



Insight beyond the rating.

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Strong 2009 Ratings Performance for DBRS

DBRS ratings performance for 2009 was strong as evidenced in the *2009 DBRS Corporate Rating Transition and Default Study* and *2009 DBRS Structured Finance Rating Transition and Default Study* (collectively, the Transition Studies), which demonstrate a positive relationship between the quality and stability of DBRS long-term credit ratings and provide transition performance data for one-, three- and ten-year horizons across a variety of industry and product sectors.

Global Corporate Finance Performance Improved over 2008

- One- and three-year AAA transition rates were 91.30% and 71.35%, respectively, which exemplifies stable ratings performance and shows improvement over the same periods in 2008.
- From a default perspective, there were almost an equal number of defaults in both years: nine in 2009 and eight in 2008. However, more than half of the 2008 defaults came from the Financial Services sector, which experienced a relatively higher level of investment-grade defaults.
- Since DBRS's inception in 1976, its Corporate default history experience has been limited to 49 cases. Default patterns tend to have some correlation to economic cycles. The Industrials sector (forestry, auto, print and media) and Financial Services were hit particularly hard during the period 2008–2009.

Global Structured Finance Performance (Excluding U.S. RMBS) Was Very Stable

- Global Structured Finance ratings, excluding U.S. residential mortgage-backed securities (RMBS), exhibited very stable ratings performance, with AAA transition rates of 98.2% for each of the one- and three-year periods.
- A similar trend occurred for all investment-grade ratings. In 2009, exclusive of U.S. RMBS, 89.3% of rated issues maintained their assigned ratings, only 1.2% of ratings were upgraded, and 9.5% of ratings were downgraded.
- Canadian asset-backed securities (ABS), RMBS and commercial mortgage-backed securities (CMBS) displayed the highest level of stability. Collectively, Canadian Structured Finance ratings exhibited AAA transition rates of 99.3% and 98.0% for one- and three-year periods, respectively. U.S. and European ABS and CMBS sector performance was also very stable.
- As expected, U.S. RMBS ratings performance continued to worsen in 2009 compared with 2008 as older vintages matured. DBRS coverage had grown considerably just prior to the recent global crisis, notably in the U.S. RMBS sector. Approximately 75% of its outstanding Structured Finance ratings at December 31, 2009, were in U.S. RMBS.
- In 2009, DBRS changed its analysis of collateralized debt obligations (CDOs) of RMBS/ABS to look through to the underlying mortgage and receivables risk, rather than as a corporate securitization. This was a fundamental shift in DBRS methodology and is unique among Nationally Recognized Statistical Rating Organizations (NRSROs).¹ DBRS's U.S. and Canadian RMBS methodologies and criteria considerations are publicly available under RMBS in the Methodologies section of DBRS website, www.dbrs.com.

1. NRSROs are those rating agencies registered with the U.S. Securities and Exchange Commission (SEC) pursuant to the *Credit Rating Agency Reform Act of 2006* and the rules adopted thereunder.



Each of the Transition Studies outlines the criteria, factors and considerations (methodology) used to develop the performance statistics. It is critical to understand the methodologies used by credit rating agencies (CRAs) to develop their transition studies in order to draw appropriate conclusions. As an NRSRO, DBRS is required to publish annual performance data that, among other things, reflect one-, three- and ten-year time horizons for each registered category of ratings. However, each NRSRO may present its information differently to reflect its different ratings universe, size, experience, rating philosophy and methodologies. This diversity is what makes each NRSRO unique, but it is also what makes drawing de facto conclusions about ratings performance based only on transition studies difficult and potentially erroneous.

Other Ratings Performance Data

With this commentary, DBRS has begun to publish quarterly ratings upgrade and downgrade information, starting with Canada. As seen in the table at the end of this commentary, DBRS Quarterly Upgrades and Downgrades, Q1 2010 – Canada, ratings activity for the period January 1 to March 31, 2010, was relatively quiet for both Corporate and Structured Finance. The rating upgrades and downgrades occurred in the Financial Services, autos and natural resources sectors and in Structured Finance, notably CMBS.

DBRS makes rating changes on a case-by-case basis. The goal of ongoing ratings surveillance is to limit the need for multiple-notch downgrades, but on occasion they may be unavoidable as a result of an unprecedented deterioration in fundamentals. DBRS attempts to avoid systemic upgrades or downgrades unless there is a major change in areas such as the regulatory or legal environment or DBRS methodology.

DBRS publishes additional ratings data under Regulatory Affairs on its website, www.dbrs.com. This includes a random 10% sample of ratings actions (see [Corporate Finance and Financial Institutions](#) and [Structured Finance](#) (collectively, the Sample)). DBRS also publishes a complete history of all DBRS ratings actions (see [DBRS Rating Actions Initially Determined on or after June 26, 2007](#) (the History)). The Sample and History information are available in downloadable, interactive files that are intended to allow market participants to compare ratings performance from different NRSROs for particular issuers and structured finance transactions.

In Europe, the Committee of European Securities Regulators (CESR) is in the process of developing common measures to enhance comparability of CRA ratings performance. CESR is also developing a central repository into which CRAs would make available their historical ratings performance data in a standardized format that would be accessible to the public. As a member of the CESR Consultative Working Group, DBRS is a contributor to the development of the common measures and the central repository.



Ratings Performance Is Also Qualitative

Quantitative data such as the Transition Studies provide one statistical measure of a CRA's ratings accuracy over a set period of time. Transition studies, as well other data such as ratings changes and ratings histories, provide a base for comparing CRAs' ratings performance. However, quantitative ratings data must be understood within the context in which it is developed. Market participants need to read a CRA's underlying rating methodologies and rating policies and have some understanding of the process under which ratings are determined. There is a qualitative aspect that is fundamental to measuring ratings performance. Simply said, measuring a CRA's ratings performance is a blend of quantitative data and qualitative information.

Recent Changes in DBRS Methodologies

Ongoing efforts to update rating methodologies and policies help ensure ratings are relevant and performance is accurate. In addition to changes in DBRS RMBS methodologies, DBRS has made a concerted effort to update existing and publish new methodologies across all **Corporate Finance**, **Financial Institutions**, **Public Finance** and **Structured Finance** sectors. To ensure consistency of methodology changes and application to ratings, DBRS employs a variety of **Rating Policies** that are publicly available on www.dbrs.com. DBRS Corporate Finance and Structured Finance Criteria Committees review and approve all rating methodologies; Rating Committees determine rating actions; and the use of surveillance helps DBRS monitor ratings on an ongoing basis.

DBRS continues to refine its methodologies and to date in 2010 has published the following changes:

- *Rating Canadian Rental Car Securitizations*, May 11, 2010.
- *Stability Ratings for Structured Income Funds*, May 11, 2010.
- *Rating Agents of the Crown*, May 7, 2010.
- *Rating Canadian Airport Authorities*, May 7, 2010.
- *DBRS Criteria: Trust Indentures – Representations and Warranties, Covenants and Events of Default*, May 5, 2010.
- *DBRS Criteria: Canadian Bankruptcy and Restructuring Legal Considerations*, May 3, 2010.
- *Rating U.S. Insurance Premium Finance Securitizations*, April 22, 2010.
- *Canadian Credit Union Methodology*, April 20, 2010.
- *Rating Bank Subordinated Debt and Hybrid Capital Instruments with Discretionary Payments*, April 12, 2010.
- *Rating Bank Subordinated Debt and Hybrid Capital Instruments with Contingent Risks*, April 12, 2010.
- *Rating Global Film Rights Securitizations*, March 30, 2010.
- *Rating Parent/Holding Companies and Their Subsidiaries*, March 24, 2010.
- *Evaluating Corporate Governance*, March 18, 2010.
- *Rating Income Funds*, March 10, 2010.
- *DBRS Master U.S. ABS Surveillance Methodology*, January 29, 2010.
- *Rating U.S. Wholesale Auto Securitizations*, January 29, 2010.
- *Rating U.S. Equipment Lease and Loan Securitizations*, January 28, 2010.
- *Rating U.S. Auto Lease Securitizations*, January 28, 2010.
- *Rating U.S. Retail Auto Loan Securitizations*, January 28, 2010.
- *Rating U.S. Rental Car Securitizations*, January 26, 2010.
- *Canadian Structured Credit Surveillance*, January 22, 2010.
- *CMBS Rating Methodology*, January 15, 2010.
- *Global Methodology for Rating Banks and Banking Organisations*, January 14, 2010.
- *Representations and Warranties Criteria for U.S. RMBS Transactions*, January 13, 2010.



Other Transparency Efforts

On the asset-backed commercial paper (ABCP) front, DBRS publishes transaction summaries when new transactions are added to a bank-sponsored ABCP trust. These summaries are in addition to the disclosure of trust details in the *Monthly Canadian ABCP Report: March 2010*. DBRS believes this kind of transparency assists investors in understanding DBRS ratings and measuring DBRS ratings performance.

DBRS continues to publish other *Monthly Reports* in the areas of securitization and commercial paper as well as *Industry Studies*, *Commentaries* and *Newsletters* that provide context for and insight beyond DBRS ratings.

DBRS Commitment to the Market

DBRS believes that ratings provide an important information role in the market. DBRS will continue the dialogue with investors, legislators, regulators and other market participants to assist in their understanding of CRA ratings performance and usage of ratings. DBRS will continue to develop additional ways to provide ratings performance data and information in the market.



Appendix

DBRS Quarterly Upgrades and Downgrades, Q1 2010

Industry	Upgrades	Downgrades
CORPORATE FINANCE		
Autos & Auto Suppliers	0	1
Consumers	0	0
Energy	0	0
Industrials	0	0
Natural Resources	0	1
Project Finance	0	0
Real Estate	0	0
Telecom/Media/Technology	0	0
Transportation	0	0
Utilities & Independent Power	0	0
Total	0	2
FINANCIAL INSTITUTIONS		
Banks & Trusts	0	1
Credit Unions & Building Societies	0	0
Non-Bank Financials	2	0
Total	2	1
PUBLIC FINANCE		
Infrastructure	0	0
Other	0	0
Provinces and Municipalities	0	0
Sovereigns	0	0
Universities	0	0
Total	0	0
STRUCTURED FINANCE		
ABCP	0	0
Auto ABS	0	0
CMBS	2	0
Credit Card & Consumer Lending	0	0
Other	0	0
RMBS	0	0
Split Shares & Funds	0	1
Structured Credit	0	0
Total	2	1



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