STANDARD & POOR'S RATINGS SERVICES

RatingsDirect®

General Criteria:

Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings

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General Criteria:

Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings

1. Standard & Poor's Ratings Services is revising its methodology for timeliness of payments, including our interpretation of "as payments come due," for the purpose of our issue and issuer credit ratings definitions. This revision more closely aligns the treatment of grace periods with market practice and with the practicality of timely payment for guaranteed issues. For long-term financial obligations with stated grace periods greater than five business days, we will apply the 'D' or 'SD' rating if we expect payment will not be made within the earlier of the stated grace period or 30 calendar days after the due date, in place of our previous standard of "up to five business days."

2. This article fully supersedes "Timeliness Of Payments; Grace Periods, Guarantees, And Use Of ‘D’ And ‘SD’ Ratings," published Dec. 23, 2010, and partially supersedes "General Criteria: Guarantee Default: Assessing The Impact On The Guarantor's Issuer Credit Rating," published May 11, 2012, and "General Criteria: Rating Sovereign-Guaranteed Debt," published April 6, 2009. It is related to "Standard & Poor’s Ratings Definitions," published Oct. 24, 2013, "Principles For Rating Debt Issues Based On Imputed Promises," published Oct. 24, 2013, and "Principles Of Credit Ratings," published Feb. 16, 2011.

SUMMARY OF THE CRITERIA

3. Standard & Poor's is updating its criteria for timeliness of payments for issuers and issues with stated grace periods longer than five business days.

4. The amendment clarifies that when a long-term obligation has a stated grace period greater than five business days, a rating of 'D' or 'SD' may not apply if we expect payment to be made within the earlier of the stated grace period or 30 calendar days. This change, from our previous standard of a maximum of five business days, is intended to be i) more in line with current market practice, ii) more in line with the practical mechanics of transfers and payments within stated grace periods for some guarantees, and iii) aligned with the new criteria, "Principles For Rating Debt Issues Based On Imputed Promises."

5. For long-term obligations that have no stated grace period, or a stated grace period of up to five business days, the criteria retain the current treatment; we treat the obligation as having an imputed five-business-day grace period.

6. For short-term obligations, the criteria retain the current treatment. When there is no stated grace period, we do not impute any grace period. When there is a stated grace period, we interpret "as they come due" as payment within the earlier of the stated grace period or five business days after the due date for payment.

SCOPE OF THE CRITERIA

This criteria apply to all issue and issuer credit ratings assigned by Standard & Poor's except insurer financial strength ratings (for the latter, see "Standard & Poor’s Ratings Definitions," published Oct. 24, 2013). For securities structured to allow for payment deferral, see "Principles For Rating Debt Issues Based On Imputed Promises," published Oct. 24, 2013, and "General Criteria: Methodology: Use Of 'C' And 'D' Issue Credit Ratings For Hybrid Capital And Payment-In-Kind Instruments," published Oct. 24, 2013.

IMPACT ON OUTSTANDING RATINGS

8. There is no impact on outstanding ratings.

EFFECTIVE DATE AND TRANSITION

9. The criteria are effective immediately.

METHODOLOGY

10. In order to provide consistent application of our long-term rating definitions, we interpret "as payments come due" as follows:

- If there is no stated grace period, or a stated grace period of one to five business days, timely payment means no later than five business days after the due date for payment; and
- If there is a stated grace period of more than five business days, timely payment means no later than the earlier of the stated grace period or 30 calendar days.

11. This means that for long-term issue or issuer credit ratings:

- We would assign a rating of 'D' or 'SD' if a payment is missed on its due date and we do not believe payment will be made in the relevant (stated or imputed) grace period.
- We would not apply a rating of 'D' or 'SD' if a payment is missed on its due date but we believe that payment will be made within five business days.
- We would not apply a rating of 'D' or 'SD' if an obligation has a stated grace period greater than five business days and a payment is missed on its due date, but we believe that payment will be made within the earlier of the stated grace period or 30 calendar days.
- We would apply a rating of 'D' or 'SD' if an obligation has a stated grace period greater than 30 calendar days and we expect payment to be made more than 30 calendar days after the due date but before the expiration of the stated grace period.

12. The rationale for imputing a maximum 30-day grace period is to balance typical market practice for the use of grace periods, with a desire to maintain a reasonable standard beyond which we believe investors would not consider payments as timely, regardless of the stated grace period.

13. We also apply the same timeliness of payments standard to cases where we apply a long-term rating to an obligation based on the creditworthiness of a guarantor (or other support provider).

14. This means that, in addition to all other provisions of current criteria, we would not apply the guarantor's rating to the obligation unless we believe the guarantee arrangement, viewed as a whole and including any collective actions, embodies features (i.e., systems and facilities) that adequately support the guarantor's practical ability to fulfill its obligations under the guarantee. For a guaranteed obligation with a stated grace period longer than five business days, we would consider timely payment to be the earlier of the primary obligation's stated grace period or 30 calendar days after the primary obligation's due date. When a guaranteed obligation has no stated grace period or a stated grace period of less than five business days, we would impute a five-business-day grace period.

15. For short-term ratings, 'D' and 'SD' is used when payments on a financial obligation are not made on the due date even if the applicable stated grace period has not expired, unless Standard & Poor's believes that such payments will be made during the stated grace period. However, any stated grace period longer than five business days will be treated as five business days.

16. The reason for different timeliness standards between short-term and long-term ratings is the fundamental differences between short- and long-term expectations in credit markets. There are very different market needs and expectations regarding timely payment. Traditional short-term instruments, such as commercial paper or short-term government securities, are commonly used as investments matched to an investor's short-term liquidity needs. Making payment on the due date, or at most within a few business days of the due date (regardless of whether there is a longer stated grace period), is critical.

RELATED QUESTIONS

What if there is a non-credit administrative error that delays payment a few days beyond the maximum "timeliness of payments" standards?

17. A: Standard & Poor's will apply reasonable judgment in such cases. For example, if payment is originally made on a timely basis, but paid into the wrong account due to what Standard & Poor's believes is an administrative error on the part of the issuer, payment agent, or trustee, we may not lower the rating to 'D' as long as we believe the error will be corrected within a few business days.

What if there is a non-credit extraordinary event that delays payment a few days beyond the maximum "timeliness of payments" standards?

18. A: Standard & Poor's will apply reasonable judgment in such cases. For example, if due to a natural catastrophe or other "force majeure" event, an issuer cannot access payment systems for a few days beyond the original payment date or grace period end, we may not lower the rating to 'D' as long as we believe payment can be made within a few business days.

What if the issuer makes the payment to the trustee on a timely basis, but a judicial action interferes with full and timely payment being made to the investor?

19. A: Standard & Poor's interpretation of meeting financial commitments "as they come due" is that investors are paid on a full and timely basis. If a judicial action interferes in the timely payment flows from the issuer to the investors, the

rating will be lowered to 'D'. Examples of such actions include a successful litigation by one class of investors that results in a redirection or sharing of payments between different classes of investors. When such action results in payment not being made on a full and timely basis to one or more class of investors according to the terms of the documents, the rating will be lowered to 'D'. On the other hand, if payment doesn't reach an investor due to judicial action against that investor, such as a freezing of investor assets, such action would not affect the issuer or issue rating.

What if a short-term rating has a grace period of three business days?

20. A: Standard & Poor's does not impute any grace period for short-term ratings. If a payment is not made on the due date, the rating will be lowered to 'D' unless there is a stated grace period and we believe the payment will be made within the stated grace period up to a maximum of five business days. Therefore, a short-term rating would not be lowered to 'D' if we believed the payment would be made within the stated grace period of three business days.

What if a short-term rating has a grace period of nine business days?

21. A short-term rating would be lowered to 'D' if we believed the payment would be made within the stated grace period of nine business days but past the five business-day maximum.

If payment of a financial obligation is not made on the due date, when are ratings lowered to 'D'?

22. A: Standard & Poor's would lower its ratings to 'D' as soon as a payment is missed and we believe the issuer will not make the payment within the applicable grace period. For the majority of actions, this would be the day after the original missed payment (T+1 day) because there is a high standard of evidence that a payment could be forthcoming during a grace period. In practice, grace period payments are the exception. In the rarer cases where a payment is missed but we believe would be paid within the applicable grace period, we would consider placing the ratings on CreditWatch negative to reflect any residual uncertainty or risk that the payment may not eventually be made within the grace period. Finally, if a stated grace period is longer than 30 days, our ratings are lowered to 'D' as soon as we believe the payment would not be made within our maximum imputed grace period of 30 calendar days. Again, for the majority of actions under this scenario this would be the day after the original due date, because payments are rarely subsequently made and we'd additionally have to believe they'd be made before the expiry of the longer stated grace period.

What if Standard & Poor's initially expects payment will be made within a 30-day-grace period, but subsequently no longer believes payment will be made within 30 calendar days?

23. A: Initially, following a missed payment that we expect will be made within the grace period, and within 30 calendar days, we may place the rating on CreditWatch with negative implications. Once we come to believe that payment will not be made within the earlier of the stated grace period or 30 calendar days, we would lower the issue rating to 'D' and the issuer credit rating to 'SD'.

Hypothetical Scenarios

The following timeline and table illustrate our approach to calling an instrument in default depending on hypothetical scenarios for grace periods and expected payment dates.

How We Determine Whether A Past-Due Obligation Is Rated 'D'

--Timeline--

March 1 (Monday)	**March 3 (Wednesday)**	**March 8 (Monday)**	**March 9 (Tuesday)**	**March 31 (Wednesday)**	**April 15 (Thursday)**
Due date	A, B	C (i)	C (ii)	D (i)	D (ii)
		Five business days after due date	Six business days after due date	30 calendar days after due date	45 calendar days after due date

--For payment due date of March 1--

Case	**Standard & Poor's expected payment date**	**Stated grace period**	**--Is there a default on:-- Long-term debt?**	**Short-term debt?**	**Explanation**
A	March 3	None	No	Yes	For long-term debt, we allow a five-day grace period if none is stated. For short-term debt, we consider one day late as 'default', if there is no stated grace period.
B	March 3	Three business days	No	No	We expect payment within five business days, and within the stated grace period
C (i)	March 8	10 calendar days	No	No	We expect payment within five business days after due date, and within the stated grace period. March 8, in this example, is five business days after the due date.
C (ii)	March 9	10 calendar days	No	Yes	We expect payment within the stated grace period, and within 30 calendar days after the due date, but after five business days. Therefore, as early as March 2 (the date after the missed payment), we would lower the short-term rating to 'D', though the long-term rating would not fall to 'D'.
D (i)	March 31	60 calendar days	No	Yes	For long-term debt, we allow up to a 30-calendar-day grace period, where terms provide for a longer grace period. For short-term debt, we do not allow beyond five business days.
D (ii)	April 15	60 calendar days	Yes	Yes	In this case, we expect payment 45 days after the due date. Although this is within the stated grace period, we consider it a default, since payment is expected after 30 calendar days (long-term debt) and five business days (short-term debt). We would lower the short- and long-term ratings to 'D' as soon as March 2 (the date after the missed payment).

RELATED CRITERIA AND RESEARCH

- Standard & Poor's Ratings Definitions, Oct. 24, 2013
- Principles For Rating Debt Issues Based On Imputed Promises, Oct. 24, 2013
- Use Of 'C' And 'D' Issue Credit Ratings For Hybrid Capital And Payment-In-Kind Instruments, Oct. 24, 2013
- General Criteria: Guarantee Default: Assessing The Impact On The Guarantor's Issuer Credit Rating, May 11, 2012
- General Criteria: Rating Sovereign-Guaranteed Debt, April 6, 2009

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.

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