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Criteria | Structured Finance | Request for Comment:

Should An Identifier Be Added To Standard & Poor's Structured Finance Ratings?

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Standard & Poor's Ratings Services is requesting comments on the proposed addition of an identifier to signify that a rating is on securities that have been issued out of a securitization structure. The purpose of the identifier is to provide greater transparency and insight to market participants by distinguishing structured finance ratings from the more traditional corporate and government ratings. This proposal is among 27 Leadership Actions that we announced on Feb. 7, 2008 aimed at strengthening the credit ratings process—specifically in the areas of governance, analytics, information, and education (see "Related Articles" below).

In light of the recent market dislocation, some market participants, including financial regulators, governmental bodies, and members of the investor community, have requested that rating agencies provide a means for identifying structured finance ratings and differentiating them from other types of ratings. To address this concern, we now propose to add an "s" subscript to all existing and new ratings on securitizations.

Proposal Summary

Subject to market feedback, we propose adding a subscript to the long- and short-term issue and issuer ratings on asset-backed securities (including asset-backed commercial paper programs), residential mortgage-backed securities, commercial mortgage-backed securities, and collateralized debt obligations. The subscript would appear after the traditional rating symbol. For example, the rating symbol for a 'AAA' rated asset-backed note would change to 'AAAs'.

For consistency and ease of implementation and given definitional differences as to what constitutes a securitization, we propose to apply the subscript to all traditional, nonrecourse, or "standalone" securitizations of existing financial assets. We will not apply the subscript to securitization issues that are fully guaranteed or insured by a third party (such as 100% letter of credit-backed or bond insurance), nor will we apply the subscript to structures where the securitized assets have not been fully de-linked—legally and operationally—from the entity that originated them (such as future flow transactions, corporate and whole business securitizations, or covered bonds). Additionally, we will not apply the subscript to the issuer and issue ratings on structured operating companies, such as derivative product companies, credit derivative product companies, and structured investment vehicles. The absence of the subscript, however, should not be viewed as a definitive statement that the issue is not a securitization or that it doesn't include structured finance elements.

If implemented, we would add the subscript to both new and existing securitization ratings, including those that reside in our publicly accessible ratings Web sites (standardandpoors.com and ratingsdirect.com). The subscript would also be added to ratings we issue for rating changes and rating affirmations as well as all publications that make direct reference to specific securitization ratings, including rating rationales, presale reports, full analyses, commentaries, research, criteria, and related media releases.

Response Deadline

Responses should be submitted on or before July 31, 2008. Written responses should be sent to the following address: criteriacomments@standardandpoors.com. Although we will consider partial responses, we encourage market participants to fully respond to each of the questions listed below.

The Subscript Doesn't Affect Ratings Comparability Across Sectors

The addition of a subscript is not intended to represent a change in our traditional rating scale. It doesn't create a new scale nor does it change the underlying definition of our ratings or what the ratings mean with respect to credit quality. The basic comparability of our ratings symbols across sectors would remain intact. Consistent with our recent reaffirmation of our commitment to maintain a common ratings scale and the goal of comparable ratings across the structured finance, corporate, and government sectors (see "Related Articles"), the addition of a subscript doesn't in any way imply that we believe differences exist between the creditworthiness of similarly rated structured finance, corporate, or government debt issues or issuers. Further, the subscript does not speak to noncredit related attributes such as liquidity, volatility, market pricing, correlation, or post-default recovery prospects. We are currently researching the perceived value of providing additional information on and benchmarking these other attributes.

The addition of the subscript is one of several actions that we are exploring with a view toward bringing more transparency to ratings on securitizations. These include, for example, providing "what-if" scenario analysis in our rating reports, improving the disclosure of the collateral underlying a securitization, and providing more information regarding the comparability of ratings across asset classes—along with broad market education programs. We believe that these actions will enhance market participants' understanding of securitization, help restore investor confidence, and bring more liquidity and resilience to the securitization market over time.

We acknowledge that market participants have already engaged in a dialogue on the subject of changes to ratings scales and that no clear consensus has emerged after considering the views of all parties involved. We are cognizant that market constituencies both within and outside the structured finance community may have different needs and objectives that can be difficult to reconcile. Therefore, we will thoroughly consider all the relevant feedback and evaluate all comments.

Specific Questions For Which A Response Is Requested

- Do you support the addition of an "s" subscript to all our securitization ratings? Why or why not?
- Do you agree with the proposed types of securities to which the subscript would apply? If not, which types would you include or exclude?
- Would the implementation of the "s" subscript create any undue additional costs and/or inconveniences for the users of ratings (for instance, data and technology issues, impact on securities pricing, impact on the use of ratings in regulations and investment guidelines)? If so, do you believe these costs outweigh the benefits of increased transparency?
- Are there any other matters that we should consider if we implement the subscript?
- Are there any better alternatives to the subscript that might achieve the same objectives?

Related Articles

- "Standard & Poor's Reaffirms Its Commitment To The Goal Of Comparable Ratings Across Sectors And Outlines Related Actions" (published on May 6, 2008).
- "Detailed Descriptions Of S&P's New Actions Aimed At Strengthening The Ratings Process" (published on Feb. 7, 2008).

All related articles are available on RatingsDirect, the real-time Web-based source for our credit ratings, research, and risk analysis, at www.ratingsdirect.com. They can also be found on our Web site at www.standardandpoors.com.

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