S&P Global Ratings

RatingsDirect®

RFC Process Summary:

Group Rating Methodology

July 1, 2019

On Dec. 12, 2018, S&P Global Ratings published a request for comment (RFC) on its proposed global methodology for rating entities that are part of corporate, financial institutions (FI), insurance, and international public finance groups, as well as U.S. public finance obligated groups. Our RFC also included an appendix (B) where we shared our proposed guidance for the application of the proposed criteria.

We would like to thank investors, issuers, and other intermediaries who provided feedback on the criteria. This RFC Process Summary provides an overview of the key changes between the request for comment and the final criteria, and the rationale behind those changes.

We did not make material changes to the criteria as a result of comments received, but we did make a limited number of minor analytical changes. We also made editorial clarifications to enhance the transparency of certain aspects of the criteria. In addition, we made a number of minor clarifications, modifications, and additions to the guidance document.

We finalized and published our criteria, titled "Group Rating Methodology" (GRM) on July 1, 2019.

ANALYTICAL CONTACTS

Craig A Bennett
Melbourne
(61) 3-9631-2197
craig.bennett@spglobal.com

Dan Picciotto, CFA
New York
(1) 212-438-7894
dan.picciotto@spglobal.com

Ivana L Recalde
Buenos Aires
(54) 114-891-2127
ivana.recalde@spglobal.com

CRITERIA CONTACTS

Mark Button
London
(44) 20-7176-7045
mark.button@spglobal.com

Peter Kernan
London
(44) 20-7176-3618
peter.kernan@spglobal.com

Nik Khakee
New York
(1) 212-438-2473
nik.khakee@spglobal.com

See complete contact list at end of article.

Summary Of Changes To Criteria

Investment holding companies (IHC)

We moved the section of the proposed criteria that explains the limitations on the group status of investee companies of IHC group parents, to our GRM guidance document. This explanation represents a specific application of the GRM framework and should therefore be covered in GRM guidance.

Dedicated supplier/purchaser relationships

We added clarifying language, as per our original intent, that we apply this section of the criteria only with respect to a supplier who supports the purchaser, and not the other way around.

Rating bank subsidiaries above the group credit profile (GCP) (insulated entities section)

We have made a change to allow a one-notch negative adjustment when determining the potential issuer credit rating (ICR) of certain bank subsidiaries that we rate above the GCP. This will enable us to capture our holistic view of potential extraordinary negative group intervention where a cap linked to the GCP would not apply. We made this change to increase the scope for analytical adjustments.

We have also clarified the text to ensure the analytical principle is clear that in rating certain bank subsidiaries above the GCP, we consider that a cap linked to the GCP does not apply. We also clarified that the potential ICR of a bank subsidiary is typically not subject to a cap linked to the GCP if the entity's stand-alone credit profile plus the potential for additional loss-absorbing capacity support is above the GCP. The RFC had indicated that this only applied to banks with high or moderate systemic importance. This was not our intent and hence our clarification on this topic.

Holding companies of prudentially regulated financial services groups

We have included in the criteria an additional factor that we consider when determining the ICR of holding companies of prudentially regulated financial services groups (FI and insurance). This relates to situations where the potential for regulatory restrictions to payments is significantly lower than we typically observe. We had included this as an example in the proposed guidance, explaining when we may apply narrower notching; however, we believe this is an important analytical principle and therefore we are including it in the criteria.

Rating group entities above the sovereign

We have made a change to the methodology for rating a group member above the sovereign when the sovereign rating is 'B-' or lower, and clarified when 'CCC' criteria is relevant to determine the ICR. More specifically, for a group member where the relevant foreign currency sovereign rating is lower than 'B-', the ICR is no lower than 'B-' (unless transfer and convertibility restrictions are applicable) if the conditions for an ICR of 'CCC+' or lower are not met. We made this change to improve transparency and consistency with other criteria.

In addition, we have made a change to widen the scope of analytical judgment to rate a core group member of an FI group above the relevant foreign currency sovereign rating based on uplift for group support (now up to two notches above, compared with one notch proposed in the RFC). While we would typically rate a core FI group member no more than one notch above the relevant sovereign rating based on uplift for group support, under certain circumstances, as described in GRM guidance, we may rate a core FI group member two notches above the relevant sovereign rating.

We have also made a number of edits to this section, mostly in an effort to clarify our intent, align our terminology with other criteria, and enhance readability.

Appendix A (Glossary of terms)

We have moved our definition of "extraordinary negative intervention" to the criteria glossary, from the guidance section, where it previously resided. In addition, we added a definition for "extraordinary support." Both definitions are intended to add clarity and include editorial changes to closely align the text with other criteria, such as "Rating Government-Related Entities" and "Stand-Alone Credit Profiles."

Criteria prescriptiveness versus scope for analytical judgment

A number of respondents stated their preferences for more or for less criteria prescriptiveness, as the case may be. Some prefer more latitude for analytical judgment while others voiced a clear partiality to higher prescriptiveness. In response to some of these comments, we made various clarifying edits to both our criteria and our guidance, but overall, we remain confident that we have struck an appropriate balance between prescriptiveness and scope for analytical adjustments.

Summary Of Changes To Guidance

We have made several edits to our guidance to aid users of the criteria in understating how we may apply the analytical judgment that the criteria affords. We made other edits to the guidance document to align language, increase transparency on the interaction with other sector criteria, and enhance the clarity of our intent. In addition, and as a response to comments received, we have added guidance on the application of GRM as it pertains to the group status of subsidiaries of project development companies. We have also added guidance on how we apply the greater scope for judgement in rating core group members of financial institution groups above the sovereign. Lastly, we have added guidance on the application of these criteria where cross-default clauses between two or more entities create the economic equivalent of a group.

We finalized and published our guidance article as a separate document. See "Guidance: Group Rating Methodology," published on July 1, 2019.

Other Points of Clarification

We received other comments that were largely application-type comments or requests for clarification--that is, comments about how the criteria would be applied rather than comments specific to the criteria proposal itself. We considered the clarifications needed to address these items and incorporated these into the final criteria and guidance, where appropriate. We also incorporated editorial revisions, where appropriate, to improve the readability and clarify the intent of the criteria.

This report does not constitute a rating action.

Contact List

ANALYTICAL CONTACTS

Craig A Bennett
Melbourne
(61) 3-9631-2197
craig.bennett@spglobal.com

ANALYTICAL CONTACTS

Dan Picciotto, CFA
New York
(1) 212-438-7894
dan.picciotto@spglobal.com

ANALYTICAL CONTACTS

Ivana L Recalde
Buenos Aires
(54) 114-891-2127
ivana.recalde@spglobal.com

CRITERIA CONTACTS

Mark Button
London
(44) 20-7176-7045
mark.button@spglobal.com

CRITERIA CONTACTS

Peter Kernan
London
(44) 20-7176-3618
peter.kernan@spglobal.com

CRITERIA CONTACTS

Nik Khakee
New York
(1) 212-438-2473
nik.khakee@spglobal.com

CRITERIA CONTACTS

Yuval Torbati
RAMAT-GAN
(972) 3-753-9714
yuval.torbati@spglobal.com