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DBRS Criteria: Canadian Bankruptcy and Restructuring Legal Considerations

In Canada, a number of statutes may come into play when a debtor company finds itself in financial difficulty or seeks protection from its creditors. These include the Bankruptcy and Insolvency Act (BIA), the Bank Act, the Companies' Creditors Arrangement Act (CCAA) and for certain corporations the Winding-up and Restructuring Act (WURA) and the Canada Deposit Insurance Corporation Act (CDIC Act). A proceeding under any one of these statutes will almost always result in the applicable issuer's rating being downgraded to "D" (please see Default Definition under Rating Policies on www.dbrs.com).

Companies incorporated under the Canada Business Corporations Act (CBCA) may also restructure under the arrangement provisions of that act. However, in addition to liquidation or dissolutions, CBCA arrangements may also be used to facilitate corporate reorganizations or mergers that are not indicative of financial distress and that may be credit positive. Therefore, in contrast to proceedings under the BIA, CCAA, WURA or CDIC Act which usually result in a rating downgrade to "D," the filing of a restructuring application under the CBCA may result in a downgrade or the placement of the rating Under Review with either Developing, Positive or Negative Implications, depending on the circumstances.

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