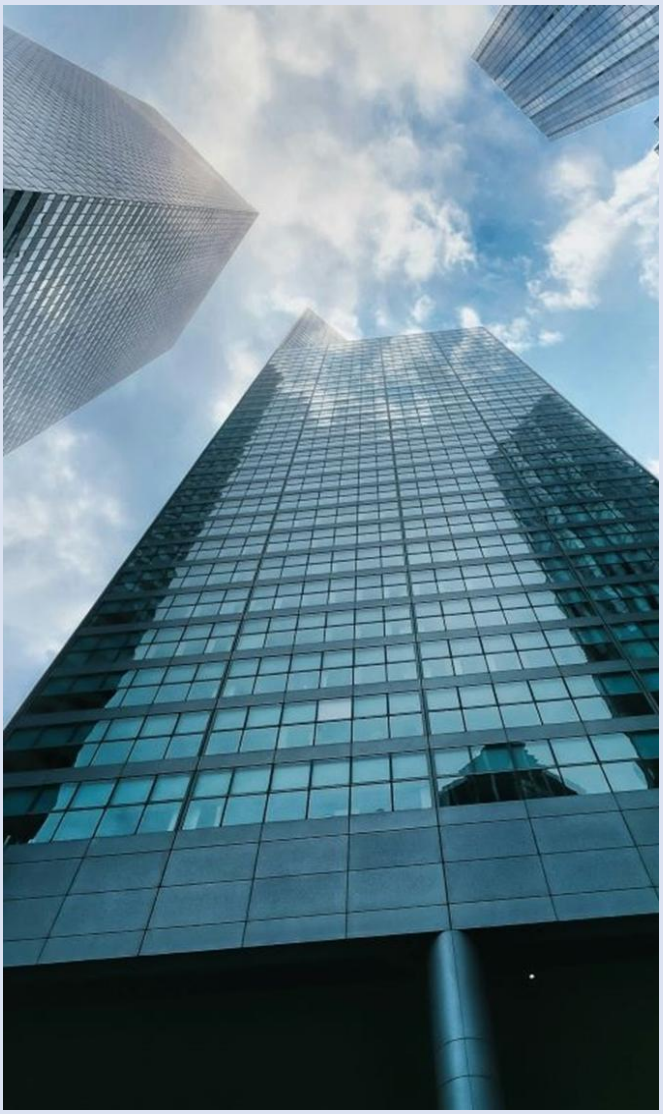


LONGFORD RATINGS REPORT

Oil & Gas Regulatory Changes:
Credit Ratings in Proposed New Rules

May 12, 2026

Table of Contents

01

SUMMARY

Longford has undertaken an extensive review of the credit dynamics in the Exploration & Production subsector of the U.S. Oil & Gas industry to identify credit risk patterns and determine how and where NRSRO rating agency analyst-driven ratings (Issuer Credit Ratings or "ICRs") are different from purely data-driven financial model results or market-implied credit sentiments.

We believe that use of NRSRO ratings remains the most robust path to determine an entity's creditworthiness and approach strategy to capture expected credit risks for investors, lenders, and counterparties. However, a standalone point-in-time financial data model with the right adjustments for relative business risk can serve as a sufficiently good credit filtering tool.

The financial data centered proxy rating approach, while not as predictive of credit quality as analyst driven credit ratings, does have clear utility - notwithstanding the limitations – and as such can be a practical analytical solution.

Furthermore, the proposed lowering of the credit rating threshold to the targeted level introduces an additional credit risk dynamic. Companies "qualifying" under the proposed rules may have materially higher risk profiles and default probabilities than the current construct. The credit risk distance from the current low Investment Grade threshold to "Low Double-B" in the Speculative Grade (High Yield) risk category is significant.

The proposed change in credit risk thresholds could materially increase the amount, relative size, and diversity of candidates seeking to participate in the new structure. The new construct could also potentially stimulate cases of currently higher-rated firms to reassess their financial policies and move to a lower credit quality to take advantage of a new higher allowed risk threshold.

Moreover, an unintended consequence could emerge that would put the Regional Director in the complicated position of having to opine on the creditworthiness of a potentially large number of often complex candidates without the proper tools or staffing to conduct a proper analysis - armed only with current financial statements.

Longford recommends that at the very least the Regional Directors who would be tasked with computing a candidate's proxy rating consider a broader array of credit rating tools and strategies beyond point-in-time financial statements, perhaps aided by industry experts in Oil & Gas financial statement and forecasting analytics.

02

PROJECT IMPETUS

The United States Bureau of Ocean Energy Management (BOEM) is proposing to amend its risk management and financial assurance regulations for Outer Continental Shelf (OCS) oil, gas, and sulfur lessees, right-of-use and easement (RUE) grant holders, and pipeline right-of-way (ROW) grant holders.

The proposed rule update would retain the 2024 Final Rule's framework of using an issuer credit rating (ICR) from a Nationally Recognized Statistical Rating Organization (NRSRO) - such as S&P, Moody's, and Fitch - as the primary tool for evaluating financial health. However, the proposed rule update would allow unrated entities to request that the Regional Director determine a proxy for a credit rating (or "proxy rating") based on audited financial statements for the most recent fiscal year, including an income statement, balance sheet, statement of cash flows, and auditor's certificate.

A central element of the proposal involves revising the credit rating levels to determine whether companies must post supplemental financial assurance above the base bond amount. The proposed rule change would not only **lower the credit risk threshold** at which supplemental financial assurance is required but also allow a more abbreviated or limited credit risk review that relies on only point-in-time financial statements.

The proposed rule change would also effectively **increase overall credit risk** by expanding the number of participating companies and heightening the need to identify entities that may have negative projected financial prospects and stability issues.

- ➔ **Current rule (2024 Final Rule):**
  - ‘BBB−‘ (S&P) / ‘Baa3’ (Moody’s) – which is in the “Investment Grade” category.
- ➔ **Proposed rule:**
  - Lower the rating threshold to ‘BB−‘ (S&P) / ‘Ba3’ (Moody's) – which is below investment grade ("Speculative Grade” or “High Yield”).

Longford used the “Federal Register, Vol. 91, No. 45, Monday, March 9, 2026 - Proposed Rules” – as a primary reference. A link to this reference is provided in the Appendix.

03

IDENTIFYING SOLUTION PATHS

3-1. Primay Options

The Regional Directors have a wide array of credit analytical tools and reference points to consider utilizing beyond a point-in-time analysis of current financial statements. In the table below, we rank key illustrative approaches that can benchmark a company's creditworthiness - in order of historical accuracy, relevance, and market credibility.

Illustrative Available Rating Options Ranked	
1. Public or Private NRSRO rating (analyst and rating committee led formal credit opinion)	Broadest capture of risk elements and projected credit performance - produces highest credit risk decision making utility - but has cost, time, and execution complexity considerations
2. Algorithm/Credit Model rating proxy score	Exposed to narrower capture of risk drivers than full ratings – and is less predicative of projected credit quality and loss in the event of default
3. Capital markets data derived implied rating	Wide range of capital markets data-based risk indicators, such as bond and loan pricing reference points, CDS (credit default swaps) pricing, the market signals scores in Capital IQ, trade payables/counter-party risk implied ratings, and commercial bank internal credit scoring models like RAROC (risk-adjusted return on capital) models are available – but each has limitations and/or access considerations
4. Analysis of current financial statements	Least robust credit analysis approach has critical issues including the point-in-time nature of the data, year-over-year and peer-to-peer comparability challenges – as well as identifying the right analytical methodology to utilize

Source: Longford CRA, May 2026

3-2. Best overall approach – analyst driven NRSRO credit ratings

In addition to incorporating decades of industry, ratings and default data in their analysis, NRSRO opinions consider a wide range of largely subjective considerations including management quality, growth strategy, governance, and risk tolerance into the analyst and rating committee judgment that drives a rating result. The final rating opinion involves deliberate discussions in rating committees comprised of senior analysts with long-tenured industry and credit experience.

3-3. Next best approach – algorithm/data model driven outputs to proxy a NRSRO rating

A viable alternative to full ratings is a proxy rating score, such as provided by S&P's Capital IQ data service. Capital IQ provides a "RiskGauge Score" which can be an effective proxy rating. This score has important limitations which we discuss later in this report, but with adjustments to the model – we find that it could provide an effective solution.

While credit risk scores derived from only financial data tend to capture a narrower spectrum of credit risk than ICRs, are less predictive of expected financial and operational behavior, have a lower correlation with ICRs, and require training for effective use - there are key advantages.

The model-based proxy rating approach benefits include speed of results, generally lower costs than obtaining a rating, no company management consultation nor company time invested, and less information required than a full rating.

3-4. Other approaches are market data related or point-in-time and are less compelling for this application

Credit professionals utilize various market-based mechanisms (in addition to financial statement analysis) to impute a near-term credit picture. While these results may give the most up to date picture, and in many cases can signal the proverbial "canary in the coal mine" for detection of distressed situations, these methods are generally subject to the highest levels of potential error rate and volatility in predicting credit strength, default probabilities, and expected recoveries (or severity of loss).

We believe that imputing a rating based on the subject company's financial markets observed data offers the most limited perspective on credit risk of the available alternatives, and in our view is insufficient to fully capture true credit quality and projected financial performance of the subject companies. While this is the most convenient of the available alternatives, it is fraught with the most concerns about projecting future creditworthiness.

3-5. Best path recommendation

In our opinion, NRSRO ratings remain the most effective alternative to assess an entity's long-term creditworthiness. Financial decisions that require a robust view of projected credit behavior or involve large investment amounts to be funded in the capital markets require the expected credit performance path (and risk of loss estimate) best captured by an NRSRO rating.

However, standalone point-in-time financial data models with the right adjustments for relative business risk can serve as adequate credit filtering tools - notwithstanding the limitations - and as such offer a practical analytical solution.

04

FRAMEWORK & CONSIDERATIONS

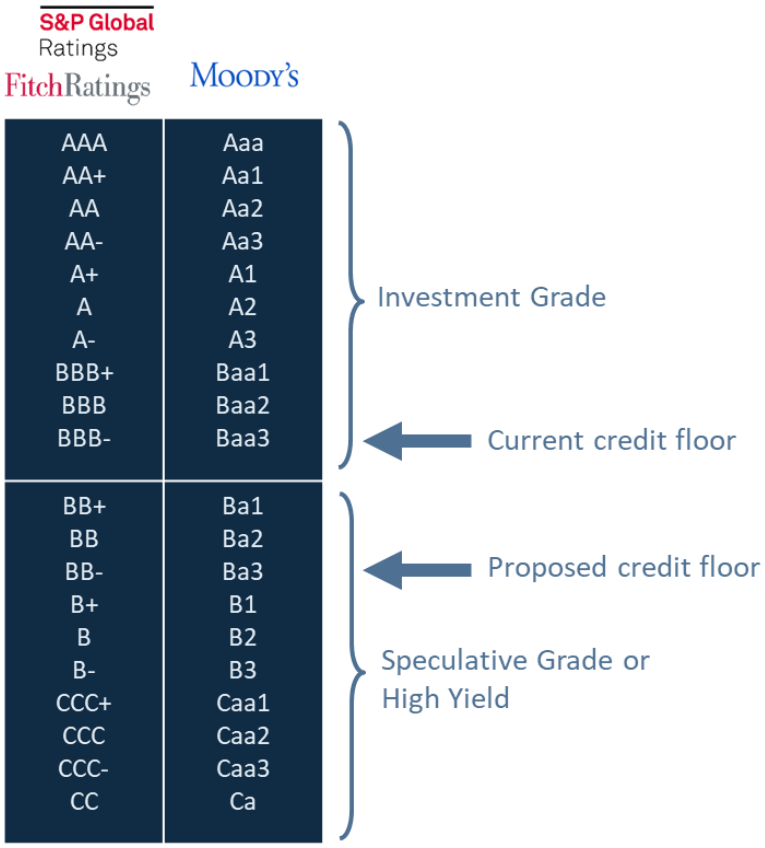
4-1. Investment Grade versus Speculative Grade (High Yield)

The widely used rating agency scales developed by S&P (Standard & Poor's) and Moody's Investors Service (now called Moody's Ratings) have been developed over more than one hundred years and is the de facto standard system in the credit risk analytical environment. Fitch uses the same scale and symbols as S&P – as does KBRA (Kroll).

We highlight that the proxy rating threshold being considered in the new rule is meaningfully lower than the current 'Baa3/BBB-' level which is the edge of Investment Grade. The Investment Grade category represents a risk level that is often required by many institutional investors for regulatory or policy requirements and helps identify stable, high-quality debt securities.

The proposed new level of 'Ba3/BB-' is in the Speculative Grade (or High Yield) category. Companies rated in the lower end of the "Double-B" category are often financially viable but may not necessarily demonstrate consistent financial stability.

Exhibit 1: Reference: proposed new rating breakpoints on the credit risk scale



Source: Longford CRA, May 2026

4-2. Differences between unadjusted proxy rating scores and analyst driven ICRs

In essence, point-in-time financial model generated proxy rating scores capture almost no qualitative data – without the user making critical qualitative adjustments.

A wide range of largely subjective considerations including views on management quality, governance, and risk tolerance, for example, are crucial factors incorporated into the analyst and rating committee judgment that drives a rating result. The final rating opinion in an ICR involves deliberate discussions in rating committees comprised of senior analysts with long-tenured industry and credit experience.

The analyst driven comprehensive approach seeks to avoid misjudging companies in their projected financial performance.

Proxy scores based on a limited set of financial data, on the other hand, can have a deficiency in risk capture and produce ratings scores that are often too high or too low, as shown in Exhibits 2 and 3. This lower scope of information included in the unadjusted or "raw" proxy rating result produces a divergence in expected credit quality and relatively low correlations with analyst-led ICRs.

S&P research notes that in the North American energy sector ***only 22% of its unadjusted Capital IQ data-based credit model scores have an "exact match" with analyst driven ratings and only a 64% match within 1-notch.***[1]

It is also important to note that the Capital IQ data services (which generate the proxy rating scores) are part of an organizationally and editorially separate unit from S&P Global Ratings - where rating analysts assign the ICRs and security level bond ratings used in the debt capital markets and for other credit risk applications.

We also highlight that the Capital IQ credit models do provide users with some functionality to alter the quantitative and qualitative inputs (making adjustments). But managing this process properly requires model training and extensive financial and industry understanding. Also recall that the unadjusted data model's inputs (and resultant outputs) are backwards looking with limited ability to forecast future performance.

Section 5 discusses the "gaps' between these two ratings approaches in more detail.

4-3. The proxy rating score and ICR have different objectives and roles

Beyond risk capture, a core difference between the analyst driven ICR and proxy scores is how these two approaches are applied in the marketplace. The ICR provides both an

[1] S&P Global Market Intelligence, Credit Model 3.0, Performance Validation Study, July 2025.

assessment of current credit risks, and an opinion on a company's ability to meet its upcoming financial obligations and investor or lender recovery in the event of default.[2]

The utility of an analyst driven ICR to provide an opinion on default probability and a company's likely behavior under financial distress is an essential element in credit management and loss mitigation. Conversely, the RiskGauge score's "Probability of Default Model Fundamentals" (PDMF) indicator in the proxy rating model is less predictive and correlates to only 19% of ICRs and only 50% within 1-rating notch. [3]

In the absence of a report comparing the long-term default performance correlation between proxy model PDMF scores and ICRs, and given the historically robust performance of S&P's bond default studies, we are inclined to believe that a RiskGauge proxy rating score, while useful, will not be as predictive of financial distress as an analyst driven ICR.[4]

We have also observed that unadjusted RiskGauge proxy rating scores in the Energy sector have the lowest correlations to assigned ratings of all corporate sectors in S&P's rated universe.

05

GAPS IN RATING OUTCOMES BETWEEN APPROACHES

5-1. Drivers of gaps between proxy rating scores and ICRs in the targeted peer group

A core factor influencing analyst driven ICRs is often the relative size of a company, but even more so in the Oil & Gas sector. The importance of operational scope & scale can enable an entity with a favorable relative size profile but weaker credit ratios to have a higher overall rating. In the same way, a smaller company with superior credit ratios may have a lower rating. *This "size" factor is difficult to capture in a data-driven static model.*

[2] S&P Global Market Intelligence, "An Expanded Probability of Default Framework 2.0", White Paper, January 2025.
[3] S&P Global Market Intelligence, "RiskGauge Model 2.0", White Paper Version 2.0, May 2025; and S&P CreditModel (CM) Corporates – Performance Validation Study, July 2025.
[4] S&P Global Market Intelligence, Default, Transition, and Recovery: 2025 Annual Global Financial Services Default and Rating Transition Study, April 2, 2026.

Credit risks can be over or understated in the absence of adjusting revenues for growth trajectory and expected profitability. A revenue ranking scale in a proxy model would also need to be linked to earnings and cash flow.

Beyond relative size considerations, key areas where adjustments should be made to a proxy rating model include:

1. Competitive quality of the company's asset and production base -
   - Specifically, for E&P companies – factors such as rock quality, operating basin, take-away options, cost structure, and regulatory considerations are critical drivers of higher (or lower) business profile scores.

2. Point-in-time nature of the proxy score -
   - As previously discussed, a company with a currently strong (or weak) relative position can "outperform" or "underperform" its proxy rating score particularly for an entity that is experiencing rapid recovery or decline over recent quarters.

3. Ownership structure -
   - The ownership and control structure of a company can drive capital management strategies, risk posture, and overall governance – which are important risk elements
   - We have observed different approaches to funding strategies and risk management policies between public and private companies as well as between domestically held and offshore owned or foreign controlled entities.
   - The ownership and governance factors can be highly subjective and require an experienced sector analyst to determine relative risk levels.

4. Organizational complexity -
   - Firms with large operating structures and subsidiaries can be more challenging to accurately score in a data model - in terms of pinpointing which level in an organization is driving the financial performance (and exposures).
   - This includes how joint ventures and investments, for example, are treated.
   - A related point is the financial (or funding) structure of the firm and financing strategies which can create effective and/or legal subordination of claims.

5. And clearly, rating gaps tend to be narrower in cases where the company has a current ICR to complement the proxy score – with the opposite in cases where there is no public (or private) ICR.

5-2. Weak correlations between ICRs and proxy scores across the industry sample

Our credit rating review of companies with current or potential activity in the Gulf of America not surprisingly reveals a highly disparate group that ranges from the global majors to smaller, lower rated entities.

The selected sample shown in Exhibit 3 below reveals significant gap patterns (low correlation) between the analyst driven ICR ratings and unadjusted proxy rating scores.

We have highlighted the critical 'bb-' break-point level identified in the proposed regulation. One interesting note is the lack of good credit comparables at this 'bb-' level which have public ratings. We find that companies in this sector tend to have ICRs higher or lower than BB- (except for Crescent Energy).

A critical caveat to the ratings data shown in this report is that ratings can frequently change and these reference points are point-in-time.

Exhibit 2: Weak correlation between analyst driven ratings and unadjusted RiskGauge scores

No.	Company Name	S&P Rating (ICR)	Moody's Rating (CFR)	S&P Risk Gauge Score	Risk Gauge vs ICR	Comment
1	Chevron Corp	AA-	Aa2	a-	-3	Significant negative variance in RiskGauge (Proxy) rating
2	Woodside Energy (AUS)	BBB+	Baa1	bbb	-1	Australian operator with potential GOA exposure with BHP's petroleum group
3	Occidental	BB+	Baa3	bbb	+2	Proxy rating reasonably close to full credit ratings
4	Shell USA Inc.	A+	Aa3	bbb-	-5	US subsidiary of a Major; Substantial negative variance in proxy rating
5	BP Corporation NA	A-	A2	bbb-	-3	Significant negative variance in proxy rating
6	Petrobras International	BB	Ba1	bb+	+1	Non-US ownership; proxy rating reasonably close to full ratings
7	Murphy Oil	BB	Ba2	bb+	+1	Proxy rating reasonably close to full ratings
8	Chord Energy	BB	Ba1	bb+	+1	Proxy rating reasonably close to full ratings
9	California Resources	B+	Ba3	bb+	+3	Significant positive variance in proxy rating
10	Sandridge Energy Inc.	NR	NR	bb	+/-	Selective Default (SD) in 2015 and 2016 Bankruptcy - full rating highly uncertain
11	Crescent Energy	BB-	Ba3	bb-	0	Proxy rating in line with Credit ratings
12	Flywheel Energy	NR	NR	bb-	+/-	**Only proxy rating but comparable to SM Energy ('BB' ICR from S&P)**
13	Fieldwood Energy	NR	NR	bb-	+/-	**Proxy rating very high for a company that filed for Bankruptcy in 2020**
14	Cantium Energy	NR	NR	bb-	+/-	**Full rating likely lower than proxy due to the Privage Equity ownership discount**
15	Talos (Offshore)	B	B2	b+	+1	Good sector comparable with proxy rating reasonably close to full rating
16	Navitas Petroleum	NR	NR	b+	**+/-**	Traded on TASE; parent has 'BBB' (Israel), which is not directly comparable to US scale
17	LLOG Exploration	NR	NR	b+	**+/-**	Unrated private subsidiary of 'BBB/Baa2' rated Harbor Energy; proxy score was 'b+'
18	Houston Energy LP	NR	NR	b+	**+/-**	Private operator with exposure to GOA; unrated with only a proxy rating
19	Hilcorp Energy	BB+	Ba1	b+	-3	Non-traditional E&P; Significant variance in Proxy rating
20	Beacon Offshore	NR	NR	b+	**+/-**	Privately owned by Blackstone; exposed to Private Equity rating discount

Source: Longford CRA, May 2026

5-3. Case studies of rating gaps between the model approaches

We offer three illustrations of gaps between the unadjusted proxy rating approach and the analyst-led ICR – with two companies having the same 'bb+' RiskGauge proxy rating score but markedly different ICR results – and a company with a significantly lower unadjusted proxy rating score than its higher ICR. Recall that the basic RiskGauge score that S&P's Capital IQ provides is unadjusted for business risk considerations.

Exhibit 3: Examples of gaps between unadjusted RiskGauge proxy rating scores and ICRs

					RiskGauge Score Building Blocks (Weights)								
No.	Company Name	S&P Rating (ICR)	S&P Risk Gauge Score	Risk Gauge vs ICR	Market Signal Weight	Model Assigned Risk Level	Implied Rating	Probability of Default	Model Assigned Risk Level	Implied Rating	Credit Model Score	Model Assigned Risk Level	Implied Rating
1	Murphy Oil	BB	bb+	+1	42%	Moderately High	bb	34%	Intermediate	bbb	24%	Moderately High Risk	bb+
2	California Resources	B+	bb+	+3	37%	Moderately High	bb+	41%	Moderately High	bb	22%	Intermediate	bbb-
3	Hilcorp Energy	BB+	b+	-3	14%	Moderately High	bb-	86%	High	b+	NA	Very High	ccc+

Source: Longford CRA, May 2026

Murphy Oil is a good example of a company whose ICR and unadjusted proxy rating scores are generally in sync. However, the proxy score model assigns Murphy a much lower probability of default than the ICR. S&P Ratings (analyst side) cite exposures to cyclicality and needs for increased capital investments, which could "stress Murphy's balance sheet and increase long-term risk".[5] This opinion is not captured in Murphy's 'bbb' probability of default proxy score.

California Resources (CRC) currently benefits from higher (than its ICR) observed market signal and financial model output scores in the unadjusted proxy rating model. This is largely driven by a highly supportive macro environment which has significantly elevated current margins and cash flows for this company. The analyst rating opinion takes a longer-term view and as a result is 3 notches lower at 'B+' than the 'bb+' unadjusted proxy score.

CRC's public 'B+' ICR rating also takes the company's high-cost structure and the need for "above mid-cycle" commodity prices to sustain free cash flow into consideration. Additionally, CRC's public rating is constrained by its presence in California, a highly regulated and environmentally restrictive state. These factors are not adequately captured by the unadjusted RiskGauge proxy rating score.

Hilcorp Energy offers an example of a 3-notch upward variance for the ICR ('BB+' versus 'b+' proxy). This gap is primarily due to very weak current financial data scores. Hilcorp has currently elevated leverage metrics primarily due to their debt funded recent acquisitions – with close to $3 billion in Permian Basin and Alaska North Slope new asset purchases.

The issue here is that the unadjusted RiskGauge score does not include the qualitative benefit of Hilcorp's positive track-record as a disciplined operator and management's demonstrated financial policies around balance sheet recovery and risk management.

These considerations help support a significant notch-up to a 'BB+' ICR and the edge of Investment Grade.

[5] S&P Global Ratings, Murphy Oil Corp, RatingsDirect, April 12, 2024.

5-4. Potential implications for review candidates

With the broad E&P operating landscape largely unrated, the BOEM may be approached to assign credit risk positions on companies that have no public or private credit rating nor recent proxy scores.

As discussed in this report, we believe there are important operating characteristics and conditions which should be factored into any proxy rating score assessment.

In absence of those critical adjustments – use of a financial data only and point-in-time model could result in wide proxy gaps to an ICR, which seeks to take a forward view and capture a projected 18–24-month position.

Exhibit 4 below provides an illustration of risk of gaps for companies with high ICRs but may have a temporary financial shift – as seen in the Hilcorp case above.

Shell USA Inc. (Aa3/A+ ratings), for example, has a current unadjusted proxy rating (RiskGauge Score) of 'bbb-', which is 5-notches lower than its ICR and at the lower edge of Investment Grade. Interestingly, when adjustments for "management and governance, financial policy, and parental support" are made – the RiskGauge score moves to 'a' or only 1-notch below the actual 'A+' ICR rating.

Similarly, **Chevron** (Aa2/AA- ratings) has a raw unadjusted RiskGauge Score of 'a-', which is 3-notches lower than its ICR. But when adjustments similar to the Shell case are made – the RiskGauge score moves to 'aa-', which is the same as the ICR rating.

Exhibit 4: Proxy score challenge: very large firms and unrated candidates

Source: Longford CRA, May 2026

On the reverse side is **Occidental Petroleum** which has cross-over Investment Grade/Speculative Grade 'Baa3/BB+' analyst-led ratings, but a 2-notch higher unadjusted RiskGauge score of 'bbb'. In this case, making the key business and operating risk adjustments results in the RiskGauge rating still higher at 'bbb-', but it moves the proxy rating to the same level as Moody's - and Investment Grade. The additional risk considerations in the S&P analyst-led opinion pushes Oxy's ICR to below Investment Grade.

For unrated companies like **Renaissance Offshore, Walter, and Red Willow** – the proxy rating score outcome could also be exposed to gaps - in the absence of applying adjustments to the point-in-time financial data model.

06

PROXY RATING APPLICATION

6-1. Proxy rating scores have advantages but also critical disadvantages

The key advantages of a RiskGauge proxy rating approach revolve around the productivity benefits of an essentially AI driven data service. Benefits include:

- ✓ Speed of results
- ✓ Ease of results generation (with some training around inputs and outcome testing)
- ✓ Cost limited to subscribing to the Capital IQ service package
- ✓ Extensive data generation and information around the proxy (RiskGauge) score
- ✓ No company management consultation nor company time invested
- ✓ Less information required than a full rating

However, there are notable disadvantages to the data-driven approach which relate to the lack of critical adjustments and missing elements, such as:

- ↓ Point-in-time nature of the data that does not account for recent or expected changes in a firm's financial position or reporting – including projected financial stability (or lack thereof)
- ↓ May not capture important information and perspectives on the macro environment and geopolitical issues
- ↓ Exposure to misreads of financial statements (risk of potential error rates)
- ↓ Cannot account (or adjust) for organizational structures, management strategy, financial policies, cost of capital, and governance considerations
- ↓ Lack of durability – as a point-in-time and essentially backwards looking indicator
- ↓ May require extensive training and qualified financial personnel to run the models effectively and to judge results

6-2. Alternatives to proxy rating scores and ICRs

Beyond ICRs and RiskGauge proxy rating scores, debt market participants have access to a wide variety of risk assessment alternatives to impute credit risk including:

- Payment (payables) track records and counter-party risk history
- Bond pricing implied ratings
- Credit Default Swaps (CDS)
- Equity related market signals
- Structured or project finance related ratings.
- Internal credit scoring models used by commercial banks such as RAROC (risk adjusted return on capital) models
- Foundation Internal Ratings-Based (F-IRB) used by banks primarily for measuring and managing regulatory capital requirements

But these alternatives may not be relevant for this particular application or are subject to similar limitations and results volatility as the proxy rating score approach, especially when applied in the highly cyclical E&P sector.

Conclusion

Our opinion is that NRSRO ratings remain the most effective approach to assess an entity's long-term creditworthiness and capture the broadest set of expected credit risks for lenders, investors, and counterparties.

However, standalone point-in-time financial data models with the right adjustments for relative business risk can serve as adequate credit filtering tools - notwithstanding the limitations - and as such offer a practical analytical alternative.

Nonetheless, BOEM Regional Directors, who are tasked with computing a candidate's proxy rating may see advantage in considering a broader array of credit rating tools and strategies beyond point-in-time financial statements, perhaps aided by industry experts in Oil & Gas financial statement and forecasting analytics.

Please see the following Appendix for connected details, discussion, as well as important disclosures and regulatory disclaimer.

07

APPENDIX

7-1. Additional RiskGauge Score considerations and subjectivity of "risk" labels

The Capital IQ RiskGauge report generated scores provide a "risk' category with each proxy rating. The risk assignment methodology is theoretically linked to ICR risk scales, but it is unclear how specific categories were set.

As shown in Appendix Exhibit 4, RiskGauge scores between 52-43 (on a 100-1 scale with a high score representing the highest rating and lowest risk score), for example, map to the *"Moderate Risk"* category with 'bb+' and 'bb' proxy ratings. But moving one score point down to 42 is still in the Double-B category with the grid mapping to 'bb-'.

However, the risk level shifts to *"High Risk"*. A move to such a higher risk score would usually be associated with a shift to the **'Single-B'** category, not to the low 'Double-B' level. For ICRs, the risk categories are more nuanced and finely tuned.

In Exhibit 5 below, note the significant shift in the RiskGauge proxy score risk category at 'bbb-' with "Intermediate Risk" and a minimum of a 53-point score to "High Risk" at the 'bb-' level and a score of 42-39.

The "downgrade point" from the 'bb-' score level to the 'b+' score range of 38-34 raises questions around the differences in credit quality between proxy scores of 39 and 38. With the new rules, a company with a 38 score would not qualify for consideration.

Exhibit 5 below provides a grid with the relative RiskGauge scores and connected proxy ratings and relative risk levels.

Exhibit 5: Proxy and rating score mapping

Credit Score	Credit Model Score (100-1)	Risk Category (1-9)	Risk Category	
aaa	100-96	1	Very low risk	
aa+	95-91	2	Very low risk	
aa	90-86	2	Very low risk	
aa-	85-81	3	Low risk	
a+	80-77	3	Low risk	
a	76-72	4	Low risk	
a-	71-67	4	Low risk	
bbb+	66-62	5	Intermediate risk	
bbb	61-58	5	Intermediate risk	
bbb-	***57-53***	***5***	***Intermediate risk***	***Current credit floor***
bb+	52-48	6	Moderately high risk	
bb	47-43	6	Moderately high risk	
bb-	***42-39***	***7***	***High risk***	***Proposed new credit floo***
b+	38-34	7	High risk	
b	33-29	7	High risk	
b-	28-24	8	Very high risk	
ccc+	23-20	8	Very high risk	
ccc	19-15	9	Very high risk	
ccc-	14-10	9	Very high risk	
cc	9-5	9	Very high risk	
c	4-1	9	Very high risk	

Source: S&P Global Market Intelligence. As of May 2023.

7-2. Further details on Capital IQ, Capital IQ Pro, and RiskGauge scores

S&P's Capital IQ and Capital IQ Pro services provide extensive credit data sets and analytical models. When S&P launched its "Visible Alpha" feature on Capital IQ pro on March 25, 2025, it announced the offering of "comprehensive data on more than 11 million companies globally, including roughly 10.9 million active entities and profiles on over 62,000 to 63,000 public companies, providing financials for approximately 88,000 public listings that represent 99% of the world's market capitalization" (S&P Market Intelligence press release, March 25, 2025).

The S&P Capital IQ Pro platform specifically highlights its expanding private market depth, providing consensus (equity market) estimates for over 7,300 companies. As noted earlier, the Capital IQ Pro system is run by the Global Market Intelligence (GMI) unit at S&P.

The GMI group is organizationally and editorially separate from S&P Global Ratings – which houses the corporate analysts and assigns the Issuer Corporate Ratings (ICRs) that are used in the debt capital (bond and loan) markets. Recall that Capital IQ models are separate from the work of the primary analyst (formal public rating side).

The RiskGauge Report has three key building blocks – which we used to test "proxy versus analyst led" ratings. These include[6]:

1. Capital IQ Credit Model (CM) –
    - Offers the most recent point-in-time financial data and recent macroeconomic data – that seeks to statically match the ICRs from the analyst side
    - But has cases of low correlations with ICR scores
2. Probability Given Default Fundamentals Model –
    - Uses expected default indicators and seeks to incorporate both financial and business risk
    - Also is a near-term point-in-time data point.
3. Market Signal Probability of Default –
    - "Market-driven credit risk model" which seeks to compare the capital markets performance of a company against its peers
    - Based on the Merton pricing of corporate debt model.

The S&P proxy scores offered in RiskGauge reports combine the above approaches into a unified (and weighted) score. The weighting is critical, as are the assumptions around the business and risk profile.

In the absence of traditional NRSRO-issued credit ratings, the markets use a variety of alternatives to impute credit ratings, from credit methodology-driven inputs, market signals, and proxy rating tools that are provided by the NRSROs themselves. All these alternatives approximate a credit rating but are subject to error and volatility.

We note that algorithm-driven proxy rating scores do not automatically incorporate nor adjust for many qualitative or other important industry factors, which are used in the primary credit rating analyst and rating committee decisions. These adjustments must be made individually for each subject company in the RiskGauge model.

The described variance between assigned credit ratings and any version of proxy ratings is common in the industry, as NRSROs rate through the cycles of the subject companies, where the stability of ratings during market swings is paramount to the credit profile.

[6] S&P Global Market Intelligence, RiskGauge Model 2.0, White Paper, May 2025

On the other hand, since they are fixed at a point in time, unadjusted proxy ratings exhibit the full volatility of outputs in highly cyclical sectors, or when companies temporarily take on debt to fund future development, expansion, or acquisitions.

7-3. Issues surrounding single year historical financial data for proxy ratings with no business risk adjustments

In approach that would only consider raw point-in-time historical financial statements from the most recent fiscal year is exposed to the analytical limitations discussed above – but adds additional sources of analytical weakness or concerns.

These elements would include at a minimum:

1. Checking that the full and appropriate financial documents are being used –
   - Including challenges around private companies or joint ventures or entities owned by offshore entities or Special Purpose Vehicles (SPVs)
   - And ensuring that consolidated statements are utilized
2. Benchmarking and appropriate peer selection -
   - Cognizant of differences in financial reporting periods
3. Mapping against the right methodology -
   - Determining the right metrics and judging if a particular ratio around leverage is strong or weak
4. Judging liquidity ratios -
   - Including consideration of available bank lines and available credit
5. Understanding the financial reporting impact of recent M&A activity -
   - And adjusting for acquisitions that closed during the fiscal period under review
6. Considering uneven quarterly performance
7. Checking for model output errors

A purely point-in-time approach with only reported financials could be used as a broad framework. However, the overriding concern would be the risks of misjudging companies on both the upside and downside in their projected financial performance.

Exhibit 6: Example of limitations of a financial data only score

The S&P credit rating opinion draws on a wide range of financial and business (operational) considerations that are not fully captured by a point-in-time analysis of a company's financial statements unadjusted for operating position and competitive profile.

This can be a concern, for example, if a financial risk only assessment suggests a 'BB' rating, but the entity could have a low Business Risk Profile Score (BRP). This could push an overall rating outcome to single-B and below the required threshold.

The BRP includes a range of qualitative factors such as market position, relative size, projected competitive profile, capital investment plans, quality of earnings, governance, and risk appetite.

	Financial Risk Profile (FRP - Columns)					
Business Risk Profile (BRP - Rows)	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA	AA	A	A-	BBB	-
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	-	BBB-	BB+	BB	BB-	B
Weak	-	-	BB	BB-	B+	B-
Vulnerable	-	-	-	B+	B	CCC+
	Financial Risk Indicative Ratios					
FFO / Total Debt	>60%	45-60%	30-45%	20-30%	12-20%	<12%
Total Debt / Capital	<25%	25-35%	35-45%	45-50%	50-60%	>60%
Total Debt / EBITDA	<1.5x	1.5-2.0x	2.0-3.0x	3.0-4.0x	4.0-5.0x	>5.0x

Source: Longford CRA, May 2026

Exhibit 7: Definitions and acronyms

Definitions and Acronyms	
NRSRO	Nationally Recognized Statistical Rating Organization. Credit rating agency that has registered with and been approved by the U.S. Securities and Exchange Commission (SEC). These organizations provide assessments of the creditworthiness of firms or specific financial instruments, which are then used by investors and regulators to gauge risk. While there are currently 10 registered NRSROs in the US, the market is dominated by Standard & Poor's (S&P), Moody's Investors Service, and Fitch Ratings. Other NRSROS include KBRA (Kroll) and Morningstar DBRS. As of April 2026, Egan-Jones is registered only for specific classes of credit ratings.
ICR	Issuer Credit Rating - a rating symbol which captures an opinion about an obligor's overall creditworthiness. It specifically measures an entity's capacity and willingness to meet its financial commitments in a timely manner.
CFR	Corporate Family Rating - is the Moody's equivalent of S&P's ICR.
Anchor Rating	The Anchor Rating is the initial point of departure in S&P Global Ratings' methodology for determining a credit rating. It represents a preliminary assessment of creditworthiness before accounting for entity-specific "modifiers" like liquidity, management quality, or extraordinary government support.
CM	S&P Credit Model - statistical credit data model featured in the RiskGauge Report.
MSB	Market Signal Benchmark is a largely equity and bond market trading driven score with qualitative elements capturing current volatility patterns - uses the lower case symbols, e.g., 'bb'.
PD	Probaility of Default on debt obligations usually measured over a period time - usually 2-years for Speculative-Grade (or High Yield) credits ('BB+' and below) and 3-5 years for Investment-Grade credits.('BBB-' and above).
RiskGauge Model	Primary analytical report from Capital IQ which features a "proxy score" and "proxy rating". The RiskGuage Report also features a qualitative "risk" label, such as "High" or "Low" risk.

Source: Longford CRA, May 2026

Exhibit 8: Overview of the major rating agencies

	S&P Global Ratings	Moody's	FitchRatings
GENERAL BACKGROUND	• 1941 merger of Standard Statistics and Poor's Publishing Company • Formerly part of McGraw Hill, now S&P Global, Inc., which also has control of IHS Markit • Widely accepted and influential, historically more "issuer-friendly" • Revenue about $15.3 billion (2025) • **Bond rating fees range up from 7.9 bps with a $140k minimum**	• Founded by John Moody in 1909 • Part of Moody's Corporation, spun-off from Dun & Bradstreet in 2000, now a listed company • Widely accepted and influential, historically more "investor-friendly" • Revenue about $7.2 billion (2025) • **Bond rating fees range from 6-8 bps with $140-150K minimum**	• 1999 merger of Fitch and IBCA, then Thomson BankWatch and Duff & Phelps • Previously owned by Fimalac SA (France), now part of the Hearst Corporation • Strong in bank and structure finance markets, working to improve corporate ratings coverage • Revenue NA • **Bond rating fees range from 4.5-7.5 bps with $75-100K minimum**
ANALYTICAL APPROACH	• More quantitative focus and often provide rating guidance • Somewhat more transparent analytical framework	• More qualitative analysis; currently trying to improve transparency and frequency of research • Somewhat more de-centralized approach	• Quality research and transparent methodology, but can be formulaic • Historically more "generous" ratings in some sectors, but not always
RATING POLICY	• Entity must be "rate-able" • Limited unsolicited ratings • Full flexibility to keep ratings confidential, unless debt is issued in US markets	• Same • But MDY may still pursue unsolicited ratings for issuers with substantial public debt outstanding, but in practice-is now rare	• Same • But aggressively started "Fitch-initiated" ratings in 2002 for issuers with high "investor interest", in some cases based on public information only • Reserves the right to publish ratings
SUMMARY FEE STRUCTURE	• Each agency charges an initial rating fee (which varies) based on the size of the issuance (i.e., basis points on the rated issue) • In addition, an annual surveillance fee is charged by each agency, depending on total debt outstanding • Fees associated with complex securities could also be higher than straightforward bonds/loans.	• Pricing approach is very similar between the agencies with narrow differences between fees on special products such as the RAS/RES Evaluation services	• Similar approach, but Fitch can have lower fees in some situations

Source: Longford CRA, May 2026

Note that all the NRSROs have regulatory separation between the commercial teams that solicit, collect, and monitor revenue activities and the analytical teams (rating analyst). The first step in getting a private or public rating is through the relevant commercial coverage team.

Getting a public rating can range from under $300k to well over $1 million depending on the deal size and other factors – per agency.

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