

RatingsDirect®

General Criteria:

National And Regional Scale Credit Ratings

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General Criteria:

National And Regional Scale Credit Ratings

(Editor's Note: This article was republished on Sept. 25, 2014, to reflect minor changes that did not affect the substance of the criteria. In paragraph 27, we removed a parenthetical statement to clarify that the paragraph does apply to project finance. In paragraph 34, we corrected a proofreading error in the first sentence by replacing "global scale" with "national scale." These criteria fully supersede the article titled "Understanding National Rating Scales," published April 14, 2005.)

1. Standard & Poor's Ratings Services is updating its criteria for assigning national and regional scale credit ratings. We are publishing this article to help market participants better understand our approach to assigning issuer and issue credit ratings using our national and regional credit rating scales. This article is related to our criteria article "Principles Of Credit Ratings," which we published on Feb. 16, 2011, and "Standard & Poor's Ratings Definitions," which we published on Sept. 22, 2014. These criteria fully supersede the article "Understanding National Rating Scales," published April 14, 2005. Concurrently with this article, we are publishing our mapping tables, which show the correspondence between global scale credit ratings and national scale credit ratings (see "Standard & Poor's National And Regional Scale Mapping Tables," published Sept. 22, 2014). These mapping tables are published and updated periodically as necessary, as described in the section, "National Scale Design And Calibration."

SCOPE OF THE CRITERIA

2. This methodology applies to all national scale credit ratings except Japanese SME ratings (small and medium-size enterprises), and Canadian national scale ratings. These criteria do not supersede country-specific issue rating criteria. See "Related Criteria And Research," which lists the country-specific issue rating criteria. Ratings on in-scope scales are denoted with a market-specific prefix, with the exception of the Nordic regional scale, which has a unique symbology (K-scale).

SUMMARY OF THE CRITERIA

3. This article updates our criteria for assigning national and regional scale credit ratings (both referred to here as "national scale credit ratings"). We assign national scale credit ratings in a number of jurisdictions and regions. This article describes the principles underpinning such ratings, explains how they are different from global scale credit ratings, details how mapping tables between national and global scale ratings are designed and calibrated, and explains how we determine national scale credit ratings.
4. Standard & Poor's national scale credit ratings are an opinion of an obligor's creditworthiness (issuer, corporate, or counterparty credit rating) or overall capacity to meet specific financial obligations (issue credit rating) relative to other issuers and issues in a given country. National scale credit ratings provide a rank ordering of credit risk within the country. We will refer to both "country" or "region" as "country" in this context. We may assign national scale ratings to entities residing in the country, as well as non-domestic entities issuing debt in a given national scale market.
5. To determine the national scale credit rating, we use criteria that are identical to, or consistent with, our global scale

criteria. We typically first determine our view of creditworthiness on the global scale (see note at the end of this article), and then use mapping tables, which show the relationship between global and national scales, to determine a national scale credit rating. For some countries, we also publish specific criteria for national scale credit ratings. Country-specific national scale criteria provides additional guidance to determine the finer distinctions between credit quality on the national scale.

6. To determine the national scale issue credit rating for corporate and government issuers, we first determine the national scale issuer credit rating (ICR) and then notch up or down for subordination (the relative position in bankruptcy) or for expected recovery (recovery given default). If we also notch down the global scale issue rating for differentiated default risk, such as in the case of equity hybrid capital instruments, we first determine the global scale rating that corresponds to our view of the default risk for the instrument, then we map that preliminary result to the national scale rating, and then we notch down on the national scale for subordination features.
7. For structured finance issues, we determine national scale issue credit ratings by first determining the global scale issue rating and then using the mapping tables or country-specific national scale criteria as per paragraph 5, above.

CHANGES FROM THE PREVIOUS METHODOLOGY

8. The criteria maintain key characteristics of our previous national scale criteria:
 - National scale ratings reflect our opinion of credit quality relative to other borrowers in a given country or region. To determine national scale ratings, we use criteria that are identical to, or consistent with, our global scale criteria, as well as the mapping tables between global and national scale ratings. National scale mapping tables can be recalibrated, e.g., if the sovereign rating changes or if the credit quality distribution in the country shifts.
9. The criteria update also introduces certain additional changes and clarifications, including:
 - We are introducing changes to certain mapping tables and publishing all mapping tables for national and regional scales. We provide guidelines on how we determine our country-specific mapping tables, including guidelines for the top of the rating scale (for instance, we generally require a minimum global scale rating of 'BB-' in order to map to a national scale rating of 'nsAAA') and the bottom of the rating scale (we expect convergence of ratings at 'CC' global scale to equal a 'nsCC' national scale rating, and 'D' global scale to equal a 'D' national scale).
 - We provide more guidance on how we determine national and regional scale ratings when we are using mapping tables for a given global scale rating. For example, for national scale issuer credit ratings, we consider the global scale rating outlook as well as the relative credit standing within an issuer's global scale credit rating category.
 - We clarify that we determine national and regional scale ratings through one of two methods: a) determining a rating on the global scale and using mapping tables to determine the national scale rating, or b) using criteria that are specific to national scale ratings in a given market.
 - We clarify how we determine national and regional scale issue credit ratings, including how we treat characteristics such as recovery or subordination, and how we assign national scale ratings to hybrid capital instruments.
 - We clarify how we determine national scale issue credit ratings on foreign currency instruments: We first establish on the global scale the rating level corresponding to the foreign currency default risk of the instrument, and then we use the mapping tables to determine the national scale rating. Concurrently, we are updating "Standard & Poor's Ratings Definitions" for national scales to further clarify this change. We are removing the phrase "National Scale credit ratings exclude direct sovereign risks of a general or systemic nature" from the national scale rating definition.

Therefore, national scale ratings on foreign currency instruments will now include risks such as transfer and convertibility risk and deposit freeze risk.

IMPACT ON OUTSTANDING RATINGS

10. We expect less than 5% of our national scale ratings to be affected as a result of this updated criteria.

EFFECTIVE DATE AND TRANSITION

11. These criteria are effective immediately for all new and existing national scale issuer and issue credit ratings. Also, for markets that require prior notification to and/or registration by the local regulator, the criteria will become effective when so notified by Standard & Poor's and/or registered by the regulator. We intend to complete our review of issuers and issues affected within the next six months.

METHODOLOGY

National Scale Credit Rating Principles, Definitions, And Symbols

12. National scale credit ratings are calibrated to provide finer distinction of relative credit risk within a country than is possible with global scale credit ratings. Unlike the latter, which are comparable across all regions, national scale credit ratings provide a rank ordering of credit risk within the country only. Because the focus is on credit quality within a single country, national scale credit ratings are not comparable between countries. In addition, national scale ratings may be changed more often, including multi-notch rating adjustments, and be more volatile than global scale ratings because a one- or two-notch change in a global scale rating may map to a multiple-notch change for the national scale rating.
13. Standard & Poor's national scale credit ratings are an opinion of an obligor's creditworthiness (issuer, corporate, or counterparty credit rating) or overall capacity to meet specific financial obligations (issue credit rating) relative to other issuers and issues in a given country. National scale credit ratings provide a rank ordering of credit risk within the country. We may assign national scale ratings to entities residing in the country or to non-domestic entities issuing in a given national scale market.
14. Standard & Poor's also assigns regional scale credit ratings for certain groups of countries. Regional scales include the Association of Southeast Asian Nations (ASEAN), Greater China, and the Gulf Cooperation Council region. Regional scale credit ratings have the same attributes as national scale credit ratings in that neither is comparable to other regional or national scales, and they represent a relative rank order of creditworthiness within the region. The definitions also are the same except that "national" is replaced with "regional."
15. National scale credit rating definitions are similar to global scale credit rating definitions but are generally expressed in terms relative to other national scale issuers or obligations, except for three rating levels that are not relative: 'R' (regulatory intervention), 'SD' (selective default), and 'D' (default). For example, the general 'xxAAA' national scale

long-term issue rating definition is, "An obligation rated 'xxAAA' has the highest credit rating assigned on Standard & Poor's national scale. The obligor's capacity to meet its financial commitments on the obligation, relative to other national obligors, is extremely strong." Most national scales use an identical set of credit rating definitions. (See "Standard & Poor's Ratings Definitions," published Sept. 22, 2014, for national scale rating definitions.)

16. National scale credit ratings use Standard & Poor's global credit rating symbols, including pluses and minuses, with the addition of a two-letter, lower-case prefix to denote the country, except for Nordic regional scale credit ratings, which have a unique symbology (K-scale). For example, the Brazil national scale uses the prefix 'br', as in 'brAAA' or 'brBBB'. National scale credit ratings can be assigned for both long- and short-term issues, and we can assign long- and short-term issuer credit ratings. We will use CreditWatch in the same manner as we do for global scale ratings. National scale credit ratings can include the use of outlooks. In addition, national scale credit ratings may use pluses and minuses from 'xxAA' to 'xxCCC'. (See "Standard & Poor's Ratings Definitions" for a list of country prefixes, the scale name, and the associated country [or countries for regional scales].)

National Scale Design And Calibration

17. The guiding principle for national scale calibration is to provide finer distinctions among issuer and issue credit quality than is possible with the global rating scale. This is because in some countries, sovereign and country risk may constrain credit quality on the global scale to a limited number of rating categories, whereas the national scale allows us to communicate our views on finer distinctions in credit quality. Thus, national scale design begins with an assessment of credit quality within a given country. For example, if we expect almost all of the entities in a country to receive a global scale local currency credit rating of 'BBB-' or lower, we would assign those entities the national scale credit rating of 'xxAAA' along with the global scale credit rating of 'BBB-'. After we have determined the mapping correspondence between the highest national scale credit rating and the global rating scale, we then determine the rest of the rating scale based on our expectations of each entity's credit quality within the country.
18. The highest national scale credit rating is often the sovereign local currency credit rating, but this is not always the case. If some entities' credit ratings exceed the sovereign credit rating on the global scale, the sovereign national scale rating may well be below 'xxAAA', and the non-sovereigns whose credit ratings exceed the sovereign credit rating may be rated up to 'xxAAA'.
19. In constructing our mapping tables, we have certain guidelines for the top and bottom of the rating scale. We generally require a minimum global scale rating of 'BB-' to map to a national scale rating of 'xxAAA', although most individual scales have higher global scale "anchor" points for the 'xxAAA' rating. We expect the mapping tables to converge between global and national scale ratings at the low end of the scale, meaning that a 'CCC+' global scale credit rating will generally equal a 'xxBB+' or lower national scale credit rating, a 'CC' global scale credit rating will equal a 'xxCC' national scale credit rating, and a 'D' or 'SD' credit rating indicates default on both global and national scales.
20. We may recalibrate the national scale from time to time to provide credit quality distinctions, such as if a national scale exhibits rating "compression" (a large proportion of ratings clustered among two or three rating levels), indicating changing credit quality. For example, compression at either end of the national rating scale may suggest that the scale

does not provide enough credit quality distinction.

21. We may also recalibrate the scale when we change a sovereign credit rating, especially if through a multi-notch adjustment; when general credit conditions change, for example because of changing country risk for non-sovereigns; or if we change the global scale credit rating definitions.

Using Mapping Tables To Assign National Scale Credit Ratings

22. National scales are designed to provide greater distinction of credit risk within a country than is possible with a global scale. For example, two issuers in the same country may be assigned a global scale 'BB' credit rating, but their national scale credit ratings could be different, indicating their relative credit risk within the country. We express the relationship between global and national scale credit ratings using mapping tables.
23. The mapping defines the relationship between the global and national scale credit ratings. Mapping tables typically map each global scale credit rating to up to four national scale credit rating choices. For example, if an issuer is assigned a 'BB' global scale credit rating, the national scale credit rating options may be 'xxAA', 'xxAA-', or 'xxA+'. If a sovereign credit rating is very low and most or all the non-sovereign global scale ratings are also very low (because of constraints for sovereign and country risk), it may be beneficial to have more notches to better distinguish creditworthiness on the national scale.
24. Each mapping table is specific to a given country (national scales) or region (regional scales), and national scale ratings on different scales cannot be compared to each other without the respective mapping tables. For example, the global scale mapping for a 'brAAA' may be different from that of a 'mxAAA' or 'zaAAA'. (See the section titled "National Scale Design And Calibration," above, for details.)
25. Mapping tables are published and updated as necessary. Please see "Standard & Poor's National And Regional Scale Mapping Tables," published Sept. 22, 2014, for national scale mapping tables that are current as of the date of this criteria. A hypothetical example of a national scale mapping is shown in the table.

Hypothetical National Scale Mapping		
Global scale long-term local currency rating	National scale long-term rating	National scale short-term rating
BBB and higher	xxAAA	xxA-1
BBB-	xxAAA, xxAA+	xxA-1
BB+	xxAA+, xxAA	xxA-1
BB	xxAA, xxAA-, xxA+	xxA-1
BB-	xxA+, xxA, xxA-	xxA-1, xxA-2
B+	xxA-, xxBBB+	xxA-2, xxA-3
B	xxBBB+, xxBBB	xxA-3
B-	xxBBB, xxBBB-	xxA-3
CCC+	xxBB+, xxBB, xxBB-	xxB
CCC	xxB+, xxB, xxB-	xxB
CCC-	xxCCC+, xxCCC, xxCCC-	xxC
CC	xxCC	xxC

Hypothetical National Scale Mapping (cont.)

C	xxC	xxC
R	R	R
SD	SD	SD
D	D	D

Note: For corporate and government entities (except project finance), mappings are for issuer credit ratings, and issue ratings may be notched incrementally on the national scale for subordination (ranking) or our expectations for post-default recovery. As a result, the national scale issue credit rating may not be in line with the global scale issue credit rating. R--Regulatory supervision. SD--Selective default. D--Default.

26. For issuers that have both foreign and local currency ICRs, we use the global scale local currency ICR as the reference point in the mapping tables to determine the national scale ICR. The global scale foreign currency issue credit rating is the reference point for issue-level ratings in foreign currency, as discussed in paragraph 35.

Assigning the national scale credit rating

27. To determine the national scale credit rating, we use criteria that are identical to, or consistent with, our global scale criteria. For corporate and government ratings, we follow the steps below:
- We first determine the global scale local currency credit rating; and
 - We then use the mapping tables to determine a national scale credit rating. When two or more outcomes are possible, we first consider the outlook on the global scale rating. Additional considerations include: whether the entity is a relatively stronger or weaker credit within its global scale credit rating category, for example, using a rank ordering of entities in the same global scale credit rating category within the entity's sector in the country (i.e., among domestic corporate ratings, or among domestic financial institution ratings); or a rank ordering of entities with the same global scale credit rating globally within the industry (for example, among global rated steel companies, or among global rated sovereigns). For sectors where we use the mappings to assign the national scale ICR, there are further steps to determine the national scale issue credit rating, as explained in "The Impact Of Subordination, Recovery, And Differentiated Default Risk," below.
28. For structured finance, we determine the national scale issue credit rating using one of two methods. We use the country-specific national scale issue criteria, such as "Rating Mexican Residential Mortgage-Backed Securities," published on June 7, 2012, or if we do not have country-specific criteria, we follow the two steps below:
- First, we determine the global scale issue credit rating; and
 - We then use the mapping tables to determine a national scale issue credit rating. To choose which national scale credit rating when two or more options are available, we consider whether a security is relatively stronger or weaker than others within the global scale credit rating category, for example, by considering the credit enhancements available relative to our loss projections at a particular global scale rating.

The Impact Of Subordination, Recovery, And Differentiated Default Risk

29. In the absence of country-specific issue rating criteria, we apply the two sections below to determine the national scale issue credit rating.

Subordination/recovery

30. We use notching to reflect an issue's subordination relative to other debt issues, or to reflect our recovery expectations in the event of a default.

31. The national scale ICR is the starting point for determining such notching. We will notch up or down one or two notches from the national scale ICR, according to the number of notches we would notch from the global scale ICR, if we were rating such an issue on the global scale. Therefore, the national scale issue credit rating, when compared with a global scale issue credit rating on the same issue, may not correspond to the rating in the mapping table.
32. For example, if our global scale criteria calls for one notch down for issue credit rating subordination for an issuer with an ICR of 'BBB-' or higher, and two notches down for subordination for an ICR of 'BB+' or lower, we would notch down one from a national scale ICR that corresponds to a global scale ICR of 'BBB-' or higher, and notch down two from a national scale ICR that corresponds to a global scale ICR of 'BB+' or lower.
33. Because we use subordination notching to indicate priority among creditors, national scale issue credit ratings typically remain within one or two notches from the national scale ICR, similar to the typical notching range between global scale issuer and issue credit ratings.

Notching for hybrid capital instruments: Differentiated default risk

34. We also notch the national scale issue credit rating for differentiated default risk, such as in the case of equity hybrid capital instruments (e.g., preferred stock and certain subordinated instruments). First, we establish on the global scale the rating level that reflects the default risk of the instrument. Second, we use this rating level on the global scale to map to the indicative national scale rating. Third, we apply incremental notches down from the indicative national scale rating for subordination, as determined in paragraphs 30 through 33. In some cases, as per our hybrid capital criteria, the global scale hybrid capital issue credit rating is set to 'CCC', in which case the national scale credit rating would be set at the rating level that maps to a global scale rating of 'CCC'.

National Scale Issue Credit Ratings: Foreign Currency

35. Historically, for most national scales, the rated debt issues have been primarily local currency issues. However, in increasingly integrated global capital markets and with expanding investment options for local institutional investors, we have seen increased interest in the use of national scales for non-domestic currency issues. To rate a foreign currency issue on the national scale, we first establish on the global scale the rating level corresponding to the global scale foreign currency default risk of the instrument. Second, we use this rating level on the global scale to map to the indicative national scale rating. Third, we notch up or down from the indicative national scale rating if the instrument has subordination or recovery characteristics. In this way, we therefore take into account transfer and convertibility constraints, if any. As a clarification of the reference point for the first step, the "rating level corresponding to the foreign currency default risk" will typically be, for most corporate and government issuers, the foreign currency issuer credit rating. In the case of hybrid capital instruments, there may be a differentiated default risk (as per paragraph 34). We would then apply incremental notching, if relevant, to rate the instrument, as per paragraphs 30 to 33. For project finance and securitizations, the first step will apply to the global scale foreign currency issue credit rating, which is mapped to the national scale as in step two, and the third step (notching for subordination or recovery) is not relevant for those sectors.

Note

36. In this document, we may refer to the determination of creditworthiness on the global scale as a "global scale rating." Such determination includes any rating analysis performed for internal purposes and not released publicly. As described in Standard & Poor's Glossary with respect to Ratings Services' policies, an internal confidential unsolicited credit rating is a credit rating that is used solely for internal purposes as a component of another credit rating and is not made public. An internal confidential unsolicited credit rating is neither a type of Confidential Credit Rating nor an unsolicited credit rating.

The authors wish to thank Cathy Daicoff for her invaluable contributions to these criteria.

RELATED CRITERIA AND RESEARCH

Related criteria

- Methodology For Applying Recovery Ratings To National Scale Issue Ratings, Sept. 22, 2014
- Standard & Poor's National And Regional Scale Mapping Tables, Sept. 22, 2014
- Standard & Poor's Ratings Definitions, Sept. 22, 2014
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Sept. 18, 2014
- Use Of 'C' And 'D' Issue Credit Ratings For Hybrid Capital And Payment-In-Kind Instruments, Oct. 24, 2013
- Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Country-specific rating criteria

- Standard & Poor's Maalot (Israel) National Scale: Methodology For Nonfinancial Corporate Issue Ratings, Sept. 22, 2014
- Methodology And Assumptions For Rating Mexican Tax Participation Transactions, Feb. 19, 2014
- Methodology For Deriving Assumptions For Mexican Interest Rate Curves, Dec. 31, 2013
- Methodology And Assumptions For Rating Mexican Trade Receivables ABS Transactions, Dec. 10, 2012
- Rating Mexican Residential Mortgage-Backed Securities, June 7, 2012
- Methodology And Assumptions: Rating Mexican Residential Mortgage-Backed Securities, June 7, 2012
- Methodology And Assumptions For Primary Mortgage Insurance In Mexican RMBS, June 17, 2010
- Methodology And Assumptions For Rating Brazilian Residential Mortgage-Backed Securities, Jan. 14, 2010
- Methodology And Assumptions For Rating Construction Loan Securitizations In Mexico, Oct. 6, 2009
- Methodology And Assumptions For Rating Brazilian Trade Receivables Securitizations, May 13, 2009
- Methodology And Assumptions For Rating Brazilian Electric Power Receivables Future Flow Securitizations, Feb. 5, 2009
- LEVELS Mexico Estimates The Risk Of Defaults And Recoveries For Mexican RMBS, Jan. 20, 2009
- Securitization In Latin America: Rating Criteria For Argentine Mortgage-Backed Securities, Sept. 1, 2004
- Legal Issues in Mexican Asset-Backed Securitizations, May 27, 2004

These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may

change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.

(And watch the related CreditMatters TV segment titled, "Standard & Poor's Updated Criteria For National And Regional Scale Ratings," dated Sept. 25, 2014.)

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