

STANDARD  
&POOR'S

## **Guide to Credit Ratings Criteria**

Why criteria  
are important  
and how they  
are applied

UNDERSTANDING  
RATINGS



---

## The origin of Standard & Poor's Credit Ratings

---

Standard & Poor's Ratings Services traces its history back to 1860, the year that Henry Varnum Poor published the History of Railroads and Canals of the United States.



Poor was concerned about the lack of quality information available to investors and embarked on a campaign to publicize details of corporate operations. Standard & Poor's has been publishing credit ratings since 1916, providing investors and market participants worldwide with independent analysis of credit risk.

---

---

## Introduction

The **Guide to Ratings Criteria** explains what credit ratings criteria are, how they are applied in Standard & Poor's rating process, and how our criteria are governed and refined over time. It also describes our efforts to make our criteria increasingly transparent and accessible, and how criteria provide the foundation for the comparability and quality of our credit ratings.

**We continually drive towards more transparent criteria and more comparable credit ratings.**

Criteria provide the analytic framework within which S&P derives its ratings opinions. Our criteria encompass broad principles for assessing our view of creditworthiness, the ratings factors that are specific to the issuers and issues we rate, and the assumptions we generally make in our analyses. Our criteria entail a large body of analytical methodology that guides our analysts in the assignment of credit ratings.

---

### **It's important to keep in mind several key characteristics of ratings criteria:**

- > Criteria provide the framework by which our analysts assign ratings, which are relative rankings of creditworthiness across all rated issuers and debt issues.
- > Criteria are intended to balance both quantitative and qualitative factors.
- > Rating committees vote on and assign credit ratings based on the factors prescribed by the applicable criteria.
- > The governance of our criteria is intended to support the quality of our ratings.
- > While providing a foundation for our ratings analysis, our criteria evolve over time to reflect our assessment of changes in the market and the results of ongoing ratings performance studies.

In applying, evaluating, and managing our criteria, and endeavoring to make them more transparent through publications and other channels, we provide market participants with what we believe to be a globally comparable benchmark to help them independently assess the relative credit quality of issuers and debt instruments across a broad range of regions, sectors, and asset classes.

**To learn more about credit ratings and the ratings process, visit [www.AboutCreditRatings.com](http://www.AboutCreditRatings.com) or [www.UnderstandingRatings.com](http://www.UnderstandingRatings.com).**

---

PAGE 3

**WHAT RATINGS CRITERIA ARE**

---

PAGE 6

**WHY CRITERIA MATTER**

---

PAGE 8

**HOW CRITERIA ARE GOVERNED**

---

PAGE 10

**HOW ANALYSTS APPLY CRITERIA**

---

PAGE 12

**HOW WE DEVELOP AND REFINE OUR CRITERIA**

---

PAGE 15

**ADDITIONAL RESOURCES ON STANDARD & POOR'S RATINGS AND CRITERIA**

---



---

## What ratings criteria are

Ratings criteria are published principles, methodologies, and assumptions that our analysts use to assign ratings; they provide the framework by which our analysts assess creditworthiness. Specifically, our criteria inform our analysts as they identify risks and assess each risk's potential impact on creditworthiness. Our criteria guide our analysts, and the rating committees they participate in, as they combine and weigh these risks to determine final credit rating opinions.

Criteria may be as broad as a general framework used to measure the creditworthiness of an issuer or issue, as specific as a quantitative formula or accounting adjustment for measuring cash flow adequacy or debt burden, or as nuanced as an evaluation of the competitive or geopolitical landscape in which a company operates.

### **Principles, methodology, and assumptions**

Standard & Poor's publishes three broad subsets of criteria:

> **Principles** are the fundamental elements of analyzing credit risk and the qualitative and quantitative treatment of information we consider in reaching a ratings opinion. These elements may include, for example, business risk and financial risk in the case of rating a corporation or financial institution, or geopolitical risk in the

case of a sovereign government. When assessing structured finance issues, the broad fundamental areas we typically consider include: asset credit quality, legal and regulatory risks, the payment structure and cash flow mechanics, operational and administrative risks, and counterparty risk.

> **Methodology** refers to the specific methods that govern the application of criteria principles to a particular rating or practice (e.g., Corporate, Public Finance, or Asset Backed Securities). Criteria methodologies are specific processes and frameworks for applying criteria principles to reach a rating. An example would be the specific quantitative measures we use to assess current and future cash flows and ability to cover expected interest expense for issuers in specific industry sectors.

> **Assumptions** are projections, estimates, input parameters to models, and all other types of qualitative or quantitative expectations that we use to arrive at a ratings opinion. For example, in analyzing an oil and gas company we generally make assumptions about the price of oil over shorter and longer periods under certain market conditions. Similarly, in analyzing an asset-backed security, we make assumptions about future losses of the underlying assets that could impair cash flows.

---

## What ratings criteria are

### A balance of quantitative measures and qualitative assessments

Standard & Poor's criteria represent a balance of quantitative measures and qualitative assessments used in our ratings process. Quantitative measures range from systematic assessment of financial data involving ratio analysis to complex models based on specific financial and market assumptions. While quantitative measures and models are useful in assessing credit risk, we do not believe they capture all the nuances of the real world, which can sometimes contradict the information exhibited in financial ratios or provided by a quantitative model.

Standard & Poor's aim is to balance quantitative measures with qualitative analysis based on the judgment and analytic skills, training, and experience of our credit ratings analysts. Guided by our criteria, the insights and perspectives that these analysts provide distinguish Standard & Poor's ratings and help to support a level of quality and comparability for our ratings that, in our view, would not be possible using a purely quantitative, automated, or model-driven approach.

### Transparent

By articulating our criteria in a transparent fashion, we intend to help market participants better understand how we analyze credit risk and empower them to make knowledgeable credit risk decisions.

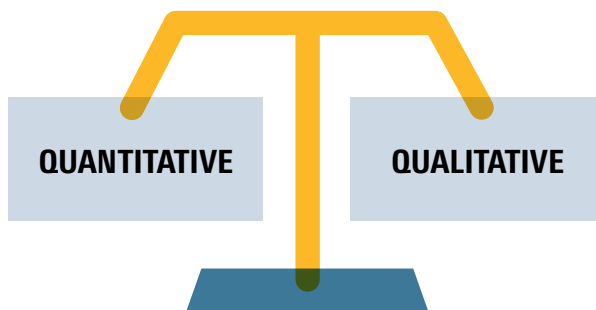
Standard & Poor's aims to make our criteria transparent by:

- > identifying the factors that we believe can impact the creditworthiness of issuers and issues
- > explaining how we differentiate levels of risks (e.g., high, medium or low) for each of these factors and
- > describing how we combine these factors to arrive at a credit rating.

To clarify the level of creditworthiness that each rating category represents, we have published hypothetical stress scenarios that we use to calibrate our ratings criteria across sectors, asset classes and regions, as discussed below under **Why criteria matter**.

---

## A balance of quantitative and qualitative evaluations



---

## Accessible

Standard & Poor's makes our criteria publicly available, through multiple avenues, with the intention that they may help market participants to better understand the ratings analyses that lead to our opinions and ratings assignments. Our published articles describe current

ratings criteria, methodologies, macro-economic assumptions, and the rationale for refining our criteria at particular times. We also post on our free public websites our criteria Tables of Content (TOCs), which are virtual books that provide easy access to all of our criteria for each sector and asset class we rate.

---

## Standard & Poor's table of contents for ratings criteria

This table of contents, available at [www.standardandpoors.com/CriteriaTOC](http://www.standardandpoors.com/CriteriaTOC), is updated continuously as we publish new criteria. It will direct you to all active criteria articles for the groups or instruments listed below:

- > Standard & Poor's General Criteria
- > Standard & Poor's Corporate Ratings Criteria
- > Standard & Poor's Financial Institutions Ratings Criteria
- > Standard & Poor's Funds Ratings Criteria
- > Standard & Poor's Insurance Ratings Criteria
- > Standard & Poor's Bond Insurance Ratings Criteria
- > Standard & Poor's International Public Finance Ratings Criteria
- > Standard & Poor's Sovereign Ratings Criteria
- > Standard & Poor's U.S. Public Finance Ratings Criteria
- > Standard & Poor's Structured Finance Ratings Criteria

## Why criteria matter

As the foundation for our credit ratings, our criteria are instrumental in driving the quality and comparability of our ratings across a broad range of regions, sectors, and asset classes.

### Criteria provide a foundation for comparable ratings

We believe that the application of our criteria, and refinements to our criteria, help to support the quality and comparability of our ratings. This intended comparability over time, and across sectors and asset classes, provides market participants with a benchmark to help them evaluate the credit risk of a broad range of debt instruments.

We aim to provide market participants with ratings that can be useful and valuable tools for comparing the fundamental credit risk of various rated issuers or issues.

### Criteria provide a global benchmark

Our criteria are the foundation for the quality and comparability of our credit ratings. For that reason, Standard & Poor's strives to produce and publish ratings (from 'AAA' to 'D') that generally correspond to the same approximate level of creditworthiness whenever and wherever they appear, including widely different issuers and issues on a global basis.

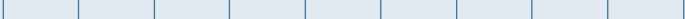
These issuers may be as diverse as a Canadian mining company, a Japanese financial institution, a Wisconsin school district, a U.K. mortgage-backed security, or a sovereign nation. We intend for our ratings to serve as a common vocabulary, to describe our opinion of credit risk across the universe of issuers and issues we rate.

## Criteria: the foundation for our credit ratings

### ASSIGNED CREDIT RATINGS

Single ratings scale across regions, sectors, and asset classes

'D' 'C' 'CC' 'CCC' 'B' 'BB' 'BBB' 'A' 'AA' 'AAA'



### CREDIT ANALYSIS

### CRITERIA



---

### **Criteria produce forward-looking credit ratings**

Our criteria are designed to help identify credit risks that could impact future credit quality. In applying our criteria to assign ratings on issuers and issues, we evaluate creditworthiness based on our view of future scenarios and macro-environmental events, leading to credit rating opinions that are forward looking.

### **Criteria incorporate credit stability as a rating factor**

In evaluating creditworthiness, our criteria incorporate credit stability as a ratings factor. When assigning and monitoring ratings, we typically consider whether we believe an issuer or issue has a high likelihood of experiencing what we view to be unusually large adverse changes in credit quality under conditions of moderate stress. In such cases, we may assign the issuer or issue a lower rating than we would have otherwise given.

---

## **Hypothetical scenarios for calibrating criteria and maintaining comparability**

Ratings are designed primarily to provide relative rankings of overall creditworthiness among issuers and obligations. To further the comparability of our ratings across different sectors and over time, we use hypothetical stresses as benchmarks for calibrating our criteria. Each level of stress is associated with a particular ratings category. We consider these hypothetical scenarios in the process of associating quantitative and qualitative factors, such as levels of leverage and business risk, with different rating categories.

We expect that issues or issuers rated in each category, regardless of their asset class, should generally be able to withstand these corresponding conditions of economic stress without defaulting. For example, we typically would not expect a 'AAA' rated issue or issuer to default even under extreme stress conditions such as the Great Depression of 1929, while we generally would not expect a 'BB' rated entity to default under a modest level of stress in line with market conditions in the United States in 2001.

---

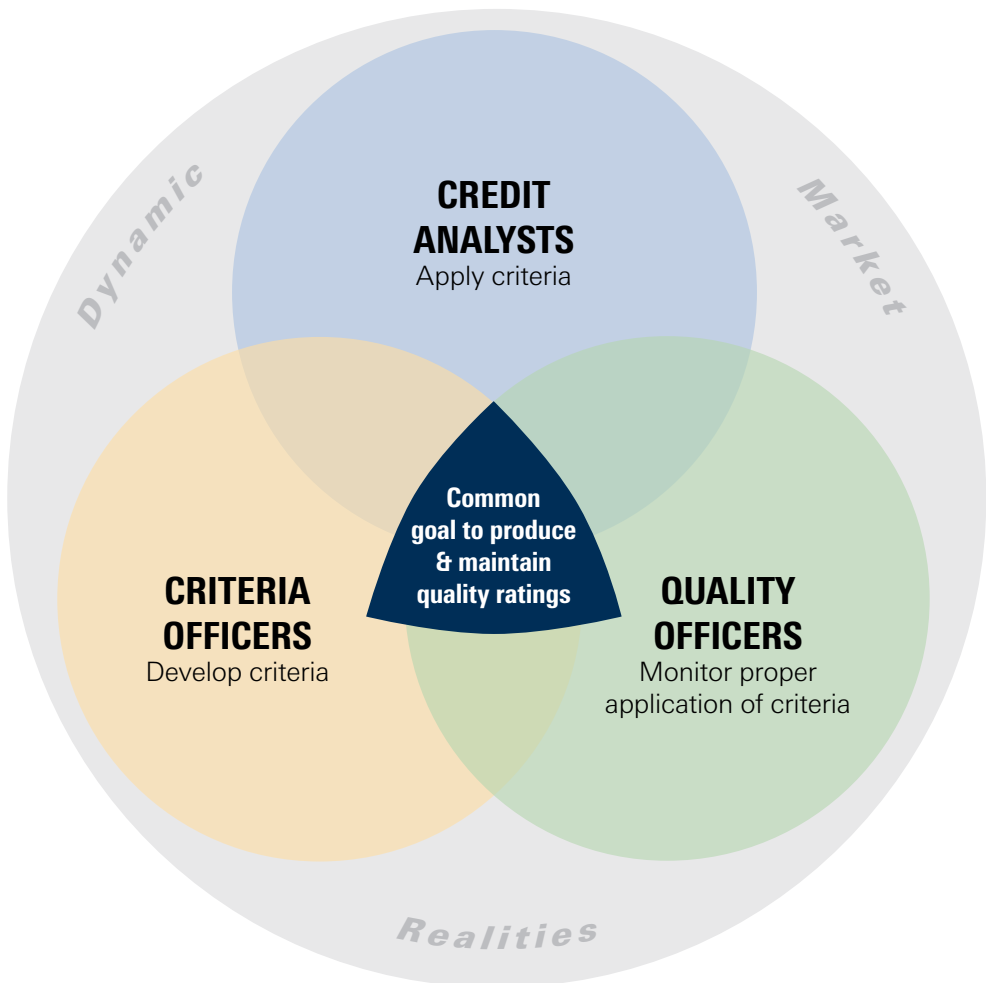
## How criteria are governed

To support the integrity and quality of our ratings criteria, Standard & Poor's has developed an organizational structure and created a process that governs the development, refinement and revision of criteria in addition to the application of these criteria in our ratings process.

At Standard & Poor's there are three primary groups of credit professionals—criteria officers, credit analysts, and quality officers. While working at different levels of our organization and through different reporting structures, these individuals are all focused on a common goal—to produce and maintain quality ratings.

---

## Key roles and responsibilities



---

### **Criteria officers**

Criteria officers are primarily responsible for managing the development, approval and periodic review of criteria that are used by our analysts in the ratings process. Criteria officers lead the criteria committees for the ratings practice they are assigned to. The criteria committees are responsible for ongoing reviews of criteria and the approval of new and amended criteria.

Standard & Poor's Chief Credit Officer leads criteria officers globally and chairs the Analytics Policy Board (APB), which has ultimate oversight for all criteria across different sectors, regions and asset classes. The APB also provides periodic briefings to the analytical staff on major criteria, methodologies, and policy changes.

---

### **Credit analysts**

The primary responsibility of our credit analysts and the rating committees they participate in is to develop Standard & Poor's ratings opinions through the application of the relevant criteria. Additionally, credit analysts can play an active role, in conjunction with the criteria

officers, in criteria development and in monitoring its applicability. In the course of their work, our analysts participate in ongoing dialogue with the marketplace as markets evolve and new instruments are developed.

---

### **Quality officers**

The primary responsibility of our quality officers is to support the overall quality of our ratings and the proper application of criteria in the ratings process. Quality officers concentrate on specific analytical teams and/or regions and are responsible for the overall quality of the ratings and ratings surveillance.

Among other things, quality officers help to assess the reasons behind unexpected ratings performance to determine if these

occurrences are individual outliers or if they indicate a potential issue with the criteria or how the criteria were calibrated and applied. They are also responsible for ratings-related policy compliance.

Quality Officers report into Standard & Poor's Chief Quality Officer, and senior Quality Officers typically chair Quality Review Boards, which meet periodically to review ratings quality across sectors and around the globe.

---

## How analysts apply criteria

The formulation of our ratings opinions is a well-documented process that is based on a thorough analysis according to the relevant criteria, and we believe, is enhanced by the knowledge, experience, and judgment of our credit analysts and other credit professionals.

### **Factors in the ratings process**

Our analysts apply the relevant ratings criteria to each issuer and issue they rate. In analyzing the creditworthiness of a corporation, analysts typically start with an evaluation of the industry and market in which the company operates, then assess the business and financial risk factors specific to the issuer, both on a stand-alone basis and in comparison to its peers. Our analysts then make assumptions as to the future state of the world in which the issuer could be operating.

In analyzing the creditworthiness of structured finance issues, our analysts typically evaluate, among other things, the potential risks posed by: the instrument's legal structure; the practices, policies, and procedures of the entity that will service and/or manage the underlying assets; the credit profile, quality and anticipated cash flow of these assets; and credit enhancements that may provide added protection against default.

In assessing creditworthiness, our analysts evaluate each ratings factor according to the relevant criteria. In doing so, they use quantitative measures as well as their analytical insights, trends they have observed and their evaluation of an issuer's or issue's potential vulnerability to future risks. During the dot.com boom of 2001 and 2002, for instance, analysts proposed lower ratings for some start-up companies as their liquidity positions and future cash flow prospects were not commensurate with higher rating levels.

### **Preparing for the rating committee**

In applying criteria during the ratings process, analysts undertake analysis and prepare ratings-related documentation that is then presented to a rating committee. The large amount of analytical work that informs the ratings process is packaged in the form of a Ratings Analysis Methodology Profile (RAMP).

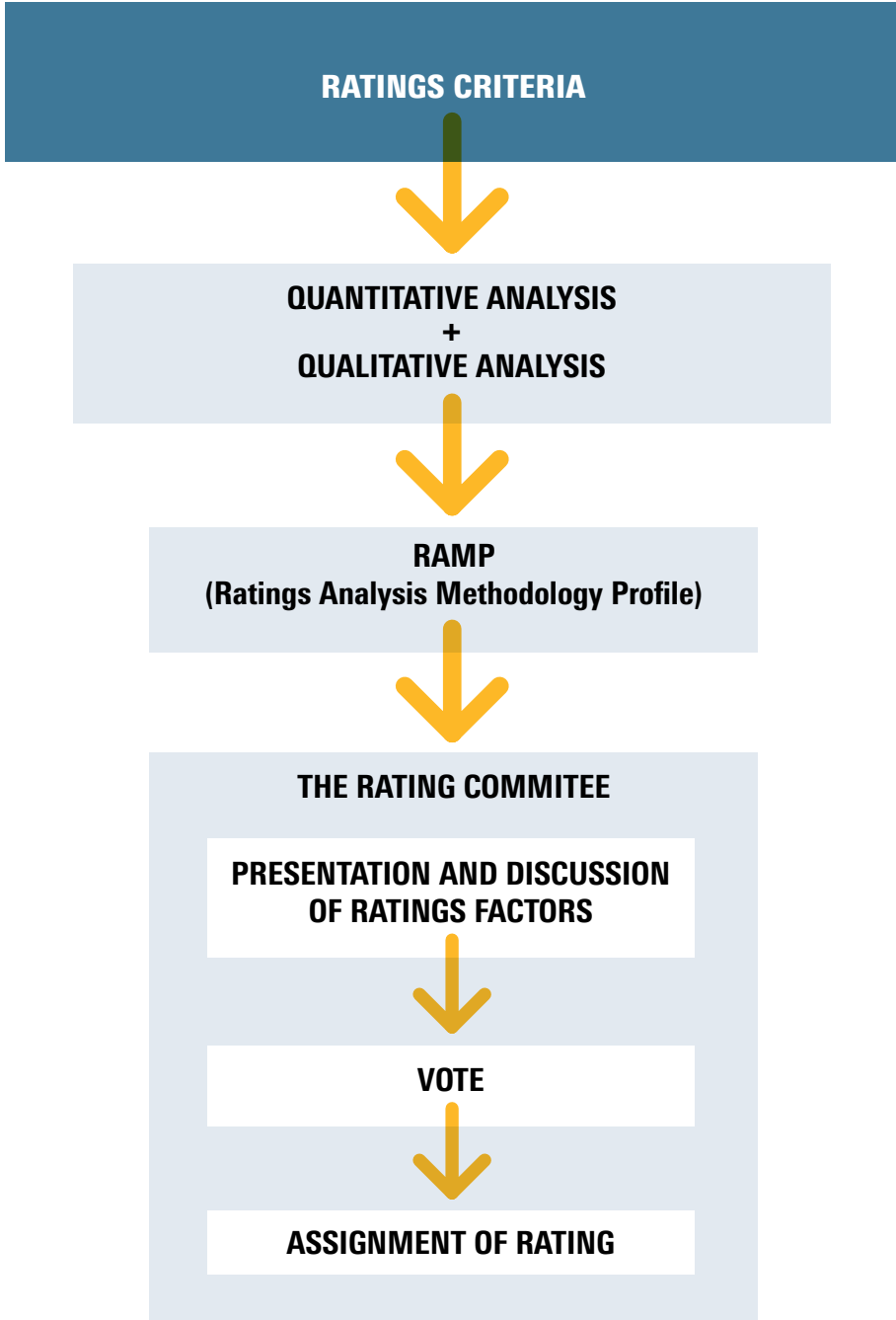
The RAMP covers the rating factors prescribed by the applicable criteria. Based on the outcome of the quantitative and qualitative analyses performed by the analytic team, the lead analyst presents his or her view with respect to each of these ratings factors, which are then considered by the voting members of the rating committee. At the rating committee meeting, the entire RAMP is reviewed and discussed and a vote is taken to arrive at the assigned rating.

Learn more about Standard & Poor's process for rating issuers & issues at [www.AboutCreditRatings.com](http://www.AboutCreditRatings.com).

---

## Application of ratings criteria

---

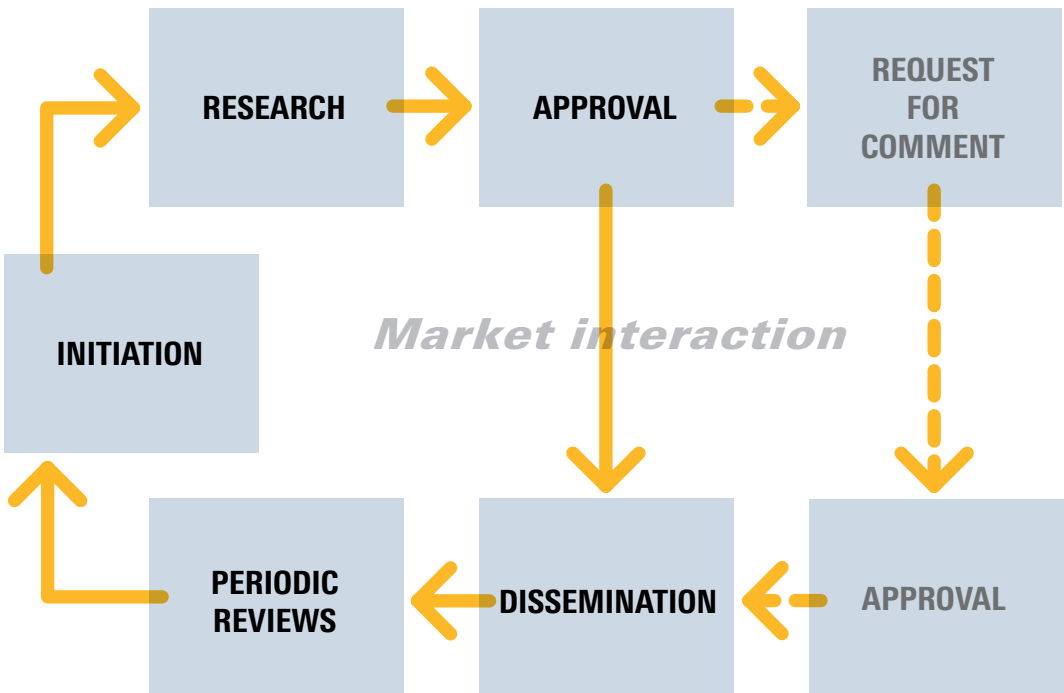


## How we develop and refine our criteria

Since factors that may affect our view of credit risk are continually changing and evolving, we aim to review our ratings criteria on an ongoing basis and consider changes where we believe appropriate. In addition, we monitor and evaluate our default and transition studies to identify ways of refining our criteria to support the quality and further the comparability of our ratings. In adjusting our criteria, one of our main goals is to support the performance and comparability of our ratings across rated issuers and issues and to provide market participants with a transparent and accessible approach to assessing credit risk.

On occasion, Standard & Poor's develops new criteria, for instance, to respond to the introduction of new debt securities in the marketplace. As one example, when structured finance instruments backed by credit card receivables were first introduced, we determined what existing criteria could be applied to rating these instruments and what new criteria were needed to address the risks that we believe are inherent in a portfolio of credit card receivables.

### Developing and refining our ratings criteria



---

Standard & Poor's has a formal process for developing ratings criteria and for making changes to the criteria when appropriate in our view.

---

### **Initiation**

Once we identify a potential opportunity to develop new criteria or refine existing criteria, the Criteria Officer for the related practice appoints a Criteria Champion to steer the process and coordinate

related tasks, which include, for example, research and drafting. Resources are allocated to the Criteria Team, which consists of the Criteria Officer(s) and analysts from the related practice.

---

### **Research**

The Criteria Team consults with other analysts and reviews external research to formulate recommendations for new criteria or criteria refinements,

evaluate the potential ratings impact, and develop plans for implementation and dissemination of the new or modified criteria.

---

### **Approval**

Analysts and criteria officers from the Criteria Team submit their criteria recommendation to the criteria committee for internal examination and review. The relevant global practice criteria committee, such as for example the Global Financial Institution's Criteria Committee, (a) reviews proposals for

new or changed criteria, (b) either approves or rejects the proposal, or requests modifications, and (c) reviews the implementation plan. Analytics Policy Board approval may be required, depending on the materiality of the criteria.

---

### **Dissemination**

Approved criteria are disseminated internally and through external publication. Prior to publishing and external distribution, analysts are trained

to apply the new or revised criteria. We may reach out to the market to solicit feedback before final criteria are approved and disseminated

---

### **Periodic review**

We conduct periodic reviews to evaluate our criteria to identify potential issues or the need for new criteria. We also examine ratings performance to identify potential criteria issues. By identifying performance outliers or statistical results

that deviate from historical patterns, our default and transition studies help us to identify opportunities to reevaluate our criteria. If considered appropriate, we initiate a process to potentially refine criteria or develop new criteria.

---

---

## How we develop and refine our criteria

### Changes to criteria

While our criteria are intended to be applicable over time, we need on occasion to adjust them to reflect certain situations, such as past experiences, or to respond to new financial structures or instruments, or to reflect other changes in our views. For example, in the aftermath of the recent global financial crisis, and in response to disappointing performance of some highly rated securities, particularly Collateralized Debt Obligations (CDOs) and U.S. Residential Mortgage Backed Securities (RMBS), we evaluated and implemented criteria changes, the aim of which is to make ratings of securities within these asset classes more comparable with that of similarly rated issuers and issues. Such changes are intended to address the long-term comparability, relevance and performance of our ratings.

### Impact of criteria changes

When Standard & Poor's issues new or revised criteria, there can be rating implications that ultimately result in downgrades or upgrades. In cases where these criteria changes may result in a significant number of rating actions or trigger CreditWatch placements, we generally host a teleconference to discuss the criteria and related ratings actions in addition to publishing reports on the criteria and the issuers and/or issues affected. Standard & Poor's continually reviews its approach in light of ongoing regulatory developments.

---

### Periodic criteria reviews

While Standard & Poor's has conducted periodic criteria reviews for several years, as of September 2010 European Union (EU) regulations require that credit rating agencies review all criteria at least annually.



---

## The importance of market outreach in criteria development

Standard & Poor's analysts and credit specialists interact with market participants on an ongoing basis to obtain feedback on our published criteria, ratings, and reports. Our analysts use this information in assessing current criteria and identifying criteria issues to be reviewed as the markets evolve and new debt instruments are developed.

We may also reach out to the market to solicit reactions to new criteria or proposed criteria changes. In limited cases, we issue Advance Notices to alert the market about possible criteria changes, and when the market impact is expected to be significant, we may issue a formal Request for Comment (RFC) prior to finalizing and implementing proposed criteria.

---

## Additional resources on Standard & Poor's ratings and criteria

You can find additional information about Standard & Poor's credit ratings and criteria at:

> **[www.UnderstandingRatings.com](http://www.UnderstandingRatings.com)**

Standard & Poor's launched this site as an information and education resource for investors and other market participants. The site, which is free of charge, features articles, videos, podcasts, and PDFs of our informational guides, including our "Guide to Ratings Performance", the "Guide to Credit Rating Essentials" and this "Guide to Credit Ratings Criteria".

> **[www.StandardandPoors.com/RfC](http://www.StandardandPoors.com/RfC)**

Standard & Poor's regularly requests comments from market participants on proposed criteria changes. A full listing of Standard & Poor's Requests for Comments related to our ratings criteria is available on this site. All comments related to these RfCs should be emailed to **[CriteriaComments@standardandpoors.com](mailto:CriteriaComments@standardandpoors.com)**

> **[www.Events.StandardandPoors.com](http://www.Events.StandardandPoors.com)**

Standard & Poor's often hosts events and seminars as part of its ongoing market outreach initiative. A current listing of upcoming events as well as teleconference replays is available on this site.

> **Standard & Poor's Service Desk**

Email: **[Research\\_Request@standardandpoors.com](mailto:Research_Request@standardandpoors.com)**

Standard & Poor's thanks Lightbulb Press for its collaboration in developing the *Guide to Credit Ratings Criteria*.

---

**Copyright © 2010 by Standard & Poor's Financial Services LLC (S&P) a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.**

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

---

**STANDARD  
& POOR'S**

---

Why do  
Standard & Poor's  
credit ratings remain an  
important benchmark  
for global credit risk?

Find out at  
[understandingratings.com](http://understandingratings.com)

Listen to our people.  
Learn about our analytics.  
See how our ratings perform.

STANDARD  
& POOR'S

UNDERSTANDING  
RATINGS