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## Standard & Poor's Affirms Various Ratings Following Review Of Corporate Hybrid Equity

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- We have revised the equity content we assigned on several hybrid capital instruments issued by corporate issuers to "minimal" from "intermediate."
- Our criteria for assessing corporate hybrids have not changed.
- We are affirming our corporate credit ratings on the corporate issuers affected.

LONDON (Standard & Poor's) Oct. 27, 2015--Standard & Poor's Ratings Services said today that it has revised the equity content it assigned on certain hybrid capital instruments (hybrids) listed at the end of this release to "minimal" from "intermediate." Our criteria for assessing hybrids have not changed, however. We have affirmed our issuer credit ratings on these issuers of hybrids and our issue ratings on their hybrids.

As a consequence of revising the equity content to "minimal," we now regard these specific hybrids as 100% debt when calculating credit ratios. For the issuers whose hybrids we have reviewed here, although we have revised their

credit ratios, the change is within the tolerance of their ratings and outlooks.

These revisions of equity content have been triggered by a review of a provision in certain hybrid documentation that allows an issuer to redeem or "call" the hybrid when its equity content has been lowered. Our criteria contemplate that an issuer may call a hybrid without replacing it in certain limited circumstances. These include that equity content is lower as a result of changes in rating agency methodology adopted after the issue date (we generally consider this to be an external event outside the control or knowledge of the issuer). However, additional call rights weaken the likelihood that the cushion created by the hybrid would be available to protect senior debt when needed.

The "rating event" provision we reviewed (the event has various names and definitions--capital event, rating methodology event, equity credit event, equity credit rating event, rating capital event) allows a call if equity content is lowered for wider reasons, including as a result of a change in the rating previously assigned. This broader call provision allows an issuer to call the hybrid even when the issuer is under economic stress, counter to our view that a primary function of the hybrid is to absorb losses that might otherwise affect the issuer's higher-rated obligations, particularly when the issuer is economically stressed.

Our hybrid capital criteria set out how we assess the likelihood that hybrids can be relied upon by senior creditors as a loss-absorbing, equity-like, permanent part of an issuer's capital structure in a time of stress. Specifically, we assess management's intention to keep the hybrid outstanding by reviewing the hybrid's individual features and management's statements of intent and track record in that regard. Standard & Poor's has concluded that the rating event provision lessens the likelihood that the hybrid will remain outstanding and a permanent part of the capital structure. If the call is prompted by a loss of equity content due to an issuer downgrade, it might occur at a time of stress, i.e., when the hybrid is most needed to protect senior debt. Even when a replacement instrument is issued following such a call, it is likely to be more expensive than the original instrument, which could mean a smaller cushion is available to protect senior debt.

Statements of management's intent and its track record in replacing the hybrid, if called, continue to inform our analysis, especially where there is no firm contractual commitment for replacement. However, we do not believe that management's nonbinding statements regarding replacement of the called hybrid can counter clear language in the hybrid documentation that allows a call even when the issuer is under economic stress.

Changes in the equity content of hybrid capital instruments do not, in and of themselves, alter the notching differential between the issuer credit rating and the issue credit rating. Under our criteria, notching is still determined by the deferability of interest and the subordination of the instruments.

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HYBRID LIST

Issuer	Bond	Amount (mil.)	Equity treatment	Impact on rating
Bertelsmann SE & Co. KGaA	XS1222591023	€650	Minimal	No impact
	XS1222594472	€600	Minimal	No impact
RWE AG	XS1219498141	€700	Minimal	No impact
	XS1219499032	€550	Minimal	No impact
	XS1254119750	\$500	Minimal	No impact
DONG Energy A/S	XS1227607402	€600	Minimal	No impact
Vattenfall AB	XS1205625251	SEK3,000	Minimal	No impact
	XS1205618470	€1,000	Minimal	No impact
	XS1205627547	SEK3,000	Minimal	No impact
Alliander N.V.	XS0997535520	€500	Minimal	No impact
Gas Natural SDG S.A.	XS1139494493	€1,000	Minimal	No impact
	XS1224710399	€500	Minimal	No impact
Telefonica S.A.	XS0972570351	€1,125	Minimal	No impact
	XS0972588643	€625	Minimal	No impact
	XS0997326441	€600	Minimal	No impact
	XS1050460739	€750	Minimal	No impact
	XS1050461034	€1,000	Minimal	No impact
	XS1148359356	€850	Minimal	No impact
Repsol S.A.	XS1207054666	€1,000	Minimal	No impact
	XS1207058733	€1,000	Minimal	No impact
Merck KGaA	XS1152338072	€1,000	Minimal	No impact
	XS1152343668	€500	Minimal	No impact
Tennet Holding B.V.	XS0484213268	€500	Minimal	No impact
Centrica PLC	XS1216020161	€750	Minimal	No impact
	XS1216019585	£450	Minimal	No impact
SSE PLC	XS1196713298	€600	Minimal	No impact
	XS1196714429	£750	Minimal	No impact
TransCanada Trust	US89356BAA61	\$750	Minimal	No impact
Rexam PLC	XS0307868744	€750	Minimal	No impact

RELATED CRITERIA AND RESEARCH

Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Standard & Poor's National And Regional Scale Mapping Tables, Sept. 30, 2014

## *Standard & Poor's Affirms Various Ratings Following Review Of Corporate Hybrid Equity*

- National And Regional Scale Credit Ratings, Sept. 22, 2014
- Key Credit Factors For The Health Care Services Industry, April 16, 2014
- Key Credit Factors For The Pharmaceutical Industry, April 8, 2014
- Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Key Credit Factors For The Oil Refining And Marketing Industry, March 27, 2014
- Key Credit Factors For The Specialty Chemicals Industry, Dec. 31, 2013
- Key Credit Factors For The Media And Entertainment Industry, Dec. 24, 2013
- Key Credit Factors For The Midstream Energy Industry, Dec. 19, 2013
- Key Credit Factors For The Oil And Gas Exploration And Production Industry , Dec. 12, 2013
- Methodology For Crude Oil And Natural Gas Price Assumptions For Corporates And Sovereigns, Nov. 19, 2013
- Key Credit Factors For The Containers and Packaging Industry, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Methodology And Assumptions: Assigning Equity Content To Corporate Entity And North American Insurance Holding Company Hybrid Capital Instruments, April 1, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

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