



Date of Release: May 21, 2010

DBRS: Update on Implementation of Amended SEC Rule 17g-5 on Structured Finance Ratings

DBRS is analyzing and developing its approach to implement the amended rule 17g-5 (Amended Rule) for credit rating agencies (CRAs) that are registered with the U.S. Securities and Exchange Commission (SEC) as Nationally Recognized Statistical Rating Organizations (NRSROs) and hired by issuers, sponsors or arrangers (collectively, Arrangers) to assign credit ratings (ratings) to structured finance (SF) products or instruments (SF instruments).

The Amended Rule prohibits an NRSRO from issuing or maintaining ratings on certain SF instruments unless:

- Hired NRSROs disclose on a password-protected website to any non-hired NRSRO certain information about the SF instrument(s) they are engaged to rate; and
- Arrangers make available on a password-protected website all information they provide a hired NRSRO to any non-hired NRSRO that wishes to access that information.

Subject to any additional guidance that the SEC may issue, DBRS provides the following interpretations of the Amended Rule for the purposes of its implementation approach.

Application only to U.S. transactions until December 2, 2010

Further to the SEC's Order Granting Temporary Conditional Exemption*, an NRSRO is not required to comply where: (1) the issuer of the SF product is a non-U.S. person; and (2) the NRSRO has a reasonable basis to conclude that the SF product will be offered and sold upon issuance, and that any arranger linked to the SF product will effect transactions of the SF product after issuance, only in transactions that occur outside the United States.

Compliance date means on or after June 2, 2010

DBRS interprets that a transaction for the rating of a SF instrument would become subject to the requirements of the Amended Rule where DBRS is engaged as a hired NRSRO on or after June 2, 2010.

Transactions initiated on or after June 2, 2010

DBRS considers a rating engagement to be initiated when: an Arranger requests in writing for DBRS to begin analyzing a transaction, has provided sufficient written information or documentation for the analytical process to begin; and DBRS agrees to undertake that work. Sufficient information would include a written description of the transaction terms to be analyzed and/or a written description of specific collateral characteristics to be analyzed.



Insight beyond the rating.

SF products or instruments covered and not covered

DBRS considers the following SF instruments to meet the definition of the range of SF products outlined in the Amended Rule:

- Asset-backed securities
- Asset-backed commercial paper (ABCP)
- Residential mortgage-backed securities (RMBS)
- Single and multi-tranched collateralized debt obligations (CDOs) and credit default swaps (CDSs) (except single-name CDSs)
- Commercial mortgage-backed securities (CMBS)
- Multi-tranched insurance securitizations
- Corporate/whole business securitizations with more than one tranche of debt
- Structured investment vehicles (SIVs)

The following instruments are not considered to be SF products or instruments:

- Covered bonds
- Government and mortgage agency financings (e.g., Fannie Mae, Canada Housing and Mortgage Corporation (CMHC))
- Derivative product companies (DPCs)
- Project financings with more than one tranche of debt or equity
- Enhanced equipment trust certificates with more than one tranche of debt
- First mortgage bonds
- Split shares
- Bond funds

ABCP ratings

In the case of ratings on ABCP, DBRS interprets the Amended Rule to mean that ratings for new ABCP conduits and new series issued by existing ABCP conduits on or after June 2, 2010, are included. However, as presently written, DBRS interprets the Amended Rule to exclude ratings on pre-existing ABCP conduits and series. DBRS awaits further clarity from the SEC with respect to pre-existing conduits.

Private ratings

DBRS interprets the Amended Rule to exclude private or confidential ratings.

DBRS will continue to dialogue with global market participants in order to appropriately interpret the Amended Rule and to achieve implementation in compliance with the Amended Rule.

Market participants who wish to learn more about the Amended Rule can read the SEC's adopting release which is available on its website at: <http://www.sec.gov/rules/final/2009/34-61050.pdf>.

*Also refer to SEC Order Granting Temporary Conditional Exemption for Nationally Recognized Statistical Rating Organizations From Requirements of Rule 17g-5 Under the Securities Exchange Act of 1934 and Request for Comment, File No.: S7-04-09 [34-62120](#).

DBRS has its headquarters in Toronto, with offices in New York and Chicago, and covers entities worldwide.

Press Release



Insight beyond the rating.

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