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S&P Requests Comments On Rating Hybrid Capital Instruments Issued By Banks, Prudentially Regulated Finance Companies

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STOCKHOLM (Standard & Poor's) Feb. 6, 2014--Standard & Poor's Ratings Services today published a Request for Comment on revisions it is proposing to how it rates hybrid capital instruments for banks and prudentially regulated finance companies, "RFC: Assigning Issue Credit Ratings To Bank And Prudentially Regulated Finance Company Hybrid Capital Instruments." (Watch the related CreditMatters TV segment titled "Standard & Poor's Request For Comment: Bank And Prudentially Regulated Finance Company Hybrid Capital Instruments," dated Feb. 6, 2014.)

"We are proposing to change our criteria now because we believe that banking regulators are adopting a tougher 'bail-in' stance toward hybrid capital

instruments, increasing the possibility that banks may have to use them to a greater extent to absorb losses," said Standard & Poor's credit analyst Sean Cotten. By bail-in, we are referring to instances where investors share in the cost of a government's rescue of a failing bank.

"We have also observed recent cases of regulators intervening to stop banks from making their payments to hybrid capital investors at what we consider to be earlier points in the deterioration of the financial strength of a bank than previously," said Mr. Cotten.

We explain these developments in our accompanying commentary, "Increasing Bail-In Risks For Bank Hybrid Capital Instruments Are Behind Our Proposed Criteria Change," also published today.

And, we answer questions we believe market participants may have regarding our Request for Comment in the article, also published today, "Q&A: What's Behind Our Proposal To Change Our Criteria For Rating Hybrid Capital Instruments Issued By Banks And Prudentially Regulated Finance Companies?"

SCOPE OF THE REQUEST FOR COMMENT

This proposal applies to all hybrid capital instruments issued or to be issued by rated banks and finance companies subject to prudential regulation, and includes other deposit-taking entities such as building societies.

RATINGS IMPACT

Standard & Poor's currently rates hybrid capital instruments for approximately 150 financial institutions groups, of which a third have more than five rated instruments within the scope of this Request for Comment. However, we would not expect all such issue credit ratings to be affected by this proposal. About 45% of rated hybrid capital instruments are issued by European banks, 45% by North American banks, 10% in Asia-Pacific, and a few issues in Latin America. By country, the largest share of these ratings is in the U.S. (36%), U.K. (16%), Canada (11%), and France (8%).

The ratings impact for Tier 1 instruments that we already rate three or more notches below the SACP and the impact for Tier 2 instruments are less certain because the issue credit ratings may already capture the incremental nonpayment risk.

The proposals could also impact the ratings on a small portion of the pool assets held by several collateralized debt obligations (CDOs), though we do not currently expect any rating changes on the CDOs themselves.

RESPONSE DEADLINE

We encourage interested market participants to submit their written comments on the proposed criteria by March 21, 2014, to <http://www.standardandpoors.com/criteriaRFC/en/us>. We will review and take such comments into consideration before publishing our definitive criteria once the comment period is over. Generally, Standard & Poor's Ratings Services (Ratings Services) may, in cases when the commenter has not requested

confidentiality, publish comments in their entirety, except when the full text, in Ratings Services' view, would be unsuitable for reasons of tone or substance.

DETAILS

The proposed methodology is available on RatingsDirect through this link: "RFC: Assigning Issue Credit Ratings To Bank And Prudentially Regulated Finance Company Hybrid Capital Instruments." This article is also publicly available on S&P.com through this link:
<http://www.standardandpoors.com/ratings/requests-for-comment/en/us>.

WEBCASTS

We will be hosting two regional Webcasts on the following dates and times:

- Tuesday, February 11, 2014, 12.00 p.m. Singapore time

Go to this web page to register:

https://event.on24.com/eventRegistration/EventLobbyServlet?target=registration.jsp&eventid=749388&sessionid=1&key=581A10D21EFB4481476DD95303C41ACE&sp_mid=28950&sp_rid=27881&sourcepage=register

- Monday, February 10, 2014, U.K. 3.30 p.m., Europe 4.30 p.m. & North America 10.30 a.m.

Go to this web page to register:

https://event.on24.com/eventRegistration/EventLobbyServlet?target=registration.jsp&eventid=749381&sessionid=1&key=1C7488D14C7587CCA27226069022FFC9&sp_mid=28950&sp_rid=27881&sourcepage=register

RELATED CRITERIA

- RFC: Assigning Issue Credit Ratings To Bank And Prudentially Regulated Finance Company Hybrid Capital Instruments, Feb. 6, 2014
- Principles For Rating Debt Issues Based On Imputed Promises, Oct. 24, 2013
- Methodology: Use Of 'C' And 'D' Issue Credit Ratings For Hybrid Capital And Payment-In-Kind Instruments, Oct. 24, 2013
- Group Rating Methodology, Nov. 19, 2013
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Principles Of Credit Ratings, Feb. 16, 2011

RESEARCH

- Q&A: What's Behind Our Proposal To Change Our Criteria For Rating Hybrid Capital Instruments Issued By Banks And Prudentially Regulated Finance Companies? Feb. 6, 2014
- Increasing Bail-In Risks For Bank Hybrid Capital Instruments Are Behind Our Proposed Criteria Change, Feb. 6, 2014
- Applying The Bank Hybrid Capital Criteria To Specific Instruments, Dec. 20, 2011

The report is available to subscribers of RatingsDirect at

www.globalcreditportal.com and at www.spcapitaliq.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@standardandpoors.com. Ratings information can also be found on Standard & Poor's public Web site by using the Ratings search box located in the left column at www.standardandpoors.com. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4009.

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