

General Criteria:

**Post-Default Ratings Methodology:
When Does S&P Global Ratings Raise
A Rating From 'D' Or 'SD'?**

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Table Of Contents

SCOPE OF THE CRITERIA

SUMMARY OF THE CRITERIA

METHODOLOGY

A. After A Filing For Bankruptcy Proceedings

B. After A Failure Of Payment Under A Contractual Promise

Table Of Contents (cont.)

C. Breach Of An Imputed Promise (Contractual Deferral Or Contractual Payment Omission)

D. A Principal Write-Down Has Occurred

E. After A Distressed Debt Restructuring

REVISION HISTORY

RELATED CRITERIA AND RESEARCH

GLOSSARY OF TERMS

General Criteria:

Post-Default Ratings Methodology: When Does S&P Global Ratings Raise A Rating From 'D' Or 'SD'?

(Editor's Note: We originally published this criteria article on March 23, 2015. We're republishing it following our periodic review completed on March 14, 2017.)

1. S&P Global Ratings is clarifying its criteria as to what conditions must be met to raise an issue credit rating from 'D', or an issuer credit rating from 'D' or 'SD' (selective default).

SCOPE OF THE CRITERIA

2. These criteria apply globally to all issue credit ratings, issuer credit ratings, and insurer financial strength ratings, including global and national scale credit ratings. When this article uses the term "ICR", the relevant criteria apply to both issuer credit ratings (ICRs) and insurer financial strength ratings.
3. These criteria do not address the following topics, which are covered by separate criteria, or by S&P Global Ratings' rating policies:
 - The circumstances under which we lower an issue credit rating to 'D', or an ICR to 'D' or 'SD';
 - The circumstances under which we withdraw a rating; or
 - How we determine the specific level of a rating when we raise it from 'D' or 'SD'.

SUMMARY OF THE CRITERIA

4. Generally, after we lower a rating to 'D' or 'SD', the rationale and the timing of any upgrade involve consideration of: the nature of the event that caused the downgrade to 'D' or 'SD', and whether the event was resolved. The weight on each factor varies depending on the nature of the situation. Furthermore, any upgrade from 'D' or 'SD' would not occur on the same day as the downgrade to 'D' or 'SD'.
5. This paragraph has been deleted.
6. This paragraph has been moved to Appendix B.

METHODOLOGY

7. These criteria categorize 'D' or 'SD' ratings into five distinct types of causal events (see each of sections A to E below, as well as the Glossary Of Terms at the end of this article). For each event, specific conditions must be met to raise a 'D' or 'SD' rating (for example, to the 'CCC' category or higher) to reflect our forward-looking opinion on the post-default creditworthiness of an issue or issuer, as the case may be, assuming the rating has not already been

withdrawn. If the situation pertains to more than one of the types of events described in sections A to E, all conditions specified in the relevant sections must be met to raise a 'D' or 'SD' rating. To be clear, an upgrade from 'D' or 'SD' does not presuppose that the likelihood of another default is low. For instance, our forward-looking opinion may lead us to determine that a rating should be raised only to the 'CCC' category, which denotes a relatively high likelihood of default. However, this is not meant to suggest that we have a rating cap at the 'CCC' category for companies emerging from a default. Additionally, we will not raise a rating from 'D' or 'SD' if we believe a further default is virtually certain.

8. In addition, to enhance the clarity of communications, we do not raise a rating from 'D' or 'SD' on the same day we lowered it to 'D' or 'SD'. This is in addition to any other condition mentioned below.

A. After A Filing For Bankruptcy Proceedings

Issuer credit ratings (ICRs)

9. If the ICR was lowered to 'D' as a result of bankruptcy proceedings (see Glossary), we will not raise the rating from 'D' until the issuer emerges from such bankruptcy proceedings, typically following the bankruptcy court's approval of the reorganization or similar plan.

Issue credit ratings

10. Similarly, we will not raise an issue credit rating that was lowered to 'D' because of bankruptcy proceedings until the issuer emerges from such bankruptcy proceedings, except where the obligation has been restructured and is expected to be serviced during the proceedings. Under such circumstances the issue credit rating may be raised to reflect our forward-looking view of the likelihood that the obligation would be paid in accordance with its new terms.
11. Neither an ICR nor an issue credit rating will be raised from 'D' or 'SD' after the issuer becomes subject to bankruptcy proceedings if the bankruptcy is in the form of a liquidation.

B. After A Failure Of Payment Under A Contractual Promise

Issue credit ratings and ICRs

12. If we lowered an issue credit rating to 'D', or an ICR to 'D' or 'SD', to reflect a failure of payment under a contractual promise, the rating will not be raised from 'D' or 'SD' until payments resume (see Glossary) in accordance with the original terms. This applies unless the terms are amended and have become legally effective, in which case we would raise the rating from 'D' or 'SD' when the term amendments become legally effective, unless we believe a default under the amended terms is virtually certain.

ICRs--Specific situation

13. For sovereign and some other issuers, typically those that are not subject to bankruptcy, even if the defaulted obligations have not been discharged by a court or formally restructured or renegotiated by the parties involved, the ICR may be raised from 'SD' or 'D' if, based on the passage of time, we expect no further resolution to occur and we believe a revised rating better reflects our forward-looking opinion on the creditworthiness of the entity. This approach applies to the following types of issuers.

- Sovereign issuers
 - Nonsovereign entities that are not subject to bankruptcy, including, but not limited to, many local and regional governments (LRGs), government-related entities (GREs), multilateral lending institutions and other supranationals, and central banks
14. This approach also applies in rare circumstances where entities may be subject to bankruptcy provisions but we assess that such proceedings are highly unlikely to occur, such as:
- LRGs and GREs that can become subject to bankruptcy, only if we become confident that a bankruptcy is very unlikely to be filed
 - Companies that are subject to bankruptcy, only if we become confident that a bankruptcy is very unlikely to be filed. We expect such cases to be rare, and likely limited to emerging markets where companies are not subject to involuntary bankruptcy filings, or where we believe creditors would not have practical access to legal remedies such as bankruptcy proceedings.
15. To be clear, even where the ICR is raised from 'SD' or 'D' based on the considerations described in the previous two paragraphs, we will not raise our issue credit ratings on the defaulted obligations, as described in paragraph 12, until payments have resumed or the terms are amended and have become legally effective within any necessary process.

C. Breach Of An Imputed Promise (Contractual Deferral Or Contractual Payment Omission)

Issue credit ratings

16. When an issue credit rating is lowered to 'D' to reflect the breach of an imputed, rather than a contractual, promise (for example, a payment was deferred or omitted in accordance with the terms and conditions of the obligation--- see "Principles For Rating Debt Issues Based On Imputed Promises," published Dec. 19, 2014), we will not raise the issue credit rating on the obligation from 'D' until payments resume in accordance with the initial imputed promise.

ICRs

17. Of note, under S&P Global Ratings' ratings definitions, the lowering of an issue credit rating to 'D' as a result of the breach of an imputed, but not contractual, promise does not necessarily lead to a lowering of the associated ICR to 'D' or 'SD'.

D. A Principal Write-Down Has Occurred

Issue credit ratings

18. When an issue credit rating is lowered to 'D' to reflect a principal write-down that occurred in accordance with the terms and conditions of the obligation or the statutory powers or legal framework applicable to the obligation, the below requirements must be satisfied in order to raise the rating (see paragraphs 19 and 20, as well as the table below).
19. For temporary write-downs, the issue credit rating may be raised if:
- The principal has been written back up to initial par; and
 - If the terms and conditions of the obligation contemplate compensation for the temporary lower par and interest

forgone during the period when par was below initial par, such compensation has been paid to creditors in accordance with these terms and conditions.

20. For permanent and partial write-downs:

- For hybrid capital issues of corporate and government issuers, the issue credit rating may be raised after payment has resumed. With respect to corporates and governments, an upgrade after a principal write-down can occur. Our forward-looking view in this case would reflect the likelihood that the lower par amount and associated interest will be paid. For example, when the principal amount of a bank's hybrid capital instrument is partially written down because of a failure to meet a certain regulatory capital ratio while the obligation still has a very long residual life, such as 60 years, any new rating after 'D' reflects the likelihood of payment going forward based on the written-down principal amount throughout the remaining 60 years.
- However, securitizations (structured finance transactions) will usually not be upgraded from 'D' after a permanent and partial write-down. Such a write-down of the principal on securitizations usually means the transaction has permanently exhausted cash-flow coverage from the securitized assets to fully support the issuance. Therefore it would be unusual to raise the rating from 'D'.

Conditions For Raising 'D' Issue Credit Ratings After Principal Write-Downs

Nature of write-down	Conditions for upgrade from 'D'*		
	Payment resumption	Write-up back to initial par	Compensation payment§
Temporary, with compensation payment clause§	No	Yes	Yes
Temporary, without compensation payment clause§	No	Yes	N/A
Permanent, partial, hybrids	Yes	N/A	N/A
Permanent, partial, structured finance	The rating will usually not be raised from 'D'.	The rating will usually not be raised from 'D'.	The rating will usually not be raised from 'D'.
Permanent, full†	N/A	N/A	N/A

*When multiple conditions apply, all conditions need to be concurrently met for an upgrade from 'D'. §Compensation payment in this table refers to payment required as compensation for the temporary, lower par having reduced interest during the write-down period. †The rating is typically withdrawn for full, permanent write-downs. N/A--Not applicable.

ICRs

21. Of note, the lowering of an issue credit rating to 'D' owing to a principal write-down in accordance with an obligation's terms and conditions does not necessarily lead to a lowering of the associated ICR to 'D' or 'SD' under our ratings definitions.

E. After A Distressed Debt Restructuring

22. In this criteria article, we use the term "restructuring" broadly, as defined in the Glossary. Exchanges can be either full or partial (see paragraph 25), and repurchases can be effected in either a single transaction or multiple transactions (see paragraph 26).

Issue credit ratings

23. In the case of a single repurchase, the issue credit rating on any remaining portion will not be raised from 'D' until the next business day after the downgrade to 'D' (see paragraph 26 for multiple repurchases). In the case of a term

amendment, we will not raise from 'D' our issue credit rating before the next business day after the downgrade to 'D', and the revised rating reflects the amended terms of the obligation.

ICRs

24. Unless paragraph 25 applies, if we lowered an ICR to 'D' or 'SD' as a result of a restructuring (whether an exchange, a repurchase, or a term amendment), the earliest the rating could be raised from 'D' or 'SD' will be the next business day after the downgrade to 'D' or 'SD'. (For the criteria for lowering the ICR to 'D' or 'SD' upon a distressed debt restructuring, see "Rating Implications Of Exchange Offers And Similar Restructurings, Update," published May 12, 2009.)

Partial exchanges

25. If we lowered an ICR to 'D' or 'SD' owing to an exchange, we will raise the ICR from 'SD' or 'D'--even if full and timely payment has not been made on the original securities that have not been exchanged--if:
- The circumstances fall under one of the four situations described in paragraphs 13 and 14; and
 - We consider, given the acceptance rate level, that (i) no further resolution of the default will likely occur, and (ii) the near-term ability of holdout creditors to materially complicate the issuer's financing ability is limited.

Multiple repurchases

26. If we lowered our issue credit rating on an obligation to 'D' as a result of a repurchase and we expect additional repurchases to occur in separate transactions over the course of several weeks or months, the rating remains at 'D' until we become confident that the likelihood of further repurchases is remote. By contrast, even in such a case, the ICR can be raised as early as one business day after the downgrade to 'D' or 'SD' without regard to ongoing repurchases on the obligation to reflect our forward-looking opinion on the creditworthiness of the entity.

REVISION HISTORY

March 14, 2017--As a result of our review, we updated our contact information.

March 21, 2016--This review updated our contact information and criteria references, deleted an outdated section that previously appeared in paragraph 5, and removed information on the effective date in paragraph 6: "These criteria are effective March 23, 2015."

These criteria partially supersede the Frequently Asked Questions section of "General Criteria: Rating Implications Of Exchange Offers And Similar Restructurings, Update," published on May 12, 2009, by superseding the last paragraph of the answer to question 5 (in reference to specific rating actions on distressed transactions) and the entire answer to question 11 (in reference to restructurings not affected in a single transaction).

RELATED CRITERIA AND RESEARCH

Related Criteria

- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Methodology: Use Of 'C' And 'D' Issue Credit Ratings For Hybrid Capital And Payment-In-Kind Instruments, Oct.

24, 2013

- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Rating Implications Of Exchange Offers And Similar Restructurings, Update, May 12, 2009

GLOSSARY OF TERMS

Bankruptcy

Encompasses insolvency and similar legal proceedings.

Exchange

Outstanding obligations are entirely or partly replaced with new obligations.

Obligation

Includes not only legal obligations but also imputed promises in some issues such as preferred stocks that we rate based on an imputed promise (see "Principles For Rating Debt Issues Based On Imputed Promises," published on Dec. 19, 2014, for details).

Payment resumption

Debt service has fully resumed according to the terms of the obligation (including new terms, if the terms were amended). Where the obligation is cumulative and, therefore, the issuer is obliged to settle missed payments, resumption of payments includes the settlement of any arrearages, any penalties, and any interest owed on deferred interest.

Repurchase

The outstanding obligation is repurchased in the market, typically only in part.

Restructuring

Any debt restructuring--typically an exchange, a repurchase, or a term amendment--that we view as distressed according to "Rating Implications Of Exchange Offers And Similar Restructurings, Update," published May 12, 2009.

Term amendment

The terms of the outstanding obligation are amended, including, but not limited to, principal amount, interest rate, deferability, maturity, seniority, and/or currency denomination. Term amendment here is the narrow meaning of "restructuring" as used in the credit derivative world.

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 S&P Global Ratings' 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.

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