
Notching Guidelines for Issue Ratings

Request for Comments

12 October 2026

CI Ratings is requesting feedback from rated entities, subscribers, other stakeholders, and market participants on this proposed **Notching Guidelines for Issue Ratings**.

Comments should be sent to criteriafeedback@ciratings.com by **13 November 2026**.

In accordance with EU regulation, all comments received will be published on our public website at the end of the consultation period unless the respondent requests that their identity and comments be treated as confidential.

We intend to finalise the proposed criteria after considering comments received during the stakeholder consultation period, which will run for one month from the date given above. After the deadline, we will review the comments and subsequently finalise and publish the updated criteria.

The criteria, if adopted, will replace CI Ratings' Bond Rating Methodology. This update better documents what we currently do in practice, and also provides insight into how we might rate certain other types of financial instruments that are not currently rated by CI, such as corporate hybrid securities. We are not proposing to revise our general analytical approach for rating senior financial obligations or conventional subordinated obligations, and our general notching practices will remain the same. Consequently, adoption of the updated criteria would have no impact on existing issue ratings.

Notching Guidelines for Issue Ratings

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1. Scope of the Criteria

This cross-sector criteria paper describes CI Ratings' approach to assigning issue credit ratings (ISRs) to bonds, sukuk, and other financial obligations. These criteria apply where the ISR reflects the creditworthiness of the obligor (issuer) and is linked by notching to the obligor's issuer credit rating (ICR) or, where more appropriate, standalone credit assessment.

The criteria are not applicable to transactions where the likelihood of timely repayment is dependent upon the performance of an asset, or pool of assets, or on the cash flow generated by a specific project.

The criteria are broadly applicable to all sectors (e.g. corporates, financial institutions, sovereigns). However, separate criteria apply to hybrid instruments issued by banks (see our Bank Rating Methodology). Since our ratings on financial obligations generally reflect the fundamental creditworthiness of the obligor, these criteria must be read together with the relevant industry/sector methodology for a complete understanding of how an ISR has been determined.

2. Issue Ratings for Debt Obligations

2.1 Meaning and General Approach

ISRs for conventional debt instruments primarily reflect default risk, namely the likelihood of the obligor being unable or unwilling to meet its financial obligations in a timely manner. ISRs also reflect the likelihood of full recovery of principal (albeit delayed) in the event of default and take general account of the repayment priority of the rated instrument in the event of bankruptcy or liquidation.

We use the ICR as the reference point for the ratings of senior unsecured instruments, as under our methodological approach, it is the ICR which indicates the fundamental creditworthiness of an entity and the likelihood that it will meet its senior financial obligations on time and in full.

ISRs may be notched up or down from the ICR depending on relative recovery expectations and the instrument's position in the hierarchy of claims. We typically limit any rating differential vis-à-vis the ICR to one notch as our credit ratings first and foremost reflect default risk and also because recoveries cannot be accurately evaluated when the distance to default is great. Reliable recovery analysis hinges on knowledge of the capital structure at, or close to, the time of default and therefore may have a greater impact on rating differentials when the credit risk of the obligor is high (i.e. the ICR is 'B+' or below) and we can more confidently assess the post-default repayment prospects of different creditor classes.

2.2 Standard Notching for Debt Securities

The standard notching we apply by bond status is summarised below:

- **Senior unsecured securities** – The ISR of a senior unsecured financial instrument is normally set at the same level as the obligor's ICR, as it is the ICR which indicates the fundamental creditworthiness of the obligor and the likelihood that it will meet its senior financial obligations on time and in full.

- **Senior secured securities** – The ISR of a senior financial instrument that is secured with specific assets will generally be one notch above the obligor's ICR, provided that collateral cover is of sufficient quality and value to render full recovery of principal likely within 24 months from the date of default.
- **Subordinated securities** – The ISR of a (non-hybrid) financial instrument that is contractually subordinated to other (higher ranking) financial obligations will generally be one notch below the obligor's ICR (provided coupon payments are non-deferrable). This reflects the greater likelihood of less-than-full recovery, as the claims of junior debt holders will only be addressed after more senior creditors have been repaid from the obligor's assets.

2.3 Key Considerations for Determining Standard Notching

We expect our standard notching to apply in most, but not all, cases. This is because legal constraints, as well as effective and structural subordination, may leave bondholders with a substantially weaker claim on the obligor (and therefore lower recovery prospects) than suggested by the status of the instrument as described in the transaction documents. For secured instruments, the quality and value of the transaction security also need to be assessed before considering any uplift for recovery.

The principal additional factors we consider when deciding whether to apply our standard notching are outlined below.

(i) Legal framework and insolvency regime

- We consider whether the hierarchy of claims is provided for – and is likely to be respected – in the relevant jurisdiction. We may not apply our notching criteria if we have concerns about the priority of claims in resolution, for example if it is unclear or uncertain whether senior creditors will be repaid before junior creditors.
- We consider the strength of the legal framework for collateral, and may not apply any notching in cases where: (a) we have significant concerns about the ability of creditors to enforce and/or realise transaction security; or (b) we believe the length of time the enforcement process will take will either exceed 24 months (the longer the process, the greater the risk to recovery values) or pose a significant downside risk to the value of the security and therefore recovery prospects.

(ii) Quality and value of collateral

For secured instruments, we also consider the following:

- **Strength of the security interest** – Upward notching is generally only considered if investors have a registered and perfected first lien on collateral that is legally enforceable and deemed unlikely to be subject to a legal or third-party challenge. We would not notch up if we believe that the legal interests of bondholders are not properly safeguarded and, in particular, if there is a material risk that either the obligor or other creditors could legally lay claim to the assets in the security package. In addition, we would not generally notch up from the ICR for second-lien secured instruments as such instruments typically achieve recovery rates significantly below 100%.
- **Strength of creditor control over the security package** – Tight monitoring of the pledged assets and control over asset sales help to improve recovery outcomes. We would not notch up if the instrument's protections are weak and there is a reasonable possibility that in a stress scenario the obligor could liquidate or utilise collateral for other purposes.
- **Type of collateral** – The more liquid and predictable the value of a security package, the lower the risk of recovery falling short of expectations (all other things equal). While we would still consider

notching up even if the security package is relatively illiquid (e.g. a first-ranking mortgage on real estate), the value of the collateral is likely to be more heavily discounted for market and liquidity risk.

- **Value of collateral** – Full collateral coverage may be sufficient for upward notching to be applied if the assets are of good quality and highly liquid (and provided other structural features are strong). For lower quality and/or less liquid types of security, overcollateralisation ratios of at least 125% would normally be required to provide an acceptable buffer against value declines and liquidity risk. The required security coverage ratio could be much higher (at least 150%) if asset volatility, market risk, and liquidity risk are relatively high or if there are other identifiable risks to future collateral values.

(iii) Subordination risk

Effective subordination and structural subordination are key considerations when rating unsecured instruments that are not contractually subordinated. Under our standard approach, securities that are formally classified as unsubordinated may nevertheless be rated at least one notch below the obligor's ICR if we believe the priority claims of other creditors would disadvantage holders in bankruptcy by leaving them with a residual (subordinated) claim on the issuer's assets and cashflow and, therefore, significantly weaker recovery prospects.

- **Effective subordination** – The effective subordination of an instrument arises from the obligor's use of a significant amount of its assets as collateral for other borrowings. The degree of effective subordination is gauged by the share of secured debt in total debt. If the secured debt ratio is above 50%, we may position the ISR one notch below the ICR to reflect the weaker (in effect, subordinated) position of the holders of the unsecured instrument.
- **Structural subordination** – Structural subordination may arise from a corporate group's capital structure, particularly when debt is issued at subsidiary levels. If operating subsidiaries hold substantial income-generating assets, their creditors would be prioritised over the unsecured creditors of the parent company in liquidation. In such cases, we may rate unsecured issuances by the parent one notch below its ICR to reflect the inherent (structural) subordination.
- For corporate groups, the starting point for considering downward notching for structural subordination would typically be a prior-claims ratio of more than 50% – with the numerator of the ratio comprising secured debt issued by the parent and its subsidiaries plus the unsecured debt of the subsidiaries, and the denominator being total consolidated debt.

The above notwithstanding, we do not automatically notch down for effective and structural subordination if the secured debt ratio or prior-claims ratio is above the indicated thresholds. This is because there may be structural, legal or other factors that mitigate subordination-related risks to parent creditors.

For example, we are less likely to notch the ISR down from the ICR in the following cases:

- Leverage is assessed to be very low, low, or moderate. This is because low to moderate indebtedness relative to assets improves recovery prospects and significantly reduces the likelihood of unsubordinated creditors being 'crowded out' by other creditor classes in the event of liquidation.
- The issuing parent has sufficient operating assets of its own (i.e. it is not a pure holding company), or it controls several core or strategically important operating companies active in different sectors and countries but with limited interconnections and interdependencies.

- Rated instruments benefit from credible and valid upstream guarantees from operating subsidiaries.
- The ICR of the parent (holding company) benefits from the likelihood of external support being made available to it – but not necessarily to operating subsidiaries – in the event of financial distress. In such cases (which are more likely to involve government-owned entities), unsecured unsubordinated issuances by the parent would be rated in line with the parent's ICR.

In addition, we might not apply an extra notch deduction for structural subordination in cases where we consider the incremental risk to be adequately reflected in the downward adjustment already made to the parent ICR – compared to the level of the Group Rating Assessment (GRA) – under our Parent-Subsidiary Criteria. We may notch a parent holding company's ICR one or more notches below the GRA due to higher credit risk arising from its reliance on operating subsidiaries and, in particular, material restrictions (regulatory, legal or other) on its ability to upstream sufficient cash and assets from those subsidiaries, including in a stress scenario.

2.4 Guarantees and Other Enhancements

Credit enhancements in the form of guarantees or (bond insurance) may enable a financial instrument to be rated higher than the ICR of the obligor – up to the level of the guarantor or insurer – provided the enhancement used achieves full and effective credit substitution.

We would only substitute the guarantor for the obligor in our analysis – and consequently consider aligning the ISR with the credit strength of the former – if the guarantee constitutes an unconditional, legally binding obligation to make full and timely payment when called.

If the guarantee provides for full payment after the instrument's due date (or grace period, if applicable), the uplift for the ISR would be restricted to one notch above the obligor's ICR (provided the guarantor is sufficiently creditworthy).

We would not notch up for guarantees that only compensate creditors for any shortfall after recoveries, nor would we consider notching up in any situations where we do not have sufficient information to assess the creditworthiness of the guarantor on an ongoing basis.

3. Issue Ratings for Hybrid Instruments

3.1 Meaning and General Approach

Hybrid securities blend characteristics of both debt and equity, and include convertible bonds and preference shares. As subordinated instruments, hybrids rank behind unsecured debt obligations in liquidation and also contain features that give rise to higher payment/deferral risk compared to debt securities. Such features may include obligor discretion on the payment of interest (i.e. coupon deferral), and provisions for the instrument to be converted into equity or used to absorb losses through the write-down of principal.

For hybrid securities, we recast default risk in broader terms as impairment risk to capture the risk of holders taking losses outside of liquidation and without the loss-triggering action constituting an event of default in legal terms. While the imposition of losses, including non- or partial-payment, may not constitute a default in legal terms under the issuing contract, CI Ratings regards them as default-like events, as they are generally expected to result in a loss for the holder of the instrument.

Under our approach, the ISR of a hybrid security will generally be at least two notches below the obligor's ICR due to the higher payment risk and lower position in the creditor hierarchy. In addition, and regardless of contractual permissibility, the activation of an instrument's cash conservation or loss-absorption mechanism would normally result in its credit rating being lowered to 'D'. (However, the obligor's ICR would not necessarily be lowered to 'SD' or 'D' in such circumstances as it reflects the likelihood of default on senior unsecured obligations.)

The ICR serves as the starting point for the positioning of the ISR of a hybrid security, unless it has been uplifted for extraordinary support and we do not expect that support to be extended to the rated instrument. If this is the case, the entity standalone assessment (ESA) would be the starting point.

3.2 Standard Notching for Hybrid Instruments

From the ISR reference point (i.e. the obligor's ICR or ESA), we would normally deduct the following, where applicable, to arrive at the rating for the particular hybrid instrument:

- One notch to reflect contractual subordination.
- One notch for deferral risk on discretionary interest payments or equivalent (e.g. Sharia-compliant periodic distributions), and regardless of whether the instrument includes any look-back or dividend pusher provisions.
- One or more notches for any mandatory loss-absorption features that could be triggered while the obligor is a going concern, with notching taking into account how far the entity is from the trigger level for imposing losses on investors and whether it is higher than the point at which the obligor would consider exercising its discretionary right to defer payments.

We would not apply any additional notching if, in our opinion, mandatory triggers are set at very low levels (e.g. close to the point of non-viability/ severe financial weakness) and hence the incremental payment risk beyond that captured by the notch deduction for deferral risk is very low.

Where an instrument has multiple triggers, we will generally rate to the trigger we consider most likely to be breached first. We would not, however, assign ISRs to instruments with triggers based on financial market indicators (such as share prices or CDS prices) or systemic triggers based on the stability of the financial system.

We generally regard potential cash conservation/loss-absorption to be higher for non-cumulative securities compared to cumulative instruments, as there is no obligation on the obligor to eventually settle the missed payments. While this suggests that non-cumulative securities are more equity-like than cumulative instruments (all other things being equal), we see little reason to automatically assume that the point at which non-performance occurs is materially different between the two deferral types and hence any notching differential would primarily reflect the relative level of any mandatory deferral triggers.

Some types of hybrid instruments contain dividend pusher or look-back provisions that prevent the obligor from deferring coupon payments for a specified period of time (e.g. six months or up to one year) after a certain event has occurred (such as the payment of a coupon on a junior or pari passu debt instrument, or a dividend on common equity). In general, such payment flexibility restrictions would have no additional impact on the ISR, as these features only delay, rather than prevent, the skipping of payments.

3.3 Additional Notching Considerations and Deviations

Due to the limited number of notches on the rating scale, when the reference point of the obligor is below 'bb-', we may deduct fewer notches than indicated by our standard notching to determine the ISR.

We would also tend to deviate from our standard notching when impairment risk is very high. This could be because the contractual trigger level is close to being reached, or because there is a high risk of coupon cancellation/deferment (e.g. because the issuer is close to breaching regulatory or contractual conditions for continuing payments). In such cases, the ISR is likely to be at very low levels.

The activation of a hybrid instrument's cash conservation or loss-absorption mechanism would normally result in its credit rating being lowered to 'D'. We may, however, deviate from this approach if the instrument contains cumulative payment deferral provisions and we expect the following: (a) deferred payments to be temporary and fully remedied within 12 months in accordance with the terms; and (b) subsequent payments to be made on time. In such cases, the ISR would likely be lowered to 'B' range or 'CCC' range upon deferral, depending on our assessment of the likelihood that arrears will not be cured within the time period.

4. Issue Ratings for Sukuk

4.1 Scope

Sukuk are financial instruments – often issued in the form of trust certificates – that are designed to conform with the principles of Islamic finance. This is achieved through a link to identifiable assets, at least formally, and the use of one or more of a number of Sharia-compliant transaction structures.

In practice, the relationship between sukuk payments and the economic performance of the underlying assets can vary from relatively weak to reasonably strong depending on the commercial and legal structure. Accordingly, the economic substance can vary from unsecured originator risk (similar to conventional bonds) to genuine asset-backed risk transfer (akin to securitisation).

These criteria apply to originator-backed (asset-based) sukuk issues and not to asset-backed (securitised) sukuk. The criteria are intended to support consistent treatment across issuers, sectors, and structures by focusing analysis on the true source of repayment, the legal and contractual allocation of risk, and the extent to which the instrument behaves, in economic substance, like conventional senior unsecured, subordinated or hybrid instruments, where the payment of principal and interest is driven by the credit risk of the obligor.

The sukuk type is generally a secondary consideration in our analysis because, in our view, the contractual structure – ijara, murabaha, wakala, mudaraba, musharaka, etc – is not in itself a key determinant of credit risk, and credit risk can be driven by the performance of different parties (e.g. the originator, asset pool, guarantors) within instruments carrying the same structural name. Indeed, transactions of the same structural type can have marked differences in legal underpinnings and asset recourse, as well as contrasting exposure to the performance risk of the sukuk assets.

Moreover, we do not assess whether the rated sukuk is Sharia-compliant. This is usually the responsibility of the Sharia committee of the parties or advisers to the transaction. Our analytical focus is primarily on the likelihood of the originator ensuring that the sukuk is serviced in full and on time.

4.2 Senior Unsecured Sukuk

The senior unsecured sukuk we rate are generally asset-based transaction structures under which sukuk holders have an undivided (beneficial) ownership interest in the underlying assets (or the right to use and benefit from the assets) until maturity, but legal ownership remains with the originator. The sukuk assets do not constitute collateral, and sukuk holders are ultimately reliant on the originator's fulfilment of its contractual obligations for payment of periodic distributions (akin to coupon payments; interest is prohibited in Sharia) and repayment of principal at maturity or dissolution. While recourse to the issuer is usually limited to the relevant trust assets and their proceeds, sukuk holders have direct recourse against the originator to recover payments due under the transaction documents.

In a typical structure, the issuer is a special purpose vehicle (SPV), established by the originator to achieve a Sharia-compliant funding arrangement using the issuance proceeds. The issuer issues the sukuk certificates, purchases the underlying assets, and routes cash flows. However, credit risk resides with the originator in its capacity as obligor (pursuant to a purchase undertaking to buy back the sukuk assets) and as the source of funding for the payment of periodic distributions.

The ISR of a senior unsecured sukuk is set at the same level as the ICR of the originator provided the following conditions are met:

(i) The issuer's ability to fulfil its payment obligations to sukuk holders ultimately depends on the originator (in its capacity as the obligor) honouring its payment commitments to the issuer under the transaction documents.

(ii) The originator's payment obligations constitute unsecured and unsubordinated obligations and rank pari passu with its other unsecured and unsubordinated financial obligations.

(iii) The originator's contractual obligations provide for full and timely payment of periodic distributions and face amount (principal). In the sukuk we rate, the latter is typically achieved through a purchase undertaking for the originator to buy back the underlying assets at a price (redemption or exercise price) that covers the principal due as well as any periodic distributions outstanding at maturity (the dissolution distribution amount).

Lease, profit or other payments linked to sukuk assets are usually calibrated to ensure the issuer is able to fully meet periodic distributions to sukuk holders. However, under some structures, there is no obligation for the originator to cover any shortfall between the income from portfolio assets and the scheduled periodic distribution amount. Such structures would still be rateable – with the ISR linked to the originator's ICR – provided the following hold:

(a) Full or partial non-payment of periodic distributions triggers the early dissolution of the sukuk under the transaction documents; and

(b) In such an event the originator is contractually obligated to repurchase the assets at a price that covers the face amount plus any unpaid periodic distribution amounts.

Our general assumption is that the originator would likely make up any shortfall in such cases (although not legally obligated to do so) in order to avoid an early dissolution and the acceleration of payments. Failure to ensure timely repayment in the event of early dissolution would constitute a default under our criteria.

4.3 Secured Sukuk

Most sukuk are unsecured transactions where the underlying assets exist to support periodic payments rather than to enhance credit quality by strengthening recovery prospects in the event of a default. Transaction documents do not generally require that any steps be taken to perfect the legal transfer of the sukuk holders' ownership interest in the sukuk assets.

Sukuk may, however, be formally secured, either through a structure that provides sufficient security over the sukuk assets, or via the addition of a security package comprising specific assets different from the sukuk assets.

Secured sukuk are rated taking into account the considerations set out in 2.3(i) and (ii) as well as in 4.2 above. This means that, in general, the ISR of a senior sukuk that is secured with specific assets will generally be one notch above the originator's ICR, provided that collateral cover is of sufficient quality and value to render full recovery of principal likely within 24 months from the date of default. In jurisdictions where the ability of sukuk holders to enforce and realise transaction security is untested, legal uncertainty may militate against any uplift for collateral.

4.4 Subordinated and Hybrid Sukuk

If a sukuk is structured as a subordinated instrument or hybrid capital, the analytical considerations and notching criteria set out in 2.2 and 3.2 above will apply, provided credit risk and impairment risk (if relevant) reside with the originator. As above, this requires that the issuer's ability to honour payments due on the instrument ultimately depends on the originator fulfilling its unsecured payment obligations to the issuer under the transaction documents.

This means that, in general, the ISR of an ordinary subordinated sukuk will be one notch lower than the reference rating of the originator, while the ISR of a hybrid sukuk may be notched down further (by one

or more grades) for impairment risk if the instrument has any going concern loss-absorption features (e.g. periodic distribution deferral).

4.5 Guaranteed Sukuk

If the obligations of the originator are guaranteed by another party (e.g. its parent company), the considerations set out in 2.4, including with regard to timelines and enforceability, would apply.

In general, the sukuk ISR will be in line with the guarantor's ICR provided the guarantor's obligations under the guarantee provide for full and timely repayment if called and rank equally with its other senior unsecured obligations.

5. Deviations from the Criteria

The criteria presented in this paper applies in most circumstances, but cannot cover all possible scenarios or structural features. Rating committees may deviate from the standard notching guidelines, where appropriate, taking into account the specifics of the particular issue, the complexity of the corporate legal or organisational structure (which, for example, may obscure standard priority rankings), and the circumstances of the obligor (for example, we may have greater visibility about relative recovery prospects when default risk is high).

In addition, given the limited number of notches on the rating scale and non-linear relationship between default risk and rating grades, we may deduct fewer notches than indicated by the guidelines in cases where the reference point of the obligor is below 'bb-'.

Deviations from criteria and the specific analytical rationale behind them will be fully disclosed in the published rating rationale.

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