily have at least one negative subfactor assessment, and as such, would be deserving of a moderately negative descriptor.

Feedback: One market participant commented that under Japanese law, corporate board members owe "a duty of care of a good/prudent manager" to the corporation. according to this market participant, this duty of care contributes to the interests of the corporation, as well as to the interests of shareholders, creditors, and other stakeholders. This is viewed by the commentor as a basis for a sophisticated and creditor-friendly governance system, which the commentor believes S&P Global Ratings should consider when analyzing Japanese companies.

Response: We fully appreciate the concept of fiduciary duty, which is not unique to Japan, but found in many advanced jurisdictions around the world. We believe that such laws are fully compatible with our M&G analytical framework and would be reflected in the analysis.

Significant Analytical Changes To The Final Criteria That Did Not Arise From Market Feedback

We finalized and published the final criteria without making any significant analytical changes to the criteria that were unrelated to market feedback we received. However, we did make nonmaterial amendments and clarifications that do not alter the analytical framework.

This report does not constitute a rating action.