Temasek's Feedback on S&P's Request For Comment: Methodology: Investment Holding Companies

Executive Summary

S&P has stated that its objectives for this framework ("Proposed Framework") are to help market participants better understand the key risk drivers for Investment Holding Companies ("IHCs"), enhance the comparability and consistency of ratings, and improve transparency about how S&P assigns them.

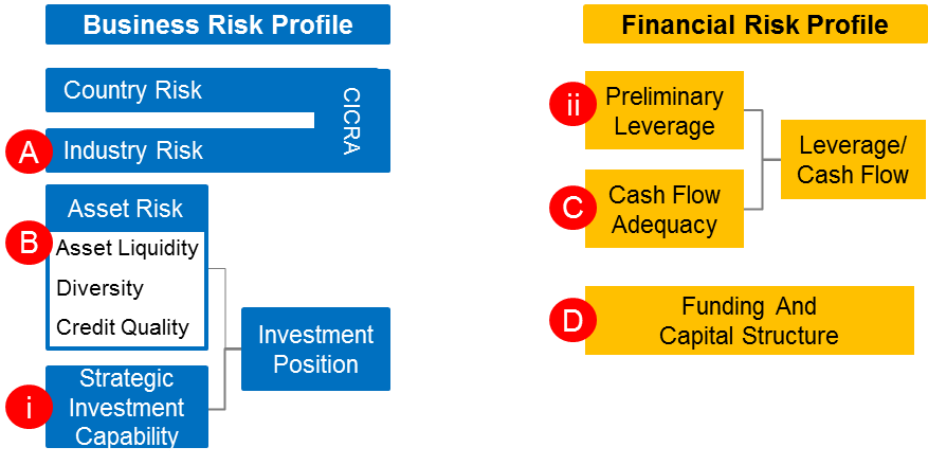
As a responsible long term investor and forward looking institution, we agree with S&P's objectives. However, we are of the view that these objectives are not advanced by the Proposed Framework.

Fundamentally, an individual company should be objectively credit-rated based on its underlying credit quality, using credit metrics across business and financial aspects. The business aspects of an IHC should include the resilience and credit quality of its portfolio, as well as the management and governance structure of the IHC. The financial aspects should include portfolio liquidity, cash flow, debt maturity profile, sources of liquidity, overall funding and capital structure, and ability to meet payment obligations as and when they fall due.

The Proposed Framework departs from the principle that credit rating should be based on the individual company's underlying credit quality, and gives rise to serious concerns.

There are six key issues that we would like to address in this paper, as highlighted in the following diagrammatic representation of the various components of the Proposed Framework.

Diagram 1: Rating Parameters in S&P Proposed Framework for IHCs



(A) to (D): Imposing caps on credit assessment of IHCs based on prescriptive bucketing or imposing upside constraints; not reflecting underlying credit quality of IHC

(A) Industry Risk, (B) Asset Liquidity – Equity Market Group, (C) Cash Flow Adequacy, and (D) Funding and Capital Structure Assessment, impose caps on the credit assessment of the IHCs, based on industry/country/region bucketing (Items (A) and (B)); or simply an upside constraint (Items (C) and (D)). These measures do not reflect their underlying credit quality.

Example 1 : Asset Liquidity – Equity Market Group ("EMG") (see Item (B) in Diagram 1 above, and Table 1 below)

A key credit risk is Asset Liquidity. The EMG concept used in the Proposed Framework is an indicator of volatility. Our view is that volatility should not be used to measure liquidity.

Moreover, the EMG concept uses a 30-year volatility of the country's main stock index, where the majority of an IHC's assets are listed. We believe that long term volatility is not an appropriate indicator of the actual liquidity of stocks in a country, and of the actual liquidity of a portfolio, at a particular point in time. Instead, the liquidity of an IHC's portfolio should be assessed based on the number of days needed to divest assets listed on the respective stock exchanges, i.e. the time needed to liquidate the portfolio, to meet non-discretionary payments.

Secondly, as shown in Table 1, the countries or regions are grouped into four categories, with countries or regions in EMG 1 supposedly the least volatile; and those in EMG 4 the most volatile.

Table 1: Equity Market Groups By Country Or Region based on Proposed Framework

Equity market group	Countries and regions
1	Australia, North America, Switzerland, U.K., U.S.
2	Asia-Pacific, Belgium, Canada, Denmark, European Union, France, Germany, Hungary, Israel, Italy, Japan, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Portugal, Slovak Republic, Slovenia, South Africa, Southeast Asia, Spain, Sweden
3	Austria, Bahrain, Baltic, Caribbean, Cyprus, Czech Republic, Dominican Republic, Eastern Europe, Estonia, Finland, Greece, Gulf Cooperation Council, Hong Kong, Indonesia, Ireland, Jamaica, Korea, Kuwait, Latvia, Lithuania, Malaysia, Malta, Oman, Philippines, Qatar, Saudi Arabia, Singapore, Taiwan, Trinidad and Tobago, Turkey, United Arab Emirates
4	Africa, Argentina, Belarus, Bolivia, Bosnia and Herzegovina, Brazil, Cambodia, Chile, China, Colombia, Costa Rica, Croatia, Ecuador, Egypt, El Salvador, Georgia, Guatemala, Iceland, India, Jordan, Kazakhstan, Latin America, Lebanon, Montenegro, Morocco, Nigeria, North Africa, Pakistan, Panama, Peru, Poland, Romania, Russia, Serbia, Suriname, Thailand, Tunisia, Ukraine, Uruguay, Venezuela, Vietnam

In the Proposed Framework, key Asian financial centres such as Hong Kong and Singapore are classified in EMG 3. This classification puts Hong Kong and Singapore alongside Greece, Cyprus and Latvia, for example, and as more volatile than, for example, New Zealand, Spain, Portugal, Slovenia and the Slovak Republic, which are in EMG 2. This does not take into account the recent size and liquidity of the markets for the purpose of determining asset liquidity. Further, regions such as Asia-Pacific and Southeast Asia are in EMG 2, while countries like Hong Kong, Singapore, Malaysia and Indonesia are in EMG 3. This mixing of regions and countries is confusing.

More importantly, the proposed EMG methodology imposes a cap of '3' on the Asset Liquidity score regardless of the IHC's share of listed companies, if the majority of its listed assets (by value) trade on stock exchanges in countries that are classified in EMG 3 or 4. This means IHCs in Singapore and Hong Kong would automatically be capped at '3', alongside IHCs in countries such as Trinidad and Tobago or Suriname, while an IHC in smaller markets like the Slovak Republic does not have a cap.

Again, this goes against the principle of credit ratings based on the underlying credit quality of an individual company.

Applying the EMG concept to credit metrics does not appear to be justified. Instead, it is recommended that the EMG component be changed to a measure that takes into account more recent histories, alongside other parameters such as asset size relative to stock market, and size and depth of the stock market, to assess primary measures of asset liquidity such as the number of days required to liquidate a stock or portfolio.

Example 2 : Industry Risk (see Item (A) in Diagram 1, and classifications in Table 2 on the next page)

The Proposed Framework places all IHCs in an industry category with an assigned risk score of 'moderately high risk', i.e. '4', without considering the underlying credit quality of the individual IHC, and imposes a cap for the Anchor Rating. Thus, the Anchor Rating is capped at 'aa' at best for any IHC, regardless of the Financial Risk Profile score. The Anchor Rating therefore no longer represents the credit risk of the entity but is capped at the overall industry level.

By bucketing and capping IHCs using this risk score, the Proposed Framework is suggesting that IHCs are, as a whole, more risky than regulated utilities or pharmaceuticals, and as risky as metals and mining, or oil and gas companies, regardless of the individual IHC's credit profile. Such a generalisation for all entities in the IHC industry does not give regard to the credit quality of the individual IHC. In other words, the credit quality of each company within each particular industry should be different, based on the credit quality of that particular company.

Table 2: Industry Risk Assessments – IHCs classified alongside 38 Non-financial Corporate Industries

Very low risk (1)	Low risk (2)	Intermediate risk (3)	Moderately high risk (4)	High risk (5)
1. Regulated utilities	2. Health care equipment 3. Transportation infrastructure 4. Midstream energy 5. Real estate investment trusts (REITs) 6. Railroads and package express 7. Specialty chemicals 8. Environmental services 9. Branded nondurables 10. Pharmaceuticals	11. Agribusiness and commodity foods 12. Building materials 13. Oil and gas integrated, exploration and production 14. Leisure and sports 15. Aerospace and defense 16. Oil and gas drilling, equipment and services 17. Capital goods 18. Consumer durables 19. Business and consumer services 20. Technology software and services 21. Containers and packaging 22. Media and entertainment 23. Retail and restaurants 24. Transportation leasing 25.Telecommunications and cable 26. Health care services	27. Homebuilders and developers 28. Metals and mining downstream 29. Metals and mining upstream 30. Auto OEM 31. Auto suppliers 32. Commodity chemicals 33. Technology hardware and semiconductors 34. Oil and gas refining and marketing 35. Unregulated power and gas 36. Engineering and construction 37. Forest and paper products **IHC**	38. Transportation cyclical

To reiterate, Temasek does not agree with the use of caps in the Proposed Framework. A company should be assessed objectively, based on its individual credit quality, without being constrained by any cap.

Using various industry/country/region bucketing is useful as a reference or as a sanity check, but having a cap imposed based on such bucketing goes against the principle of assessing each entity on its own merits.

In our view, analysts should rate an IHC across the entire rating spectrum based on an objective and professional assessment of the individual company's credit quality, as they do now, without being constrained by caps. Otherwise, a high quality IHC may be assigned a lower credit rating due to the caps, compared to a non-IHC with lower underlying credit attributes – and this will not achieve the stated objectives of the Proposed Framework.

(i) Strategic Investment Capability: attempts to use prescribed checklist to score qualitative factors

The Strategic Investment Capability factor appears to be an attempt to use a prescribed checklist to score qualitative factors in a quantitative way. Different IHCs have different business and financial risk profiles, based on their different missions and their resultant investment strategies and risk appetites. These are by nature varied and subjective. IHCs also range in size, and hence their risk absorption capacity would vary.

(ii) Preliminary Leverage: does not recognise credit impact of well distributed maturity profile

The Preliminary Leverage, or loan to value, formula does not differentiate between the credit risk of an entity that has all its debt due immediately, versus another that has a well distributed maturity profile, termed out more than 5, 10 or 20 years on average.

This means that the Proposed Framework assigns the same credit risk to an entity with $10 billion of debt due today, as an entity with $10 billion of debt due over 30 years with a well distributed debt maturity profile, e.g. with no more than $1 billion due in any one given year. We are of the view that this differentiation should form part of the Proposed Framework. IHCs with financial discipline and which have managed their debt maturity profiles to reduce year to year liquidity and financing risk should be differentiated from an IHC with a large amount of debt due immediately.

The details of these issues, as well as our other comments, are set out in pages 6 to 29 of the paper.

Please see attached Appendix for a mock-up of our recommendations.

Para 13: The Proposed Framework incorporates key factors affecting an IHC's credit risk, as described in the chart. In your opinion, are there any redundancies or omissions in the proposed criteria?

Factor / RFC Para Reference	Remarks
(1) Industry Risk	**PROPOSED FRAMEWORK**
Para 26 – 28, 45, 64 – 67	The Proposed Framework has assigned an Industry Risk score of '4' to the entire IHC industry. With an Industry Risk score of '4', the best CICRA score an IHC can achieve is '4', even if the Country Risk score is below '4'. As such, the best score for Business Risk Profile is '2'. This results in an Anchor Rating of 'aa' at best for any IHC, regardless of the Financial Risk Profile score.

TEMASEK'S CONCERNS & COMMENTS

Temasek does not agree with the way Industry Risk is being used in the Proposed Framework. The Proposed Framework limits the credit scoring for no other reason than being an IHC, without even taking into account its actual individual credit quality. Our concerns and comments are set out below:

1.1 Carte blanche Industry Risk score is a cap that does not fully consider the underlying credit quality of individual company

The Proposed Framework has assigned an Industry Risk score of '4' to the entire IHC industry. We do not agree with this approach at all because it applies regardless of the credit quality of the IHC, and does not give full recognition of the underlying credit quality of highly creditworthy IHCs. We are of the view that a credit rating should always be based on the credit strength of the individual company – which is the basis of the current framework.

Temasek strongly disagrees with the concept of putting companies into types of 'buckets' without taking into consideration the credit quality of the individual companies. In our view, this is a departure from the current methodology. Credit quality should always be determined by the credit of the individual company, using credit metrics across business and financial aspects. The business aspects of an IHC should include the resilience and credit quality of its portfolio, as well as the management and governance structure of the IHC. The financial aspects should include portfolio liquidity, cash flow, debt maturity profile, sources of liquidity, overall funding and capital structure, and ability to meet payment obligations as and when they fall due.

Factor / RFC Para Reference	Remarks

1.2 Anchor Rating must represent the credit quality of the entity being rated

The Proposed Framework places all IHCs into an industry category with an assigned risk score of 'moderately high risk', i.e. '4', without any consideration of the underlying credit quality of the individual IHC, and then assigns a cap of '2' for the Business Risk Profile. Thus, the Anchor Rating for any IHC is capped at 'aa' at best, regardless of the Financial Risk Profile score. The Anchor Rating no longer represents the credit quality of the entity but is capped at the overall industry level.

By bucketing and capping IHCs using this Industry Risk score of 'moderately high risk' (i.e. '4'), the Proposed Framework is suggesting that IHCs are, as a whole, more risky than regulated utilities or pharmaceuticals, and as risky as metals and mining or oil and gas companies, regardless of the individual IHC's credit profile. Such a generalisation for all entities in the IHC industry does not give regard to the credit quality of the individual IHC. We query whether 'bucketing' any industry at all is appropriate as the credit quality of the entities within each industry would differ.

Should Industry Risk assessment be used, it should only serve as a reference or sanity check, but having a cap imposed based on such bucketing goes against the principle of assessing each entity on its own merits.

1.3 Analysts should rate IHCs across the entire rating spectrum

In our view, analysts should rate an IHC across the entire rating spectrum based on an objective and professional assessment of the individual company's credit quality, without being constrained by caps. Otherwise, a high quality IHC may be assigned a lower credit rating due to the caps, compared to a non-IHC with lower underlying credit attributes – and this will not achieve the stated objectives of the Proposed Framework.

1.4 IHCs do not all invest in assets from the same industry

IHCs are free to invest in investee companies that are diversified across multiple industries. The IHC industry is not homogeneous. If the IHC invests only in 'very low risk' or 'low risk' industries, assigning a 'moderately high risk' industry categorisation for IHCs is questionable. For example, if an IHC only invests in regulated utilities companies, which are classified as a 'very low risk' industry, should it result in the IHC still being classified as 'moderately high risk'? It is important for the Proposed Framework to objectively assess the IHC's portfolio quality instead of using a carte blanche score for the entire IHC industry.

Factor / RFC Para Reference	Remarks

1.5 IHCs do not all invest in assets of the same quality

IHCs invest in a wide range of companies with varying credit qualities. An IHC can actively manage its portfolio and acquire high credit quality assets and divest low credit quality assets as part of its strategy to improve the overall credit quality of its portfolio. In our view, classifying IHCs as a uniform, homogeneous industry is not meaningful.

For example, if an IHC only invests in *high credit quality* companies in the engineering and construction industry, would its risk necessarily be higher than if the IHC only invests in *low credit quality* companies in the midstream energy industry?

In down-trending markets, the IHCs' capacity to acquire high credit quality assets at steep discounts can be a strong credit positive. This capability to improve on the portfolio credit quality is available to IHCs because of their business model and investment expertise, but is not available to most non-IHCs. This also greatly reduces the possibility of total loss of equity value as the assets can be divested prior to credit deterioration. A distinction should be made between IHCs and leveraged buy-out or turn-around activist funds, or fund managers of diversified funds.

1.6 IHCs do not all share the same major risk components

The Proposed Framework assumes that all IHCs share the same major risk components. We do not agree with this assumption.

(i) Holding debt that finances equity participations: The Proposed Framework assumes all IHCs which hold debt that finances equity participations face major risks from servicing interest costs using, inter alia, dividend income from investee companies as the main source of recurring cash flow. This is questionable. For a start, not all IHCs use debt to finance equity participations. IHCs have various sources of funds to finance acquisitions, including dividend income from investee companies and divestment proceeds.

Even if IHCs use a certain amount of debt to finance equity investments, S&P has rightly highlighted that the strengths of IHCs include financial flexibility to liquidate investments where necessary. This includes divesting investments to lock in capital gains, which can be used to service interest costs if needed. Even in a down-trending market, an IHC could potentially sell assets that have performed well because the IHC has a diversified portfolio across different industries. In contrast, while operating companies have direct access to operating cash flows, operating companies are unlikely to be able

Factor / RFC Para Reference	Remarks

to increase faltering cash flows in cyclical business downturns. They also have limited means to raise cash quickly through asset sales.

Besides, the risk posed by servicing interest cost using dividend income from investee companies is already addressed by the Cash Flow Adequacy factor under the Financial Risk Profile. An IHC with a strong Cash Flow Adequacy above 1.0x is able to meet non-discretionary cash outflows using recurring cash inflows without having to divest any assets or issue additional debt. In our view, assessing cash flow adequacy under both the Industry Risk and Cash Flow Adequacy factors is double-counting. Accordingly, having a Cash Flow Adequacy factor is sufficient to assess the entity's cash flow.

(ii) Asset/liability mismatch risk**:** The Proposed Framework assumes that all IHCs have an inherent asset/liability mismatch and do not generate sufficient cash to repay their principal as and when the debts mature and therefore rely on refinancing. We do not agree with this assumption. There are IHCs that term out their debt, are disciplined about the amount of debt maturing each year, and monitor and plan their liquidity needs carefully. Such IHCs should not face the situation of having insufficient cash for principal repayment. IHCs that plan to repay their principal should plan for it in advance and generate sufficient cash via recurring dividend income as well as divestment proceeds.

S&P has rightly included the Debt Maturity Profile as one component of assessing the Funding And Capital Structure. For any credit assessment, it is paramount to consider the terming out of debt, as well as the overall funding and capital structure of the IHC. S&P should give credit to IHCs that term out their debt beyond five years, which would narrow the asset/liability mismatch. An IHC with strict financial discipline and consciously terms out its debt to ensure its high credit quality should be evaluated and rated as such.

1.7 Double counting in proposed methodology

There appears to be double counting in the proposed methodology. The risks components that are meant to be assessed under the Industry Risk criteria are also assessed under other criteria in the framework. Some examples include:

Example 1: Risks posed by servicing interest costs using dividend income from investee companies are already addressed under the Cash Flow Adequacy criteria by comparing recurring cash inflows to non-discretionary cash outflows.

Example 2: Risks posed by the potential asset/liability mismatch are already addressed under the Preliminary Leverage – Loan To Value ("LTV") criteria, as well as the Funding And Capital Structure criteria.

Factor / RFC Para Reference	Remarks

1.8 Focus on negative aspects of IHCs in Industry Risk assessment

There appears to be a focus on the negative aspects of IHCs without giving sufficient regard to the positive aspects. This could lead to an unbalanced view. Ultimately, one should evaluate both the positive and negative aspects of the individual entity from a credit perspective to assess credit quality.

1.9 IHCs incorrectly categorised alongside non-financial entities

We note that the Proposed Framework has attempted to categorise IHCs alongside non-financial operating entities that were assessed using the "Methodology: Industry Risk," Nov. 19, 2013. IHCs have very different characteristics from operating companies in non-financial industries and should not be put alongside them.

For example, REITs have an industry risk of '2' but are typically more highly leveraged than IHCs. REITs also have distribution payout obligations; whereas IHCs have permanent capital with no redemption term, thus allowing for a medium- to long-term investment horizon with no pressure to liquidate investments to meet redemption demands. Comparatively, IHCs appear less risky than REITs, for example, from a credit perspective.

We also note that financial industries such as banking and insurance are not covered under the "Methodology: Industry Risk," Nov. 19, 2013. We understand that financial industries are rated with reference to their country risk. There is no separate Industry Risk factor for financial industries. IHCs are not operating companies in non-financial industries, nor are they traditional financial institutions like banks and insurance companies. IHCs should thus not be assessed based on any Industry Risk category.

TEMASEK'S RECOMMENDATIONS

1.10 Propose to remove Industry Risk factor

The reasons why Temasek does not agree with having an Industry Risk factor in the Proposed Framework are outlined above. We strongly recommend that the Industry Risk factor be entirely removed from the IHC methodology.

Factor / RFC Para Reference		Remarks
(2)	Asset Liquidity – Equity Market Group	**EQUITY MARKET GROUP**
		PROPOSED FRAMEWORK REGARDING EQUITY MARKET GROUP
Para 36 – 37		The Proposed Framework classifies listed equity investments into four Equity Market Groups ("EMG") by country, based on the volatility S&P has observed in that country's main stock market index over the past 30 years. The Proposed Framework will assign a "weight of listed companies" assessment that is no better than '3' regardless of the share of listed companies if the majority of listed assets (by value) trade on stock exchanges in countries that are classified in EMG 3 or 4 in Table 3.
		TEMASEK'S CONCERNS & COMMENTS REGARDING EQUITY MARKET GROUP
		Temasek does not agree with the EMG concept as an indicator of asset liquidity. Our concerns and comments are set out below:
		2.1 Volatility should not be used to assess liquidity; EMG cap does not take into account credit quality of individual IHCs
		The EMG concept used in the Proposed Framework is an indicator of volatility. We also understand that the objective of the Asset Liquidity parameter is to assess the willingness and ability of the IHC to liquidate assets. Our view is that volatility should not be used to measure liquidity, i.e. the willingness and ability to liquidate assets. This places a cap of '3' on the Asset Liquidity score regardless of the IHC's share of listed companies, if the majority of its listed assets (by value) trade on stock exchanges in countries that are classified in EMG 3 or 4.
		Moreover, the EMG concept uses a 30-year volatility of the country's main stock index, where the majority of an IHC's assets are listed. We believe that long term volatility is not an appropriate indicator of the actual liquidity of stocks in a country, and of the actual liquidity of a portfolio, at a particular point in time. Instead, the liquidity of an IHC's portfolio should be assessed based on the number of days needed to divest assets listed on the respective stock exchanges, i.e. the time needed to liquidate the portfolio, to meet non-discretionary payments.
		In the Proposed Framework, key Asian financial centres such as Hong Kong and Singapore are classified in EMG 3. This classification puts Hong Kong and Singapore alongside Greece, Cyprus and Latvia, for example, and as more volatile than, for example, New Zealand, Spain, Portugal, Slovenia and the Slovak Republic, which are in EMG 2. This does not take into

Factor / RFC Para Reference	Remarks

account the recent size and liquidity of the markets for the purpose of determining the asset liquidity. Further, regions such as Asia-Pacific and Southeast Asia are in EMG 2, while countries like Hong Kong, Singapore, Malaysia and Indonesia are in EMG 3. This mixing of regions and countries is confusing.

More importantly, the proposed EMG methodology imposes a cap of '3' on the Asset Liquidity score regardless of the IHC's share of listed companies, if the majority of its listed assets (by value) trade on stock exchanges in countries that are classified in EMG 3 or 4. This means IHCs in Singapore and Hong Kong would automatically be capped at '3', alongside with IHCs in countries such as Trinidad and Tobago or Suriname, while an IHC in smaller markets like the Slovak Republic does not have a cap. Again, this goes against the principle of credit rating based on the underlying credit quality of an individual company.

Applying the EMG concept to credit metrics does not appear to be justified. Instead, it is recommended that the EMG component be changed to a measure that takes into account more recent histories, alongside other parameters such as asset size relative to stock market, and size and depth of the stock market, to assess primary measures of asset liquidity such as the number of days required to liquidate a stock or portfolio.

2.2 EMG methodology is too complicated to understand

The EMG methodology itself is too complicated for the IHC or third parties to understand and replicate the methodology to arrive at the country and region classifications. Again, this goes against the objectives of the Proposed Framework.

TEMASEK'S RECOMMENDATIONS FOR EQUITY MARKET GROUP

2.3 Propose to remove EMG component entirely

The reasons why Temasek does not agree with having the EMG component in the Proposed Framework are outlined above. We strongly recommend that the EMG component be entirely removed from the IHC methodology.

Factor / RFC Para Reference	Remarks
Asset Liquidity – Asset Liquidity Assessment (Table 2) Para 34 – 35	**ASSET LIQUIDITY ASSESSMENT (TABLE 2)** **PROPOSED FRAMEWORK REGARDING ASSET LIQUIDITY ASSESSMENT (TABLE 2)** The Proposed Framework is premised on the share of listed investments versus nonquoted assets and the balance of minority versus majority (or controlling) stakes in listed assets as the two most important drivers of asset liquidity. **TEMASEK'S CONCERNS & COMMENTS REGARDING ASSET LIQUIDITY ASSESSMENT (TABLE 2)** Temasek does not agree with the methodology to assess Asset Liquidity in Table 2. Our concerns and comments are set out below: **2.4 Strategy to invest in unlisted assets to derive alpha returns through IPOs** Temasek does not agree that the share of listed investments versus nonquoted assets and the balance of minority versus majority (or controlling) stakes in listed assets are the two most important drivers of asset liquidity. Liquidity of an IHC's portfolio should be assessed based on the number of days needed to divest assets listed on the respective stock exchanges, i.e. the time needed to liquidate the portfolio, to meet non-discretionary payments. In addition, investing in unlisted assets is part and parcel of an IHC's strategy to derive alpha returns when the unlisted investments are subsequently listed. For example, an IHC holding 100% unlisted assets could potentially list all the assets over time and end up holding a 100% listed portfolio. Asset liquidity thus cannot be assessed from the singular view of the percentage of listed assets in an IHC's portfolio. **TEMASEK'S RECOMMENDATIONS FOR ASSET LIQUIDITY ASSESSMENT (TABLE 2)** **2.5 Propose to remove Asset Liquidity Assessment (Table 2)** The reasons why Temasek does not agree with having the proposed Asset Liquidity Assessment (Table 2) in the Proposed

Factor / RFC Para Reference	Remarks
	Framework are outlined above. We strongly recommend that the Asset Liquidity Assessment (Table 2) be entirely removed from the IHC methodology. **2.6 Propose to change Asset Liquidity assessment entirely using divestment per day and historical divestments** We propose measuring asset liquidity, including willingness and ability to sell assets, using the following two factors. (i) Number of days needed to divest assets listed on the respective stock exchanges, i.e. the time needed to liquidate the portfolio, to meet non-discretionary payments. The average divestment amount that an IHC can achieve per day based on daily traded volumes in the respective markets where the assets are listed is a more relevant measure of asset liquidity. The average divestment amounts can be measured relative to IHC's annual non-discretionary payments to determine how many days are required to divest in order to meet the annual non-discretionary payments. (ii) Historical divestment track record (e.g. annual divestments vs non-discretionary expenses) The willingness and ability to liquidate assets, even during a volatile down trending market, should be assessed based on the historical divestment track record of the IHC, such as the amount of divestments during the Global Financial Crisis.
(3) Cash Flow Adequacy Para 55 – 58	**PROPOSED FRAMEWORK** The Proposed Framework considers Cash Flow Adequacy as a supplemental ratio which either confirms the preliminary leverage assessment or adjusts it downward by one category (if Cash Flow Adequacy ratio is below 0.7x). **TEMASEK'S CONCERNS & COMMENTS** Temasek agrees that an assessment of cash flow adequacy is necessary for any credit assessment. However, we have some concerns with the application of this factor in the Proposed Framework. Our concerns and comments are set out below: **3.1 No weight given to Cash Flow Adequacy in its own right – Cash Flow Adequacy should be a core ratio**

Factor / RFC Para Reference	Remarks

For any credit assessment, cash flow adequacy should be a key consideration and given full weight in its own right. Cash Flow Adequacy ratio should be a core ratio instead of a supplemental ratio. This ratio is a key indicator of the strength of the IHC's cash inflow to service the cash outflow, including interest expenses.

3.2 No upside for IHCs with strong cash flows – should notch up IHCs with strong cash flow management

There is an upside cap on the Cash Flow Adequacy ratio which does not provide any incentive for the IHC to better manage its cash flow. We do not agree that all IHCs with Cash Flow Adequacy ratios of above 0.7x are equal. We believe that this does not give full recognition to IHCs with strong cash flow management. For example, an IHC with a Cash Flow Adequacy ratio above 1.0x is able to meet non-discretionary cash outflows using recurring cash inflows, without having to divest any assets or issue additional debt. We strongly believe that both upside and downside notching should be provided for under the framework, in order to be give full recognition to all IHCs.

3.3 Clarification for cash dividends

We request that S&P clarify that the 'cash dividends' in the Cash Flow Adequacy ratio includes all income from investments, including dividends from portfolio companies, distributions from funds and interest income from bond/credit investments.

TEMASEK'S RECOMMENDATIONS

3.4 Propose to make Cash Flow Adequacy a Core Ratio with upside for IHCs with strong cash flow management

(i) **Make Cash Flow Adequacy a Core Ratio:** We propose that the Cash Flow Adequacy Ratio should be a core ratio with its own scoring table with the scale from '1' to '6' to better assess the strength of an IHC's cash flows and better differentiate amongst IHCs that manage their cash flow very well. We suggest that a score of '1' or '2' for the Cash Flow Adequacy ratio would result in a notch up of the Financial Risk Profile.

(ii) **Upside for IHCs with strong cash flow management:**
We propose that the Financial Risk Profile be notched up by one full category if the Cash Flow Adequacy score is above 1.0x. An IHC with a Cash Flow Adequacy ratio above 1.0x is able to meet non-discretionary cash outflows using recurring cash inflows, without having to divest any assets or issue additional debt.

Factor / RFC Para Reference	Remarks
	(iii) **Use historical if forecasts not available:** We understand that S&P will make assumptions about future ratios if forecasts are not provided. We propose that if forecasts are not provided, S&P would weigh the previous two years and current year equally.
(4) Funding and Capital Structure Para 59 – 63	**PROPOSED FRAMEWORK** The Proposed Framework applies a supplemental evaluation of the IHC's funding and capital structure to the leverage/cash flow assessment. At least three 'Adequate' assessments, including for debt maturity profile, would translate into a 'neutral' assessment of funding and capital structure and would not lead to any adjustment to the leverage/cash flow assessment. A weakness in debt maturity profile or three 'Weak' assessments would translate into a 'negative' assessment of funding and capital structure. In such a case, the Financial Risk Profile assessment would be one category lower than the leverage/cash flow assessment. More than three 'Weak' assessments, including debt maturity profile, would translate into a 'very negative' assessment of the funding and capital structure and would cap the SACP at 'b-'. **TEMASEK'S CONCERNS & COMMENTS** Temasek agrees that the constituents being considered under Funding and Capital Structure are directionally the right ones to assess the credit quality of an IHC. Factors such as debt maturity profile are key to any credit assessment. However, we have some concerns with the Proposed Framework. Our concerns and comments are set out below: **4.1 No upside for IHCs with strong financial discipline** We note that there is no upside for IHCs with superior credit quality arising from having strong financial discipline. We strongly believe that both upside and downside notching should be provided for under the Proposed Framework, in order to

Factor / RFC Para Reference	Remarks

assess all IHCs objectively, based on their individual credit quality, without being constrained by any cap.

4.2 Clarification for 'tightly controlled' vs 'controlled' assets

We request that S&P clarify the definition of 'tightly controlled' vs 'controlled' assets under the "Complexity of Group Structure". It would be ideal if the definition included a numerical threshold for 'tightly controlled' if this is meant to be based on shareholding stake in an asset.

TEMASEK'S RECOMMENDATIONS

4.3 Propose to have upside for IHCs with strong Funding and Capital Structure and adjust thresholds

(i) **Upside for IHCs with strong funding and capital structure**

IHCs with superior credit quality arising from having strong financial discipline should be accorded a notch up of the Financial Risk Profile score. We recommend that in line with the Strategic Investment Capability measure that caters for 'Above Average', 'Average' and 'Below Average', the same format is applied to the Funding and Capital Structure measure. A 'Strong' category could be added to differentiate between the IHCs with 'Adequate' funding and capital structures and those with 'Strong'. If the IHC has at least 3 assessments in the 'Strong' category, this should result in a notch up of the Financial Risk Profile score.

OPTION 1: Under the 'Strong' category, we propose a Debt Maturity Profile threshold of greater than 5 years and Cash Flow Adequacy ratio of above 1.0x. Rationale for increased thresholds outlined below. If a 'Strong' category is added, the thresholds for 'Adequate' can remain as per the Proposed Framework.

OPTION 2: Alternatively, at least four 'Adequate' assessments including for debt maturity profile, could translate into a 'positive" assessment of Funding and Capital Structure and result in a notch up of the Financial Risk Profile. We also propose a tightening of the criteria for 'debt maturity profile' (Debt Maturity Profile greater than 5 years) and 'currency and interest risk of debt' (Cash Flow Adequacy ratio of above 1.0x) if a 'Strong' category is not added.

(ii) **Longer weighted average debt maturity of beyond 5 years**

Factor / RFC Para Reference	Remarks
	For the Debt Maturity Profile: We note that the 2-year weighted average debt maturity criterion is not aligned with the concept of IHCs having permanent capital and terming out debt to match long term asset holdings. IHCs with the discipline to term out their debt and not having large amounts of maturing debt bunched together should be recognised. We propose to increase the weighted average debt maturity to beyond 5 years. (iii) **Cash Flow Adequacy ratio of 1.0x** An IHC with Cash Flow Adequacy ratio above 1.0x is able to meet non-discretionary cash outflows using recurring cash inflows, without having to divest any assets or issue additional debt. We propose to increase the Cash Flow Adequacy ratio threshold from 0.7x to 1.0x.
(5) Strategic Investment Capability ("SIC") Para 43 - 44	**PROPOSED FRAMEWORK** The Proposed Framework considers that an IHC's SIC – its ability to make profitable investments, execute timely acquisitions, and divest companies on attractive economic terms – is critical to its success in this industry. The SIC concept attempts to assess an IHC's ability to create value for its stakeholders in the context of well-executed investment and risk appetite policies. The Proposed Framework assesses SIC as 'above average', 'average, or 'below average'. After assessing the SIC, S&P would adjust the Asset Risk score to arrive at an overall Investment Position score. An SIC assessment of "above average" will move up the Asset Risk score by one full category (unless it is already 1); an assessment of "below average" will move down the Asset Risk score by one full category (unless it is already 6); and an assessment of "neutral" will have no impact on the Investment Position score, which in that case would be the same as the Asset Risk score. **TEMASEK'S CONCERNS & COMMENTS** Temasek agrees with the themes being covered under the SIC assessment – investment discipline, risk analysis, portfolio rotation, etc. These themes assist to assess the IHC's ability to make profitable investments, execute timely acquisitions, and divest companies on attractive economic terms. However, Temasek does not agree that the SIC table should be used as a prescriptive checklist. Our concerns and comments are set out below:

Factor / RFC Para Reference	Remarks

5.1 Qualitative factors should not be scored in a quantitative manner

An IHC's ability to create value for its stakeholders in the context of well-executed investment and risk appetite policies should be a qualitative assessment, relative to the IHC. It appears that the Proposed Framework uses overly prescriptive criteria to score qualitative factors in a quantitative way. Fundamentally, qualitative factors should not be scored in a quantitative manner.

Each IHC is different in the way it manages investments and risk to create value for its stakeholders. Different IHCs have different business and financial risk profiles, based on their different missions and their resultant investment strategies and risk appetites. These are by nature varied and subjective. IHCs also range in size, and hence their risk absorption capacity would vary. By having a prescriptive checklist, there is no recognition of how the IHC actually governs itself.

Table 6 can be used by S&P analysts for guidance, but the analysts should be given full flexibility to tailor the components of the table when making their assessment, while assessing the IHC based on the overall themes.

Examples of overly prescriptive criteria which do not take into account the IHC's strategy and stance include:

(i) **Risk analysis**
"There are clear investment criteria in terms of maximum exposure by asset, geography or industry."
Different IHCs manage their risk differently. For example, there are IHCs that do not manage their investments using a strategic asset allocation to create stakeholder value. Fixing the parameter that an IHC must have clear investment criteria in terms of maximum exposure by asset, geography or industry is too rigid. If this is merely an example and not a strict rule that the analyst has to abide by, we request that S&P state so clearly in the criteria.

(ii) **Portfolio rotation**
"The IHC tends to make disposals annually and is committed to an effective strategy of portfolio rotation. Disposal proceeds are quickly reinvested."
Disposals should be made in the context of, inter alia, divesting overvalued assets to lock in capital gains, maintaining a healthy cash buffer or disposing underperforming assets. There are situations where it is in the IHC's best interest to hold its portfolio with minimal divestments, especially when the portfolio is performing well and there are no better investment opportunities available. In addition, disposal proceeds need not be quickly reinvested if down trending markets are

Factor / RFC Para Reference	Remarks
	forecasted going forward and maintaining a healthy cash buffer is more prudent. Hence portfolio rotation should be assessed in the light of these factors and not just about mechanical disposals and quick reinvestments. (iii) **Value creation** *"NAV development over the previous 36 months has exceeded the relevant stock exchange benchmark index."* IHCs have permanent capital and can hold assets through market cycles. A typical market cycle is about 7 to 10 years. To look at only one particular timeframe, especially one that is fairly short, does not fully assess the IHC's investment model. IHCs typically report performance over various time horizons to give a sense of how they have been performing over different periods of time. This factor is another example of being overly prescriptive. **TEMASEK'S RECOMMENDATIONS** **5.2 Propose to clarify that SIC Table 6 descriptions are qualitative and only used for guidance** We request that S&P state clearly in the criteria that the descriptors in Table 6 are qualitative and only used for guidance. S&P should also state in the criteria that, for avoidance of doubt, Table 6 is not a prescriptive checklist. Alternatively, the detailed descriptors in Table 6 could be removed.
(6) Preliminary Leverage – Loan To Value ("LTV") Ratio	**PROPOSED FRAMEWORK** The Proposed Framework uses the LTV ratio as the primary ratio to assess the Financial Risk Profile of an IHC.
Para 47 – 54	**TEMASEK'S CONCERNS & COMMENTS** Temasek agrees that LTV should be a key ratio used to assess the Financial Risk Profile of an IHC, but does not agree that it is the only primary ratio that should be considered. Cash Flow Adequacy and Debt Maturity Profile should be given equal weightage as LTV when assessing the credit quality of an IHC. Our concerns and comments regarding the LTV ratio are set out below:

Factor / RFC Para Reference	Remarks

6.1 LTV weights all debt upfront and does not recognise the credit impact of well distributed maturity profile

S&P has indicated that the debt maturity profile of an IHC is very important, and IHCs that term out their debt must be recognised since a longer debt maturity profile greatly reduces refinancing risk. However, the proposed LTV ratio appears not to be consistent with this principle. In the proposed LTV ratio, the formula does not differentiate between the credit risk of an entity that has all its debt due immediately, versus another that has well distributed maturity profile, termed out more than 5, 10 or 20 years on average.

This means that the Proposed Framework assigns the same credit risk to an entity with $10 billion of debt due today, and an entity with $10 billion of debt due over 30 years, with a well distributed debt maturity profile, e.g. with no more than $1 billion due in any one given year. We are of the view that this differentiation should form part of the Proposed Framework. IHCs with financial discipline and which have managed their debt maturity profiles to reduce year to year liquidity and financing risk should be differentiated from an IHC with a large amount of debt due immediately.

A long and well distributed debt maturity profile eliminates the need of the entity having to refinance a large amount at any point of time, especially if a crisis were to occur. This allows the IHC to wait out the down-cycles. IHCs with cash flow discipline can even opt to repay the debt first while awaiting more favourable market conditions to raise financing. The ability to issue long tenor bonds (10 years and above) is the market's validation of an entity's credit strength.

6.2 Short term investment commitments included and significantly lowers debt capacity

Some investment commitments may cross the financial year end simply due to timing of entering into the contract versus the timing of the funding of the investment. For example, a commitment given on 30 March to be settled on 30 April (1 month duration gap) will be included in the LTV ratio because it crossed the financial year end on 31 March. IHCs should not be impeded from entering transactions due to timing and accounting issues. We recommend that only investment commitments beyond 12 months be included in the LTV ratio computation.

6.3 Short-term fixed-income securities excluded as cash

We do not agree with the exclusion of short-term marketable fixed-income securities as cash and liquid/short-term investments for the purposes of calculating surplus cash. Many IHCs have their excess cash invested in Treasury bills and

Factor / RFC Para Reference	Remarks

bonds, or equivalent, and these are easily liquidated when cash is required. They are by nature liquid and therefore should be considered as cash and liquid/short-term investments when calculating surplus cash.

6.4 Set out LTV formula clearly in criteria

We recommend that S&P set out the LTV formula clearly in the criteria.

We understand that the LTV formula for Temasek is as follows, and request for S&P's confirmation of the formula:

- LTV = Adjusted Debt / Estimated Portfolio Value
- Adjusted Debt = Reported gross debt of parent company + Reported gross debt of financing vehicles [if any] + Financial guarantees on subsidiaries' debt [if any] + Investment commitments [if any] + Equity portion of convertible bond [if any] - Cash and Cash equivalents - Short-term investments
- Estimated Portfolio Value = Net Portfolio Value + Investment commitments [if any]

6.5 Agree with using spot market prices for financial year end

Temasek currently computes our net portfolio value based on spot market prices for the listed assets as at 31 March, our financial year end. Thus we agree with the use of spot market prices to value listed assets when calculating spot LTV. We request that S&P confirm the spot LTV will be computed based on the latest publicly reported net portfolio value of the IHC.

6.6 S&P to correct Table 9 scale

We request that S&P more accurately define the loan-to-value threshold (%) scale in Table 9. An LTV of 10% can qualify for all 6 categories from minimal to highly leveraged. Each category should have clear boundaries. For example, the '≤ 20' tier could be expressed as '20 ≥ threshold > 10'.

TEMASEK'S RECOMMENDATIONS

6.7 Propose to consider weighted average debt maturity to adjust LTV and exclude investment commitments of less than 12 months

Factor / RFC Para Reference	Remarks
	(i) Notch up or notch down Preliminary Leverage score based on weighted average debt maturity We recommend that the Preliminary Leverage score be notched up by one full category if the weighted average maturity of debt is above 5 years. If the weighted average maturity of debt is 2 years or less, we recommend that the Preliminary Leverage score be notched down by one full category. (ii) Exclude investment commitments < 12 months We recommend that only investment commitments beyond 12 months be included in the LTV ratio to eliminate the investment commitments that may inadvertently be added to the LTV computation due to the timing of entering into the contract and when the investments are funded. (iii) Include short-term marketable fixed-income securities as cash and liquid/short-term investments We recommend that short-term marketable fixed-income securities be included as cash and liquid/short-term investments for the purposes of calculating surplus cash.
(7) Asset Diversity Para 38 – 40	**PROPOSED FRAMEWORK** The Proposed Framework takes into account the portfolio's nominal size, level of asset concentration (single largest and top three largest assets) and diversification of assets across industries when assessing Asset Diversity. **TEMASEK'S CONCERNS & COMMENTS** Temasek agrees that asset diversity should be one consideration used to assess the IHC's Business Risk Profile. However, we have several concerns and comments as set out below: **7.1 At least one IHC should qualify for a score of '1'** Based on our initial assessment of IHCs using recent S&P rating reports, we believe that there is no IHC that qualifies for the 'Asset Diversity' score of '1'. This begs the question of having the score of '1', and whether the scoring should be re-calibrated such that the proposed '2' should be the new '1', the proposed '3' be the new '2' and so on.

Factor / RFC Para Reference	Remarks
	7.2 Diversification of assets across industries factor applied inconsistently The factor on the diversification of assets across industries is inconsistently applied across Table 4. This factor only exists for Strong and Strong/Adequate scores. Further, we understand that diversification of assets across industries is not a key measure for Asset Diversity, and is a qualitative measure. **TEMASEK'S RECOMMENDATIONS** **7.3 Propose to adjust Asset Diversity scoring and remove diversification of assets across industries factor** (i) We propose that the proposed 'Asset Diversity' score of '2' in Table 4 be revised to the new '1', the proposed '3' be the new '2' and so on. (ii) We also propose that the diversification of assets across industries be excluded from the Asset Diversity criteria.
(8) Asset Credit Quality Para 41 – 42	**THE PROPOSAL** The Proposed Framework measures asset credit quality by assessing the stand-alone creditworthiness of investee companies, using the ICR from Standard & Poor's if the entity has one or a S&P internal credit assessment for any unrated portfolio asset representing at least 15% of total portfolio value. **TEMASEK'S CONCERNS & COMMENTS** Temasek agrees that asset credit quality should be one consideration used to assess the IHC's Business Risk Profile. However, we have one main concern as set out below: **8.1 Not possible to replicate unrated portfolio assessment to arrive at same scoring as analyst** We understand that the current process to assess credit quality entails a credit quality assessment of the S&P rated entities

Factor / RFC Para Reference	Remarks
	within an IHC's portfolio. We note that this process should be replicable by IHCs and third parties as the rating reports of such S&P rated entities would be publicly available. We would like to highlight that S&P's objective of enabling the rating of the entity to be replicated by IHCs or third parties is unlikely to be met under the Proposed Framework because it includes a S&P internal credit assessment for any unrated portfolio asset. It will be impossible for IHCs and third parties to replicate the assessment for unrated portfolio assets as the internal S&P credit assessment of unrated portfolio assets is not publicly available, and could possibly entail some subjective assessment by the analyst. **TEMASEK'S RECOMMENDATIONS** **8.2 Propose to limit Asset Credit Quality assessment to entities rated by S&P** (i) We recommend that the Asset Credit Quality assessment be limited to entities rated by S&P so that the scoring can be replicated by referencing the stand-alone credit profiles of investee companies in the respective S&P rating reports. (ii) Alternatively, we recommend that S&P publishes their internal credit assessment for any unrated portfolio asset in an unsolicited rating report, so that the scoring can be replicated by IHCs and other third parties by referencing the stand-alone credit profiles of investee companies in the respective S&P unsolicited rating reports. If S&P references a credit rating by another rating agency instead of performing an internal credit assessment for any portfolio asset that it does not rate, S&P should cite its source or publish the credit rating used for any portfolio asset that is not rated by S&P.
(9) Modifiers	**THE PROPOSAL**
Para 68 – 82	The Proposed Framework uses modifiers to adjust the Anchor Rating. Modifiers include liquidity, management and governance, and comparable ratings analysis. Typically, investment grade Anchor Ratings do not get any uplifts. **TEMASEK'S CONCERNS & COMMENTS** Temasek does not agree that liquidity and management and governance should merely be modifiers. We also do not agree that investment grade Anchor Ratings should not get any uplifts. Our concerns and comments are set out below:

Factor / RFC Para Reference	Remarks

9.1 Liquidity, and management and governance are core factors

Key metrics to assess the credit quality of an IHC would include liquidity, cash flow adequacy and financial discipline. This is unlike regular corporates which would be assessed based on operating metrics. Thus, the liquidity, and management and governance factors should be core factors in determining an IHC's Anchor Rating, instead of as modifiers.

9.2 Upside and downside notching should be available across all rating bands

Given the importance of liquidity in a credit assessment, we believe that all IHCs should be given the opportunity to be given credit for excellent liquidity management. How an IHC manages its liquidity is a key differentiating factor between IHCs. IHCs that manage their liquidity well should be accorded notch-ups.

TEMASEK'S RECOMMENDATIONS

9.3 Propose that liquidity, and management and governance be core factors with upside across all rating bands

(i) We recommend that S&P make liquidity and management and governance as core factors that determine an IHC's Anchor Rating.

(ii) Even if the liquidity, and management and governance factors remain as modifiers, IHCs with exceptional/strong liquidity and strong/satisfactory management and governance should be recognised and given a notch-up to the Anchor Rating, regardless of their Anchor Ratings, as these are critical to assessing an entity's creditworthiness. This would incentivise IHCs to continually improve on their liquidity and management and governance.

9.4 Propose that S&P indicate that comparable ratings analysis is independent of other modifiers

We recommend that S&P clearly indicate in the criteria that comparable ratings analysis is independent of the liquidity and management and governance modifiers.

Factor / RFC Para Reference	Remarks
(10) Other Rating Considerations Para 83 - 86	**<u>TEMASEK'S RECOMMENDATIONS</u>** **10.1 Clearly differentiate ongoing government support from other modifiers** We recommend that S&P clearly indicate in the criteria that <u>ongoing government support notching up is independent of the liquidity, management and governance and comparable rating analysis modifiers</u>.

Para 14: In our asset risk assessment, we propose to give a greater weight to our assessment of asset liquidity than to our assessments of asset diversity and asset credit quality. What is your view on the proposed weighting?

We propose an equal weighting to calculate Asset Risk, based on the modified parameters for Asset Liquidity, Asset Diversity and Asset Credit Quality as per our recommendations above.

Proposed: Asset Risk = 1/3 Asset Liquidity + 1/3 Asset Diversity + 1/3 Asset Credit Quality

Para 15: What is your opinion on our choice to make use of spot prices--rather than an average price over n days of trading--to value listed assets for measuring an IHC's spot LTV?

Temasek currently computes our net portfolio value based on spot market prices for the listed assets as at 31 March, our financial year end. Thus we agree with the use of spot market prices to value listed assets when calculating spot LTV. We request that S&P confirm the spot LTV will be computed based on the last publicly reported net portfolio values of the IHC.

Para 16: What is your view on our proposal to use book value as the basis of valuation for all privately held assets and to adjust book value if there has been a marked and sustained decline in asset valuations?

Temasek agrees with using book value as the basis of valuation for all unlisted assets. Temasek currently accounts for our unlisted assets based on book value less impairment.

We believe that using the book value (less impairment) of unlisted assets is already extremely conservative. There is no need for S&P to further adjust book value if there has been a marked and sustained decline in asset valuations as this would result in double-counting of the downside.

We would also like to highlight a separate point. IHCs typically have large and complicated holding structures. It is common for an unlisted investment holding entity held several layers below the IHC parent company to hold investments in listed assets. Such an unlisted investment holding entity may not be a 100%-owned special purpose vehicle, but has no other business than to hold listed assets.

Temasek is no different. Temasek has unlisted investment holding entities that hold listed investments, with market valuations exceeding the unlisted investment holding company's book value. We seek S&P's confirmation that these unlisted investment holding entities are deemed listed and to use a 'look-through' approach to use the valuation of the listed asset in computing LTV.

Para 17: What do you think of the caps we have placed on the Business Risk Profile assessment when an IHC fails to meet minimal listed assets threshold of 40% and/or a minimum of three industries of operations, as outlined in Paragraphs 36, 39, and 40?

We would like to clarify that the Paragraph in reference is paragraph 35 instead of 36.

We had earlier highlighted our concern with upside caps. The same concerns apply to downside caps. We recommend that downside caps be removed.

If an entity has a 'Weak' credit quality for multiple factors, the scoring would result in a 'Weak' or even 'Vulnerable' credit assessment based on the framework. The Anchor Rating should be based on full credit quality assessment rather than be limited by caps.

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Request For Comment: Methodology: Investment Holding Companies

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Request For Comment: Methodology: Investment Holding Companies

I. INTRODUCTION

1. Standard & Poor's Ratings Services is requesting comments on its proposed criteria for rating investment holding companies (IHCs). We are publishing this request for comment to help market participants understand our proposed criteria for these entities and to invite comments on the proposals.

2. We intend for the proposed criteria to help market participants better understand the key risk drivers for IHCs, enhance the comparability and consistency of ratings, and improve transparency about how we assign them.

3. If adopted, the proposed criteria would supersede "Rating Methodology For European Investment Holding And Operating Holding Companies," which was published on May 28, 2004.

4. This article relates to "Principles Of Credit Ratings," Feb. 16, 2011; "Corporate Methodology," Nov. 19, 2013; and "Group Rating Methodology," Nov. 19, 2013.

II. SCOPE OF THE PROPOSAL

5. These proposed criteria would apply to IHCs globally. We define an IHC as a company that we expect to have operations in at least three industry sectors (as listed in Table 27 of "Corporate Methodology," Nov. 19, 2013) over time via equity participations, which we refer to as "investee companies." IHCs have a medium- to long-term goal of generating capital appreciation by investing in assets that they believe will appreciate in value and by managing and eventually selling assets and re-investing in new ventures.

III. SUMMARY OF THE PROPOSAL

6. The criteria describe the methodology we use to assign a stand-alone credit profile (SACP) and an issuer credit rating (ICR) to an IHC and are specific in detailing the various factors of the analysis. Our assessment reflects these companies' business risk profiles, their financial risk profiles, and other factors that could affect the SACP (see "Stand-Alone Credit Profiles: One Component Of A Rating," Oct. 1, 2010, for the definition of an SACP).

7. The business risk profile reflects the risk/return potential for a company in the markets in which it participates. It takes into account the unique risks that companies operating in the industry face given their business model and strategic focus (its industry risk), the country risks within those markets, and the competitive advantages and disadvantages the IHC has (its investment position). The business risk profile affects the level of financial risk that an IHC can bear at a given SACP and constitutes the foundation for a company's expected economic success. We combine our assessments of industry risk, country risk, and investment position to determine the IHC's business risk profile. We determine the

investment position by combining our assessment of asset risk and strategic investment capability (SIC).

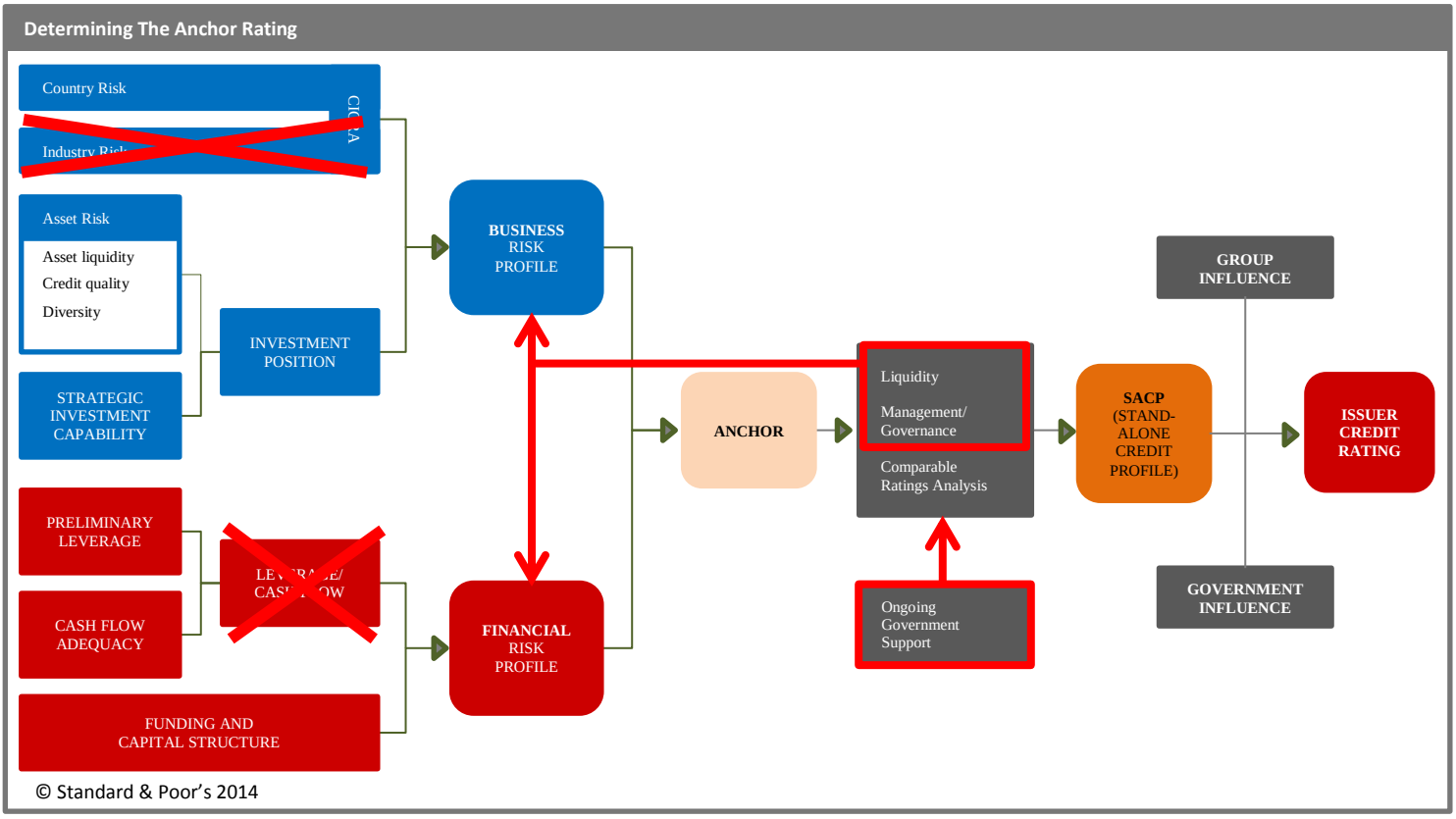
8. The financial risk profile is the outcome of leverage and funding decisions that management makes in the context of its business risk and given its financial risk tolerances. These include decisions about how management funds the IHC and constructs its balance sheet. It also reflects the relationship of the IHC's portfolio value and cash flows, given its portfolio risk profile, to its financial obligations. The criteria use leverage and cash flow analysis to determine an IHC's financial risk profile assessment. The leverage/cash flow assessment is primarily determined by our analysis of the IHC's leverage using a loan-to-value (LTV) threshold; we may adjust it to reflect our assessment of the IHC's cash flow adequacy and funding and capital structure.

9. We then combine the IHC's business risk profile assessment and its financial risk profile assessment to determine the anchor (see chart). Additional analytical rating factors--management and governance, liquidity, and comparable ratings analysis (CRA)--can modify the anchor and, ultimately, the SACP.

10. We factor into the SACP any ongoing support or negative influence from a government (for government-related entities) or from a group. Although such ongoing support/negative influence does not affect the industry or country risk assessments, it can affect our view of any other component of business or financial risk.

11. The ICR is based on the combination of the SACP and the support framework, which suggests whether the ICR should differ from the SACP to reflect the possibility of extraordinary group or government influence. (See "Group Rating Methodology," Nov. 19, 2013, and "Rating Government-Related Entities: Methodology And Assumptions," Dec. 9, 2010, for more details on our methodology on group and government influence.)

12. The ICR could be potentially constrained by the relevant sovereign rating and transfer and convertibility (T&C) assessment. For the final ICR to be higher than the applicable sovereign rating or T&C assessment, the entity will have to meet the conditions established in "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," Nov. 19, 2013.



IV. SPECIFIC QUESTIONS TO WHICH WE ARE SEEKING A RESPONSE

13. The proposed framework incorporates key factors affecting an IHC's credit risk, as described in the chart. In your opinion, are there any redundancies or omissions in the proposed criteria?

14. In our asset risk assessment, we propose to give a greater weight to our assessment of asset liquidity than to our assessments of asset diversity and asset credit quality. What is your view on the proposed weighting?

15. What is your opinion on our choice to make use of spot prices--rather than an average price over n days of trading—to value listed assets for measuring an IHC's spot LTV?

16. What is your view on our proposal to use book value as the basis of valuation for all privately held assets and to adjust book value if there has been a marked and sustained decline in asset valuations?

17. What do you think of the caps we have placed on the Business Risk Profile assessment when an IHC fails to meet minimal listed assets threshold of 40% and/or a minimum of three industries of operations, as outlined in Paragraphs 36, 39, and 40?

V. IMPACT ON OUTSTANDING RATINGS

18. We expect the implementation of the proposed criteria to affect approximately 10%-15% of IHC ratings.

VI. RESPONSE DEADLINE

19. We encourage interested market participants to submit their written comments on the proposed criteria by Jan. 16, 2015, to http://www.standardandpoors.com/criteriaRFC/en/us. We will review and consider such comments before publishing our definitive criteria once the comment period is over. Standard & Poor's may, when the commenter has not requested confidentiality, publish comments in their entirety, except when we believe the full text would be unsuitable for reasons of tone or substance.

VII. DEFINITION OF INVESTMENT HOLDING COMPANIES

20. We define IHCs as companies that have--or that we expect to have--operations in at least three industry sectors, over time, via equity participations. IHCs have a medium- to long-term goal of generating capital appreciation by investing in assets that they believe will appreciate in value and through the management and eventual sale of assets and re-investment in new ventures. IHCs have no operations of their own and rely on dividends received from investee companies and fee income to service their interest payments, administrative expenses, and dividends paid. IHCs generally aim to roll-over maturing debt, but if this is not possible, they have the increased flexibility to sell assets, relatively quickly, to generate the cash to repay debt. IHCs invest in listed and unquoted equities, some of which may be minority and others controlling stakes. Typically, an IHC's investment portfolio includes a significant proportion of listed assets, though this proportion will vary over time depending on the investment/divestiture cycle and asset valuation fluctuations.

21. Unlike conglomerates, IHCs are diversified companies with no 'Core', 'Highly Strategic', or 'Strategically Important' subsidiaries, though some investee companies may show some characteristics of 'Strategically Important' subsidiaries (as defined by our Group Rating Methodology; GRM). Although industrial corporations endeavor to increase shareholder value by growing earnings and cash flow from their operations, we believe that the primary business aim of an IHC is to maximize portfolio value and periodically rotate assets to realize capital gains and generate funds for reinvestment. We therefore expect IHCs to maintain an arm's-length relationship from their investee companies, thus reducing exposure to these companies' operating risk. This means an IHC is financed independently of its investee companies with no expectation of meaningful recurring or extraordinary financial support flowing to or from them. Cross-default clauses are therefore extremely rare for IHCs and their investee companies, and shareholder loans and financial guarantees to investee companies are also uncommon. The majority of investee companies have independent management teams, are autonomous in their financing, and are regarded by the IHC as stand-alone operating entities. They generally operate independently of the IHC and each other, with no trading or shared infrastructure. Shared company names between an IHC and its investee companies are the exception rather than the norm.

22. IHCs may be quoted on a stock exchange, but they are not regulated to carry out investment activity. As opposed to other entities that also invest in financial instruments, IHCs do not raise and manage third-party funds for a fee. Rather, they invest their own capital, with a near exclusive focus on investing in equities. The equity of IHCs is permanent with no redemption term, thus allowing for a medium- to long-term investment horizon with no pressure to liquidate investments to meet redemption demands.

VIII. PROPOSED METHODOLOGY

1. Determining The Business Risk Profile Assessment

23. IHCs buy and sell equity participations in other financial and nonfinancial corporates. The business risk profile reflects the risk/return potential for an IHC in the markets in which it participates. It comprises ~~its~~ (1) ~~industry risk, which reflects the unique set of risks that IHCs face given their business model and strategic focus (such as the risks posed by the structural subordination of holding company debt and the inherent asset liability mismatch which exists for IHC creditors), (2)~~ the country risks within those markets, and (~~3~~2) the IHC's competitive advantages and disadvantages, as reflected by its investment position. We determine the investment position by the asset risk of the investment portfolio (asset liquidity, diversity, and credit quality), modified by our assessment of the IHC's SIC. The business risk profile affects the amount of financial risk that an IHC can bear at a given SACP level and constitutes the foundation for its expected economic success.

24. Under the criteria, the combined assessments for country risk, industry risk, and investment position determine an IHC's business risk profile assessment. Country risk addresses the economic risk, institutional and governance effectiveness risk, financial system risk, and payment culture or rule of law risk in the countries in which a company operates. The range of country risk assessments is: 1, very low risk; 2, low risk; 3, intermediate risk; 4, moderately high risk; 5, high risk; and 6, very high risk. ~~Industry risk, an integral part of the credit analysis, addresses the relative risk of the IHC business model. The range of industry risk assessments is: 1, very low risk; 2, low risk; 3, intermediate risk; 4, moderately high risk; 5, high risk; and 6, very high risk. We refer to our combined assessment for country risk and industry risk as the Corporate Industry and Country Risk Assessment (CICRA). Given our "moderately high" industry risk assessment for IHCs, the CICRA can be either 4 (for a country risk assessment of 1 to 4), 5 (if the country risk assessment is 5), or 6 (if the country risk assessment is 6).~~

25. The evaluation of an IHC's investment position identifies the strengths and weaknesses of an IHC's asset portfolio and investment policies, with emphasis on assessing the key attributes that enable IHCs to mitigate the inherent risks of the IHC business model (e.g., ease of refinancing, ease of liquidation, exposure to swings in equity prices, dependability of dividend stream). Entities with a stronger investment position, as reflected in lower asset risk, have a more favorable risk/return profile than those with weaker investment position assessments. The range of investment position assessments is: 1, excellent; 2, strong; 3, satisfactory; 4, fair; 5, weak; and 6, vulnerable.

~~Industry Risk~~ {To be removed from framework}

~~26. We assess the IHC universe as a "moderately high risk" industry (category 4) based on an analysis of risks that are common to all IHCs and that influence all IHC creditors (see Standard & Poor's criteria for assessing industry risk, "Methodology: Industry Risk," Nov. 19, 2013). IHC industry risk does not reflect the weighted average industry risk of investee companies, as these risks are already reflected within our assessment of an IHC's asset risk.~~

~~27. We view IHC industry risk, or the business model risk from using leverage to invest in equities, as "moderately high,"~~

primarily reflecting the following major risk components that all IHCs share:

- Risks posed by holding debt that finances equity participations, the interest costs of which are serviced, inter alia, by dividend income from investee companies. (By contrast, operating company debt is serviced by operating cash flows). The dividends paid by investee companies to IHCs, which constitute the main source of IHCs' recurring cash flow, are discretionary payments that depend on the operating performance of the investee company. Moreover, they are subordinated to all other payments that investee companies must make, including the cost of servicing their own debt. Likewise, equity investments are subordinated to all creditors.
- Risks posed by the inherent asset/liability mismatch, which exposes IHCs to refinancing risk due to weak cash flow at the IHC level. IHCs do not generate sufficient cash to repay their debt principal and therefore rely on their ability to refinance maturing debt with new debt. If an IHC were unable to refinance its debt, it would look to repay that debt by raising cash through the sale of assets. However, IHCs face the risk of being forced to sell assets in an unsupportive equity market, as often there is a correlation between weakness in the debt and equity markets.
  Furthermore, many IHCs own significant non-listed equity participations, the lower liquidity of which heightens the asset/liability mismatch. This is because such assets would be difficult to sell if capital markets were weak and would take longer to sell than listed equity stakes.

Risks posed by the potential for equity valuations to be extremely volatile, as stocks can fluctuate widely in value as a function of factors including company performance, investor appetite, stock liquidity, and macroeconomic factors.

- Risks posed by the nature of IHC investment and financing strategies, which can shift very quickly given the opportunistic nature of these companies. As a result, both the business risk and financial risk profiles of IHCs are susceptible to rapid and significant changes as a result of managerial initiatives.

28. These risks are partially mitigated by:

- The financial flexibility of IHCs as asset companies, which allows them to sell investments to either redeem debt (reducing financial risk) or strategically finance new acquisitions. The ability to sell assets quickly is a key inherent strength of IHCs that differentiates them from industrial conglomerates, for instance.
- Some barriers to entry, as access to flexible, sizeable, and economical funding requires a record in the industry, takes time to establish, and is usually granted to companies with a critical mass of investments and positive track record of portfolio management. This is important both for investee companies and the IHC's financing needs.

Country Risk

29. The analysis of country risk addresses the major risk factors that Standard & Poor's believes affect the country where the IHC operates. Country risks--which include economic, institutional and governance effectiveness, financial system, and payment culture/rule of law risks--influence overall credit risks for every rated IHC (see "Country Risk Assessment Methodology And Assumptions," Nov. 19, 2013).

30. We would assess where the IHC is domiciled (i.e., its head office location given where executive management is based or centralized corporate activities occur rather than just considering the jurisdiction of incorporation), examine where its shares are traded (for listed IHCs only), and the location of its key hub of treasury operations, which could be different than its domicile. In case of different outcomes in terms of country risk, we would determine the IHC's country risk assessment according to the weakest country risk assessment among i) the location of the headquarters; ii)

the location of the treasury hub; and iii) the jurisdiction of the IHC's share listing. For instance, if a privately held IHC has its head offices in a country that we assess as "low" risk (2) but has the hub of its treasury operations in a country with a "moderately high" risk (4), then we would assess its country risk as "moderately high" (4).

Investment Position

31. We assess investment position as (1) excellent, (2) strong, (3) satisfactory, (4) fair, (5) weak, or (6) vulnerable. The analysis of investment position includes reviewing: i) asset risk, which comprises an assessment of asset liquidity, asset diversity, and asset credit quality; which can be modified by ii) SIC.

A) Asset Risk

32. Asset risk is assessed as (1) excellent, (2) strong, (3) satisfactory, (4) fair, (5) weak, or (6) vulnerable.

33. Asset risk is based on our assessment of asset liquidity, asset credit quality, and asset diversity, each of which is measured on a five-point scale. To derive the asset risk score for an IHC, we first develop a weighted average assessment of asset liquidity, asset credit quality, and asset diversity using weights of 1/3, 1/3, and 1/3 ~~40%, 30%, and 30%~~, respectively.

For example, an IHC with an asset liquidity assessment of 2, an asset diversity assessment of 4, and an asset credit quality assessment of 3 would have a weighted average assessment of 2.9, which maps to an asset risk of 3. Table 1 describes the matrix we use to convert the weighted average assessment of these three components into our assessment of asset risk.

Table 1

Converting The Weighted Average Assessments Of Asset Liquidity, Asset Diversity, And Asset Credit Quality Into An Asset Risk Assessment

Weighted average assessment range	Asset risk
1.00 – 1.50	1
>1.50 – 2.25	2
>2.25 – 3.00	3
>3.00 – 3.75	4
>3.75 – 4.50	5
>4.50 – 5.00	6

B) Asset Risk--Asset Liquidity

34. Asset liquidity plays an important role in determining an IHC's asset risk because the ability to sell assets quickly is the ultimate source of debt repayment if an IHC cannot refinance maturing debt. Our assessment reflects how quickly we expect the entity can liquidate assets at a reasonable price. Liquidity of an IHC's portfolio is assessed based on the number of days needed to divest, i.e. liquidate assets, to meet non-discretionary payments. ~~We believe that the share of listed investments versus nonquoted assets and the balance of minority versus majority (or controlling) stakes in listed assets are the two most important drivers of asset liquidity. Quoted investments with high turnover will be typically easier to liquidate than nonquoted investments.~~ We measure asset liquidity on a five-point scale, with an assessment of '1' being the most

favorable (see Table 2).

35. We generally expect an IHC to have the long-term objective of holding at least 40% of its portfolio in listed assets, as we view a significant deficiency in listed assets as a fundamental underlying weakness for an IHC. For companies that do not meet this condition, we would assign an assessment of (5) for asset liquidity (see Table 2) and automatically cap their business risk profile at 'Weak'.

Table 2

Asset Liquidity Assessment			
(%)	**Average asset ownership in listed investments**		
Weight of listed companies (%)	**<20.0**	**20.0-50.0**	**>50.0**
>80.0	1	2	3
>70.0	2	2	3
>60.0	2	3	4
>50.0	3	4	4
>40.0	3	4	5

36. Table 3 classifies listed equity investments into four equity market groups by country, based on the volatility we have observed in that country's main stock market index over the past 30 years. We would assign a "weight of listed companies" assessment that is no better than 3 regardless of the share of listed companies if:

- The majority of listed assets (by value) trade on stock exchanges in countries that are classified in Equity Market Group 3 or 4 in Table 3;
- The majority of listed assets trade on stock exchanges in countries that are classified in Equity Market Group 1 or 2 but are not listed on the primary equity exchanges of their respective markets; or
- There are legal limitations on the company's flexibility to sell assets that account for more than 30% of the portfolio by value or to refinance debt (e.g., as a result of the pledging of shares to creditors, change of control or minimum ownership covenants, or selling restrictions on shares of regulated companies).

37. Such limitations are a negative factor for asset liquidity because they can constrain a company when a quick asset sale is required to, for example, to repay upcoming debt maturities. In addition, we presume that majority stakes are less liquid due to a company's likely desire to receive a control premium on its shares in any divestment scenario. This could reduce its willingness to sell shares quickly. However, controlling stakes do provide better influence or control over dividend policy at the investee company, giving a holding company a more effective means of extracting cash from investee companies. Controlling stakes also have the potential to increase selling value, especially in an orderly divestment scenario.

Table 3

Equity Market Groups By Country Or Region	
Equity market group	Countries and regions
1	Australia, North America, Switzerland, U.K., U.S.
2	Asia-Pacific, Belgium, Canada, Denmark, European Union, France, Germany, Hungary, Israel, Italy, Japan, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Portugal, Slovak Republic, Slovenia, South Africa, Southeast Asia, Spain, Sweden

Table 3

Equity Market Groups By Country Or Region (cont.)	
3	Austria, Bahrain, Baltic, Caribbean, Cyprus, Czech Republic, Dominican Republic, Eastern Europe, Estonia, Finland, Greece, Gulf Cooperation Council, Hong Kong, Indonesia, Ireland, Jamaica, Korea, Kuwait, Latvia, Lithuania, Malaysia, Malta, Oman, Philippines, Qatar, Saudi Arabia, Singapore, Taiwan, Trinidad and Tobago, Turkey, United Arab Emirates
4	Africa, Argentina, Belarus, Bolivia, Bosnia and Herzegovina, Brazil, Cambodia, Chile, China, Colombia, Costa Rica, Croatia, Ecuador, Egypt, El Salvador, Georgia, Guatemala, Iceland, India, Jordan, Kazakhstan, Latin America, Lebanon, Montenegro, Morocco, Nigeria, North Africa, Pakistan, Panama, Peru, Poland, Romania, Russia, Serbia, Suriname, Thailand, Tunisia, Ukraine, Uruguay, Venezuela, Vietnam

See "Bank Capital Methodology And Assumptions," Dec. 6, 2010, for further details.

C) Asset Risk--Asset Diversity

38. Owning a broad spectrum of investments reduces concentration risk and overall portfolio valuation volatility, therefore reducing asset portfolio risk. Other things being equal, a critical mass in portfolio size is a necessary but not sufficient condition to achieve a meaningful degree of diversification. Our asset diversity assessment (see Table 4) takes into account the portfolio's nominal size, and level of asset concentration, variety of industries, and geographical footprint. The degree of correlation of business lines is high if the business lines operate within the same industry, as defined by the industry designations in Appendix B and Table 27 of the Corporate Methodology. The degree of correlation of business lines is medium if the business lines operate within different industries but operate within the same geographic region (see Appendix A and Table 26 of the Corporate Methodology). An IHC has a low degree of correlation across its business lines if these business lines are both a) in different industries and b) either operate in different regions or operate in multiple regions. We also evaluate the underlying diversity of the equity interests. For instance, a portfolio consisting only of shares traded in one country can still have limited exposure to that country if the portfolio includes companies with a global footprint. Another example is a portfolio in which one or two assets contribute most of the value, but the business operations of those assets are highly diverse in terms of industry and geography.

39. We generally expect an IHC to have operations in at least three different industry sectors, over time, via its investee companies, as we view significant industry and asset concentration risk as a fundamental underlying weakness for an IHC. However, we can also consider a company that is active in only two industry sectors to be an IHC if we expect that the it will diversify into a third sector within three years, provided that it relies on dividend income to service its expenses. For companies that are active in fewer than three industry sectors, we would assign an assessment of (5), as detailed in Table 4 and automatically cap their Business Risk Profile at 'Weak'.

40. The Business Risk Profile of companies not having at least 40% of their portfolio value in listed assets and having exposure to fewer than three industry sectors would be automatically set at "Vulnerable".

Table 4

Asset Diversity		
1	Strong	Portfolio size is above or equal to US$1 billion; and no single asset represents more than 10% of total portfolio value; and three largest assets account for less than 20% of total portfolio value; and there is at least a moderate diversification of assets across industries (five or more investee companies in separate industries showing a low to medium degree of correlation).

Table 4

Asset Diversity (cont.)		
~~12~~	Strong~~/Adequate~~	Portfolio size is above or equal to US$750 million; and no single asset represents more than 20% of total portfolio value; and three largest assets account for less than 35% of total portfolio value~~; and there is at least a moderate diversification of assets across industries (four or more investee companies in separate industries showing a low to medium degree of correlation).~~
~~23~~	Adequate	Portfolio size is above or equal to US$500 million; and no single asset represents more than 30% of total portfolio value; or three largest assets account for less than 50% of total portfolio value.
~~34~~	Adequate/Weak	No single asset represents more than 40% of total portfolio value; or three largest assets account for less than 80% of total portfolio value.
~~45~~	Weak	There is a dominant asset in the portfolio, which accounts for more than 40% of the portfolio value; or top three or less assets account for more than 80% of the portfolio value.

D) Asset Risk--Asset Credit Quality

41. We measure asset credit quality by assessing the stand-alone creditworthiness of investee companies, using the ICR from Standard & Poor's if the entity has one ~~or a Standard & Poor's internal credit assessment for any unrated portfolio asset representing at least 15% of total portfolio value~~. Asset credit quality assesses the risk of the equity becoming impaired and potentially worthless due to a default of the investee company. If a company becomes insolvent, this will generally lead to a total loss of equity value because equity is subordinated to all other liabilities--both on an ongoing basis and in liquidation. In addition, a portfolio of highly creditworthy assets would generally be expected to generate more stable earnings and recurring cash flows than investments that are less creditworthy. This would usually result in a more predictable and stable dividend stream and a lower probability that the IHC would need to infuse capital into investee companies. Nevertheless, a high degree of creditworthiness and a low blended default risk of a given asset portfolio does not protect against valuation losses or valuation volatility.

Table 5

Asset Credit Quality		
1	Strong	The estimated weighted average SACP of investee companies is in the 'bbb' category
3	Adequate	The estimated weighted average SACP of investee companies is in the 'bb' category
5	Weak	The estimated weighted average SACP of investee companies is in the 'b' category

42. We believe that a portfolio with particularly low asset credit quality ('B-' and below) creates heightened risk on an IHC's credit profile, given the potential for short-term financial distress of investee companies, which would ultimately lead to the IHC losing a fair portion of its investments or having to infuse equity. The business risk profile of IHCs that have average asset credit quality of 'B-' and below would be 'Vulnerable'.

E) Strategic Investment Capability

43. We believe that an IHC's SIC--its ability to make profitable investments, execute timely acquisitions, and divest companies on attractive economic terms--is critical to its success in this industry. This concept captures an IHC's ability to create value for its stakeholders in the context of well-executed investment and risk appetite policies. We assess SIC as 'above average', 'average, or 'below average'. Table 6 describes the methodology we use to assess each of the sub-components of SIC. The analysis is qualitative in nature, and parameters considered will differ between IHCs, depending on how each IHC manages its business ~~evidence based.~~ An IHC receives an 'average' assessment for any of the

five sub-factors where evidence is insufficient to assign either an 'above average' or a 'below average' assessment. ~~However, a history of failing to disclose key investment processes and returns and risk management practices could lead to a 'below average' assessment.~~

Table 6

Strategic Investment Capability Sub-Components				
Theme	**What it means**	**~~Above average~~**	**~~Average~~**	**~~Below average~~**
Investment discipline	Leverage tolerance at the IHC. Acquisition risk appetite: leverage target at investee companies' controlled by the IHC, asset classes, and jurisdictions	~~There is a well-articulated and conservative leverage tolerance at the IHC and commitment to comply, including selling assets in times of stress. Major investee companies have the financial flexibility and independence to fund their own growth.~~	~~There is some indication on leverage tolerance at the IHC. Most investee companies (as measured by portfolio value) appear viable on a stand-alone basis.~~	~~Conditions for 'above average' or 'average' are not met.~~
Risk analysis	Policies and processes related to decision-making on new investments within or outside the portfolio, and maintenance of risk tolerances	~~Present and emerging risks evaluation related to current investments and new venture opportunities is well entrenched in the IHC, with a formal investment assessment process, an independent audit committee monitoring the consistency of operating procedures and maintenance of risk tolerances, and an active board. There are clear investment criteria in terms of maximum exposure by asset, geography or industry.~~	~~Board is active in the investment process. The IHC has identified and monitors its main sources of material risks, but there may not be evidence of clearly articulated exposure limits. An internal control process exists, but its scope may not be comprehensive.~~	~~Conditions for 'above average' or 'average' are not met. Or the assets' blended industry risk assessment is above '4', indicating potential above-average volatility in assets value.~~
Return analysis	Transparency of expected investment return goals and actual track record of achievement with regards to recently completed disposals	~~Clearly articulated return expectation on investment target, with a consistent track record of achievement. The IHC has generally made capital gains on all recent disposals.~~	~~Articulated return expectations on investment target but inconsistent track record of achievement.~~	~~Conditions for 'above average' or 'average' are not met.~~
Portfolio rotation	Timely replacement and turnover of portfolio assets	~~The IHC tends to make disposals annually and is committed to an effective strategy of portfolio rotation. Disposal proceeds are quickly reinvested.~~	~~Conditions for 'above average' or 'below average' are not met.~~	~~The IHC does not tend to make regular disposals. We have observed a hesitance by management to turn over specific assets, which may hinder an effective portfolio allocation strategy.~~
Value creation	Record of net asset value (NAV) development	~~NAV development over the previous 36 months has exceeded the relevant stock exchange benchmark index. And NAV development over the period has been positive.~~	~~Conditions for 'above average' or 'below average' are not met.~~	~~NAV development over the previous 36 months has not kept pace with the relevant stock exchange benchmark index.~~

Table 7

Assessment Of The Strategic Investment Capability	
Constituents assessment	**Overall assessment**
At least three components, including 'Investment discipline' are "above average," and none is "below average."	Above average
At least three components or 'Investment discipline' are "below average."	Below average
All other combination of components	Average

44. After assessing the SIC, we adjust the asset risk assessment to arrive at our overall investment position assessment. An SIC assessment of "above average" will move up the asset risk by one full category (unless it is already 1); an

assessment of "below average" will move down the asset risk assessment by one full category (unless it is already 6); and an assessment of "neutral" will have no impact on our assessment of the investment position, which in that case would be the same as our asset risk assessment.

F) Combining The Investment Position And ~~CICRA~~ Country Risk To Derive The Business Risk Profile

45. An IHC's business risk profile is assessed as (1) excellent, (2) strong, (3) satisfactory, (4) fair, (5) weak, or (6) vulnerable. Table 8 describes the method we use to determine the business risk profile assessment based on our assessment of ~~CICRA~~ Country Risk and our assessment of investment position.

Table 8 {To be updated with Country Risk score from (1) to (6) or with entirely new methodology}

Determining The Business Risk Profile Assessment			
		~~CICRA~~	
Investment position	**~~4~~**	**~~5~~**	**~~6~~**
1	~~2~~	~~3~~	~~5~~
2	~~2~~	~~3~~	~~5~~
3	~~3~~	~~4~~	~~5~~
4	~~4~~	~~5~~	~~6~~
5	~~5~~	~~5~~	~~6~~
6	~~6~~	~~6~~	~~6~~

~~* CICRA assessments of (1), (2), or (3) do not apply to IHCs due to our assessed industry risk assessment of "moderately high" (4).~~

2. Determining The Financial Risk Profile Assessment

46. Under the proposed criteria, balance-sheet leverage analysis is one of the foundations for assessing an IHC's financial risk profile and is used to determine the preliminary leverage assessment. The range of assessments for an IHC's preliminary leverage is 1, minimal; 2, modest; 3, intermediate; 4, significant; 5, aggressive; and 6, highly leveraged. ~~Our assessments of an IHC's cash flow adequacy and funding and capital structure can modify the preliminary leverage assessment to arrive at the final financial risk profile assessment.~~

A) Core Ratio--Loan To Value

47. The primary ratio that Standard & Poor's uses to assess the financial risk profile of an IHC is loan-to-value (LTV), namely our adjusted debt (defined as gross financial debt--including debt-like analytical adjustments --less surplus cash) to our estimated portfolio value. (See "Corporate Methodology: Ratios And Adjustments," Nov. 19, 2013, for details of Standard & Poor's analytical adjustments.)

48. Gross debt includes all parent company and related financing vehicles' debt instruments. Our most common adjustments to IHC gross debt include the equity portion of convertible bonds and financial guarantees in favor of investee companies (added to gross debt), though we expect such guarantees to be uncommon (see "Corporate

Methodology: Ratios And Adjustments," Nov. 19, 2013).

49. The IHC's cash position includes all cash and liquid investments at the IHC. As most IHC do not have operations of their own and do not typically need to infuse cash into investee companies, cash and liquid investments may be accessible and substantially available for debt repayment. In addition, some IHCs hold short-term marketable fixed-income securities; we ~~do not~~ include these as cash and liquid investments for the purposes of calculating surplus cash.

50. If an IHC has investment commitments to existing investee companies or to new ventures that stretch beyond 12 months (e.g., private equity fund
commitments, bridge financing for immature holdings), we would first determine the extent of such commitments and then net the committed amount from the IHC's cash position. In our view, such committed funds constitute a debt-like obligation and are in fact not available for repayment of IHC debt.

51. An important aspect of assessing portfolio values is obtaining fair values for nonquoted holdings, which could account for a large portion of total IHC assets. We typically use the book value of nonquoted investments. ~~We may also base our estimates on transaction multiples achieved in the previous 18 months and any recent private share sale transactions for the investee company. Alternatively, we can use recent (last 18 months) independent third-party valuations conducted by reputable parties. However, when market movements suggest a sudden, pronounced, and sustained decline in equity values, we may impute a lower value to nonquoted investment than the last reference point provided by the company. For instance, we would adjust downward the latest book value of an IHC's nonquoted investment from the end of a reporting period if deteriorating trading conditions started putting the sector's margins--and hence quoted and nonquoted asset valuations--under pressure a few weeks later. Likewise, if a major transaction closes on lower valuation multiples than those we used to value a nonquoted asset, we could adjust its value downwards. As a result, values for unlisted assets used in Standard & Poor's analysis could in some instances be significantly lower than the asset values presented by management (especially unaudited valuations).~~

52. We calculate an IHC's current LTV using data from the most recent financial reporting period, including the number of shares held in listed assets; unlisted assets' value; debt amount; and the amount of cash and cash equivalents. For quoted assets valuations, we use the ~~latest available~~ spot market prices at the end of the most recent financial reporting period when calculating spot LTV.

B) Determining The Preliminary Leverage Assessment

53. The LTV ratio determines the relative financial risk of IHCs. For each IHC, we calculate the spot LTV ratio and compare it against benchmarks (see Table 9) to derive the preliminary leverage assessment. The LTV threshold is the level of leverage that we expect the IHC's spot LTV to remain below--at a given rating level--through the rating horizon given the IHC's portfolio characteristics, risk appetite, and investment policies.

54. Although some LTV threshold ratios might seem conservative in buoyant equity markets, we bear in mind past periods of extreme volatility in equity markets. High asset price volatility, especially at relatively elevated spot LTV levels, is particularly risky. There is an exponential risk in higher leverage, as it is very difficult to deleverage when starting from a high LTV and an LTV ratio can deteriorate rapidly from a relatively high level. In other words, a fall in asset valuation will have a much more pronounced negative impact on LTV, as LTV rises. When attempting to deleverage

via asset sales, the more highly leveraged an IHC is, the more difficult a task deleveraging becomes. A highly leveraged IHC would need to divest a much bigger portion of its asset portfolio to achieve the same impact on LTV. In addition, highly leveraged sellers of assets may be perceived as distressed and therefore unable to achieve optimal value. As a direct consequence, refinancing risk for high-LTV IHCs grows exponentially as well. For this reason, rating actions can occur with greater frequency, and ratings will be inherently more volatile for highly leveraged IHCs.

Table 9

Scoring Preliminary Leverage Via Loan-To-Value Thresholds		
-- Preliminary leverage--		**Loan-to-value threshold (%)**
1	Minimal	<=10
2	Modest	10 < LTV <=20
3	Intermediate	20 < LTV <=30
4	Significant	30 < LTV <=45
5	Aggressive	45 < LTV <=60
6	Highly leveraged	>60

54a. We also note that the debt maturity profile of an IHC is very important. IHCs that have a longer debt maturity profile have much reduced refinancing risk. A long and well distributed debt maturity profile eliminates the need of the entity having to refinance a large amount at any point of time, especially if a crisis were to occur. This allows the IHC to wait out the down-cycles. IHCs with cash flow discipline can even opt to repay the debt first while awaiting more favorable market conditions to raise financing. The ability to issue long tenor bonds (10 years and above) is the market's validation of an entity's credit strength. IHCs with financial discipline and term out their debt maturity profiles to reduce financing risk would have their Preliminary Leverage scores adjusted as follows:

- The Preliminary Leverage score will be notched up by one full category if the weighted average maturity of debt is above 5 years.
- The Preliminary Leverage score will be notched down by one full category if the weighted average maturity of debt is 2 years or less.

C) ~~Adjusting The Preliminary Leverage Assessment For~~ Core Ratio --Cash Flow Adequacy ~~To Derive the Leverage/Cash Flow Assessment~~

55. The criteria also consider ~~a supplemental~~ another core ratio to help develop a fuller understanding of an IHC's financial risk profile
~~and fine-tune our LTV analysis. This supplemental ratio will either confirm the preliminary leverage assessment or adjust it downward by one category~~.

56. Standard & Poor's analyses cash flow adequacy at the IHC by comparing recurring cash inflows to nondiscretionary cash outflows. The cash flow adequacy ratio is calculated as cash dividends, cash management fees, and cash interest income received divided by cash operating and interest expenses and tax charges. We analyze a holding company's cash flow adequacy using the cash flow adequacy ratios for the previous two years, the current-year forecast, and the

two subsequent forecasted financial years. We calculate the indicative ratio by weighting the previous two years, the current year, and the forecasted two years as 10%, 15%, 25%, 25%, and 25%, respectively. We retain the option of changing the time series weights if an IHC's asset portfolio were to undergo a transformational event that could cause a material change in its cash flow metrics. In such cases, the weights applied will generally be quite forward-weighted, with 30%, 40%, and 30% used for the current and two subsequent years, respectively. If forecasts are not provided, we will weight the previous two years and the current year equally.

57. IHC can bridge a cash flow deficit (when cash inflows are less than cash outflows) by selling assets, raising equity or debt, using available cash and liquid investment, or cutting their dividends. All remedies (except for an issuance of equity, disposals, or a dividend cut) will lead to a higher LTV ratio, assuming the available cash and liquid investment has been treated as surplus cash and netted off gross debt to calculate adjusted debt.

58. An IHC with a cash flow adequacy ratio above 1.0x is able to meet nondiscretionary cash outflows using recurring cash inflows, without having to divest any assets or issue additional debt. A cash flow adequacy ratio above 1.0x will earn the company a "positive" assessment for cash flow adequacy and lead to a one category notch up for the Financial Risk Profile score. A cash flow adequacy ratio below 0.7x, with no expectation of short-term improvement, will earn the company a "negative" assessment for cash flow adequacy. The exception is if the IHC has and is expected to retain cash and liquid investments that significantly exceed the cash flow deficit. If such mitigating factors do not exist, the leverage/cash flow assessment will be one category lower than the preliminary leverage assessment (e.g. from "Significant" to "Aggressive"). However, we would maintain the same LTV threshold that is commensurate with the preliminary leverage assessment as indicated in Table 9 (e.g., if we lower the leverage/cash flow assessment to "Aggressive" compared with a "Significant" preliminary leverage assessment, due to cash flow inadequacy, we would still retain a 45% LTV target). Other combinations of cash flow adequacy ratios and liquidity descriptors would all be "neutral" for our preliminary leverage assessment.

D) ~~Adjusting The Leverage/Cash Flow Assessment For~~ Funding And Capital Structure Assessment ~~To Derive The Financial Risk Profile Assessment~~

59. An additional aspect of our assessment of an IHC's financial risk profile is our view of its funding and capital structure (F&CS). ~~This supplemental evaluation is applied to the leverage/cash flow assessment (the preliminary leverage score adjusted for our assessment of cash flow adequacy).~~

60. Funding and capital structure assesses IHC refinancing risk beyond the time horizon in our liquidity analysis. The assessment evaluates, inter alia, the degree of diversity of IHC funding sources as well as the tenor of the debt maturity profile and the IHC's relationship with lenders. We assess funding and capital structure as 'positive', 'neutral', 'negative', or 'very negative', as derived from our evaluations in Table 10.

Table 10

Constituents Of Funding And Capital Structure			
	Strong	**Adequate**	**Weak**
Debt maturity profile	The weighted average maturity of bank debt and debt securities is greater than **five** years.	The weighted average maturity of bank debt and debt securities is greater than two years.	The weighted average maturity of bank debt and debt securities is less than or equal to two years.

Funding mix	Funding is well diversified across financing instruments and lenders and markets. The company has a history of strong relationships with a diversified pool of core banks. Good and regular access to debt capital markets, liquid and widely traded bonds.	Funding is well diversified across financing instruments and lenders and markets. The company has a history of strong relationships with a diversified pool of core banks. Good and regular access to debt capital markets, liquid and widely traded bonds.	Funding shows a degree of overreliance on one type of financing instrument or on a limited number of lenders and markets. The IHC has strong ties with a few core banks. The IHC is an infrequent issuer without strong relationships with Institutional bond investors.
Currency and interest risk of debt	The cash flow adequacy ratio would not go below **1.0x** on a sustained basis in the event of marked swings in foreign exchanges or interest rates.	The cash flow adequacy ratio would not go below 0.7x on a sustained basis in the event of marked swings in foreign exchanges or interest rates.	There are currency mismatches between the cost of debt (after hedging) and dividend streams, whereby adverse foreign exchange swings could weaken the cash flow adequacy ratio to below 0.7x. Likewise, a portion of debt at floating rate is unhedged, whereby a 25% upward shift in the base interest rate would weaken the cash flow adequacy ratio to below 0.7x.
Exposure to investee companies' credit risk	IHC financing to investee companies is very limited and has a strong rationale.	IHC financing to investee companies is very limited and has a strong rationale.	The IHC uses financial guarantees and/or shareholder loans as a recurring financing instrument for investee companies.
Complexity of group structure	The major dividend contributors to the cash flow adequacy are tightly controlled. There are no ad hoc legal constraints beyond standard covenants in financing instruments. The use of derivatives is limited to plain-vanilla products(e.g., forward contracts).	The major dividend contributors to the cash flow adequacy are tightly controlled. There are no ad hoc legal constraints beyond standard covenants in financing instruments. The use of derivatives is limited to plain-vanilla products(e.g., forward contracts).	There are substantial dividend leakages in controlled assets. Shareholding agreements and/or asset-ownership covenants could be a challenge to divestments. The IHC uses complex derivatives that could exacerbate market movements and put pressure on liquidity if equity markets moved by more than 15%.

61. At least three ‘Strong’ assessments, including for debt maturity profile, in the above table, would translate into a 'positive' assessment of funding and capital structure and would lead to a notch up of the financial risk profile assessment by one full category. At least three 'Adequate' assessments, including for debt maturity profile, in the above table, would translate into a 'neutral' assessment of funding and capital structure and would not lead to any adjustment to the ~~leverage/cash flow~~ financial risk profile assessment.

62. A weakness in debt maturity profile or three 'Weak' assessments in the above table would translate into a 'negative' assessment of funding and capital structure. In such a case, our financial risk profile assessment would be one category lower than the ~~leverage/cash flow~~ financial risk profile assessment, while maintaining the same loan-to-value threshold that is commensurate with the ~~leverage/cash flow~~ financial risk profile assessment as indicated in Table 9.

~~63. More than three 'Weak' assessments in the above table, including for debt maturity profile, would translate into a 'very negative' assessment of the funding and capital structure and would cap the SACP at 'b-'.~~

3. Combining The Financial Risk Profile And Business Risk Profile To Arrive At An Anchor

64. As in our Corporate Methodology, we combine an IHC's business risk profile assessment and its financial risk profile assessment (see Table 11) to determine its anchor. If we view an issuer's capital structure as unsustainable or if its obligations are currently vulnerable to nonpayment, and if the obligor is dependent upon favorable business, financial,

and economic conditions to meet its commitments on its obligations, then we will determine the issuer's SACP using "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," Oct. 1, 2012. If the issuer meets the conditions for assigning 'CCC+', 'CCC', 'CCC-', and 'CC' ratings, we will not apply Table 11.

Table 11

Combining The Business And Financial Risk Profiles To Determine The Anchor

	--Financial risk score--					
Business risk profile	**Minimal (1)**	**Modest (2)**	**Intermediate (3)**	**Significant (4)**	**Aggressive (5)**	**Highly leveraged (6)**
Excellent (1)	**aaa/aa+**	**aa**	**a+/a**	**a-**	**bbb**	**bbb-/bb+**
Strong (2)	**aa/aa-**	**a+/a**	**a-/bbb+**	**bbb**	**bb+**	**bb**
Satisfactory (3)	**a/a-**	**bbb+**	**bbb/bbb-**	**bbb-/bb+**	**bb**	**b+**
Fair (4)	**bbb/bbb-**	**bbb-**	**bb+**	**bb**	**bb-**	**b**
Weak (5)	**bb+**	**bb+**	**bb**	**bb-**	**b+**	**b/b-**
Vulnerable (6)	**bb-**	**bb-**	**bb-/b+**	**b+**	**b**	**b-**

65. When two anchor outcomes are listed for a given combination of the business risk profile assessment and the financial risk profile assessment, an issuer's anchor is determined as follows:

66. When a company's financial risk profile is 4 or stronger, its anchor is based on the comparative strength of its business risk profile. We consider our assessment of the business risk profile for corporate issuers to be points along a possible range. Consequently, each of these assessments that ultimately generate the business risk profile for a specific issuer can be at the upper or lower end of such a range. Issuers with stronger business risk profiles for the range of anchor outcomes will be assigned the higher anchor. Those with a weaker business risk profile for the range of anchor outcomes will be assigned the lower anchor.

67. When a company's financial risk profile is 5 or 6, its anchor is based on the comparative strength of its financial risk profile. Issuers with a low LTV compared to their LTV thresholds and/or stronger cash flow adequacy ratios will be assigned the higher of the two possible anchor outcomes. Issuers with weaker financial metrics will be assigned the lower anchor.

4. Building On The Anchor By Using Modifiers

~~68. The analysis of liquidity and management and governance may raise or lower a company's anchor (see Table 12). We express these conclusions using specific assessments and descriptors that determine the number of notches to apply to the anchor. However, this notching in aggregate can't lower an issuer's anchor below 'b-' (see "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," Oct. 1, 2012, for the methodology we use to assign 'CCC' and 'CC' category SACPs and ICRs to issuers).~~

{Liquidity and Management & Governance should be core factors that determine an IHC's Anchor Rating. Even if the liquidity, and management and governance factors remain as modifiers, IHCs with exceptional/strong liquidity and strong/satisfactory management and governance should be recognized and given a notch-up to the Anchor Rating, regardless of their Anchor Ratings, as these are critical to assessing an entity's creditworthiness.}

Table 12

Effect Of Liquidity And Management And Governance Analysis On A Company's Anchor

Anchor	'a ' and higher	'bbb+' to 'bbb -'	'bb+' to 'bb -'	'b+' and lower
Liquidity				
1. Exceptional	0 notches	0 notches	0 notches	+1 notch if F&CS is 'neutral'
2. Strong	0 notches	0 notches	0 notches	+1 notch if F&CS is 'neutral'
3. Adequate	0 notches	0 notches	0 notches	0 notches
4. Less than adequate*	N/A	N/A	-1 notch ¶	0 notches
5. Weak	N/A	N/A	N/A	B- cap on SACP
Management and governance				
1. Strong	0 notches	0 notches	0, +1 notch §	0, +1 notch §
2. Satisfactory	0 notches	0 notches	0 notches	0 notches
3. Fair	-1 notch	0 notches	0 notches	0 notches
4. Weak	-2 or more notches**	-2 or more notches**	-1 or more notches**	-1 or more notches**

*See "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers," Jan. 2, 2014. SACP is capped at 'bb+'. ¶If issuer SACP is 'bb+' due to cap, there is no further notching. §This adjustment is one notch if we have not already captured benefits of strong management and governance in the analysis of the issuer's SIC. **Number of notches depends upon the degree of negative effect on the IHC's risk profile.

69. Our assessment of liquidity focuses on the monetary flows--the sources and uses of cash--that are the key indicators of an IHC's liquidity cushion. An SACP is capped at 'bb+' for IHCs with liquidity that is less than adequate and 'b-' for IHCs with weak liquidity. (For the complete methodology on assessing corporate issuers' liquidity, see "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers," Nov. 19, 2013.)

70. The analysis of management and governance addresses how management's strategic competence, organizational effectiveness, risk management, and governance practices shape the IHC's competitiveness in the marketplace, the strength of its financial risk management, and the robustness of its governance. Typically, investment-grade anchor outcomes reflect strong or satisfactory management and governance, so there is no incremental uplift to the anchor. Alternatively, a fair or weak assessment of management and governance can lead to a lower anchor. For the full treatment of management and governance, see "Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers," Nov. 13, 2012.

71. The anchor, after adjusting for the modifiers, could change one notch up or down to arrive at an issuer's SACP based on our comparable ratings analysis, which is independent of any other modifiers. This is a holistic review of an IHC's stand-alone credit risk profile, in which we evaluate an issuer's credit characteristics in aggregate. A positive assessment leads to a one-notch improvement, a negative assessment leads to a one-notch reduction, and a neutral assessment indicates no change to the anchor. The application of comparable ratings analysis reflects the need to fine-tune ratings outcomes, even after the use of each of the other modifiers. A positive or negative assessment is therefore likely to be common rather than exceptional.

A) Liquidity

72. In assessing the Liquidity of an IHC, our analysis uses the same methodology we use for other corporate issuers.

73. For IHCs, we consider the following liquidity sources: i) cash and liquid investments, ii) forecasted dividends to be received from investee companies, iii) proceeds of asset sales (when confidently predictable), iv) the undrawn, available portion of committed bank lines maturing beyond the next 12 months, and v) expected ongoing equity infusion from shareholders, as appropriate.

74. The most common uses of cash for IHC's include: i) forecasted operating, tax and interest expenses; ii) all IHC debt maturities (either recourse to the company or which it is expected to support); iii) contracted acquisitions and committed investments into existing investee companies; and iv) expected shareholder distributions through dividends and share repurchases. Any other forecasted uses of cash would also be included.

75. We stress dividend streams as part of our liquidity assessment using the same percentage stresses (from 50% for an 'exceptional' assessment, 30% for a 'strong' assessment, to 15% for an 'adequate' assessment) that we use to stress EBITDA for corporates analyzed under our Corporate Methodology.

76. See "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers," Jan. 2, 2014, for further details.

B) Management And Governance

77. For IHC, we emphasize as part of our management and governance assessment, the transparency of management in providing detailed and documented information on structure (legal/fiscal organization and debt location) and investment portfolio content (the precise number of shares held in listed assets and the underlying assumptions and methodology used in the company's or third-party valuations--such as discounted cash flows or trading multiples--to value unlisted assets).

78. See "Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers," Nov. 13, 2012, for further details.

C) Comparable Rating Analysis

79. In assessing the CRA for an IHC, our analysis uses the same methodology as with other corporate issuers.

80. Examples of when the CRA could be applied include:

- Business risk assessment - If we expect an IHC to sustain a position at the higher or lower end of the ranges for the business risk category assessment, the IHC could receive a positive or negative assessment, respectively. For example, we may consider our relative assessments for asset risk, which can span a relatively wide range per given asset risk assessment (see Table 1).
- Financial risk assessment and financial metrics - If an IHC's actual metrics are just above (or just below) the financial risk profile range. For example, we may consider our relative assessments for funding and capital structure as well as comparisons of the gap (cushion) between spot LTVs and assigned LTV thresholds provided we expect that the gap or cushion will be sustained.

81. We also consider additional factors not already covered, or existing factors not fully captured, in arriving at the SACP. Such factors will generally reflect less frequently observed credit characteristics, might be unique, or could reflect unpredictability or uncertain risk attributes, both positive and negative.

82. See Comparable Rating Analysis in "Corporate Methodology," Nov. 19, 2013, for further details.

5. Other Rating Considerations

83. Ongoing support or negative influence from a government (for government-related entities) or group is factored into the SACP (see "SACP criteria"). While such ongoing support/negative influence does not affect the industry or country risk assessments, it can affect any other component of business or financial risk. For example, such support or negative influence can affect investment position, financial risk profile, our liquidity assessment, or comparable ratings analysis. Additional notch up from ongoing government support is independent of any other modifiers.

84. The application of these criteria will result in an SACP that could then be constrained by the relevant sovereign rating and transfer and convertibility (T&C) assessment affecting the entity when determining the ICR. For the final ICR to be higher than the applicable sovereign rating or T&C assessment, the entity will have to meet the conditions established in "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," Nov. 19, 2013.

85. The ICR results from the combination of the SACP and the support framework, which determines whether the ICR should differ from the SACP to reflect the possibility of extraordinary group or government influence. Any potential extraordinary influence is captured in the ICR. See "Group Rating Methodology," Nov. 19, 2013, and "Rating Government-Related Entities: Methodology And Assumptions," Dec. 9, 2010, for our methodology on group and government influence.

86. GRM applies to IHCs' investee companies and their parent corporations. However, IHC investee companies cannot be classified any higher than "moderately strategic" under GRM given the nature of the strategic and financing relationship between IHCs and their investee companies.

Related Criteria

- Standard & Poor's Ratings Definitions, March 21, 2014
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

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.