



Date of Commentary: July 6, 2009

## **DBRS Commitment to High Standards and Continuous Improvement**

On March 5, 2009, DBRS reported on a number of initiatives that it had implemented since August 2007 to enhance the quality and transparency of its rating process and to help restore confidence in credit rating opinions (see the March 5, 2009, [DBRS commentary](#)). Since then, DBRS has made additional adjustments to its policies and practices across its global business that reflect its commitment to maintaining a high standard of independence, integrity and transparency.

### **Increased Transparency with Updated Reporting**

As part of its ongoing efforts to promote improved transparency in the structured finance market, DBRS has enhanced its reporting in several areas. For these enhancements and other monthly reports (all available at [www.dbrs.com](http://www.dbrs.com)), DBRS offers the analytical community and other interested market participants training and other opportunities to assist in their understanding and analysis of DBRS credit rating opinions.

#### ***ABCP Rating Reports***

The rating reports for all DBRS-rated Canadian bank-sponsored asset-backed commercial paper (ABCP) conduits have been revised to provide enhanced disclosure in a new format and in plain English. The revised ABCP reports enable investors to better understand the factors that DBRS considers in determining the ratings of the various series of notes issued by each conduit. Key analytical features of the revised reports include details of the underlying structure of each conduit, the nature of the transactions into which it enters, the asset pool composition as of the report date, links to the DBRS methodologies used as part of the rating review and the requirements for the various counterparties that support the conduit.

Other notable enhancements are detailed analysis of the liquidity agreements, including the identification of the liquidity providers, a description of the nature of the liquidity, the minimum levels of liquidity available, the renewal process and the disclosure of the liquidity draw conditions. In addition, disclosure of the minimum DBRS rating requirements for counterparties, including credit enhancers, liquidity providers and hedge counterparties, is provided, as well as a discussion of the acceptable remedial actions if these parties no longer meet those rating requirements, including the time frame within which a suitable replacement provider must be appointed. Where available, the conditions to draw on third-party credit enhancement are disclosed and the reports also offer a general discussion on key elements of hedging risks to be mitigated.

#### ***CMBS Surveillance***

A critical area of focus for DBRS is surveillance. The global *Monthly CMBS Surveillance Report* outlines updated statistics for all DBRS-rated transactions in the United States, Canada and Europe. The report includes commentary from DBRS analysts on specially serviced loans, large watchlisted loans and any collateral changes from the previous reporting period. Issuing the report monthly is another way that DBRS has increased transparency into its rating process as it reflects the work and analysis that DBRS conducts each month on its rated transactions. The monthly CMBS surveillance report is not meant to replace the in-depth performance update reports that DBRS publishes on its rated CMBS transactions nor the Annex A Advisor tool for investors to transparently run what-if scenarios on their CMBS portfolios.

### **Revised Methodologies**

DBRS continues to review its methodologies and makes adjustments as necessary. Since March 5, 2009, DBRS has published revised criteria and methodologies in a number of areas:



### **Canadian Methodologies**

- *Rating Oil and Gas Companies*
- *Rating Canadian Home Equity Lines of Credit (HELOCs)*
- *Canadian Wholesale Floorplan Methodology*

### **U.S. Methodologies**

- *Rating U.S. ABS CDO Restructurings*
- *U.S. RMBS Surveillance*
- *Rating U.S. Residential Mortgage-Backed Securities Transactions*

### **Global Methodologies**

- *Rating Bank Preferred Shares and Equivalent Hybrids*
- *Mapping Financial Institution Internal Ratings to DBRS Ratings for Structured Credit Transactions*
- *Rating Methodology for Leveraged Finance* (refined notching policy for secured leveraged loans)
- *Rating Global High-Yield Loan Securitizations, Structured Loans and Tranched Credit Derivatives*

### **Insight beyond the Rating**

DBRS is committed to supporting its credit rating opinions and its role in the market with leading-edge and thought-provoking insights. DBRS has increased the number and frequency of the newsletters, commentaries, industry studies and other research it publishes across its global business to provide market participants with additional analytical information, industry and product trends and DBRS opinions. These newsletters, commentaries and industry studies can be found at [www.dbrs.com](http://www.dbrs.com).

### **Updated DBRS Business Code of Conduct**

In early June 2009, DBRS published its updated Business Code of Conduct (DBRS Business Code), which reflects its continued adherence to the International Organization of Securities Commissions Code of Conduct Fundamentals for Credit Rating Agencies (the IOSCO Code) as well as other regulatory requirements and best business practices. The IOSCO Code is a framework of practical measures designed to improve investor protection and the fairness, efficiency and transparency of the securities markets and to reduce systemic risk.

Most notably, the release of the updated DBRS Business Code reflects new policies and procedures that DBRS established, effective March 31, 2009, to comply with U.S. Securities and Exchange Commission (SEC) rules for Nationally Recognized Statistical Rating Organizations (NRSROs) regarding conflicts of interest:

- Staff are prohibited from making recommendations to obligators, issuers, underwriters and/or sponsors regarding the corporate or legal structure, assets, liabilities or activities related to the ratings DBRS assigns or is in the process of assigning.
- Analytical staff are not permitted to be involved in initiating, arranging, negotiating or participating in discussions regarding fees or payments for ratings, thus completely separating analytical activities from commercial activities at all levels of DBRS.
- Staff are prohibited from soliciting money, gifts or favours from anyone with whom DBRS does business. In addition, analytical staff are not permitted to accept gifts, including entertainment, from an obligator being rated or from an issuer, underwriter or sponsor of securities being rated by DBRS other than items provided in normal business activities, such as meetings, that have an aggregate value of no more than US\$25.

DBRS believes the IOSCO Code continues to serve as an appropriate foundation for prudent regulatory oversight in all jurisdictions and that the DBRS Business Code achieves the objectives and principles exemplified by the IOSCO Code.

The DBRS Business Code is publicly available on our website at [www.dbrs.com](http://www.dbrs.com).



## **Responding to the Changing Global Regulatory Landscape**

The global regulatory landscape for credit rating agencies (CRAs) continues to evolve. In April 2009, a new European regulatory framework for CRAs was approved by the European Parliament. In May 2009, DBRS was appointed to the Committee of European Securities Regulators' CRA Consultative Working Group to provide ongoing advice and consultation relating to the implementation and application of the detailed rules.

In the United States, the SEC is in the process of reviewing its NRSRO rules regarding additional record keeping and conflicts of interest. As part of its June 2009 White Paper on Financial Regulatory Reform, the Obama administration announced additional recommendations for the regulation of CRAs, primarily in the structured finance area.

Canada is also in the process of developing a formal regulatory framework for CRAs.

DBRS looks forward to continued dialogue with regulators, legislators, trade associations and investors to ensure regulatory changes are harmonized globally to the extent possible.

## **Commitment to Continuous Improvements**

In the changing regulatory landscape, DBRS remains committed to the ongoing review of its policies and practices to ensure that it conducts its global business with appropriate rigour and objectivity and that it provides a high level of transparency and disclosure in the market.

DBRS will continue to periodically publish updates on its continuous improvements.

Mary Keogh, CA  
Managing Director, Regulatory Affairs  
+1 416 597 3614  
[mkeogh@dbrs.com](mailto:mkeogh@dbrs.com)

Daniel Curry  
President, DBRS, Inc.  
+1 212 506 3244  
[dcurry@dbrs.com](mailto:dcurry@dbrs.com)

Huston Loke, CFA  
Co-President, DBRS Limited  
+1 416 597 7533  
[hloke@dbrs.com](mailto:hloke@dbrs.com)

Copyright © 2009, DBRS Limited and DBRS, Inc. (collectively, DBRS). All rights reserved. The information upon which DBRS ratings and reports are based is obtained by DBRS from sources believed by DBRS to be accurate and reliable. DBRS does not perform any audit and does not independently verify the accuracy of the information provided to it. DBRS ratings, reports and any other information provided by DBRS are provided "as is" and without representation or warranty of any kind. DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS or any DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. Ratings and other opinions issued by DBRS are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness or recommendations to purchase, sell or hold any securities. A report providing a DBRS rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS receives compensation for its rating activities from issuers, insurers, guarantors and/or underwriters of debt securities for assigning ratings and from subscribers to its website. DBRS is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS.