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JOINT REPORT AND APPLICATION OF ONCOR ELECTRIC DELIVERY COMPANY LLC AND NEXTERA ENERGY, INC. FOR REGULATORY APPROVALS PURSUANT TO PURA §§ 14.101, 39.262 AND 39.915	§ § § § § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS

RESPONSE OF NEXTERA ENERGY, INC. TO TEXAS INDUSTRIAL ENERGY CONSUMERS' FIFTH REQUEST FOR INFORMATION

NextEra Energy, Inc. ("NextEra Energy") files this Response to the aforementioned requests for information.

I. WRITTEN RESPONSES

Attached hereto and incorporated herein by reference are NextEra Energy's written responses to the aforementioned requests for information. Each such response is set forth on or attached to a separate page upon which the request has been restated. Such responses are also made without waiver of NextEra Energy's right to contest the admissibility of any such matters upon hearing. NextEra Energy hereby stipulates that its responses may be treated by all parties exactly as if they were filed under oath.

II. INSPECTIONS

In those instances where materials are to be made available for inspection by request or in lieu of a written response, the attached response will so state. For those materials that a response indicates may be inspected at Oncor's voluminous room, please call at least 24 hours in advance for an appointment in order to assure that there is sufficient space and someone available to accommodate your inspection. To make an appointment at the Oncor voluminous room located at 1005 Congress Avenue, Suite B-50, Austin, Texas 78701, please call Emma Azarani at 512-879-0926.

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Respectfully submitted,

By: ______________________

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served on all parties of record in this proceeding by hand delivery, overnight delivery, fax, or U.S. first class mail on this the 22nd day of December, 2016.

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Ann M. Coffin

TIEC RFI 5-1:
Please refer to the testimony of Mr. Reed at page 42, lines 15-16.

a. In Mr. Reed's opinion, does the proposed transaction create any "economies of scale and scope" that will benefit customers? If the answer is "yes," please provide all bases for Mr. Reed's opinion and relevant documentation.

b. In Mr. Reed's opinion, does the proposed transaction bring "managerial expertise" that was not present or available to Oncor? If the answer is "yes," please provide all bases for Mr. Reed's opinion and relevant documentation.

RESPONSE:
a. Please refer to the response to Staff RFI 2-5. NextEra Energy does not have documentation responsive to this request.

b. It is Mr. Reed's expert opinion that while Oncor has a strong management team, the partnership with NextEra Energy, a world-class, highly-efficient electric utility, will provide Oncor with additional managerial expertise, just as Oncor can be expected to provide additional managerial expertise to NextEra Energy. This will provide for a strong and stable foundation to continue providing high quality, reliable service at a reasonable cost and create opportunities for future benefits to be derived from two strong companies working together. This foundation is not available to Oncor absent the Proposed Transactions. See, for example, Exhibit MS-1 for a summary of operational and performance awards that FPL and NextEra Energy have received.

This response was prepared by or under the direct supervision of John Reed, Chairman and CEO, Concentric Energy Advisors, Inc.

TIEC RFI 5-2:
Please refer to the testimony of Mr. Reed at page 56. Does "Regulatory Commitment 10" provide for three disinterested directors and an additional four independent directors, or does it provide for four independent directors, three of whom must be disinterested?

RESPONSE:
Please see NextEra Energy's response to Staff RFI 1-37. The commitment is that there will be seven distinct individuals, four of whom are NYSE Independent and three of whom are Disinterested Directors.

This response was prepared by or under the direct supervision of John Reed, Chairman and CEO, Concentric Energy Advisors, Inc.

TIEC RFI 5-3:
Please refer to the testimony of Mr. Reed at pages 54-55 regarding the elimination of ring fencing provisions that would "impede the favorable consideration of NextEra Energy's and Oncor's credit profiles by the credit rating agencies." Please provide a direct citation to any provisions or statements in any documents provided by the rating agencies that indicate that placing the conditions on the approval of the transaction cited at page 55, lines 15-22, of Mr. Reed's testimony would prevent linkage of the credit profiles of NextEra and Oncor.

RESPONSE:
Please see the Direct Testimony of John Reed at footnote 27 and NextEra Energy's responses to Staff RFI 1-27, Staff RFI 1-31, Staff RFI 1-66(f).

For ease of reference, we have attached to this response highlighted excerpts of four Standard & Poor's publications previously produced as part of the Applicants' case in this proceeding. These publications demonstrate the delinking of the credit profiles of NextEra Energy and Oncor that would be expected if certain conditions are imposed on the transaction's approval. Those publications are as follows:

1) Standard & Poor's Ratings Services "General Criteria: Group Rating Methodology" dated November 19, 2013, which was previously provided as pages 16-61 of the workpapers to Mr. Reed's direct testimony
    - In its Group Rating Methodology, S&P explains its treatment of an Insulated Subsidiary in the parent's credit analysis (See highlighted portions of Attachment 1 to this response, pages 16 of 51, and 22-23 of 51) and identifies those conditions that cause S&P to view a subsidiary as insulated or de-linked (See highlighted portions of Attachment 1 to this response, pages 38-41 of 51).

2) Standard & Poor's Ratings Services "Research Update: Oncor Electric Delivery Upgraded To 'BBB+', Off Watch On Planned Sale of Company's 20% Share" dated August 13, 2008, which was previously provided as pages 11-15 of the workpapers to Mr. Reed's direct testimony
    - In its August 13, 2008 Research Update of Oncor Electric Delivery, S&P identifies those conditions and terms created by the introduction of third-party minority investors in addition to other structural changes that cause the delinking of Oncor's credit profile from its parent Energy Future Holdings Corp. (See highlighted portions of Attachment 1 to this response, pages 2-3 of 51).

3) S&P Global Ratings Rating Evaluation Service (RES) letter to NextEra Energy, Inc. dated June 30, 2016, which was previously provided as pages 1-7 of Highly Sensitive Exhibit JR-5 to Mr. Reed's direct testimony
    - In its June 20, 2016 RES letter to NextEra Energy, S&P explains the minimum necessary changes to the existing ring-fence that was established with the introduction of the third-party minority investors previously

discussed amongst other conditions to allow for the linkage of the credit profiles of NextEra Energy and Oncor (See highlighted portions of Attachment 2 to this response, pages 3-4 of 7).

Attachment 2 to this response is designated highly sensitive protected material and is being provided pursuant to the terms of the Protective Order in this docket.

4) S&P Global Ratings "Research Update: NextEra Energy Inc. And Subsidiaries 'A-' Ratings Affirmed On Acquisition Of Ownership Interest In Oncor" dated August 2, 2016, which was previously provided as pages 21-27 of Exhibit JR-6 to Mr. Reed's direct testimony
    - In its August 2, 2016 Research Update of NextEra Energy following announcement of the proposed transaction, S&P distinguishes those expected and necessary modifications to the existing ring-fence that was established with the introduction of the third-party minority investors amongst other structural changes that will allow for the linkage of NextEra Energy and Oncor's credit profiles (See highlighted portions of Attachment 3 to this response, pages 2-3 of 7). S&P further notes the detrimental impact to NextEra Energy's credit rating should any of those certain conditions identified survive post-closing of the proposed transaction.

This response was prepared by or under the direct supervision of John Reed, Chairman and CEO, Concentric Energy Advisors, Inc.

STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

Global Credit Portal®
RatingsDirect®

August 13, 2008

Research Update:

Oncor Electric Delivery Upgraded To 'BBB+', Off Watch On Planned Sale Of Company's 20% Share

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Research Update:

Oncor Electric Delivery Upgraded To 'BBB+', Off Watch On Planned Sale Of Company's 20% Share

Rationale

On Aug. 13, 2008, Standard & Poor's Ratings Services raised the corporate credit rating on Oncor Electric Delivery Company LLC to 'BBB+' from 'BBB-' and removed the rating from CreditWatch with developing implications were it was placed on Oct. 9, 2007. The outlook is stable. Standard & Poor's also raised Oncor's senior secured debt ratings to 'BBB+' from 'BBB-'.

The rating actions reflect the decision of Energy Future Holdings Corp. (EFH; B-/Stable/--), the indirect parent of Oncor, to sell approximately 20% of Oncor to third parties. The sale is to be accomplished under certain terms that would give the new equity owners sufficient rights to protect Oncor against an EFH bankruptcy or EFH actions that could hurt Oncor's credit quality. As a result, the ratings on Oncor are determined on a standalone basis and reflect that EFH will not be able to adversely influence Oncor, despite its majority ownership. Additional commitments such as Oncor's agreement with the regulators to maintain a specific financial profile of 60% debt and 40% equity and a limitation on distributions enable Standard & Poor's to de-link Oncor's ratings from EFH's.

Under the proposed ownership structure, Oncor will be owned 80.03% by Oncor Electric Delivery Holdings Co LLC, a ring-fenced, indirectly wholly owned subsidiary of EFH, and 19.75% by a consortium of investors including primarily OMERS Administration Corporation, acting through its infrastructure investment arm, Borealis Infrastructure Management Inc., and the Government of Singapore Investment Corporation Pte Ltd, acting through its private equity arm, GIC Special Investments Pte Ltd. The balance will be owned by certain members of Oncor's management team.

Oncor will be managed by an 11-member board: with two directors appointed by EFH, two appointed by the new equity owner that will not have any direct or indirect equity ownership interest in EFH or its parent as of the close of the transaction, one director who will be an officer of the company, and six independent directors. All of the independent directors meet New York Stock Exchange independence requirements with at least two required to meet Standard & Poor's independence requirements. Currently, all six independent directors meet Standard & Poor's requirements.

Standard & Poor's views the Oncor ownership structure as supporting credit quality, given the right of the new equity investors to prevent actions by EFH that could harm Oncor. Most decisions require a majority vote by the board of directors with certain undertakings also requiring the consent of the new equity owners, as long as the equity investors own at least 10% of the equity of Oncor, including:

- Consolidating/merging Oncor into EFH or its non-ring-fenced subsidiaries,

or into an entity where Oncor is not the surviving entity,
- Sale of all, or substantially all, of Oncor assets without adequate provision for payment of all creditors,
- Institution or consent to bankruptcy proceedings,
- Dissolution or liquidation of Oncor without adequate payment of all creditors,
- Amendment or modification of the current dividend policy,
- Amendment of certain provisions in the LLC agreement, including changes in the nature of the business, governance structure, existing agreements between Oncor and EFH, and bankruptcy remoteness provisions,
- Approval of the budget if it declines more than 10% from the prior year,
- Approval of all material agreements with EFH, its subsidiaries, and its equity sponsors,
- Approval of material acquisitions or investments by Oncor whose value exceeds $1.5 billion outside the state of Texas,
- Ability to prevent Oncor from making any distribution if it is determined that it is in the best interests of Oncor to retain such funds for future corporate use.

The conditions listed before are supplemented by the following rights that require the consent of all the directors present and voting at a board meeting as well as the consent of all the independent directors:

- Consolidating/merging Oncor into EFH or its non-ring-fenced subsidiaries, or into an entity where Oncor is not the surviving entity,
- Sale of all or substantially all of Oncor assets without adequate provision for payment of all creditors,
- Instituting or consenting to bankruptcy proceedings,
- Dissolving or liquidating Oncor without adequate payment of creditors.

Oncor has an excellent business risk profile characterized by low operating risk regulated electric transmission and distribution operations, serving customers in north-central, eastern and western parts of Texas. The company only delivers electricity and has no commodity exposure. In June 2008, Oncor filed a new rate case requesting an increase in base rates of $275 million. The filing was in connection with Public Utility Commission of Texas (PUCT) review of the acquisition of the predecessor company, TXU, by the group of private investors. As of March 31, 2008, Oncor had $4.265 billion of debt outstanding, excluding any securitized debt. Oncor's financial risk profile is aggressive, characterized with adjusted funds from operations (FFO) interest coverage of 3.7x, adjusted FFO to total debt of 16.8% and adjusted debt leverage of 60.8% as of March 31, 2008. The financial risk profile may come under pressure if capital spending is not recovered on a timely basis.

Liquidity

Oncor's liquidity needs are met through internal cash flow generation and a secured $2 billion revolving credit which had unused capacity of $580 million as of March 31, 2008, with amounts outstanding largely supporting debt maturities and capital expenditures. The revolving credit facility is secured on a pari passu basis with the company's existing debt obligations that total $2.85 billion and exclude any securitized debt. The security is eligible to fall away if the credit facility is retired. The company's current rate case, filed in June 2008, could result in lower cash flow if the outcome is unfavorable.

Outlook

The stable outlook reflects Oncor's focus on electric transmission and distribution operations that should generate cash flow with little volatility, the company's attractive service territory and generally favorable regulatory provisions that should provide for timely recovery of investments. Oncor is expected to participate in the planned investment in the Competitive Renewable Energy Zone transmission program recently approved by the PUCT. Should Oncor experience financial stress as a result of lower customer growth and demand or the adoption of a rapid capital spending program that prevents timely cost recovery causing adjusted FFO interest coverage to decline to below 3.0x, adjusted FFO to total debt to decline to below 15% and debt leverage to materially exceed 60%, the outlook could be revised to negative and/or ratings lowered. A higher rating is currently not under consideration given the company's proposed capitalization and significant capital spending needs.

Ratings List

Upgraded; CreditWatch/Outlook Action

	To	From
Oncor Electric Delivery Co. LLC		
Corporate Credit Rating	BBB+/Stable/--	BBB-/Watch Dev/--
Senior Secured (5 issues)	BBB+	BBB-/Watch Dev
Senior Unsecured (1 issue)	BBB+	BBB-/Watch Dev

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search.

STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect

General Criteria:

Group Rating Methodology

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General Criteria:
Group Rating Methodology

1. Standard & Poor's Ratings Services is updating its methodology for rating members of corporate groups to align it with the criteria for members of financial institutions and insurance groups, and therefore is adding to this article section IX, titled "Methodology: Corporate Groups." This update follows our request for comment (RFC) titled "Request For Comment: Group Rating Methodology: Corporate Entities," published Aug. 12, 2013. We have also added section VIII to this article to clarify the application of these criteria to members of U.S. public finance (USPF) groups.

2. This criteria article supersedes "General Criteria: Group Rating Methodology," published May 7, 2013, and incorporates the contents of that article into this update. For issuers within the scope of these criteria, this article also supersedes "Corporate Criteria--Parent/Subsidiary Links; General Principles; Subsidiaries/Joint Ventures/Nonrecourse Projects;Finance Subsidiaries;Rating Link to Parent," published Oct. 28, 2004;"Criteria | Corporates | Utilities: Methodology: Differentiating The Issuer Credit Ratings Of A Regulated Utility Subsidiary And Its Parent," published March 11, 2010;"Criteria | Corporates | Utilities: U.K. Regulatory Ring-Fencing Risk For Utility Holding Companies: Standard & Poor's Approach," published July 8, 2003; and "Criteria | Insurance | Specialty: Property/Casualty Insurance Criteria: Rating Captive Insurers," published April, 13, 2004. (See Appendix C for the complete list of superseded articles.)

3. The changes aim to enhance the transparency of the rating methodology for members of corporate, USPF, and financial services groups, including how group support interacts with extraordinary government support for government-related entities and systemically important financial institutions.

4. The criteria articulate the steps in determining an issuer credit rating (ICR) or financial strength rating (FSR) on a member of a corporate or financial services group. This involves assessing the group's overall creditworthiness, the stand-alone credit profile of group members, and the status of an entity relative to other group members and the parent company.

5. One of the main rating considerations is the potential for support (or negative intervention) from the parent company or group.

6. These criteria therefore address a key area of "external support" as described in paragraphs 31 to 35 of "General Criteria: Principles Of Credit Ratings," published Feb. 16, 2011.

I. SCOPE OF THE CRITERIA

7. These criteria apply to all regulated and nonregulated members of a corporate or financial services group, including holding companies, and to U.S. public finance entities that utilize obligated group/credit group structures to secure debt.

8. A corporate group for the purpose of these criteria includes industrial entities and utilities. Corporate groups excluded at this time from these criteria are: project finance entities, project developers, transportation equipment leasing, auto

rentals, commodities trading, investment holding companies, companies that maximize their returns by buying and selling equity holdings over time, Japanese general trading companies, corporate securitizations, nonprofit and cooperative organizations, master limited partnerships, general partnerships of master limited partnerships, and other entities whose cash flows are primarily derived from partially owned equity holdings. A financial services group is predominantly (1) a financial institutions group or (2) an insurance group (see the Glossary in Appendix A for definitions of both).

9. The group rating methodology also sets out our approach for rating nonoperating and operating holding companies at the top of a group structure, as well as intermediate holding companies. It also applies to mutual or cooperative groups, even though group members may not be linked by ownership but by a variety of ties, including mutual-support mechanisms. The methodology also applies to U S. public finance obligated groups and credit groups ("obligated groups"), which are a collection of an organization's subsidiaries that are cross-obligated to pay specific debt issues.

10. The criteria assess the group status of a group member to determine a potential long-term ICR or FSR on the entity. For criteria on incorporating government support, see "Rating Government-Related Entities: Methodology And Assumptions," published Dec. 9, 2010, and "Banks: Rating Methodology And Assumptions," published Nov. 9, 2011. For criteria on credit-substitution debt guarantees, see "Legal Criteria For U.S. Structured Finance Transactions: Select Issues Criteria," published Oct. 1, 2006, and "Guarantee Criteria--Structured Finance," published May 7, 2013. For constraints posed by the sovereign rating and/or transfer and convertibility risk assessments, see "Ratings Above The Sovereign-Corporate And Government Ratings: Methodology And Assumptions", published Nov. 19, 2013.

II. SUMMARY OF THE CRITERIA

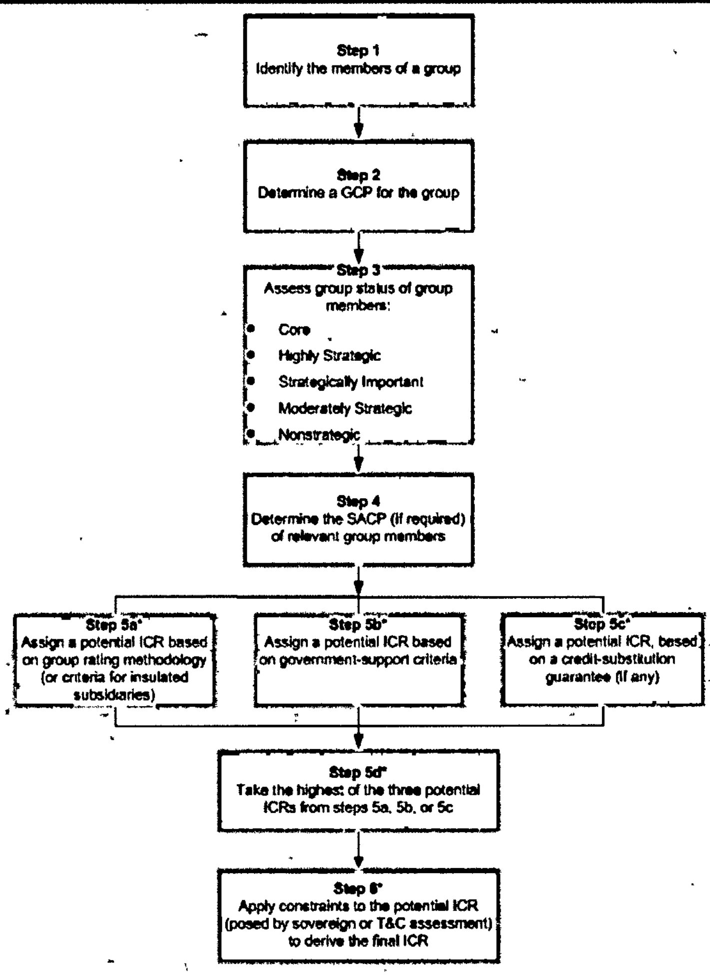
11. The group rating methodology explains how our assessment of likely extraordinary group support (or conversely, negative group intervention) factors into the ICR on an entity that is a member of a group.

12. The methodology consists of six steps (see chart 1):

- Identifying the group's members;
- Determining a group credit profile (GCP);
- Assessing the status of an entity within the group and the resulting likelihood of group support;
- Assessing a stand-alone credit profile (SACP) for an entity if required;
- Combining the SACP and support conclusions to determine a potential ICR for a group entity, by notching up or down from the SACP or GCP; and
- Applying constraints if any to the potential ICR, depending on the relevant sovereign rating and/or transfer and convertibility (T&C) risk assessments.

13 The criteria define five categories of group status: "core," "highly strategic," "strategically important," "moderately strategic," and "nonstrategic." These categories indicate our view of the likelihood that an entity will receive support from the group and determine the potential long-term ICR, with reference to the GCP and SACP (see table 1).
Chart 1

Building Blocks For Determining A Rating After Considering The Group Rating Methodology



*An insurance company can receive an ICR or an FSR. GCP--Group credit profile. ICR--Issuer credit rating FSR--Financial strength rating SACP--Stand-alone credit profile T&C--Transfer & convertibility.

Table 1

Summary Of Associating An Entity's Group Status With A Potential Long-Term ICR

	Brief definition	Potential long-term ICR*
Core	Integral to the group's current identity and future strategy The rest of the group is likely to support these entities under any foreseeable circumstances (see flfl54-55)	Generally at GCP (see F4)§
Highly strategic	Almost integral to the group's current identity and future strategy The rest of the group is likely to support these subsidiaries under almost all foreseeable circumstances. (see ^57)	Generally one notch below GCP (but see
Strategically important	Less integral to the group than highly strategic subsidiaries The rest of the group is likely to provide additional liquidity, capital, or risk transfer in most foreseeable circumstances However, some factors raise doubts about the extent of group support (see fl59)	Generally three notches above SACP (but see
Moderately strategic	Not important enough to warrant additional liquidity, capital, or risk transfer support from the rest of the group in some foreseeable circumstances Nevertheless, there is potential for some support from the group (see fl60)	Generally one notch above SACP (but see
Nonstrategic	No strategic importance to the group. These subsidiaries could be sold in the near to medium term (see fl61)	Generally at SACP (but see fl74)§

*Paragraph 28 prevails when the GCP is 'ccc+' or lower §The potential issuer credit rating (ICR) is subject to sovereign rating constraints (see fl77) and the government support criteria (see fl27) An insurance company may receive an ICR and/or an FSR (financial strength rating) GCP--Group credit profile (see fl33) SACP--Stand-alone credit profile (see also the Glossary in Appendix A)

14. A modified approach applies when a member is assessed as insulated from the rest of the group (see paragraphs 75 and 76), and when determining the interaction of group and government support.

15. For group members classified as government-related entities (GREs), the criteria for considering government support are found in "Rating Government-Related Entities: Methodology And Assumptions," published Dec. 9, 2010.

16. For banks not classified as GREs, the criteria for assessing government support are in "Banks: Rating Methodology And Assumptions," published Nov. 9, 2011.

III. CHANGES FROM THE CORPORATE RFC AND PREVIOUS METHODOLOGY

17 The main changes from the previous methodology for rating members of financial services groups include clarifications regarding:

- The treatment of subgroups within a larger group,
- The assessment of insulated subsidiaries and the interaction of group and government support for bank subsidiaries in foreign countries,
- The definition of the GCP and the unsupported GCP,
- Situations in which a rating on a group member can be higher than the sovereign rating on that entity's country of domicile,
- The impact that group membership has on the SACP on a group subsidiary, and
- The liquidity assessment of a nonoperating holding company (NOHC) at the head of an insurance group.

18. For members of corporate groups, the main changes from the RFC are:

- To remove the section on family-owned entities,
- To clarify the treatment of captive finance entities,

- To clarify situations in which a rating on a group member can be higher than the sovereign rating on that entity's country of domicile, and

- To clarify situations in which a rating on a group member can be higher than the T&C assessment on that entity's country of domicile.

IV. IMPACT ON OUTSTANDING RATINGS

19 We expect about 5% of corporate industrial companies and utilities ratings within the scope of these criteria and "Corporate Methodology," published Nov. 19, 2013, to change. Of that number, we expect approximately 90% to receive a one-notch change, with the majority of the remainder receiving a two-notch change. We expect the ratio of upgrades to downgrades to be around 3:1. Given that the criteria for members of financial services groups and U.S. public finance have been clarified rather than changed, we do not expect rating changes for such group members on the basis of this article.

V. EFFECTIVE DATE AND TRANSITION

20. The criteria are effective immediately. We expect to update our ratings over a period of six months.

VI. METHODOLOGY

21. The likelihood of financial support from a group to a group member, and vice versa, affects that group member's overall creditworthiness.

22. These criteria enable the ICR to reflect our view that a group member may receive or extend such support in the future, beyond what we already factor into its SACP. Ongoing support from the group forms part of the SACP assessment, as explained in "Stand-Alone Credit Profiles: One Component Of A Rating," published Oct. 1, 2010.

23. The potential for extraordinary support is factored into the ICR, even when the need for such support appears remote.

24. The criteria for the SACP assessment are in paragraph 71 and 72.

25 A situation where a group member's potential long-term ICR exceeds its SACP reflects the likelihood of that entity, in a credit-stress scenario, receiving timely and sufficient group support (beyond that already factored into the SACP), thereby lowering the likelihood of its default. For a bank, an indicative ICR is equivalent to a potential ICR.

26. A group member's potential long-term ICR that is lower than its SACP reflects the risk that, if the group were in a credit-stress scenario, the group would draw support from the group member.

27. The criteria set out a six-step process for assessing group members, including the likelihood of either group and government support or negative intervention in a stress scenario (see preceding chart). The steps are:

i. Identify which entities are group members.

ii. Assess the creditworthiness of the group as a whole and assign a GCP. The GCP assessment may factor in potential

support from a government if such support would extend to the entire group (see "Rating Government-Related Entities:

Methodology And Assumptions," published Dec. 9, 2010, and "Banks: Rating Methodology And Assumptions," published Nov. 9, 2011).

iii. Assess the group status (that is, the strategic importance to the group) of each group member to be rated.

iv. Determine the SACP of group members to be rated, unless an entity is exempt in accordance with paragraph 51.

v. Assign a potential long-term ICR using, where applicable, criteria for GREs or other government support (see "Rating Government-Related Entities: Methodology And Assumptions," published Dec. 9, 2010, and "Banks: Rating Methodology And Assumptions," published Nov. 9, 2011) and credit-substitution criteria (see the guarantee criteria sections of "Guarantee Criteria--Structured Finance," published May 7, 2013, and "Legal Criteria For U.S. Structured Finance Transactions: Select Issues Criteria," published Oct. 1, 2006, dealing with debt guarantees;see also paragraph 47).

vi. Assign the final ICR after considering any constraints to the potential long-term ICR posed by the relevant sovereign rating and/or T&C risk assessments (see paragraph 77).

28. In all cases, when an ICR is 'CCC+' or lower, the criteria in "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," published Oct. 1, 2012, apply. If a GCP is 'ccc+' or lower, but a subsidiary has an SACP of'b-' or higher (which incorporates the ongoing effect of being part of the group), the rating on the subsidiary could result from a downward adjustment to the SACP for the possibility of extraordinary negative intervention from the group.

29. The final ICR would be the highest of the three potential long-term ICRs resulting from the group support, government support, or credit-substitution guarantee methodologies. For financial services groups, the final ICR may be subject to the caps described in paragraphs 96-98, under section VII.C, titled "Rating Financial Services Group Entities Above The Sovereign." For corporate groups, the final ICR may be subject to the caps described in paragraphs 166 to 168 under section IX.C, titled "Rating Corporate Group Entities Above The Sovereign." The case of extraordinary government support flowing through the group to a subsidiary or subgroup is addressed in paragraph 48. For financial services groups, the case of a strong subsidiary of a relatively weaker parent group is addressed in paragraphs 99 to 103 ("Insulated Subsidiaries Of A Financial Services Group"). We do not view a foreign bank subsidiary that is highly or moderately systemically important in the country where it is domiciled as an insulated subsidiary, however, given that it still has links with its parent group even when the "host" authorities impose restrictions on intragroup flows. Governments can have strong incentives to maintain financial stability in the local market through a combination of local regulatory intervention and government support. This means that support from a "host" government can sometimes be more likely than the potential for extraordinary support from a parent group. For U.S. public finance issuers, these criteria will be used to determine the ICR. If an issue rating is requested, it may differ from the ICR if the legal pledge supporting the bonds includes other features that strengthen or weaken credit quality from that indicated by the ICR, such as a closed lien or subordination. Barring these considerations, the USPF rating will be at the level indicated by the ICR.

A. Identifying Group Members

30. For the purposes of these criteria, the terms "group" and "group members" refer to the parent or ultimate parent, and all the entities over which a parent or ultimate parent has direct or indirect control. Often, the scope of consolidation is the same as that in the parent's or ultimate parent's consolidated audited accounts, plus proportionate stakes in joint ventures (JVs) exclusively or jointly controlled, but not included in such accounts.

31. "Control" refers to the ability to dictate a group member's strategy and cash flow. Control may be present even if ownership is less than 50% plus one share/unit (for an example see paragraph 83).,

B. The Group Credit Profile (GCP)

32. In assessing the overall credit profile of a group, the relevant methodologies for assessing corporates, financial institutions, insurance companies, or other entity types apply. For conglomerates (including their holding companies), the specific rating methodology is the one relevant for the operations that most strongly influence the group's profile. This could be based on the amount of capital (such as when financial services dominate the activities), or earnings and dividends to the holding company (for groups with substantial corporate activities). The GCP assessment does reflect the impact of these other operations on the creditworthiness of the group.

B.1 Defining the GCP

33. The GCP is not a rating, but a component of the ICR on a group member. Consequently, GCPs do not have outlooks. The GCP is Standard & Poor's opinion of a group's or subgroup's creditworthiness as if it were a single legal entity, subject to the potential restrictions discussed in paragraphs 38 and 39 below. A GCP is determined when there is more than one legal entity in a group. The term "unsupported GCP" designates our opinion of a group's or subgroup's creditworthiness excluding the likelihood of extraordinary support or negative intervention from a government or a wider group. Unless prefixed with the term "unsupported," a GCP incorporates the likelihood of such extraordinary support or negative intervention from a government or a wider group. A GCP does not indicate the credit quality of any specific obligation.

34. A complex group can have more than one GCP to reflect subgroups (see paragraphs 65 to 67 for the treatment of subgroups within a group).

35. GCPs range from 'aaa' (the highest level) to'd', on a scale that parallels the ICR ('AAA' to 'D'). The lowercase letters for GCPs indicate their status as a component of a rating rather than as a rating. Like an ICR, a GCP can carry the modifier "+" or"-". Typically, a GCP is'd' only in the case of a generalized group default. The ICR on a legal entity within a group is lowered to 'D' or 'SD' only in accordance with "Standard & Poor's Ratings Definitions," published Oct. 24, 2013.

36. The criteria assess the consolidated group as though it were a single legal entity (for an exception see paragraph 38).

a) Noncontrolling interests

37. In general, for the purpose of determining a GCP, equity minority interests (also called "noncontrolling interests") in

fully consolidated group members count as shareholders' equity (correspondingly, common dividends to these minority interests are treated as part of common dividends for income-statement, cash-flow statement, and balance-sheet purposes).

b) Insulated subsidiaries

38. We would typically count an insulated subsidiary as an equity affiliate, rather than consolidate it with the group, if we assign it a potential ICR that is two or more notches higher than the GCP. If a higher-rated insulated entity's resources are unavailable to the rest of the group, the GCP could be lower, which may in turn further restrict the potential for a higher rating on a group member. Although such an insulated subsidiary is treated as an equity affiliate in the assessment of the GCP, the GCP takes account of projected income flows from the subsidiary.

39. If the potential ICR on an insulated subsidiary is one notch higher than the GCP, it is consolidated with the group for the purposes of determining the GCP. However, the GCP assessment will take account of potential restrictions on resource flows within the group, as is also the case when considering a foreign bank subsidiary that is rated above the GCP because it is highly or moderately systemically important in the country where it is domiciled. In this case, the subsidiary is not classified as insulated, but the GCP will take account of the impact of any local restrictions on the flow of capital, funding, and liquidity, and any implications for the business and risk positions of the parent (see Appendix B for more details).

c) Entities owned by a financial sponsor

40. If the owner of a group entity is a "financial sponsor" (a company with no long-term or strategic interest in the group entity), the GCP assessment excludes the financial sponsor. This means the potential ICR on that group entity does not factor in the likelihood of support from the financial sponsor, nor is it directly constrained by our view of the sponsor's creditworthiness.

41. However, an entity's ownership by a financial sponsor may lead us to view the entity's financial policy and/or overall management as affected by the financial sponsor's exit strategy, its need for cash, or its policy regarding the upstreaming of cash from its holdings. This different treatment, relative to that for strategic corporate owners, reflects our view that, regardless of the degree of control it exerts, a financial sponsor has a lower incentive to support the entity under stress. Also, financial sponsors typically have diverse interests and may not be willing or able to bail out individual entities. The investment time frame is usually short, and as such the direction and management of the investment will be a function of the financial sponsor's exit strategy.

42. The GCP relevant for an entity owned by a financial sponsor typically includes one or more intermediate holding companies of the group, but excludes the financial sponsor's other holdings (that is, other operating companies it controls, as well as its own intermediate holding companies). The group often uses its intermediate holding companies to control operating companies, even those fully or partly owned by a financial sponsor.

43. The relevance of this GCP reflects the view that the primary influence on an intermediate holding company's creditworthiness is the operating companies it owns. The intermediate holding company's purpose is to acquire, control, fund, or secure financing for its operating companies, and it generally depends on those companies' cash flow to service its financial obligations.

d) Holding companies

44. For a holding company that heads a group, sections VII.F and VII.G apply for insurance groups and financial institutions groups, respectively. For a holding company of a corporate group that contains insurance or financial institution subsidiaries, section IX applies.

e) Multiple ownership and joint ventures

45. If a group entity is under the joint control of at least two parents--for example, a joint venture--the insolvency or financial difficulty of a particular parent may weigh less on the subsidiary's credit quality than if the subsidiary were fully owned by that particular parent. There are different analytical approaches for a group's affiliated business operations, such as joint ventures and their debt, depending on the perceived relationship between the parents and the affiliated operations:

- Investment holding. This is when the group has little or no control over the operating entity. In this case, the approach is to treat the entity as an equity affiliate, which is not consolidated into the GCP. The value, volatility, and liquidity of the investment in the entity, if material, are analyzed on a case-specific basis.
- Partly controlled subsidiary. This is when the group has partial control over a material operating entity. The GCP assessment would involve a partial consolidation--for example pro rata--of the operating entity and, where appropriate, any forecast additional investment in that entity.
- Integrated subsidiary. This is when the group has dominant control over an operating entity and has effectively integrated it into the group (for a full definition of a fully integrated subsidiary see the glossary in Appendix A). The GCP assessment therefore fully consolidates the operating entity.

f) Extraordinary government support in the GCP

46. In some instances, the potential for extraordinary government support (beyond that already factored into the SACP) is a component of the ICRs on certain group members or the GCPs (see "Rating Government-Related Entities: Methodology And Assumptions," published Dec. 9, 2010 [subsequently referred to as the "GRE criteria"], and "Banks: Rating Methodology And Assumptions," published Nov. 9, 2011), reflecting the GRE status of an entity or the systemic importance of a bank.

47. In this case, the criteria assess whether such government support, driven by GRE status or systemic importance, would likely accrue to all members of the group (for members of a group where the ultimate parent is a GRE see table 2).

48. To determine the ICR for a particular group subsidiary, where the assessment indicates that the government:

- Is likely to extend such extraordinary support directly to that subsidiary (bypassing the group), any rating uplift for such support is added to the SACP of that subsidiary in determining the ICR. If the subsidiary has core or highly strategic group status or "almost certain" GRE status, then the rating outcome is based on the group support or GRE support.
- Is likely to extend such extraordinary support indirectly, via the group, to the subsidiary, the supported GCP (which would include uplift, if any, for such support) is the reference point in determining the ICR for that subsidiary because the group is still responsible for the flow of support. The same approach applies if government support is likely for a subsidiary within a subgroup via the head entity ofthat subgroup; i.e. the supported GCP for the subgroup is the reference point for determining the ICR for the subsidiary.
- Is unlikely to extend such support, the criteria use the unsupported GCP in determining the ICR for that subsidiary.

Table 2

Rating Government-Related Entities--Likelihood Of Government Support Versus Group Support*

SACP or GCP levels	If the subsidiary is likely to benefit directly from extraordinary government support	If the subsidiary is likely to get extraordinary government support indirectly through the group	If the government is unlikely to support the subsidiary either directly or indirectly
SACP is lower than an unsupported GCP	ICR = Higher of the SACP + uplift for potential government support, or SACP + uplift for group status uplift (subject to a cap at the level of the GCP unless the subsidiary is insulated)	ICR = SACP + uplift for group status uplift. If the group status is "strategically important" or lower, the ICR is capped at one notch below the GCP	ICR = SACP + uplift for group status (with reference to the unsupported GCP)
SACP is higher than or equal to an unsupported GCP	ICR = SACP + uplift for potential government support (subject to a cap at the level of the GCP unless the subsidiary is insulated).	ICR = SACP + uplift for group status (with reference to the GCP) If the group status is "strategically important" or lower, the ICR is capped at one notch below the GCP (unless the subsidiary's SACP>= the GCP) If the SACP>= the GCP, the ICR is capped at the level of the GCP (unless the subsidiary is insulated)	ICR = SACP, subject to a cap at the level of the GCP (unless the subsidiary is insulated)

*This table does not apply to a GRE with an "almost certain" or "extremely high" likelihood of government support. See section VI E.1 for the definition of an insulated subsidiary Subject to paragraph 77, the rating assigned to a subsidiary that does not have an SACP is at the level of the GCP if the subsidiary is "core," or one notch lower than the GCP if the subsidiary is classified as "highly strategic " SACP--Stand-alone credit profile ICR--Issuer credit rating (also FSR--Financial strength rating for insurance companies) GRE--Government-related entity

C. Group Status Of Individual Members

49. The assessment of the strategic importance (or "group status") of group members takes into account the group's organization and degree of cohesiveness.

C.1 Subsidiaries

50. A subsidiary's group status will often reflect the amount and timeliness of credit support it would receive under stress. This section describes the framework that classifies a subsidiary's group status into one of five categories (for insurance holding companies and financial services holding companies, see sections VII.F and VII.G, respectively):

- Core,
- Highly strategic,
- Strategically important,
- Moderately strategic, or
- Nonstrategic.

51 An SACP for a subsidiary categorized as core or highly strategic to a group is not necessary unless otherwise required under other Standard & Poor's criteria. An example of such criteria is listed in paragraph 85.

52 If a group fails to support a group member in financial distress or puts a group member up for sale and that entity was previously assessed as at least strategically important, our approach is to review the group status of all rated group members.

53 A subsidiary's group status indicates differing degrees of enhancement, or uplift, above its stand-alone creditworthiness that contribute to the potential long-term ICR (see subsections a) to e) below). The ICR on a subsidiary could be at the GCP level if its SACP reaches or exceeds the GCP level. For criteria on incorporating the likelihood of government support, see paragraphs 46 to 48;for a credit-substitution debt guarantee, see paragraph 69;and for treatment of

insulated subsidiaries, see paragraphs 75 and 76. As described in paragraph 77, the final ICR is determined after considering any constraints to the potential long-term ICR posed by the sovereign rating and, with respect to the foreign currency ICR and T&C assessments.

a) Core entities

54 A core entity meets all of the following characteristics (see table 1 for a summary) and at least one of those in paragraph 55:

- Is highly unlikely to be sold;
- Operates in lines of business or functions (which may include group risk management and financing) integral to the overall group strategy. The activities it undertakes or the products and services it sells are very closely aligned with the group's mainstream business and customer base. The entity also often operates in the same target market. Captive insurance operations can be an example of a core subsidiary engaged in group risk management activities for a corporate or financial services group. A financing subsidiary set up specifically to raise corporate debt on behalf of a group can be an example of a core subsidiary engaged in financing activities on behalf of a group. A financing subsidiary of an insurance group, by contrast, is typically not as integral to the group's activities and instead we assess such subsidiaries using section VII.F "Insurance Holding Companies";
- Has a strong, long-term commitment of support from senior group management in good times and under stressful conditions, or incentives exist to induce such support (for example, cross-default clauses in financing documents, or the subsidiary plays an integral role in group risk management or financing). A decision to integrate the operations of a subsidiary or affiliate fully into those of the group or, for an insurer, to reinsure at least 90% of the subsidiary's risks within the group, indicates such commitment;
- Is reasonably successful at what it does or does not have ongoing performance problems that could result in underperformance against the group management's specific targets and group earnings norms over the medium- to long-term. In addition, the subsidiary's business risk should not be substantially higher than the group's. A newly acquired subsidiary has heightened potential for unanticipated risks to emerge, particularly during the first two years after the acquisition, and may not yet be deemed reasonably successful;
- Either constitutes a significant proportion of the consolidated group or is fully integrated with the group (see the glossary in Appendix A);
- Is closely linked to the group's reputation, name, brand, or risk management;
- Has been operating for more than five years (unless it meets the conditions for a start-up operation in paragraph 64); and
- If it is a captive (re)insurer, shows all of the previous features, and at least 90% of the subsidiary's business comes from other group companies on behalf of the group A captive insurer that does not represent a "significant proportion" of the group may still be assessed as core if its third-party business does not exceed 10% of net premium written, and as highly strategic if third-party business does not exceed 30% of net premium written. (This bullet point only applies to captive (re)insurers.)

55. A core entity must also have at least one of the following characteristics:

- Shares the same name or brand with the main group;or
- Is incorporated separately for legal, regulatory, or tax purposes, but operates more as a division or profit center within the group. Its business, customer, and regional orientations are usually similar to those of other principal operations of the group. A core subsidiary often uses the group's distribution networks and shares administrative functions with other major operating units; or
- Demonstrates capitalization or leverage commensurate with the GCP.

56. U.S. public finance obligated groups are core entities if the obligated group meets the conditions of paragraphs 54 and 55

or if it contains the majority of the organization's primary operating facilities, such as its hospitals or senior living facilities.

b) Highly strategic subsidiaries

57 A subsidiary is highly strategic (that is, nearly core) when it meets all of the characteristics listed below (see table 1 for a summary):

- The first three characteristics listed in paragraph 54;
- All but one of the remaining characteristics in paragraph 54 (excluding the last bullet if the entity is not a captive insurer); and
- At least one characteristic listed in paragraph 55.

58 If the subsidiary is a captive insurer that does not represent a "significant proportion" of the group, it may still be assessed as highly strategic if third-party business does not exceed 30% of net premiums written.

c) Strategically important subsidiaries

59 When a subsidiary does not meet the conditions for core or highly strategic, it is categorized as strategically important if it meets all of the following characteristics (see table 1 for a summary):

- Is unlikely to be sold;
- Is important to the group's long-term strategy;
- Has the long-term commitment of senior group management, or incentives exist to induce such commitment (for example, cross-default clauses in financing documents); and
- Is reasonably successful at what it does or has realistic medium-term prospects of success relative to group management's specific expectations or group earnings norms (except for a prudentially regulated group, in which case paragraph 90 applies).

d) Moderately strategic subsidiaries

60 When a subsidiary does not meet the conditions for core, highly strategic, or strategically important group status, it is categorized as moderately strategic if it meets all of the following characteristics (see table 1 for a summary):

- Is unlikely to be sold in the near term;
- Meets one of the remaining three characteristics for strategically important in paragraph 59;and
- Is likely to receive support from the group should it fall into financial difficulty.

e) Nonstrategic subsidiaries

61. When a subsidiary does not meet the conditions for core, highly strategic, strategically important, or moderately strategic, it is categorized as nonstrategic (see table 1 for a summary).

C.2 Branches

62 A branch is part of a legal entity that is typically at another location. A branch therefore has the same creditworthiness as the legal entity, unless the branch is in another country and the actions of that sovereign could affect the branch's ability to service its obligations (see paragraphs 97 and 98 for financial services). For more details on the criteria for bank branches, see "Assessing Bank Branch Creditworthiness," published Oct. 14, 2013.

C.3 Start-ups

63. A start-up operation may fit into any of the five group status categories, although it must show all the characteristics in paragraph 54 to be in the core category.

64. A start-up (see the glossary in Appendix A for a definition) subsidiary is generally not regarded as core (see paragraph 54) or highly strategic (see paragraph 57), however, because of the lack of an operating history. For a start-up, the potential for volatile earnings is likely to be higher than for long-standing operations. However, a start-up may be assessed as core to the group if it meets all the other characteristics listed in paragraph 54;or highly strategic to the group in line with paragraph 57. This means it meets all but one of the other characteristics listed in paragraph 54, apart from "has been operating for more than five years," and if it is set up to serve important existing customers, or has been created as a separate legal entity due to regulatory requirements or tax considerations, such that the group otherwise has the requisite operating history.

C.4 Subgroups

65. A subgroup can be headed by a nonoperating holding company or an operating entity of the wider group (for a definition of subgroup, see the glossary in Appendix A). USPF obligated groups may also be part of a subgroup.

66. A subgroup can have a GCP separate from that of the wider group.

67. In instances when the potential for extraordinary government support (beyond that already factored into the SACP) is a component of the ICRs on certain members of a subgroup or the subgroup's GCP, the criteria assess whether such government support would accrue to all members of the subgroup in accordance with paragraph 48.

C.5 Credit-substitution debt guarantee of group entities

68. When a group member's debt carries a credit-substitution guarantee, this means the guarantor will pay that group member's guaranteed obligations if it defaults. The evaluation of creditworthiness is therefore not on that group member (the primary obligor), but on the guarantor.

69. The criteria for credit-substitution guarantees are in the relevant sections of "Guarantee Criteria--Structured Finance," published May 7, 2013, "Approach To Evaluating Letter Of Credit Supported Debt," published July 6, 2009, and "Legal Criteria For U.S. Structured Finance Transactions: Select Issues Criteria," published Oct. 1, 2006.

70. For insurance group subsidiaries that are beneficiaries of policy guarantees and other support agreements, see paragraphs 104 to 109 below.

D. Determining The SACP Of Group Members

71. The criteria for assessing the SACP of group members are:

- For financial institutions entities, in "Banks Rating Methodology And Assumptions," published Nov 9, 2011,"Rating Securities Companies," published June 9, 2004; "Rating Finance Companies," published March 18, 2004; "Counterparty And Debt Rating Methodology For Alternative Investment Organizations: Hedge Funds," published Sept. 12, 2006;"Rating Private Equity Companies' Debt And Counterparty Obligations," published March 11, 2008; "Rating Asset Management Companies," published March 18, 2004;"Standard & Poor's Updated Methodology For

Rating Exchanges And Clearinghouses," published July 10, 2006;and "Rating Network Payment Providers," published June 1, 2005;

- For insurance entities, in "Insurers: Rating Methodology," published on May 7, 2013;
- For corporate entities, in " Corporate Methodology," published Nov. 19, 2013;and
- For USPF, in the relevant USPF sector criteria, most commonly "Not-For-Profit Health Care," published June 14, 2007, or "Senior Living," published June 18, 2007.

72. The SACP of a group member can be affected by its membership of that group. As discussed in "General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating," published Oct. 1, 2010, the determination of an SACP includes ongoing interaction or influence, whether beneficial (positive), neutral, or burdensome (negative). Table 1 of that article lists examples of positive and negative influence that affect the SACP of a group member. These include implications for the financial profile and the business model of the group member. (See Appendix B for more details on subsidiaries of financial institutions [FI] groups.)

E. Assigning The Issuer Credit Rating (ICR)

73. The ICR on a member of a group reflects its SACP, group status, and the potential for external support (or negative intervention) from the government or parent group, in line with relevant criteria (see also chart 1 and table 1).

74 Subject to paragraphs 96 to 98, 166 to 168, and "Ratings Above The Sovereign-Corporate And Government Ratings: Methodology And Assumptions," published Nov. 19, 2013, and unless (a) the subsidiary is assigned a potential ICR higher than the GCP on the basis of the potential for extraordinary government support in accordance with bullet point five of paragraph 27, or (b) the subsidiary is classified as an insulated subsidiary with an ICR above the GCP, the potential long-term ICR for a:

- Core group entity is equal to the GCP
- Highly strategic subsidiary is one notch lower than the GCP unless the SACP on that subsidiary is equal to, or higher than, the GCP In such a case, the potential long-term ICR is at the same level as the GCP
- Strategically important subsidiary is three notches higher than its SACP. This is subject to a cap of one notch below the GCP, unless the SACP is at least equal to the GCP, in which case, the potential long-term ICR is at the GCP level.
- Moderately strategic subsidiary is one notch higher than that subsidiary's SACP This is subject to a cap of one notch below the GCP, unless the SACP is at least equal to the GCP, in which case, the potential long-term ICR is at the GCP level.
- Nonstrategic subsidiary is at the level of the subsidiary's SACP, subject to a cap at the GCP level.

E.1 Insulated subsidiaries

75. Financial stress at the parent level will likely affect a subsidiary's SACP, particularly if there are close business or funding ties between the two. Excluding the conditions described in paragraph 29, a subsidiary with an SACP higher than the GCP does not generally receive an ICR that is higher than the GCP This is notably because:

- The relatively weaker parent could potentially divert assets from the subsidiary or burden it with liabilities during financial stress, and the subsidiary could have much less debt- and capital-raising flexibility; and
- In some jurisdictions, a bankruptcy petition by the parent could include the subsidiary or cause the subsidiary to go into administration or similar measures.

76. However, in some instances an entity may be partly insulated, segmented, or ring-fenced from its group, from a credit perspective. Such insulation may lead to a rating on a subsidiary being higher than the GCP. For members of a financial services group, this rating approach is explained in paragraphs 99 to 103. For members of a corporate group, the rating approach is explained in paragraphs 141 to 151. For U.S. public finance obligated groups, this approach is explained in "Senior Living," published June 18, 2007.

F. Rating Group Entities Above The Sovereign

77. The general criteria for assigning higher foreign currency ratings to nonsovereign entities than those on the sovereign are in "Ratings Above The Sovereign-Corporate And Government Ratings: Methodology And Assumptions," published Nov. 19, 2013. The specific criteria provisions, which describe how group support can support ratings above the sovereign, are discussed in paragraphs 96 to 98 of this article for members of financial services groups and in paragraphs 166 to 168 of this article for members of corporate groups.

VII. METHODOLOGY: FINANCIAL SERVICES GROUPS

78 The term financial services group covers bank groups, other financial institutions groups, and insurance groups. This part of the article explains factors specific to both types of groups.

79. For the purposes of these criteria, a member of a financial services group need not itself be a bank, financial institution, or insurance entity. For example, a bank or insurance company may have a subsidiary that does not offer financial services: These criteria would apply to such an entity.

80. The criteria for considering government support for banks not classified as GREs are in "Banks: Rating Methodology And Assumptions," published Nov. 9, 2011.

81. The following subparts supplement paragraph 44, which describes the approach for holding companies:

- Nonoperating and operating holding companies (see paragraphs 110 to 121 for insurance holding companies and paragraphs 122 to 129 for financial institution nonoperating holding companies).
- Financial institution operating holding companies. The approach is to treat such companies like any other operating entity.

A. Identifying Members Of A Financial Services Group

82. This section VII supplements the definitions in paragraphs 30 and 31 and the glossary in Appendix A.

83. An example of "control" is when a bank is a shareholder in a 50-50 joint venture financial institution, but the regulator of both the bank and joint venture holds the bank responsible for the joint venture. This indicates that the bank controls the joint venture.

84 Banking and insurance are regarded as prudentially regulated sectors.

B. Group Status Of Members Of A Financial Services Group

1. Subsidiaries

85. Supplementing paragraph 51, an example of criteria that require a core or highly strategic subsidiary to have an SACP assessment are those in "Bank Hybrid Capital Methodology And Assumptions," published Nov. 1, 2011.

86. Supplementing paragraph 55, for core and highly strategic insurance subsidiaries of insurance groups, "commensurate capitalization" refers to capitalization that is:

- In line with group policies and practices for subsidiaries with similar group status, and
- Significantly above the regulatory minima.

a) Core entities

87. In determining whether a member of a financial services group is core, a "significant proportion of the consolidated group" in paragraph 54 means that the entity represents, or shows the ability to reach, the following level of capital, on the basis of projections for the next two to three years:

- At least 5% of consolidated group capital;and
- For a subsidiary of an insurance group, a "significant proportion" of group earnings refers to at least 5% of consolidated operating earnings before internal retrocession. For this analysis, the assessment of "operating earnings" involves evaluating EBIT (see the glossary of "Insurers: Rating Methodology," published May 7, 2013).
- For a complex global group with 20 or more significant operating subsidiaries, an entity may still be core, although its capital and earnings are below those stated above, if it is a bank or insurance company among the leaders in that market.

88. An insurance group's subsidiary is not considered core, highly strategic, or strategically important if there is a significant possibility of it being placed into run-off. However, this does not apply to subsidiaries whose operations could be transferred to other core, highly strategic, or strategically important subsidiaries, as long as there is no measurable credit impact on policyholder and nonpolicyholder financial obligations. In addition, this does not apply to subsidiaries of groups that for reputation reasons will likely support a subsidiary even in run-off, or which continue to consider the subsidiary's line of business as strategic.

b) Highly strategically important subsidiaries

89. This subsection supplements paragraph 57. The following additional consideration applies in order for a regulated subsidiary of a financial services group to be assessed as highly strategically important:

- A subsidiary in another business sector, such as an insurance subsidiary of a bank or a bank subsidiary of an insurer is often assessed as highly strategic instead of core to reflect the different operational characteristics and prudential regulatory frameworks of these businesses, which can limit the degree of integration over time.

c) Strategically important subsidiaries

90. For prudentially regulated groups, subsidiaries may occasionally be regarded as strategically important if the regulator holds the group responsible for supporting the subsidiary, even though the subsidiary does not meet the characteristics

in paragraph 59. However, the following additional conditions apply in order for a regulated subsidiary of a financial services group to be assessed as strategically important:

- A divestment of the subsidiary is only possible with the regulator's prior approval;and
- In periods of distress, the group is likely to provide additional liquidity, capital, or risk transfers in most foreseeable circumstances. The group's track record in supporting such subsidiaries is an indicator.

d) Moderately strategic subsidiaries

91. For prudentially regulated groups, subsidiaries may occasionally be regarded as moderately strategic if the regulator holds the group responsible for supporting the subsidiary, even though the subsidiary does not meet the requirements in paragraph 60. For a regulated subsidiary of a financial services group to be assessed as moderately strategic, the following additional conditions apply:

- A divestment of the subsidiary is only possible with the regulator's prior approval;and
- In periods of distress, there is the potential for some limited support from the group, even if the subsidiary may not be important enough to warrant additional liquidity, capital, or risk transfer from the group in some foreseeable circumstances. The group's track record in supporting such subsidiaries is an indicator. Examples of when there is the potential for limited support are (1) when minority ownership of a subsidiary implies a dilution of the group's responsibility, or (2) when the fragile financial position of the parent or group constrains either's ability to provide support.

2. Subgroups

92 The group status of members of a subgroup can be associated with that subgroup. The approach depends on the subgroup's status within the wider group, subject to the sovereign-related constraints indicated in paragraph 77.

93. If a subgroup is core to the wider group, we use the following approach if the wider group is expected to take the same stance as the subgroup toward supporting the subgroup's members (if not, paragraph 94 applies):

- The ICR on a core subsidiary of the subgroup is at the level of the wider group's GCP.
- The ICR on a highly strategic subsidiary of the subgroup is one notch lower than the wider group's GCP (unless its SACP equals that GCP).
- The ICR on a strategically important subsidiary of the subgroup is three notches higher than its SACP (capped at one notch below the GCP of the wider group, unless its SACP equals that GCP).
- The ICR on a moderately strategic subsidiary of the subgroup is one notch above its SACP (capped at one notch below the GCP of the wider group).
- The ICR on a nonstrategic subsidiary of the subgroup is equal to that entity's SACP.

94. If a subgroup is highly strategic, strategically important, or moderately strategic to the wider group, the assessment of its members reflects the following five factors to the extent they are relevant:

- The subsidiary's importance to the subgroup;
- The subgroup's importance to the wider group;
- The subgroup's GCP, or its unsupported GCP if we do not expect the wider group to contribute to the subgroup's support to the subsidiary;
- The subsidiary's SACP;and
- Our view as to which members of the group would provide support in case of stress.

95. The ICR on a subsidiary of a nonstrategic subgroup is based on that subsidiary's status relative to the subgroup and on the subgroup's GCP. In the rare cases that a nonstrategic subgroup's subsidiary is core or highly strategic to the wider group, and we expect the wider group to support the subsidiary directly, rather than via the subgroup, the ICR on that

subsidiary is based on the subsidiary's status relative to the wider group and the wider group's GCP.

C. Rating Financial Services Group Entities Above The Sovereign

96 Implicit group support can lift the ICR on a group member higher than the relevant sovereign rating if the sovereign is rated 'B-' or lower, or in the following situations.

1. Members of financial institutions groups

97 Supplementing paragraph 77, group support does not result in an ICR on a subsidiary being higher than the relevant foreign currency sovereign credit rating, if we do not consider the parent group able and willing to sufficiently support the subsidiary during stress associated with a sovereign default. If we do:

- And the subsidiary is core to the group, the ICR on that subsidiary is one notch above the sovereign rating applicable in the host jurisdiction (see also paragraph 62 for bank branches).
- Uplift for the potential for group support cannot lift the ICR on a subsidiary, that is not core, higher than the sovereign rating on the host country. This is unless the subsidiary's exposure to that jurisdiction is less than 10%, and risks associated with that jurisdiction (such as a deposit freeze or monetary-union exit) are considered immaterial.

2. Members of insurance groups

98 Supplementing paragraph 77, group support does not result in an ICR on a foreign subsidiary or branch of an insurance group being higher than the local currency sovereign credit rating on the country where the subsidiary is domiciled, if we do not consider the parent group able and willing to sufficiently support the subsidiary during stress associated with a sovereign default. If we do, and:

- The subsidiary is an insurer benefiting from a policyholder guarantee according to the criteria in paragraph 104, or is a foreign branch of an insurance company, the rating is the lower of: (1) the ICR on the guarantor, (2) the result from adding six notches to the local currency sovereign credit rating if it is 'BBB-' or higher, and (3) the result from adding four notches to a local currency sovereign credit rating that is 'BB+' or lower.
- The subsidiary has less than 10% exposure to the local jurisdiction and faces immaterial risk from a deposit freeze or the sovereign's exit from a monetary union, the sovereign's creditworthiness does not constrain the rating assigned to the subsidiary. For example, such a foreign subsidiary is rated 'A+' if it is a highly strategic member of a group with a GCP of 'aa-', even though the rating on the host sovereign is 'BBB'. The 'A+' rating is one notch lower than the GCP in line with the approach for highly strategic subsidiaries (see paragraph 74).
- The subsidiary is in neither of the two preceding situations, the rating is the lower of: (1) the local currency sovereign credit rating (plus three notches if a core subsidiary), and (2) the potential rating otherwise derived from these criteria. An example is a potential long-term ICR of 'A-' for a strategically important subsidiary of a group in a 'AAA' rated jurisdiction. The subsidiary has an SACP of'bbb' and all its operations are in a country that has a sovereign local currency rating of 'A-';the rating would be three notches above the SACP, based on the strategically important status, but limited to 'A-'.

D. Insulated Subsidiaries Of A Financial Services Group

99. Supplementing paragraph 76, a non-prudentially regulated entity of a financial services group is rated higher than the GCP if there is multiple ownership as described in paragraph 45 or, alternatively, two or more of the following restrictions are in place (see "Legal: Ring-Fencing A Subsidiary," published Oct. 19, 1999):

- Limited-purpose entity structure;
- Covenants;or
- Collateral.

100 Although prudentially regulated subsidiaries are generally not rated higher than the GCP they may receive a rating one notch higher than the GCP as an insulated subsidiary if all of the following conditions are met:

- The subsidiary has an SACP that is at least one notch higher than the GCP, or the SACP plus the uplift for potential government support is one notch higher than the GCP.
- The subsidiary's prospects in terms of financial performance and funding are highly independent from those of the group, so that even if other core entities encounter severe setbacks, the relative strength of the subsidiary would remain nearly intact;
- Regulatory restrictions (such as regarding liquidity, capital, or funding) are of sufficient strength that they would prevent the subsidiary from supporting the group to an extent that would impair the subsidiary's stand-alone creditworthiness;
- It is unlikely that proceedings that could lead to a default at the group level, under our criteria, would directly lead to a default of the subsidiary; and
- The parent's strategy with respect to the subsidiary is clear and, in particular, the parent has a compelling economic incentive to preserve the subsidiary's credit strength.

101 The potential long-term ICR for an insulated subsidiary is two notches above the GCP if the entity fulfills the characteristics listed in paragraph 100, and its SACP (or its SACP plus the uplift for potential government support) stands at least two notches above the GCP, and one of the following situations applies:

- The holding company or group's weaker credit quality results from its ownership of smaller, nonregulated business activities that are largely unrelated to the business line of the regulated entity's operations, and management has taken affirmative steps to distance the rest of the group from such unrelated subsidiaries, as shown by actual behavior, beyond the usual verbal assurances that management will not imperil the creditworthiness of the rated subsidiary by supporting weaker operations; or
- The subsidiary is a clearinghouse, exchange, or central securities depository that would likely benefit from any necessary protective actions by the host authorities in the interest of financial stability, if the wider group came under stress; or
- The subsidiary is a regulated entity and we expect the host regulator to intervene in an effective manner to protect the position of the subsidiary.

102 The potential long-term ICR on an insulated subsidiary is three notches above the GCP if the entity meets the conditions for assigning ratings that are one and two notches above the SACP in paragraphs 100 and 101, and all the following characteristics apply:

- The subsidiary's SACP (or the SACP plus the uplift for potential government support) stands at least three notches

above the GCP;
- The subsidiary is assessed to be severable from the group and able to stand on its own or subcontract certain functions previously provided by the parent. This includes receiving immaterial funding, if any, from the group;
- Standard & Poor's concludes that it is unlikely that the assets and liabilities of the subsidiary would be substantively consolidated into those of the parent company in the event of the insolvency of the parent company;
- The group and subsidiary's public statements on dividend policy are consistent with the independent integrity of the subsidiary;

- There is an independent trustee or equivalent party with the ability to enforce the protection of the rights of third parties;or significant minority interests that have sufficient power to block dividend payments (this will typically correspond to ownership of at least 20%, and such minority shareholders would have independent directors on the board of the subsidiary that can influence decision-making effectively);or the government has the right to change ownership of the subsidiary via existing legislation for the resolution of a troubled entity or other legal powers enabling it to change the ownership of a subsidiary in order to separate it from a troubled parent, and we expect that it could use this right; and
- There is a strong economic basis for the parent, regulator, or government's commitment to maintain the capital to support the higher rating on the subsidiary.

103. The potential long-term ICR for an insulated entity is delinked from the GCP if all the following characteristics are met:

- The GCP relating to that insulated entity has declined precipitously within a short period, for example within approximately 12 months, by three notches or more, either into or passing through the 'b' category;and
- The regulator for that entity is expected to act (or has acted) to prevent the subsidiary from supporting the group to an extent that would impair the subsidiary's stand-alone creditworthiness.

E. Subsidiaries Of An Insurance Group As Beneficiaries Of Policy Guarantees And Other Support Agreements

104. Where a policy guarantee agreement meets the following conditions, the FSR on the beneficiary is that of the guarantor (unless the beneficiary's SACP is higher). These conditions mirror those for our rating-substitution criteria for debt guarantees (see "Guarantee Default: Assessing The Impact On The Guarantor's Issuer Credit Rating," published May 11, 2012). However, the last two conditions are specific to these criteria, as is the absence of a reference to timeliness (which FSRs do not address). Also, policyholders, not debtholders, are the beneficiaries of policy guarantees. The conditions are:

- The guarantee covers all policyholder obligations and explicitly ranks them as pari passu with the guarantor's own policyholder obligations. (A guarantee that does not cover all the guaranteed entity's policyholder obligations may not enhance the FSR on that entity at all.)
- The guarantee is of payment and not collection.
- The guarantee is unconditional, irrespective of value, genuineness, validity, or enforceability of the supported obligations. The guarantee provides that the guarantor waives any other circumstance or condition that would normally release a support provider from its obligations. The guarantor should also waive the right of set-off and counterclaim.
- The guarantor's right to terminate the agreement is appropriately restricted, that is, the support agreement does not terminate before the supported obligations are paid in full. In cases where the agreement can be terminated before all supported obligations are paid in full, all obligations incurred up to the termination date will remain supported. In

addition, the support agreement must be binding on successors of the support provider or, if it can be revoked, this only applies to policies written after the revocation date.
- The guarantee provides that it reinstates if any supported payment is recaptured as a result of the primary obligor's or the guarantor's bankruptcy or insolvency.
- Policyholders are third-party beneficiaries of the guarantee.
- To strengthen the guarantee's enforceability by policyholders, if the insurance policies do not contain a copy of the guarantee or disclose its existence and key features, the beneficiary insurer or guarantor provides what we view as

sufficient public disclosure of its existence and key features.

- In the case of cross-border transactions, the guarantee appropriately addresses the risk of withholding tax with respect to payments by the guarantor, where such a potential tax is relevant.

105. Additionally, with respect to guarantees provided to Lloyd's corporate members:

- The guarantee explicitly specifies a method through which valid claims continue to be paid to policyholders should the central Lloyd's claims payment process be inoperable for any reason, including regulatory action affecting Lloyd's.
- The guarantee is triggered when the corporate member fails to make timely payment of any amount, once determined to be due and payable, from premium trust funds and funds at Lloyd's. There should be no reliance upon payments from the Lloyd's Central Fund.

106 For the purpose of these criteria, for a subsidiary of an insurance group, "support agreements" may include net-worth maintenance agreements or any other agreement intended to provide support to subsidiary policyholders. These can lead to an enhancement (or uplift) of the ICR or FSR assigned to an entity. When an indirect support agreement does not meet all of the conditions for ratings substitution with those of the guarantor, then to qualify for any rating enhancement, the support agreement must meet all of the following conditions. It:

- Gives policyholders, financial creditors, or other third-party interests, such as regulators, the ability to enforce the agreement against the support provider, if the provider fails to perform its obligations;
- Cannot be modified or terminated to the detriment of the existing beneficiary policyholders, or creditors at the time of termination without their agreement, unless the beneficiary subsidiary's creditworthiness becomes at least as strong as the supported rating; or the beneficiary can be sold only to an insurer with the same or higher creditworthiness as the support provider;
- Stipulates that the subsidiary will be prudently capitalized, for example, relative to the regulatory capital requirement; and
- Provides that the support provider will cause the beneficiary entity to have sufficient cash and liquid assets for the timely payment of all of its debt if the agreement is to provide corporate debt support, and policyholder obligations if the agreement is to provide policyholder support.

107 When, in addition to the conditions in the previous paragraph, the beneficiary subsidiary is at least strategically important to the group, and the support agreement meets all of the following four conditions, the rating on the beneficiary (unless it has an SACP at or above the GCP) is one notch below the rating on the support provider:

- The agreement states definitively that the provider will support the beneficiary, and sets no material cap on the support;
- The agreement is provided by a regulated bank or insurer that is a core group or subgroup member;
- The agreement is binding on successors and agents of the support provider;and

- The beneficiary subsidiary does not demonstrate adverse performance and is unlikely to be part of a corporate restructuring.

108. When the conditions in paragraph 106 apply, but a subsidiary is not core, highly strategic, or strategically important, and a net-worth maintenance agreement meets both of the following conditions, the rating on the beneficiary is three notches above its SACP, subject to a cap at one notch below the rating on the support provider:

- The agreement demonstrates an intention to support the beneficiary in the medium- to long-term;and

- The agreement is provided by an affiliated regulated bank or insurer.

109 For an insurance subsidiary with explicit support from a qualifying guarantee, the FSR on a subsidiary insurer would generally be six notches higher than the local currency sovereign credit rating in countries rated 'BBB-' or higher, and four notches higher than the local currency sovereign credit rating in countries rated 'BB+' or lower, limited by the rating on the guarantor.

F. Insurance Holding Companies

110 The criteria do not assign a group status to holding companies at the head of an insurance group. The ratings on holding companies reflect the difference in their creditworthiness relative to the operating entities.

111 Holding companies are NOHCs if they do not carry on insurance business, or operating holding companies (OHCs) if they do. (See the glossary in Appendix A for definitions.) A holding company that carries out an immaterial amount of insurance business is still classified as an NOHC, however. The criteria assign only ICRs to NOHCs, while OHCs may receive both ICRs and FSRs.

112 The ICR on a NOHC reflects (1) the GCP and (2) the number of notches that differentiate the NOHC from the operating entities. The rating differential takes account of the ongoing subordination of the creditors of the holding company to those of the operating insurance subsidiaries (typically their policyholders). A financing subsidiary of an insurance group that does not have core group status is assigned a rating as if it were an NOHC.

113. The difference (in notches) between the ICR on a NOHC and the GCP reflects the degree of structural subordination within insurance groups. Structural subordination is considered very high in jurisdictions such as the U.S., where even strong companies have to obtain prior regulatory approval before transferring significant amounts of solvency capital from an operating company to its holding company. Structural subordination is somewhat less onerous in regions other than the U.S. We define an NOHC as either a U.S. or non-U.S. NOHC, based on the geographic split of estimated dividends that the NOHC could receive, or in the absence of data on dividends, on the geographic split of earnings.

114 Usually, a NOHC receives an ICR that is two notches below that on the core operating companies (three notches below in the case of U.S. NOHCs whose classification is based on the geographic breakdown of the group's premiums). In rare instances, a different notching approach applies as follows; the ICR on an NOHC is:

- One notch lower than that on the core operating companies, if (1) banking operations are expected to contribute at least 25% of the group's operating income on a forward-looking basis based on projections over the next two to three years, and (2) the holding company is domiciled in a jurisdiction with a common regulator for banks and

insurers that is supportive of capital fungibility among the holding company and the banking and insurance subsidiaries. If there is an increased likelihood of regulatory intervention detrimental to the NOHC's creditors, however, the notching differential can in such circumstances exceed one notch.
- One notch lower, if a holding company of insurance and noninsurance businesses has nonregulated activities that consistently provide at least one-third of the group's operating income (for example, based on EBITDA as defined in "Corporate Methodology: Ratios And Adjustments," published Nov. 19, 2013), and the noninsurance business is not regulated, and their cash flows to the holding company are not subject to regulatory intervention. This also applies if nonregulated activities provide the majority of the group's operating income.

- The same as the GCP that is, the notching is zero, if nonregulated businesses provide a clear majority of the group's operating income. This assumes that the nonregulated businesses are either (1) not owned by an insurance company or bank, or (2) owned by an insurance company or bank whose transfer of dividends to its owners is prudentially regulated, but any limits on the payment of dividends are unlikely to prevent the pass through of dividends from the noninsurance business to the holding company.
- Two notches below the GCP, for a holding company of a U.S.-based insurance group, instead of the usual three, based on our assessment of the unconsolidated liquidity position of the holding company and specifically: (1) the group's diversity among regulated subsidiaries in different domiciles, (2) the group's fixed-charge coverage, (3) the operating companies' aggregate ordinary dividend capacity relative to the sum of the holding company's ongoing cash requirements and principal maturities over the next 12 months, and (4) the holding company's unencumbered cash and liquid investments relative to the sum of its ongoing cash requirements and principal maturities over the next 12 months.
- One notch lower than the GCP, if an intermediate insurance holding company that (1) is part of a broader bank group, (2) contains at least one operating company that is strategically important, highly strategic, or core to the bank group, and (3) has sufficient access to funding or support from the parent bank group operations and to dividend flows from its insurance operations.
- Assigned in accordance with the situations described in "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," published Oct. 1, 2012, if the company is a holding company of an insurance group with a GCP of 'b-' or lower. The same approach applies for a holding company if the notching in this section would otherwise result in a rating of 'CCC+' or lower.

115. The notching from the GCP to derive the ICR on a NOHC is also increased in the following situations:

- If the holding company's liquidity is assessed as "less than adequate" or "weak," the ratings are capped at 'BB+' or 'B-', respectively; or
- When the holding company itself carries very significant asset or liability risks that are otherwise diluted within the overall GCP.

116 The liquidity assessment for a NOHC is a function of the first three subfactors defined in section D.2 of "Insurers: Rating Methodology," published May 7, 2013, and of the two ratios described in paragraph 119 below (which together create the "ratio subfactor"). All items are analyzed at the level of the unconsolidated holding company, which, in most cases, carries most of the group's financial obligations.

117. A NOHC's liquidity is assessed as "adequate," "less than adequate," or "weak." The criteria never assess an NOHC's liquidity as "exceptional" or "strong."

118 Liquidity is assessed as less than adequate when one or two of the following four subfactors are negative, and weak when three or more of the subfactors are negative (in all other cases, liquidity is assessed as adequate):

- The first three subfactors defined in section D2 of "Insurers: Rating Methodology," published May 7, 2013;and
- The ratio subfactor in paragraph 119.

119 The ratio subfactor is positive when both of the following ratios (calculated at the level of the unconsolidated holding company) exceed 1.5x, negative if the first one is less than 1.2x and the second one less than 1.0x, and neutral otherwise. The two ratios are:

- Liquid assets to noncontingent short-term financial liabilities, where the numerator excludes stakes in subsidiaries but includes undrawn committed backup facilities (see paragraph 181 of "Insurers: Rating Methodology," published May

7, 2013), and the denominator includes liabilities with structured settlements, with no optional features;

- The holding company's ability to pay its total liquidity requirements (excluding principal servicing) out of its cash inflows: [Dividends from operating entities + net investment revenues from holding assets] / [overhead expenses + interest charges + other ongoing financial charges + shareholder distributions, if any].

120 The FSR and ICR for an operating holding company result from notching down from the GCP by up to two notches (or by up to three notches in the case of U.S. OHCs, where the classification is based on the group's geographic breakdown of premiums) to reflect the ongoing cash flow subordination consistent with our approach for NOHCs. The number of notches from the GCP predominantly is a function of:

- The group's financial leverage and the holding company's role as a debt financing vehicle;
- The holding company's dependence on income streams from operating subsidiaries versus the diversity of such income streams and the holding company's ability to generate revenues from own activities to service its debt obligations; and
- The availability of excess capital held at the holding company.

121 The following are examples of how ratings on OHCs are derived with respect to the GCP:

- If the group's financial leverage is immaterial and an OHC's activities are integral to those of the group, the rating on the OHC is typically equal to the GCP.
- For OHCs that operate with financial leverage of less than 30%, the ICR is typically equal to the GCP if a combination of diverse income streams from operating subsidiaries, revenues from own activities, and/or sizable excess capital, in our view, enables the OHC to meet its ongoing payment obligations under essentially all foreseeable circumstances. Again, this applies if the OHC's activities are integral to those of the group.
- For OHCs that operate with financial leverage of less than 30%, the ICR is typically one notch lower than the GCP if a combination of offsetting factors (related to the factors in the second and third bullet points of paragraph 120), in our view, enables the OHC to meet its ongoing payment obligations under most foreseeable circumstances.
- For OHCs that operate with financial leverage of more than 30%, the ICR is typically two notches lower than the GCP. This differential typically also applies if an OHC operates with financial leverage lower than 30%, but is dependent on income streams from a few operating subsidiaries, has limited capacity to generate revenues from own activities, and/or does not hold sizable excess capital.

G. Financial Institution Nonoperating Holding Companies

122. For NOHCs at the head of financial institutions groups:

- The ICR is generally one notch lower than the GCP

- The rating differential between a NOHC and the core operating entities is mainly due to the NOHC's reliance on dividends and other distributions from operating companies to meet obligations.
- Certain factors lead to higher relative credit risk at an NOHC and result in wider notching from the GCP (see paragraphs 126 and 127 for examples).
- In certain circumstances, a weak financial profile at the NOHC, as shown by high double leverage (see sidebar below) and/or weak liquidity, reflects poorly on the group's financial profile and the creditworthiness of the consolidated financial entity.

123. The creditworthiness of an NOHC is closely tied to that of the consolidated group, but is marginally weaker than the

core operating entities'.

124. The ICR on a NOHC is usually one notch lower than those on the group's core operating entities. The differential reflects our perception of marginally greater credit risk at the NOHC relative to the group operating entities. This risk arises from the NOHC's reliance on distributions from the operating companies to meet its obligations, possible supervisory barriers to payments and potentially different treatment in a default situation, and the structural subordination of holding company obligations to those at the operating company level.

125 Factors that may widen the ratings gap between the NOHC and the core operating entities include increasing stress at the holding company or group level, the potential imposition of supervisory barriers to payments from operating companies to the NOHC, and the possibility that a government may rescue the operating company (in most cases, the bank), but not the NOHC, in a default situation. The greater the potential for these actions, the wider the differential between the rating on the NOHC and the core operating entities.

126. We reflect these factors by assigning a credit rating to the NOHC that is usually one notch lower than the credit ratings on the core operating entities of the group. The gap may be wider than one notch when:

- The group is under stress;
- The GCP includes an uplift for potential extraordinary government support, but the same degree of support is not expected to accrue to the NOHC (in certain cases, some support may be expected to accrue to the NOHC);
- The likelihood of regulatory intervention that would be detrimental to the NOHC's creditors increases;
- There are severe liquidity mismatches at the NOHC level, or a ratio of NOHC liquid assets--cash, money market funds, and marketable securities--to short-term debt (debts falling due within 12 months) that indicates the NOHC's weaker capacity to meet maturities of short-term obligations. The ratio indicates the amount of time the entity could survive without access to any debt financing; or
- Double leverage creates heightened sensitivity for an NOHC's creditors that is not offset by greater liquidity at the NOHC level (see sidebar below for more details).

Double Leverage For Financial Institutions Groups

- We define double leverage (DL) as holding company investment in subsidiaries divided by holding company (unconsolidated) shareholders' equity. DL renders the NOHC dependent in part on dividends to meet interest payments on external debt.
- The calculation of DL from public data is often unreliable and complicated by the existence of multiple holding companies in some organizational structures. If DL exists at each holding company level, a single group measure of DL is not meaningful.
- Holding company accounts are often only available annually, and detailed breakdowns of balance-sheet items are rare. In particular, NOHC-only disclosure frequently does not distinguish between equity investments in

subsidiaries and advances to subsidiaries. Some groups employ different accounting standards for holding company and consolidated accounts. For all of these reasons, published measures of DL are often not comparable, but DL remains an important analytical tool to measure creditworthiness of financial institutions.

- Regulators often have the authority to prevent dividend payments by a subsidiary to its parent. If interest received from operating companies is insufficient to meet an NOHC's external interest and principal repayment obligations, the NOHC may suffer a strain on liquidity.
- We do not link specific thresholds for double leverage to the rating differential between the ICRs on the NOHC and core operating entities of a regulated financial group. Rather, we take DL into account in our analysis of the creditworthiness of the consolidated group. High DL may strain the liquidity needs of the NOHC and is a sign that the liquidity management of the group may be aggressive. We consider a high DL ratio as an indicator of potential for stress on the NOHC's liquidity and a signal that the group's liquidity could be strained if not offset by compensating factors.
- We would generally view the threshold of 120% double leverage as sufficiently high to expect offsetting liquidity at the NOHC parent to compensate. Similarly, if the absolute amount of double leverage of a financial group with a NOHC exceeds two years' net income of the consolidated group, we would look for offsetting liquidity at the NOHC parent to compensate.
- NOHCs often issue hybrid capital securities that build regulatory capital. They invest the proceeds in operating subsidiaries as equity or as similarly structured hybrid securities. We calculate DL in two ways: (1) with a common equity double-leverage measure that treats hybrid capital as debt, and (2) with a total equity double leverage measure that treats hybrid capital as equity. When a financial institutions group's common equity DL is higher than its total equity DL, the NOHC has issued hybrid capital securities and invested the proceeds as equity in an operating subsidiary.

127. When a regulated financial institutions group with a bank holding company has a GCP lower than 'bbb-', the gap between the ICR on a NOHC and its core operating company (typically a bank) is at least two notches.

128. For nonregulated nonbank financial institutions groups, the ICR assigned to a NOHC may be equalized with the GCP when the core operating entity or entities' activities display dependability or diversity (geographically or by business line) sufficient to support the NOHC's debt servicing. In such groups, we may equalize the rating on the NOHC with that on the nonregulated operating companies if there are no potential material restrictions (such as covenants) on the operating entities' ability to directly support the NOHC's creditworthiness.

129 For an intermediate nonoperating holding company within an FI group, the ICR is notched down from the core operating entity subsidiary of that holding company as if the intermediate holding company were the head of the group. This is unless we expect the wider group to provide support for the subsidiaries of the intermediate holding

company by injecting financial resources into the intermediate holding company. In that case, the ICR of the intermediate holding company is set at the level of its core operating subsidiary.

VIII. METHODOLOGY: U.S. PUBLIC FINANCE OBLIGATED GROUPS

130. U.S. public finance obligated groups typically consist of a group of subsidiaries, or a single subsidiary, that are cross obligated as security for specific debt. Obligated group structures are most commonly used by not-for-profit hospitals, health systems, and senior living organizations.

131 Obligated groups are created for purposes of securing debt, and do not have operating or governance independence from the larger group. While debt covenants may contain some restrictions, for example limitations on the transfer of assets out of the obligated group, covenants are generally not strong enough to insulate the obligated group from the strategic and operating influence of the group Exceptions are described in paragraph 76.

132. Individual obligated group members may have separate legal incorporation and varying strategic value to the group. However, since the purpose of the obligated group is to secure debt on a joint and several basis, group status will be determined for the obligated group as a whole, not for its individual members. In applying the methodology in these criteria, obligated groups will be considered a single entity.

133. The group status of an obligated group will be core if it meets the conditions in paragraphs 54 and 55, or if it contains the majority of the operating assets of the organization, such as its hospitals or senior living facilities.

134 Most U.S. public finance ratings are issue ratings, although ICRs are assigned upon request. These criteria will be used to determine the ICR in accordance with paragraphs 21 to 29. The issue rating could differ from the ICR based on the specific security package for the bonds. We expect that barring subordination or structural enhancement, the issue rating will be at the level indicated by the ICR.

135. Following is an example of the application of this methodology to a health system that has three obligated groups, all of which have requested ICRs.

Chart 2—Example of Group Rating Methodology Application to U S. Public Finance—Organization Structure

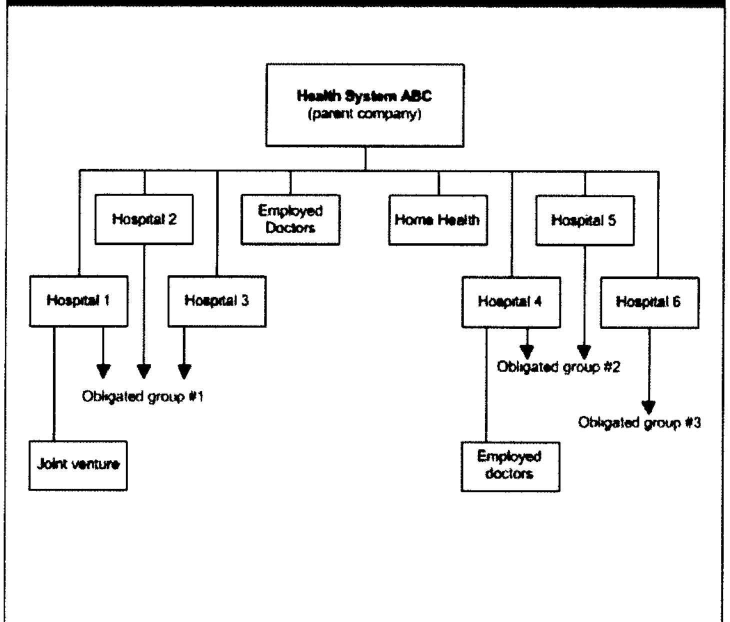
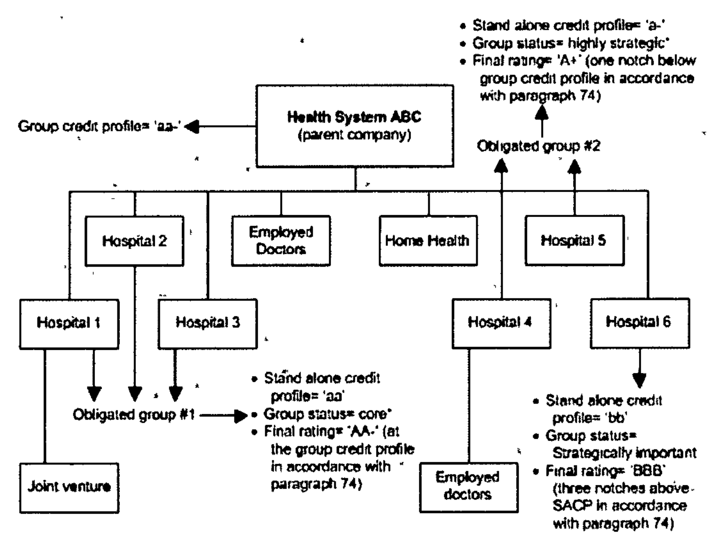


Chart 3—Example of Group Rating Methodology Application to U.S. Public Finance—Rating Profile



*The criteria do not require determination of a stand-alone credit profile (SACP) for obligated groups whose group status is "core" or "highly strategic" (see paragraph 51). The SACP provided here is for illustrative purposes

IX: METHODOLOGY: CORPORATE GROUPS

A. Identifying Members Of A Corporate Group

136. For the purposes of these criteria, the scope of consolidation for corporate entities is generally the same as that of the group's consolidated audited accounts, plus proportionate stakes in joint ventures exclusively or jointly controlled, when we believe that the group has access to these JVs' cash flows and/or is likely to support them under stress.

137. We may adjust the consolidated statements we use to determine the GCP to include proportionately consolidated stakes in joint ventures that aren't included in the accounts, or adjust to treat as equity affiliates (using the equity method of accounting) subsidiaries that the group doesn't control or whose cash flows it doesn't have full (or unfettered) access to. Similarly, we may adjust consolidated statements to treat proportionately consolidated joint ventures as equity investees, when we believe that the group does not have sufficient control or access to these

entities' cash flows, or is unlikely to provide financial support to them.

138. The ICR of the parent is the same as the GCP. We analyze the GCP on a consolidated basis except where it has an insulated subsidiary to which we've assigned a potential ICR that is two or more notches higher than the GCP, as described in paragraph 38.

139. In line with paragraphs 38 and 39, the existence of an insulated subsidiary could negatively affect the GCP as its cash flows may not be available to the group In cases where these subsidiaries represent such a material part of the organization's financial strength as to have an impact on the GCP, we generally would adjust the GCP down one to two notches from what it would have been if determined on a fully consolidated basis reflecting the potential for reduced cash flow.

B. Group Status Of Members Of Specific Corporate Groups

140. We're supplementing the definitions in paragraph 30 of "group" and "group members" to include:

- Insulated subsidiaries,
- Captive finance subsidiaries,
- Financing subsidiaries,
- Joint ventures,
- Dedicated suppliers/purchasers, and
- Entities with interlocking business relationships.

i. Insulated subsidiaries

141. Following on from paragraphs 38 and 39, we may rate some subsidiaries of groups higher than the GCP if all the following conditions are met:

- The subsidiary's SACP plus the potential for government support is higher than the GCP;
- The subsidiary's financial performance and funding prospects are highly independent from those of the group, so that even if other core entities encounter severe setbacks, the relative strength of the subsidiary would remain nearly intact;
- The subsidiary is severable from the group, in our opinion, and able to stand on its own or subcontract certain functions previously provided by the parent;
- The parent's strategy with respect to the subsidiary is clear and, in particular, the parent has a compelling economic incentive to preserve the subsidiary's credit strength;
- It is unlikely, in our opinion, that the subsidiary will be drawn into bankruptcy proceedings at the group level that would lead to a default on the subsidiary's obligations;
- For regulated entities, there is evidence that legislative, regulatory, or structural restrictions would inhibit the subsidiary from supporting the group to an extent that would in turn unduly impair the subsidiary's stand-alone creditworthiness; and

The subsidiary meets the following provisions:

- It holds itself out as a separate entity and maintains arm's-length relationships with its affiliates;
- It doesn't commingle its funds, other assets, and cash flows with those of any other entity;
- It maintains its own records, books of account, financial statements, and other corporate documents separate from

those of any other company;and

- It pays its own liabilities out of its own funds and observes all corporate formalities.

142. In line with paragraph 141, the indicative long-term ICR for an insulated subsidiary is one notch above the GCP if:

- The subsidiary's SACP plus the potential for government support is at least one notch above the GCP, and
- The conditions listed in paragraph 141 are met.

143 The indicative long-term ICR for an insulated subsidiary, as explained in paragraph 141, is two notches above the GCP if:

- The subsidiary's SACP plus the potential for government support is at least two notches above the GCP;
- The conditions listed in paragraph 141 are met;
- Standard & Poor's concludes that it is unlikely that the assets and liabilities of the subsidiary would be substantively consolidated into those of the parent company in the event of the parent company's bankruptcy; and

At least one of the following three characteristics are met:

- There are significant minority shareholders with an active economic interest;
- Independent directors on the board have effective influence on decision making;
- There is evidence of strong legislative, regulatory, or structural restrictions, coupled with active regulatory oversight. The latter could include ongoing review of financial statements;approval of debt issuances, dividend distributions, and intercompany transactions; and requirements related to maintaining capital structure metrics. Alternatively, the regulator or appropriate legislative body has a publicly stated policy of protecting the credit quality of the subsidiary that would keep the subsidiary from supporting the group to an extent that would in turn unduly impair the subsidiary's stand-alone creditworthiness.

144. The indicative long-term ICR for an insulated subsidiary, as defined in paragraph 141, is three notches above the GCP if:

- The subsidiary's SACP plus the potential for government support stands at least three notches above the GCP;
- The conditions listed in paragraph 141 are met;
- Standard & Poor's concludes that it is unlikely that the assets and liabilities of the subsidiary would be substantively consolidated into those of the parent company in the event of the parent company's bankruptcy;
- Strong legislative, regulatory, or structural restrictions exist, coupled with active regulatory oversight. The latter could include ongoing review of financial statements;approval of debt issuances, dividend distributions, and intercompany transactions; and requirements related to maintaining capital structure metrics. Alternatively, the regulator or appropriate legislative body has a publicly stated policy of protecting the credit quality of the subsidiary that would keep the subsidiary from supporting the group to an extent that would in turn unduly impair the subsidiary's stand-alone creditworthiness; and

Either:

- There are significant minority shareholders with an active economic interest;or
- Independent directors on the board have effective influence on decision making;or
- There is a near-term likelihood of regulatory intervention restricting dividends or other payments from the subsidiary to its parent based on the financial condition of the group.

145. The indicative long-term ICR for an insulated subsidiary (as per paragraph 141) that is a regulated entity could be

de-linked from the GCP if either:

- The regulator has taken action to prevent the subsidiary from transferring cash flows to its parent, or
- For a regulated financial institution that is a subsidiary of a corporate group, where that corporate parent is experiencing material and sustained stress, the regulator could, in our opinion, act at some point (or has acted) to prevent the subsidiary from supporting the group to an extent that would impair the subsidiary's stand-alone creditworthiness.

146 The indicative long-term ICR for a subsidiary could be de-linked from the GCP even if the parent company owns more than 50% of its equity, but doesn't exert control due to the existence of substantial creditor protections and the provisions set out in paragraphs 147 through 149 below are met. In such cases, we generally expect the minority shareholders to hold at least a 15% equity stake in the subsidiary, to be unaffiliated with the majority shareholder, to take an active role in corporate governance and have rights to ensure the company is adequately capitalized to conduct its business, to maintain fair relationships with the majority shareholder, to have some experience in the industry, and to have veto rights on such matters as material changes to the business, dividend payments, and voluntary bankruptcy filings.

147. In addition to meeting the conditions in the preceding paragraph, to be de-linked from the GCP, a subsidiary must:

- Maintain independent directors or an equivalent anti-filing mechanism (as an example, having a minority parent whose vote is required for major corporate decisions such as voluntary bankruptcy filings);
- Have no cross-default provisions with the parent;
- Meet the separateness provisions described below;and
- Maintain arm's-length relationships with its parent and affiliates.

148. The presence of independent directors on the governing board of an entity may help reduce the likelihood of the subsidiary filing voluntary insolvency proceedings merely for the convenience of its parent, in our opinion. An anti-filing mechanism, sometimes referred to as a "hindrance mechanism," is any sort of contractual mechanism between a debtor and a creditor that creates a disincentive for the debtor to file for bankruptcy. Examples include: 1) the appointment of an independent director to the borrower's board of directors and requiring unanimous board approval to file a petition for bankruptcy;or 2) inclusion of a pre-petition waiver, which is typically a contract between a debtor and a creditor where the debtor voluntarily waives a right guaranteed in bankruptcy in exchange for consideration by a creditor.

149 We assess separateness by reviewing whether the subsidiary meets these conditions:

- Maintains books, records, financial statements, and its accounts separate from any other entity;
- Holds itself out as a separate entity and conducts its own business in its own name;
- Doesn't pledge or commingle its funds, other assets, and cash flows for the benefit of any other entity or to make any loans or advances to any other entity;
- Avoids acquiring obligations or securities of its parent(s) or affiliates;
- Allocates fairly and reasonably any overhead for shared office space;
- Uses separate stationery, invoices, and checks;
- Pays the salaries of its own employees and maintains a sufficient number of employees in light of its contemplated business; and

- Avoids guaranteeing or becoming obliged for the debts of its parent(s) or affiliates.

150. We evaluate the breadth and specific separateness conditions listed in paragraphs 147 through 149 based on the likelihood that the courts might, in a specific jurisdiction, bring the subsidiary or its assets into the insolvency proceeding of another entity (for instance, a parent).

151 In line with paragraphs 38 and 39 and supplementing paragraph 28, we'll not assign an indicative long-term ICR for an insulated entity below 'B-' as a result of the GCP falling into the 'ccc' category. This would apply if the SACP is at least 'b-' and we believe it's unlikely that the subsidiary will be drawn into proceedings at the group level that would lead to a default of the subsidiary.

ii. Captive finance subsidiaries

152 A captive finance subsidiary (as opposed to a financing subsidiary) functions primarily as a means to market a company's products--by providing financing (in the form of loans or leases) to the company's dealers or end customers. When such a captive finance subsidiary generates 70% or more of its receivables from sales of its parent's or group's goods or services, we generally view the captive's default risk as indistinguishable from that of the parent, and we assess these captive finance subsidiaries as core to the group. We may also assess a captive finance subsidiary with less than 70% of its portfolio related to its parent as having core status to the group if facilitating the parent's product sales is the key strategic mission of the finance unit and if the captive-related business is the most important factor in the unit's financial performance.

153. For us to assess a captive finance subsidiary as core or highly strategic to a group, the subsidiary must provide significant benefits to the parent's marketing efforts. We determine significance by evaluating:

- The percent of parent product sold via the subsidiary (penetration rate). For diversified groups, the percent of total sales may be less important than the percent of certain specific product lines. In turn, those products must be important to the overall performance of the company. For example, a manufacturer of both aircraft and widgets may rely on its captive finance unit only for the former.
- The alternatives available to sell the parent's products. For example, at times, there are numerous banks in a given market eager to lend to car buyers.
- The costs and challenges in conducting its own financing. For some entities, the funding costs may outweigh the benefits--or it may become difficult to gain access to capital.

154. If a captive finance entity is an insulated subsidiary according to the insulated subsidiaries portion of this section, then we could rate the subsidiary up to three notches higher than the GCP. We assess a captive finance entity as severable when it is able to operationally stand on its own, by taking over or subcontracting to external companies certain functions that were previously provided by its parent. Given the nature of the business model of a captive finance entity, we would expect that it actually retains commercial ties with its parent.

iii. Financing subsidiaries

155. A financing subsidiary is a separate legal entity created for the sole purpose of carrying out certain financial activities on behalf of its parent company (such as raising debt for the group). When a financing subsidiary is wholly owned, shares the same corporate name, and issues debt on behalf of the group, we treat that finance subsidiary as core.

iv. Joint ventures

156 Supplementing paragraph 45, for JVs, we may attribute support to one of its owners (sponsors), even if the sponsor does not own a controlling stake in the JV and the JV is not part of its group. In these cases, we believe that there would be situations in which the sponsor would support the JV, regardless of the actions of the other JV sponsors. Situations in which one sponsor may be willing to support such a JV arrangement include when the JV operates in the same line of business as the sponsor and the sponsor essentially makes all day-to-day business and operating decisions. Alternatively, the JV may be of critical importance to another asset that is majority owned by the sponsor or to the overall market strategy of the sponsor. An example would be a 50%/50% JV refinery that is deeply integrated into a highly strategic chemical complex of one of the JV sponsors. In this case, the sponsor owning the chemical complex may have a strong incentive to support the JV refinery even if the other sponsor does not. We'd usually consider the JV to be strategically important, moderately strategic, or nonstrategic to one or more of its sponsors if it meets the conditions described in sections VI.C.Lc, C.1.d, or C.1.e, respectively. In rare cases, however, we could consider the JV highly strategic to one or more of its sponsors if it met the conditions in section VI.C.Lb.

v. Dedicated supplier/purchaser relationships

157. Although usually associated with ownership, support can also arise from other relevant circumstances. Even without having any ownership interest, an entity can support another entity based on economic incentives or contractual arrangements.

158 Group members are typically owned or controlled by the parent or ultimate parent. But there can be instances in corporate ratings in which a company has a dedicated supplier/purchaser relationship with an affiliated entity and only a minority ownership interest or none at all. For example, a beverage company (supplier) has numerous strategic relationships with its authorized bottlers allowing these bottlers exclusive right to bottle and sell the beverage company's soft drinks within specified territories. In many instances, the beverage company might not have an economic interest in a specific bottler, but their relationship is tied to the bottling, licensing, and distribution agreements. Alternatively, the beverage company (supplier) may have an ownership interest, yet there is also a second majority or significant owner.

159 A pre-condition to including such entities as part of the group is that the corporate entities have contractual commitments to purchase/supply the primary components of their product from the single supplier/purchaser affiliated entity. In addition, the supplier's/purchaser's product must represent more than 75% of the entity's (including joint ventures) net sales/cost of goods sold and EBITDA. In general, we believe economic incentive is the most important factor on which to base judgments about the degree of linkage between entities with dedicated supplier/purchaser relationships. We define the group in this instance as the supplier and its affiliated entity/purchaser. It does not include other affiliated entities/purchasers/suppliers. When a shareholder other than the supplier/purchaser owns or controls the affiliated entity and the contractual agreement is not perpetual, we believe the insolvency or financial difficulty of the larger investor or significant owner may weigh more on the affiliated entity's credit quality than if it were controlled by the supplier/purchaser. In these cases, we would not include the affiliated entity/purchaser/supplier in the group analysis of the supplier/purchaser.

160. We'll classify an entity as moderately strategic to the supplier/purchaser if at least three of the following five conditions are met:

- The entity represents more than 20% of the cash flow of the supplier/purchaser or more than 10% of the supplier's/purchaser's total volume.
- The term of the supplier/purchaser agreement is either perpetual or long-term (at least two years with automatic renewals).
- The supplier or purchaser has an economic interest in the entity that we assess to be material. We determine this by looking at the absolute value of the supplier's/purchaser's investment.
- There is evidence of the supplier's/purchaser's willingness and ability to provide financial support to the purchaser/supplier. We determine this by looking at prior loans, capital investments, or marketing support given to the purchaser.
- There is a shared name. We believe that a shared name creates an incentive for the supplier to provide support to prevent reputational risk in the capital markets.

vi. Entities with interlocking business relationships

161. Some groups of entities with interlocking business relations could benefit the rating of individual entities belonging to that group even in the absence of control as defined in paragraph 31. Group membership will be based on meeting at least four of the following conditions:

- Name affiliation,
- Common management,
- Board composition or board control,
- Shared corporate history,
- Common business ties,
- Common financing group members,
- Shared corporate support functions, and
- Cross ownership holdings.

162. In such cases, we determine the GCP as the weighted average of the creditworthiness of the material group members.

163. If the GCP, determined as in paragraph 162, is higher than the SACP of a specific group member, that group member could be assigned a strategically important classification or a moderately strategic classification, subject to the conditions in paragraphs 164 and 165, respectively.

164. We classify an entity as strategically important to the group if it meets all of the following:

- Is likely to remain a part of the group;
- Is likely to receive support from the group should it fall into financial difficulty;
- Is important to the group's long-term strategy;
- Has the long-term commitment of senior group management, or incentives exist to induce such commitment;and
- Is reasonably successful at what it does or has realistic medium-term prospects of success relative to group management's specific expectations or group earnings norms.

165. We classify an entity as moderately strategic to the group if it meets the first two conditions (below) and at least one of the following last three conditions:

- Is likely to remain a part of the group in the near term;
- Is likely to receive support from the group should it fall into financial difficulty;
- Is important to the group's long-term strategy;

- Has the long-term commitment of senior group management, or incentives exist to induce such commitment;
- Is reasonably successful at what it does or has realistic medium-term prospects of success relative to group management's specific expectations or group earnings norms.

C. Rating Corporate Group Entities Above The Sovereign

166. Implicit group support can result in the ICR on a group member being higher than the relevant sovereign rating if the sovereign is rated 'B-' or lower, or in the following situations.

167 Supplementing paragraph 77, if we consider the parent group able and willing to sufficiently support the subsidiary during stress associated with a sovereign default, the ICR of the subsidiary could be higher than the foreign currency rating of the sovereign:

- If the subsidiary is core to the group, the rating is the lower of: (1) the foreign currency sovereign credit rating plus three notches, and (2) the potential rating otherwise derived from these criteria;
- If subsidiary is highly strategic to the group, the rating is the lower of: (1) the foreign currency sovereign credit rating plus two notches, and (2) the potential rating otherwise derived from these criteria; and,
- If the subsidiary is strategically important, moderately strategic, or nonstrategic to the group, we do not consider parent support as a basis for a rating above the sovereign foreign currency rating. Therefore, in these cases, the potential rating is: (1) the foreign currency sovereign credit rating, and (2) the potential rating otherwise derived from these criteria and "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," published Nov. 19, 2013.

168. Implicit group support can result in the ICR on a group member being higher than the relevant T&C if the sovereign is rated 'B-' or lower and if we consider the parent group to be able and willing to sufficiently support the subsidiary during transfer and convertibility restrictions. For these cases, the ICR of the subsidiary could be higher than the T&C assessment for the country where that subsidiary operates:

- If the subsidiary is core to the group, the foreign currency rating is the lower of: (1) the T&C assessment for the country plus one notch, and (2) the potential rating otherwise derived from paragraph 167.
- If the subsidiary is highly strategic, strategically important, moderately strategic, or nonstrategic to the group, we do not consider parent support as a basis for a rating above the T&C assessment for the country.

X. APPENDICES Appendix A: Glossary

169. All financial metrics used to apply these criteria, including geographic or business-line breakdowns of a group's activities, include projections over the next two to three years.

170 Captive insurer: A subsidiary that mainly provides insurance services for group members. Captive insurers typically show a very high degree of integration with group financial and risk management strategy. Captive insurers include captive reinsurance subsidiaries of insurance groups and captive insurance and reinsurance subsidiaries of corporate

or FI groups. The captives of corporate or FI groups insure risks of non-insurance subsidiaries either directly as insurers or indirectly as reinsurers. In turn, they may reinsure some of the aggregated risk with third-party reinsurers, thereby playing a central role in the group's risk retention strategy.

171 Financial institution: The term "financial institution" includes retail banks, commercial banks, corporate and investment banks, large broker-dealers, mortgage lenders, trust banks, credit unions, building societies, custody banks, finance companies, asset managers, exchanges, clearinghouses, regional securities brokers, and similar financial institutions.

172. Financial services sector: Consists of banks, nonbank financial institutions, and insurers.

173. Financial sponsor: This is an entity that does not have a long-term, strategic investment in a company. Rather, the financial sponsor is a financial investment firm, trying to increase the value of its investment by improving management, capital, or both, typically with the ultimate goal of liquidating the investment. Financial sponsors include private-equity firms, hedge funds, venture capital, public and private investment companies, and mutual funds.

174. Financial strength rating (FSR): A Standard & Poor's insurer financial strength rating is a forward-looking opinion about the financial security characteristics of an insurer with respect to its ability to pay under its insurance policies and contracts in accordance with their terms (see "Standard & Poor's Ratings Definitions," published Oct. 24, 2013).

175. Fully integrated: This refers to a subsidiary that depends on the rest of the group for its administrative and operational activities, and infrastructure. These ties render it highly improbable to sever the subsidiary from the group. Examples of such subsidiaries can include booking or cost centers, or captive insurers, captive financing operations, and entities that exist solely to issue debt or carry on treasury operations on behalf of a group.

176 Group credit profile (GCP): The GCP is Standard & Poor's opinion of a group's creditworthiness as if the group were a single legal entity, and is conceptually equivalent to an ICR. A GCP does not address any specific obligation.

177 Insurance company or insurers: Entities that carry insurance risk, excluding for example, insurance brokers and companies servicing an insurance sector. In these criteria, unless otherwise stated, these terms include reinsurance companies and reinsurers.

178. Insurance group: A group of companies that has insurance as its predominant activity.

179. Intermediate holding company of a financial services group: A legal entity that is a subsidiary within a group that does not carry out its own prudentially regulated business activities, but is the legal owner of at least one subsidiary that conducts prudentially regulated business activities.

180 Investment holding company: A corporate entity that invests in, but does not intend to support, other companies (which are usually operating entities).

181 Issuer credit rating (ICR): Also called "counterparty credit rating," a Standard & Poor's issuer credit rating is a forward-looking opinion about an obligor's overall creditworthiness, focusing on its capacity and willingness to meet its financial obligations in full and as they come due (see "Standard & Poor's Ratings Definitions," published Oct. 24, 2013).

182. Local currency issuer credit rating: A nonsovereign entity's local currency ICR reflects Standard & Poor's opinion of that entity's willingness and ability to service its financial obligations, regardless of currency and in the absence of restrictions on its access to foreign exchange needed to service debt.

183. Nonoperating holding company (NOHC) of a financial services group: A legal entity that does not carry out its own

prudentially regulated business activities, but is the legal owner of at least one subsidiary that conducts prudentially regulated business activities. An NOHC may also provide services to subsidiaries such as investment and treasury management.

184 Operating holding company (OHC) of a financial services group: A legal entity that conducts prudentially regulated business activities and also is the legal owner of at least one subsidiary that conducts prudentially regulated business activities. If a holding company has a banking license, it is an OHC.

185 Parent: An entity with controlling or joint-control interest in another incorporated entity (a subsidiary) or a joint venture.

186. Prudentially regulated: This refers to the regulation of a financial services entity by one or more regulatory authority by setting standards for capitalization and potential restrictions on distributions. For examples, see paragraph 84.

187 Stand-alone credit profile (SACP): See "Stand-Alone Credit Profiles: One Component Of A Rating," published Oct. 1, 2010.

188. Start-up: An entity operating for five years or less.

189. Subgroup: A group of legal entities within a wider group that are either controlled by a single legal entity, or collectively by several entities.

190 Transfer and convertibility (T&C): Defined in "Criteria For Determining Transfer And Convertibility Assessments," published May 18, 2009. A country T&C assessment reflects Standard & Poor's view of the likelihood of a sovereign restricting nonsovereign access to foreign exchange needed to satisfy the nonsovereign's debt service obligations.

191 Ultimate parent: The legal entity at the top of a group structure, in which the control chain may include several successive layers and exclusive controlling or joint-control interest in another incorporated entity ("subsidiary") or joint venture. Under the criteria, a natural person, family firm, foundation, investment holding company, managed fund, or private equity firm would not generally be treated as an ultimate parent. In general, "family firm" refers to one that is family-controlled, and "private equity firm" to a natural person or fund-controlled entity primarily investing in a private capacity in operating entities.

Appendix B: Frequently Asked Questions: Implications Of Membership On An FI Group

192 Q: How do the criteria take into account the impact on a subsidiary's SACP from being part of an FI group?

193. A: Our criteria recognize the actual business and financial links between a subsidiary and its wider group. We also

acknowledge that even absent such interactions, the ownership link itself means that the parent operating entity's credit standing usually influences the financial position of the subsidiary In our view, this is particularly true for institutions where continued confidence among customers and investors is paramount. As a result, we believe that financial stress at the parent level will likely affect the subsidiary's creditworthiness to at least some extent, particularly if there are close business or funding ties between the two.

194 A subsidiary's creditworthiness can be affected by its existing financial, commercial, and reputational linkages with the

wider group. These can affect the assessments that we use to determine the SACP. Factors that we consider include:

- Whether the subsidiary's prospects in terms of financial performance and funding are sufficiently independent from those of the group so that the relative strength of the subsidiary can remain nearly intact even if other group entities encounter severe setbacks.
- Direct financial exposures to the parent or other group, which may include but not be limited to funding links--for example, where the subsidiary is funding the parent or other group companies, or is relying on the continued ability of affiliates to provide it with funding or liquidity.
- Capital mobility--such as when a subsidiary depends on capital injections from the parent or has significant excess capital resources from a regulatory perspective that could be passed to its parent.
- Strong reputational or franchise linkages—for example, through sharing a common brand or identity that becomes contaminated. In the case of a bank, concerns about the position of the parent could undermine the confidence of depositors, existing and potential clients, and the wholesale market, causing the subsidiary to lose business.
- Operational linkages--for example, when the subsidiary has a high dependence on group affiliates to provide critical operational and technological functions.
- Strategic decisions--such as when the parent decides to exit a product or market that provides its subsidiary important revenues or is a good source for future growth.

195 The subsidiary's creditworthiness could also be undermined by a continued ability of the weaker parent to take assets from the subsidiary or burden it with liabilities during financial stress, leaving the subsidiary with less flexibility to raise debt or capital. Furthermore, in some jurisdictions, a bankruptcy petition by the parent would include the subsidiary or cause the subsidiary to go into administration.

196. We consider that factors such as tight regulatory oversight and the legal powers of the relevant authorities can create regulatory restrictions that would prevent or limit a foreign bank subsidiary from supporting the group to an extent that would impair the subsidiary's stand-alone creditworthiness. This influences our view of the extent to which the SACP reflects the potential for negative intervention by the parent. Among the factors that we consider are:

- The potential effectiveness of government support in protecting the credit strength of the subsidiary based on the nature of the regulatory oversight and the degree of legal intervention powers that the host government can exercise, which is also informed by the scores assigned to "banking regulation and supervision" and "regulatory track record" when assessing the institutional framework for the host country in our BICRA assessment (see "Banking Industry Country Risk Assessment Methodology And Assumptions," published Nov. 9, 2011), and our view of the legal infrastructure.
- Whether the regulatory capital requirements of the host regulator are set at a transparent level that is higher than the minimum for a license.
- Whether the host regulator applies meaningful restrictions on funding and liquidity flows from its domestic banks to group entities, such as restricting the repatriation of liquidity and not allowing bond or deposit funding sourced by

the subsidiary to be used by the parent or other parts of the group
- The degree to which the subsidiary receives funding from group entities.
- Whether the subsidiary would not be drawn into the group's bankruptcy or reorganization proceedings (this could be supported by a nonconsolidation opinion from an independent expert to confirm the separateness of the parent and subsidiary).
- Whether the host country has in place a resolution regime or other legal intervention powers that enable the host government to change the ownership of the firm prior to the bankruptcy of the subsidiary or its parent.
- The nature of any other regulatory restrictions on financial flows, such as intragroup sales.

- Whether the subsidiary is severable from the group and able to stand on its own or subcontract certain functions previously provided by the parent.
- Whether the subsidiary has sufficient capacity to ensure independence of decisions from the group, which could be reinforced by the existence of outside ownership.

197 While some of these factors may be in place even before a parent comes under stress, generally we observe that regulators tend to play an increasingly active and protective role of systemically important banks as the parental situation deteriorates. If we observe inaction on the part of the authorities in the face of a marked deterioration in the group's creditstanding, which could threaten the viability of the systemically important subsidiary, this could lead us to reconsider whether the subsidiary is indeed systemically important.

198 Q: If a foreign bank subsidiary is rated higher than its parent due to the potential for extraordinary government support in its host market, how does this affect Standard & Poor's view of the creditworthiness of the group?

199 A: When the host authorities consider a foreign bank subsidiary to be a systemically important entity in that market, the subsidiary may be subject to actions by various government authorities and regulators that would provide some protection to the subsidiary in the case of parental stress. These actions can restrict the flow of resources from the subsidiary to the parent and can therefore reduce the link between parent and group creditworthiness, and can pull down the GCP determined for the group.

200. We take account of the potential restrictions on intragroup flows on the GCP by:

- Considering the potential negative implications for the business position assessment used when determining the GCP due to the prospective impact on group strategy or franchise.
- Considering the negative impact on the risk position assessment used when determining the GCP due to restricted capital flexibility that is not otherwise captured in the RACF.
- Considering the extent of restrictions other than on capital flows.

201 Items that we consider to assess the degree of the adjustment include:

- Whether the host regulator applies meaningful restrictions on funding and liquidity flows from its domestic banks to group entities, such as restricting the repatriation of liquidity and not allowing bond or deposit funding sourced by the subsidiary to be used by the parent or other parts of the group.
- The nature of any other regulatory restrictions on financial flows, such as intragroup sales.

202 Q: Can a foreign bank subsidiary that is rated higher than the GCP because of host government support still be considered core to the parent bank?

203 A: Yes, because group status reflects the likelihood of potential group support. The potential for the subsidiary to receive host government support does not automatically affect the group incentives to provide support. However, in some circumstances, the group may have a reduced likelihood of supporting the subsidiary if the operations in the foreign jurisdiction could be ring-fenced in the future from the rest of the group.

Appendix C: Superseded And Partly Superseded Criteria

204. For issuers within the scope of these criteria, this article supersedes:

- Criteria | Corporates | Utilities: Methodology: Differentiating The Issuer Credit Ratings Of A Regulated Utility Subsidiary And Its Parent, March 11, 2010
- Regulation Benefits Ratings On European Automakers' Captive Finance Subsidiaries, May 18, 2006
- Corporate Criteria--Parent/Subsidiary Links;General Principles;Subsidiaries/Joint Ventures/Nonrecourse Projects; Finance Subsidiaries;Rating Link to Parent, Oct. 28, 2004
- Criteria | Corporates | Utilities: U.K. Regulatory Ring-Fencing Risk For Utility Holding Companies: Standard & Poor's Approach, July 8, 2003

205. The subpart titled "Rating Group Entities Above The Sovereign" in this article partly supersedes:

- Criteria Update: Factoring Country Risk Into Insurer Financial Strength Ratings, Feb. 11, 2003

206 This article partly supersedes the following article by superseding the references to group support in that article (the sections entitled "Assessing Captive Finance Operations" and "Captive-Specific Aspects" are not superseded):

- Captive Finance Operations, April 17, 2007

207. This article partly supersedes the following article, which now only applies to captive insurers that are subsidiaries of companies excluded from the scope of this article by paragraph 8:

- Rating Captive Insurers, April 13, 2004

Appendix D: A Specific Application Of The Interaction Between GRE And GRM Criteria

208. If subsidiaries classified as GREs are owned by the government via a holding or asset management company but we believe that "control" over a GRE's strategy and cash flow rests ultimately with the relevant government, or a representative thereof, we will typically analyze the GRE using our government-related-entity criteria (see paragraphs 48 and 67).

209 As an example, we are likely to rate a regulated utility that is classified as a GRE and is owned by a holding company, whose sole purpose is acting as the legal owner on behalf of the government and that does not carry out its own business activities, using our criteria for rating government-related entities.

RELATED CRITERIA AND RESEARCH

- Corporate Methodology, Nov. 19, 2013
- Ratings Above The Sovereign-Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Standard & Poor's Ratings Definitions, Oct. 24, 2013
- Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Insurers: Rating Methodology, May 7, 2013
- Guarantee Criteria—Structured Finance, May 7, 2013

- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Guarantee Default: Assessing The Impact On The Guarantor's Issuer Credit Rating, May 11, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009
- Recovery Ratings For U.S. Finance Companies, June 19, 2008
- Rating Private Equity Companies' Debt And Counterparty Obligations, March 11, 2008
- Legal Criteria For U.S. Structured Finance Transactions: Select Issues Criteria, Oct. 1, 2006
- Counterparty And Debt Rating Methodology For Alternative Investment Organizations: Hedge Funds, Sept. 12, 2006
- Standard & Poor's Updated Methodology For Rating Exchanges And Clearinghouses, July 10, 2006
- Rating Network Payment Providers, June 1, 2005
- Rating Securities Companies, June 9, 2004
- Rating Finance Companies, March 18, 2004
- Rating Asset Management Companies, March 18, 2004
- Ring-Fencing A Subsidiary, Oct. 19, 1999

These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.

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Research Update:

NextEra Energy Inc. And Subsidiaries 'A-' Ratings Affirmed On Acquisition Of Ownership Interest In Oncor

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Research Update:

NextEra Energy Inc. And Subsidiaries 'A-' Ratings Affirmed On Acquisition Of Ownership Interest In Oncor

Overview

- Juno Beach, Fla.-based NextEra Energy Inc. (NextEra) has entered into an agreement to acquire Energy Future Holdings Inc.'s (EFH) 80% ownership interest in Oncor Electric Delivery Co. LLC (Oncor).
- We are affirming the ratings on NextEra and its subsidiaries NextEra Energy Capital Holdings Inc. and Florida Power & Light Co., including the 'A-' issuer credit rating on each entity.
- The stable outlook on NextEra and its subsidiaries reflects our expectation that the company will maintain its intermediate financial risk profile at least through the close of the Oncor acquisition when we expect its business risk profile would strengthen while its financial risk profile would weaken, leaving ratings unchanged.

Rating Action

On Aug. 2, 2016, S&P Global Ratings affirmed its ratings, including the 'A-' issuer credit rating, on NextEra Energy Inc. (NextEra) and its subsidiaries NextEra Energy Capital Holdings Inc. and Florida Power & Light Co. The outlook is stable.

In addition, we affirmed the rating on FPL Group Capital Trust I.

Rationale

The ratings affirmation follows NextEra's announcement that it entered into an agreement to acquire Energy Future Holdings Inc.'s (EFH) 80% indirect ownership interest in Oncor Electric Delivery Co. LLC (Oncor) for about $14.7 billion, including the assumption of debt from Oncor. NextEra will fund its portion of the transaction of about $9.5 billion with debt, $1.5 billion of equity units, and asset sale proceeds.

The ratings affirmation is based on our expectations that NextEra will maintain its current financial profile with funds from operations (FFO) to debt that is at least 25%-26% until the transaction closes. Moreover, we expect that upon the transaction close or shortly thereafter, NextEra will be in a position to exercise effective control over Oncor's resources and cash flows with no additional meaningful insulation imposed elsewhere; this would strengthen its business risk profile to offset the weakened financial profile that results from the proposed funding, and leave ratings at the current level. Paramount to the ratings affirmation is NextEra's commitment to maintain its current intermediate financial risk profile, if it is unable to achieve effective control over Oncor's resources and cash flows.

We view the current level of insulation at Oncor as significantly limiting the benefit to NextEra's business risk profile, especially given the unusual authority the minority owner has to protect the operating and financial integrity of Oncor. Therefore, as long as all current insulation measures at Oncor remain in place, our assessment of NextEra's business risk profile would remain unchanged at strong and NextEra's financial risk profile would need to be preserved to support its current ratings.

The merger agreement contemplates NextEra achieving effective control over Oncor's resources and cash flows through the acquisition of the minority owner's interest and the subsequent elimination of insulation measures, including the independent board of directors, which would provide the most benefit to NextEra's business risk profile. Alternatively, NextEra's business risk profile could benefit from the acquisition of the 80% ownership interest in Oncor through the elimination of the requirement for independent directors and the elimination of certain insulation provisions currently in place that would give NextEra control over the level of Oncor's common dividends (although not Oncor's dividend policy) and capital spending. Under either outcome, NextEra's business risk profile would benefit just enough to move to the excellent category, although the latter outcome is barely sufficient. We view NextEra's business risk profile as strengthening just enough post acquisition, either through full ownership or through the acquisition of the 80% ownership interest, to get to the excellent category in large part because we expect NextEra's non-utility operations to continue to contribute about one-third of the company's overall credit profile.

The proposed financing for the transaction and assumption of debt from Oncor would weaken NextEra's financial profile relative to historical trends. On a pro forma basis for the proposed financing, we expect that NextEra's financial risk profile would weaken, with FFO to debt falling to around 18%, and shifting financial risk profile to the significant category. Given that the business risk profile would be toward the low end of the excellent category, we expect that NextEra will maintain FFO to debt of at least 18% to support current ratings.

If at any point it appears that NextEra is unable to achieve effective control over Oncor resources and cash flows, thereby not realizing the benefits to its business risk profile, then we would expect NextEra to rapidly de-lever to achieve FFO to debt of at least 26%, absent which NextEra's credit profile would deteriorate and we would lower the ratings.

Liquidity

We assess NextEra's liquidity as adequate to cover its needs over the next 12 to 18 months. We expect that the company's liquidity sources will exceed uses by 1.1x or more, the minimum threshold for an adequate designation under our criteria and that the company will also meet our other criteria for such a designation.

NextEra has $7.85 billion in revolving credit facilities, with maturities from 2016 to 2021. In addition, the company has $1.01 billion in additional revolving credit facilities and $650 million in letter-of-credit facilities.

Principal sources of liquidity:
- Available credit facilities total about $8.4 billion;
- FFO of about $7.5 billion to $8 billion; and
- Proceeds from asset sales, equity unit proceeds, and tax equity proceeds totaling just over $3 billion.

Principal uses of liquidity: .
- Debt maturities and outstanding commercial paper of about $5.3 billion;
- Capital spending of about $9.5 billion to $10 billion; and
- Dividends of about $1.9 billion to $2 billion.

Outlook

The stable outlook on NextEra and its subsidiaries reflects our expectation that the company will maintain its intermediate financial risk profile at least through the close of the Oncor acquisition. After the close of the transaction, we expect that NextEra will have effective control over Oncor as a result of which its business risk profile could strengthen and the increase in debt leverage would not affect ratings.

Downside scenario

We would lower the ratings on NextEra and its subsidiaries if upon completion of the acquisition NextEra fails to achieve effective control over Oncor's resources and cash flows while at the same time its financial profile weakens such that FFO to debt remains consistently below 26% or if it does achieve effective control over Oncor and FFO to debt is below 18%.

Upside scenario

Under our current base-case scenario we do not expect to raise the ratings on NextEra over the next 12 to 24 months as the company endeavors to complete the merger with Oncor and achieve effective control over the company.

Ratings Score Snapshot

Corporate Credit Rating: A-/Stable/--

Business risk: Strong
- Country risk: Very low
- Industry risk: Low

- Competitive position: Strong

Financial risk: Intermediate
- Cash flow/Leverage: Intermediate

Anchor: a-

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: a-

Group credit profile: a-

Related Criteria And Research

Related Criteria
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Ratings Affirmed

NextEra Energy Inc.	
Corporate Credit Rating	A-/Stable/--

Florida Power & Light Co.	
NextEra Energy Capital Holdings Inc.	
Corporate Credit Rating	A-/Stable/A-2
NextEra Energy Inc.	
Senior Unsecured	BBB
FPL Group Capital Trust I	
Preferred Stock	BBB
Florida Power & Light Co.	
Senior Secured	A
Recovery Rating	1+
Preferred Stock	BBB
Commercial Paper	A-2
NextEra Energy Capital Holdings Inc.	
Senior Unsecured	BBB+
Junior Subordinated	BBB
Commercial Paper	A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.