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Credit FAQ:

Enterprise Risk Management For Ratings Of Nonfinancial Corporations

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On May 7, 2008, Standard & Poor's Ratings Services announced that we would expand our ratings analysis of nonfinancial corporations to include a review of enterprise risk management (ERM). We expect this initiative to enhance our analysis of management generally, identify differentiated capabilities of companies to respond to adversity, and help make our ratings more forward-looking. This report recaps several commonly asked questions we have received since our announcement.

Frequently Asked Questions

How will an ERM evaluation improve the ratings process?

We expect ERM evaluation to improve the breadth and consistency of our review of management capabilities. We believe that using the ERM framework will enhance our review of a company's management, which is a highly qualitative exercise. It will provide more consistency in our rating reviews and transparency in our written reports.

Why did Standard & Poor's decide to include ERM in determining company ratings ?

We want the ratings to benefit from the value gained by applying ERM in the financial sector and expand on our work in applying risk-management principles in the energy marketing and agribusiness sectors. It is also part of our commitment to continually improve our ratings process in general.

ERM didn't seem to predict problems at many large banks. Why would it help for nonfinancial ratings?

Our framework for assessing banks' ERM capabilities provides us with a tool set to better evaluate bank creditworthiness. Recent events have confirmed some vulnerabilities, while also highlighting more risk in certain areas than previously thought and incremental areas for further attention. Given the current credit environment, Standard & Poor's feels that it is a good time to introduce ERM for nonfinancial companies, allowing us to explore risk management in real time as many companies come under potential stress.

Which sectors would get an ERM analysis?

We will introduce ERM discussions into the ratings process for all companies in all sectors globally. Roll-out will be staggered over several months.

Exactly when will this happen?

ERM will become a part of the standing agenda in regular review meetings we have with rated companies beginning in the third quarter of 2008. After three to six months of gathering information from these discussions, we expect to be able to benchmark ERM performance and publish criteria that will eventually lead to evaluation and possible scoring of ERM capabilities. We would not expect to entertain the idea of scoring until at least mid-2009.

What if companies want to present their ERM before their regular review meeting?

We are open to discussing ERM with companies at any time, but a more effective discussion will result from allowing our analysts to take the lead in scheduling. We do not require elaborate ERM presentations because our analysts are already familiar with companies' key risks, risk appetite, and risk-mitigation strategies. The ERM discussion fits naturally into the existing dialogues we routinely conduct. Indeed, good risk-management practice

suggests that ERM be integrated into everyday practice and therefore not be something that requires hours of explanation.

Is Standard & Poor's working with ERM consultants or software vendors?

We do not endorse nor do we plan to use third-party products or services to evaluate ERM. However, we respond to inquiries from all interested parties about our approach to ERM analysis as part of our broad commitment to transparency.

How will you conduct the ERM review?

By evaluating the risk and risk-management information in the annual report and other public documents, putting forth questions to management, and discussing ERM at our regular periodic meetings with issuers.

Will the use of ERM be consistent from sector to sector?

Yes. We will concentrate on those broad ERM practices that can be found in all sectors, rather than on the treatment of sector-specific risks. Firms will be benchmarked first within their sector and then among sectors for consistency. The ultimate importance ERM will have in any given rating may vary considerably depending on individual circumstances by sector, region, and the quality of information we receive.

Will you be changing any ratings or outlooks?

Eventually, yes, but initially only if we see extraordinary conditions that change our existing perception of a company's business profile.

What effect will ERM have on ratings in the long run?

We will use ERM analysis to enhance our evaluation of management performance, an existing part of Standard & Poor's analytical framework. We expect that the effect on ratings will be on the margins: firms with very highly developed ERM programs might see a positive impact on the ratings and firms with unexpectedly poor ERM programs might see a negative impact.

Will this be reflected in your ratings reports?

Yes, within the discussion of management performance. We expect the conclusions to be very broad at this point and to develop into something much more specific over time, i.e., favorable ERM versus unfavorable ERM.

Who will conduct the reviews?

The primary ratings analyst for each company has responsibility for the review. ERM specialists will assist with training and consistency issues. In all cases, someone who is knowledgeable about the sector will do the review.

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