

Stablecoin Regulation Gains Global Momentum

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Key Takeaways

- Stablecoin issuance has grown rapidly in recent years and become a significant part of the financial system, which has led to regulatory scrutiny around the world.
- Most regulations center on liquidity, reserves, and transparency, as well as combating illicit activity and aligning with existing financial regulations.
- Europe has enacted a comprehensive framework for member states that we think could set the standards for other jurisdictions.
- We expect federal stablecoin legislation in the U.S. to gain momentum in 2025.

Stablecoins have become a significant part of the financial ecosystem, with a global market cap exceeding \$200 billion as of early 2025 (see chart). These digital assets--designed to maintain their value by referencing a fiat currency or asset class--facilitate cross-border payments, power decentralized finance, and bridge traditional and digital finance.

The rapid growth of stablecoins, and the potential for them to disrupt traditional financial systems and introduce risks, has caught the attention of regulators. Currently, regulators are crafting regulations that include stringent reserve requirements, robust liquidity management, and clear custodial safeguards to protect consumer funds.

Jurisdictions like the EU, Hong Kong, and Singapore are leading with comprehensive approaches for their regions, while the U.S. continues to deliberate on federal legislation.

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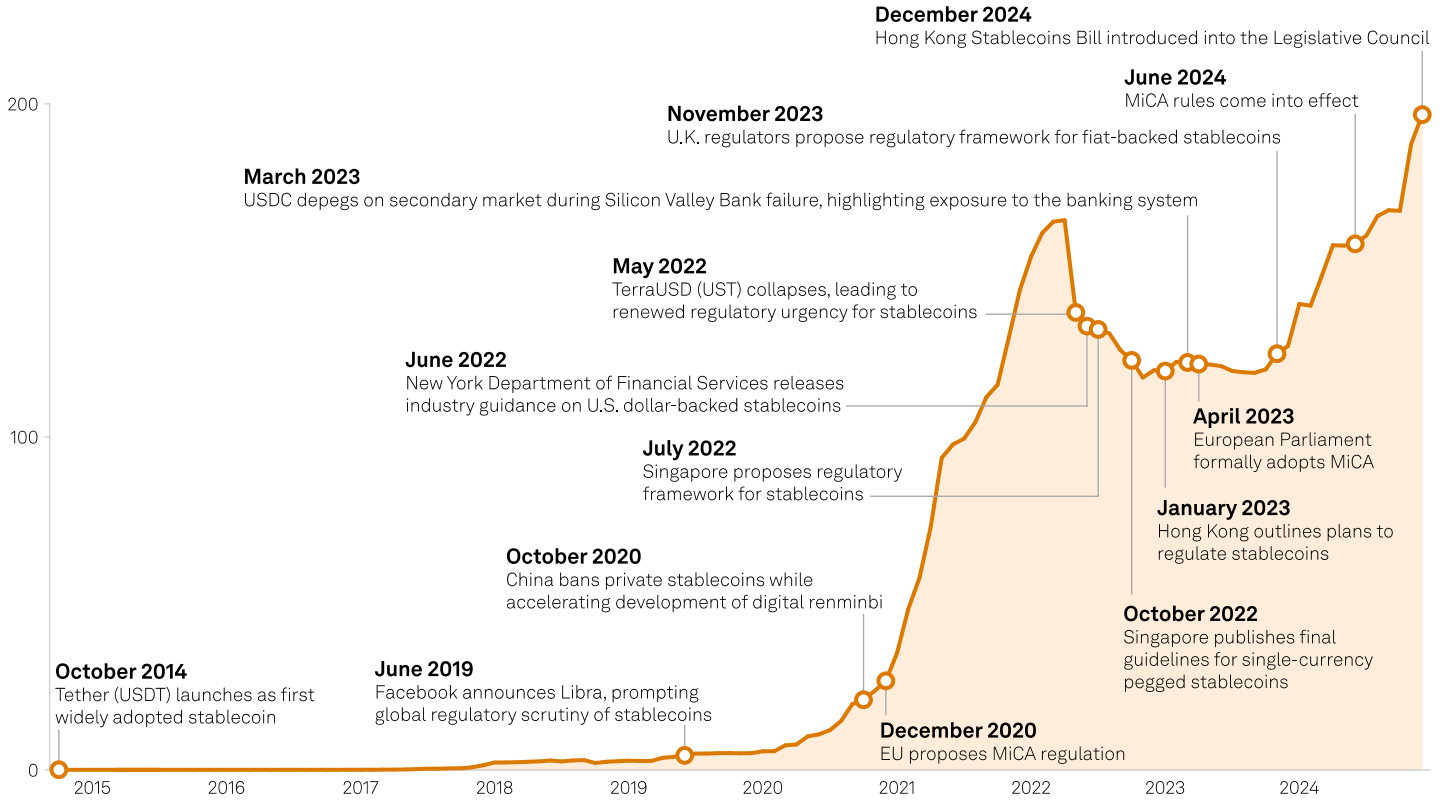
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The explosive growth of stablecoins, evident from the volume and market capitalization, has increased scrutiny from regulators worldwide

Market capitalization (bil. \$)



Note: We have used Coinmarketcap's open-source data for the eleven most prominent stablecoins as a proxy for the stablecoin market cap. MiCA--Markets in Crypto-Assets Regulation. Source: S&P Global Ratings. Copyright © 2025 by Standard & Poor's Financial Services LLC. All rights reserved.

Rapid Financial Innovation Necessitates Regulation To Mitigate Risks

As the adoption and integration of crypto assets into global financial markets continue to accelerate, the need for regulation becomes increasingly important. Without proper oversight, stablecoins could undermine financial stability, consumer protection, and the smooth functioning of the broader financial system. The following considerations highlight why stablecoin regulation is important.

Bridge between decentralized finance (DeFi) and traditional finance

Stablecoins facilitate the movement of value between the traditional financial system and the digital world of DeFi. (For example, when converting dollars to Bitcoin or Ether, stablecoins are often used as an intermediary.) By maintaining a stable value tied to traditional assets like the U.S. dollar, they provide an accessible bridge for individuals and businesses to engage with blockchain-based technologies. Stablecoins could enable smoother transactions, faster settlements, and lower costs for cross-border payments--especially in areas that lack access to traditional banking infrastructure.

Financial stability

While stablecoins have the potential to transform financial systems, robust risk mitigation structures are necessary to avoid introducing risks to global financial stability. Inadequate reserves, poor governance, or operational failures could lead to instability, particularly if a major issuer faces liquidity issues.

Consumer protection

As stablecoins become more widely used in everyday transactions, regulatory gaps could expose users to fraud or mismanagement. Issues such as reserve transparency, issuer solvency, and the ability to redeem stablecoins for their pegged value are critical to safeguarding consumers.

Financial inclusion

Stablecoins present an opportunity to bring the unbanked and underbanked into the financial system by offering a stable, digital form of currency. In regions with unstable local currencies, stablecoins can facilitate cross-border remittances and act as a store of value, as well as help individuals protect their savings and participate in global financial markets. Their potential to support access to financial services without relying on traditional banking infrastructure is especially significant in economically unstable areas.

Regulations Are Focusing On Ensuring Stability, Security, And Equitable Access

As regulators around the world continue to refine frameworks for stablecoin oversight, several key themes have emerged, each addressing distinct yet interconnected risks and opportunities. These themes highlight the challenges of regulating a rapidly evolving financial innovation while ensuring stability, security, and equitable access.

Stablecoin regulatory themes



Reserve management and transparency

A key regulatory concern is ensuring that stablecoins maintain the value they claim to represent. This is typically achieved by backing them with sufficient reserves composed of high-quality and liquid assets. Regulators focus on ensuring that issuers not only back their tokens with appropriate collateral but also provide transparency about how reserves are managed and maintained.



Integration with traditional finance

Regulators are focused on ensuring that stablecoins do not disrupt existing financial systems or introduce risks to the broader economy. Key regulatory issues include assessing the impact of stablecoins on monetary policy, financial institutions, and payment systems, as well as ensuring compliance with Know Your Customer (KYC) standards and adherence to established payment system regulations.



Illicit usage: anti-money laundering (AML) and counterterrorism financing (CTF)

Stablecoins, due to their ability to operate across borders, present unique challenges for regulators and enforcement agencies. Regulators are focused on ensuring that stablecoins do not facilitate illicit activities such as money laundering or terrorism financing. Specifically, frameworks focus on requiring stablecoin issuers to comply with strict AML and CTF regulations, including KYC procedures, transaction monitoring, and suspicious activity reporting. Regulators are also leveraging on-chain analytics to enhance oversight, enabling law enforcement to track and disrupt illicit financial networks with increasing success.



Jurisdictional fragmentation

One of the major challenges in regulating stablecoins is the fragmentation that arises from countries adopting their own regulatory frameworks. Fragmented regulations could lead to confusion, increased compliance costs, and regulatory arbitrage. To address this issue, regulators are increasingly calling for international collaboration and the development of global standards for a cohesive regulatory approach.



Central bank digital currencies (CBDCs) versus private stablecoins

As CBDCs are rolled out, private stablecoins may face increasing competition, although this dynamic could be shaped by jurisdictional differences. For instance, China has banned private stablecoins to advance its CBDC, while the U.S. has taken the direction favoring stablecoins over CBDCs. Other jurisdictions may take either direction or may opt for coexistence with stablecoins and CBDCs serving different use cases. Regulatory focus will likely center on defining the roles of CBDCs in relation to private stablecoins, ensuring that both types of digital assets meet essential standards of stability, security, and transparency.

Source: S&P Global Ratings.
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The Stablecoin Regulatory Landscape Will Continue To Evolve

The regulatory landscape for stablecoins has evolved rapidly to date and varies by jurisdiction (see table). In short, we've seen:

- Standardization in the EU: Markets in Crypto-Assets (MiCA), which came into effect in late 2024, provides a blueprint for stablecoin regulation, including strict reserve requirements and transaction caps for large issuers.
- U.S. progress on legislation: The U.S. has lagged behind other major markets in advancing crypto regulation, but we expect federal stablecoin legislation in the U.S. to gain momentum in 2025 (see "Digital Assets Brief: Crypto's Trump Card," Nov. 20, 2024).
- Innovation hubs in Asia: Hong Kong and Singapore continue to attract issuers with supportive regulatory frameworks, balancing innovation with compliance.

As regulation continues to evolve, stablecoins are set to play an increasing role in transforming payments, remittances, and DeFi. Growing consistency across jurisdictions will provide greater clarity for issuers, reduce compliance costs, and enable smoother cross-border transactions. We think that it will be key for issuers and users to stay aware of regional differences, but overall, the trend toward regulatory alignment should simplify adoption and foster growth.

Regulatory developments by jurisdiction

Jurisdiction	Scope	Reserves and liquidity	Governance and transparency	Other notes
U.S. (proposed)	Asset- and fiat-backed, likely moratorium on algorithmic stablecoins.	100% cash or highly liquid investments in a segregated account, no rehypothecation.	Monthly reserve composition examination and certification.	Defers to state laws, when applicable.
EU	Asset- and fiat-backed (including algorithmic).	100% reserve backing; between 30% and 60% in a credit institution with the remaining in highly liquid investments.	Regular (monthly or quarterly) disclosure and reporting requirements, with certain obligations applicable only above a materiality threshold. Independent audit every six months.	Comprehensive governance frameworks; conflict of interest policies. Stablecoins cannot pay interest.
U.K. (proposed)	The first phase focused on fiat-backed stablecoins.	The proposal requires the issuers to fully back stablecoins with deposits at the BoE.	Fiat-backed payment vehicles would meet the same standards as those applied to commercial bank money with respect to stability, redemption, legal claims and governance.	Stablecoins cannot pay interest.
UAE	Asset- and fiat-backed, no algorithmic stablecoins.	100% cash or highly liquid investments in a segregated account.	Monthly audit by external entity.	Local agencies provide further guidance.
Hong Kong (proposed)	Fiat-referenced stablecoins, including those issued abroad but marketed in Hong Kong.	100% reserve backing; have to be segregated.	Public disclosures on reserves and issuance; monthly attestation at least.	Robust governance structures and risk management frameworks.

U.S.: The stablecoin regulations gain momentum

The U.S. stablecoin regulations are still evolving. Several legislative proposals have been drafted in Congress that cover stablecoins, and the U.S. Senate is currently discussing a bill, but no comprehensive regulation has been enacted. Until there is a clear understanding of how stablecoins will be regulated in the U.S., we believe growth in the adoption of stablecoin in financial markets will remain slow, and institutional investment in stablecoins will be hesitant to enter the market.

The current bill being discussed is called the Guiding and Establishing National Innovation in U.S. Stablecoins (GENIUS) Act, introduced by Sen. Hagerty. It would establish the Federal Reserve as watchdog for big banks, the Office of the Comptroller of the Currency as regulator for large nonbank issuers, and smaller issuers regulated at the state level.

The only significant progress made on stablecoin legislation in the U.S. has been the Lummis-Gillibrand Payment Stablecoin Act, introduced in 2024, and the Clarity for Payment Stablecoins Act, also introduced last year. We view these legislative proposals as on par with other regulations around the world. However, until legislation is enacted, the existing rules apply to stablecoins, including the anti-money laundering rules under the Bank Secrecy Act.

State-specific regulation varies across the U.S., with most states lacking individual frameworks separate from the federal level.

New York: In 2022, the New York State Department of Financial Services issued guidance that included requirements that stablecoins issued in the state be backed 100% by cash or highly liquid investments that are held in a segregated account. Reserves are to be independently verified at the end of every month as well as a randomly selected day within each month to verify reserve composition and sufficiency. A separate independent annual attestation is conducted for further assurance.

Wyoming: The Wyoming Stable Token Act authorized in 2023 the Wyoming Stable Token Commission to issue the Wyoming stable tokens. A segregated trust must hold 100%-102% in highly liquid reserves to back the WYST. Stablecoin issuance is expected by mid-2025.

Nebraska: The Nebraska Financial Innovation Act is a broad set of regulations around digital assets that includes who can issue and manage stablecoins but is limited on how risks are managed.

With the new administration now in office and the president's party controlling Congress, we expect increased attention on digital assets, but no immediate legislation until midyear due to other administration priorities. We anticipate that developments relating to stablecoin legislation and custody over the course of the year could spur market acceptance of stablecoins by banks and traditional financial institutions in the U.S.

On Jan. 23, President Trump signed an executive order regarding digital financial technology that seeks to "promote the development and growth if lawful and legitimate dollar-backed stablecoins." The order tasks a group of representatives from regulatory agencies to propose a federal regulatory framework for stablecoins within 180 days.

EU: Major steps toward regulating digital assets

The EU's Markets in Crypto-Assets (MiCA) regulation is a significant step toward regulating digital assets, particularly stablecoins, to enhance safety and transparency in the financial ecosystem. MiCA regulation came into force on June 29, 2023, and its provisions were implemented in stages. Notably, the rules governing stablecoins became effective on June 30, 2024, and the broader framework applies as of Dec. 30, 2024.

MiCA regulation also includes detailed technical standards and guidelines to ensure effective implementation--many of which are still under development. During the transitional phase, differences in regulatory approaches among member states may lead to inconsistent consumer protection for crypto-asset services. The European Securities Markets Authority is working to promote supervisory convergence and harmonization across the EU.

Under MiCA regulations, stablecoins are classified into two categories: electronic money tokens (EMTs), which are referenced to a single official currency, and asset-referenced tokens (ARTs), which can be referenced to multiple currencies, commodities, or a basket of assets. MiCA regulations apply only to individuals and entities involved in crypto-asset services. Fully decentralized services without intermediaries do not fall under the scope of MiCA regulation.

To issue stablecoins in the EU under the EMT category, issuers must be authorized as either credit institutions or electronic money institutions. They are also required to have their whitepapers approved by the relevant national competent authority before publication.

Under MiCA, stablecoin issuers must offer redemption to all token holders, allowing them to exchange stablecoins at par value. This raises operational challenges as issuers may need to verify individuals who do not have a direct relationship with them. MiCA does not specify a fixed deadline, and this lack of specificity may present challenges for issuers in balancing regulatory compliance, liquidity management, and operational efficiency.

Reserve requirements under MiCA are stringent:

- At least 30% of reserves must be held in deposits with credit institutions, rising to 60% for significant issuers.
- The remaining reserves must be invested in secure, low-risk assets that qualify as highly liquid financial instruments.

While this approach aims to enhance stability, it also concentrates reserves within the traditional banking system, which could increase exposure to bank counterparty risk and lead to delays in accessing reserves during periods of financial distress.

An ART or EMT is classified as significant and subject to stricter systemic requirements if it meets at least three criteria:

- Number of holders: Exceeds 10 million.
- Market capitalization: Surpasses €5 billion
- Average daily transaction volumes: More than 2.5 million transactions
- Average daily transaction value: Exceeds €500 million in value.

Additionally, if on average during a quarter, an ART exceeds 1 million transactions per day or a daily transaction value of €200 million, it must stop new issuances and submit a compliance plan. These restrictions are designed to mitigate potential risks to financial stability and monetary

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policy transmission within the EU.

A key regulatory measure is the prohibition of interest on stablecoins by issuers and crypto-assets service providers (CASPs). It's aimed at discouraging stablecoins from being used as stores of value, but it does not entirely restrict users from generating yield on stablecoins through DeFi.

CASPs compliant with national laws before Dec. 30, 2024, may continue operations until July 1, 2026, or until they receive authorization. Most member states have chosen to allow existing CASPs to operate without a MiCA license for up to 18 months after MiCA becomes fully applicable. As a result, investors may not fully benefit from the MiCA safeguards until July 1, 2026.

Starting Feb. 1, 2025, CASPs are no longer permitted to offer services related to non-MiCA compliant ARTs and EMTs. This includes discontinuing trading, public offerings, or admission to trading for these assets. However, to enable EU investors to liquidate or convert their positions, CASPs may maintain services on a sell-only basis until March 31, 2025.

Users can continue trading these stablecoins on decentralized exchanges using noncustodial wallets, which are not subject to MiCA's CASP regulations. Additionally, under the Transfer of Funds rule, CASPs must maintain detailed user records for compliance. However, self-hosted wallets are exempt from this rule unless a CASP is involved in the transaction.

The ECB also announced on July 19, 2024, that it will expand access to Eurosystem payment systems for nonbank payment service providers, including electronic money institutions. This policy is set to be implemented from April 2025. Stablecoin issuers that qualify as electronic money institutions and meet ECB requirements may benefit from the combined effect of the MiCA regulation and the ECB's decision, potentially allowing them to access Eurosystem central bank operated payment systems and central bank accounts. This could enhance the efficiency and integration of stablecoins within the EU's financial ecosystem.

U.K.: Stablecoins are increasingly a focus of comprehensive regulatory framework

Stablecoins are the key focus for the U.K.'s financial regulatory authorities--the Bank of England (BoE) and the Financial Conduct Authority (FCA). The BoE and FCA published proposals in November 2023 for the first phase of regulations, focused on fiat-backed stablecoins, including when used as a means of payments.

The second phase will cover wider types of crypto assets, such as so-called algorithmic stablecoins and commodity-backed tokens. However, the latest roadmap from the FCA outlined several planned policy publications for crypto assets this year and early next, leading to a comprehensive regulatory regime for crypto assets by the end of 2026.

The BoE's proposals in 2023 outlined a regime for systemic payment systems using stablecoins and related service providers. The proposal addresses two main risks: First, stablecoins could present risks in terms of their innovative use of money or money-like instruments. And second, stablecoins' usage of as a means of payment could present risks in systemic payment systems.

The FCA outlined the proposed regime for stablecoin issuers, custodians, and the use of stablecoins as means of payment. Stablecoin issuers or other entities providing services (such as custodial) must be authorized by the FCA. The FCA standards include requirements for issuers to back the stablecoins with stable and liquid reserves to enable redemptions at par upon request.

United Arab Emirates (UAE): Payment token services regulation is now unified, simplifying risk management

The Central Bank of the UAE has published a payment token services regulation, covering all of the UAE, effective August 2024 and prohibiting algorithmic stablecoins. The central bank may grant a license as payment token issuer, to issue stablecoins across the UAE in dirham, or foreign payment token issuer to issue stablecoins across the UAE in a foreign currency. The central bank must first determine that the issuer's fiat asset reserve held in a dedicated UAE-licensed bank account is sufficient in the applicable currency.

Payment token services cover issuance, conversion, and custody/transfer. A licensed payment token issuer, custodian, or conversion provider must meet certain capital requirements. Reserves must be protected against risks and creditors, highly liquid, and audited monthly by an external entity.

Before 2024, stablecoin regulation in the UAE relied on guidance from local agencies, such as the Dubai Financial Services Authority and the Virtual Assets Regulatory Authority in Dubai, or the Financial Services Regulatory Authority in Abu Dhabi. These agencies may continue to have some overlapping requirements, but we expect the unified regulation could accelerate usage by simplifying risk management.

Hong Kong: Stablecoin bill outlines comprehensive framework for regulated stablecoin activities

The Hong Kong government introduced a draft Stablecoin Bill on Dec. 18, 2024, which is intended to establish a comprehensive regulatory framework for stablecoin activities in Hong Kong. It's expected to pass early this year.

Stablecoins that purport to maintain a stable value with reference to a single or a basket of fiat currencies are within the scope of this bill. The bill imposes license requirements for stablecoin issuers that carry on or hold themselves out as carrying on regulated stablecoin activities in Hong Kong. The regulated activities include the issuance of stablecoins in Hong Kong and the issuance of stablecoins outside Hong Kong that reference Hong Kong dollars.

The license requirements set minimal criteria with respect to:

- Financial resources,
- Reserve assets management,
- Redemption,
- Fit-and-proper requirements,
- Knowledge and experience requirements,
- Prudential and risk management,
- Anti-money laundering, and
- Counterterrorist financing measures, disclosure requirements, and more.

A violation of the license requirements is punishable by a fine of up to HK\$5,000,000 and up to seven years of imprisonment.

Other jurisdictions

Switzerland: Stablecoins are regulated under preexisting laws and some targeted legislation. The Swiss Financial Market Supervisory Authority (FINMA) issues licenses for cryptocurrency activities and monitor compliances related to AML matters.

FINMA's initial coin offering guidelines supplement from 2019 suggests that stablecoin holders can claim payments from the issuer at any time. These claims are primarily classified as either deposits under banking regulations, if the underlying assets are managed for the account and risk of the issuer, or collective investment schemes if the underlying assets are managed for the account and risk of the stablecoin holder.

In July 2024, FINMA published guidelines aimed at assisting stablecoin issuers and banks that offer default guarantees. These guidelines have established minimum requirements for default guarantees applicable to stablecoins. Key stipulations include ensuring that each customer has an individual claim against the Swiss bank providing the guarantee, the guarantee must cover all public deposits and accrued interest, and the total deposits must not exceed the guarantee limit. Additionally, the provisions must allow for a straightforward and prompt claim process for depositors, while permitting legal defenses by the bank.

Japan: Japan enacted its amended Payment Services Act (PSA) on June 3, 2022, to create a regulatory framework for electronic payment methods including a digital money-like type of stablecoins. This came into effect in June 2023 to allow stablecoins issuance under the category of "currency-denominated assets" under the amended PSA.

Digital money-like type stablecoins are issued at a price pegged to the value of a fiat currency and with redemption rights at the issue price. In addition, all stablecoin issuers are required to comply with usual AML/CFT regulations.

A new registration system was also introduced under the PSA to regulate intermediaries.

Singapore: The Monetary Authority of Singapore finalized its stablecoin regulatory framework for stablecoin issuance and related activities on Aug. 15, 2023. The regulatory framework covers single-currency stablecoins pegged to the Singapore dollar or any of G10 currencies. The framework allows banks and nonbanks to issue single currency-backed stablecoins. The key requirements for stablecoin issuance include:

- Reserve assets backing the issuance with a high degree of assurance of value stability,
- Ability to redeem at par within five business days from a redemption request,
- Capital requirements for issuers to maintain minimum base capital and liquid assets to minimize the risk of insolvency, and
- Disclosure requirements and enhanced transparency.

Liechtenstein: Liechtenstein was one of the first countries to implement comprehensive regulations for blockchain technology and cryptocurrency. The Token and Trusted Technology Service Provider Act (TVTG), also known as the "Blockchain Act," has been in effect since Jan. 1, 2020. MiCA regulation will become applicable in Liechtenstein once the implementation act--currently being legislated--takes effect, likely on Feb. 1, 2025.

At the same time, other legislation will undergo amendments. Provisions and activities addressed by the MiCA regulation will be repealed in the TVTG, but the TVTG will remain a crucial component

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of the regulatory framework for the token economy and crypto assets in Liechtenstein.

The Financial Market Authority Liechtenstein has granted entities a 12-month period to transition to MiCA.

Iceland: The MiCA regulation will apply to crypto-asset issuers and service providers in Iceland. The Central Bank of Iceland has provided an 18-month period for entities to transition to compliance with the regulation.

Norway: The MiCA regulation will apply to crypto-asset issuers and service providers in Norway. The Financial Supervisory Authority of Norway has not yet confirmed the transition period for the regulation.

Brazil: In the proposed Central Bank of Brazil resolution, accepting public comments through February 2025, tokens pegged to foreign currencies would no longer be allowed to transfer to self-custody wallets. This change could boost transparency and security of stablecoin use in Brazil.

Related Research

Analytical Approach: Stablecoin Stability Assessments, Nov. 28, 2023

This report does not constitute a rating action.

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