
S&P Global Ratings

Policy: Model Governance
Date: 23 May 2016

Policy Statement

This Policy provides model governance for models that:

- i. Are used in the process of determining a Credit Rating in accordance with Criteria (“Ratings Models”)
- ii. Are complex models that are based on advanced economic, financial, mathematical or statistical methodologies used in the development of Criteria (“Criteria Models”)
- iii. Derive insight into market views on credit quality or the economic environment which may be used by Analysts to prioritize credits for review, but are not used in determining a Credit Rating (“Market Intelligence Models”)
- iv. Are made available externally (“S&P Global Ratings External Models”)

Ratings Models, Criteria Models, Market Intelligence Models and S&P Global Ratings External Models are collectively referred to as “Covered Models.”

S&P Global Ratings considers a model to be a quantitative method, system or approach that applies statistical, economic, financial or mathematical theories, techniques, and assumptions to process input data into quantitative estimates. A model also includes quantitative approaches whose inputs are partly or wholly qualitative or based on expert judgment, provided that the outputs are quantitative in nature.

A model consists of three components:

- i. An information input component, which delivers assumptions and data to the model;
- ii. A processing component, which transforms inputs into estimates; and
- iii. A reporting component, which translates the estimates into useful business information.

S&P Global Ratings’ Governance requirements apply to Covered Models developed internally or by third parties and vary in line with the risk presented by the model. S&P Global Ratings allows for dispensations from policies in certain circumstances. S&P Global Ratings’ model governance process encompasses Covered Model development, implementation, validation, approval and use, as well as model risk tiers (assessed as high, medium or low model risk) and management of the S&P Global Ratings Model Inventory. Use of Covered Models is governed by the Model Use Policy. All Ratings Models are to be submitted for approval to the Board of Managers of Standard & Poor’s Financial Services LLC (the “Board of Managers”) in a manner that is consistent with applicable policies and procedures.