



Date of Release: June 2, 2010

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

Further to its May 21, 2010 press release* and subject to any further guidance the Securities and Exchange Commission (SEC) may issue, DBRS provides the following additional interpretations regarding amended rule 17g-5 (Amended Rule) for credit rating agencies (CRAs) that are registered with the 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).

Approach for Exempt SF instruments until December 2, 2010

Further to the SEC's Order Granting Temporary Conditional Exemption*, ratings of SF products issued by non-U.S. issuers where DBRS has a reasonable basis to conclude the SF product will not be sold into the U.S will be exempt, for a six-month period, from compliance with the Amended Rule. If transactions are found not to be exempt and the requirements for the Amended Rule are not followed, DBRS will be prohibited from issuing or maintaining a credit rating with respect to that SF instrument.

DBRS is considering how it might operate when the SEC's Order Granting Temporary Conditional Exemption expires on December 2, 2010 and will update the market accordingly.

Approach for Non-Exempt SF instruments initiated on or after June 2, 2010

DBRS considers a rating engagement to be initiated when: DBRS has a signed letter of engagement (LOE) or an Arranger requests in writing for DBRS to begin analyzing a transaction; an Arranger 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.

If an Arranger wants to obtain a rating on a SF instrument, DBRS expects an Arranger to execute and return to DBRS a standard agreement (Representation Agreement) that contains, among other things, written representations that address criteria set out in the Amended Rule as follows (Representation Agreement):

1. The Arranger will maintain an identified password-protected Internet website;
2. The Arranger will provide access to its password-protected Internet website during the calendar year to any non-hired NRSRO that provides it with a copy of the certification described in the Amended Rule;



Insight beyond the rating.

3. The Arranger will post on its password-protected Internet website all information for purposes of determining the initial credit rating and/or undertaking rating surveillance at the same time this information is provided to DBRS; and
4. The Arranger will maintain the information it is required to make available on its password-protected Internet website in a manner indicating which information should be relied on to determine or monitor the credit rating.

The Amended Rule prohibits DBRS from issuing or maintaining a credit rating for a SF instrument unless it obtains the Representation Agreement.

Once DBRS receives the Representation Agreement, DBRS will post on its password-protected Internet site, the SF instrument(s) it has been hired to rate and the link to the Arrangers' password-protected Internet site for access by non-hired NRSROs.

The Arranger must comply with the Representation Agreement as long as the SF instrument to which any credit rating applies is outstanding.

If an Arranger fails to comply with the Representation Agreement, DBRS will be prohibited from issuing a credit rating for a SF instrument.

If DBRS becomes aware that the Arranger is not complying with an existing Representation Agreement, DBRS may withdraw a previously assigned credit rating.

DBRS may also consider whether the Arrangers' conduct means that DBRS cannot reasonably rely on any aspect of the Representation Agreement with respect to other credit ratings of SF instruments that DBRS has already issued or is in the process of analyzing or determining.

Information to be posted by the Arranger on its password-protected Internet website

The Arranger must ensure it posts to its password-protected Internet website all information that it provides to DBRS, or contracts with a third party to provide to DBRS, for the purposes of determining the initial credit rating for a SF instrument or for undertaking surveillance of that credit rating. DBRS is not in a position to advise Arrangers what information for an initial rating or for surveillance purposes must be posted to the Arrangers' website.

To ensure compliance with the Representation Agreement, DBRS requests the Arranger not provide new information orally to DBRS. Rather, the Arranger should simultaneously post all new information to its website that it provides to DBRS.

Discussions between the Arranger and DBRS about the application of DBRS methodologies that do not relate to a transaction or a potential transaction would not need to be posted.



Insight beyond the rating.

DBRS expects Arrangers that wish to convey information to DBRS for an initial rating or for surveillance regarding an initial rating or for conducting surveillance will develop appropriate mechanisms so that such information made available to DBRS is simultaneously available on the Arranger's password-protected Internet website. This would include for instance, documentation provided during site visits and operational risk assessments.

Updated SF instrument list

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
- Structured investment vehicles (SIVs)
- Repackaged instruments where any of the underlying assets is a SF instrument

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

- Covered bonds or similar dual recourse securities
- Government and mortgage agency financings (e.g., Fannie Mae, Canada Housing and Mortgage Corporation (CMHC))
- Derivative product companies (DPCs)
- Corporate/whole business securitizations
- Project financings
- Enhanced equipment trust certificates
- First mortgage bonds
- Split shares
- Bond funds

ABCP ratings

In the case of ratings on ABCP, DBRS is aware of the American Securitization Forum's (ASF) position regarding ABCP programs. DBRS may apply the Amended Rule to all ABCP programs including those to which DBRS assigned an initial credit rating prior to June 2, 2010 unless the conditions in the SEC's Order Granting Temporary Conditional Exemption* are satisfied subject to further clarity from the SEC.



Insight beyond the rating.

Composite ratings are outside the scope of the Amended Rule

Composite ratings take into account various component factors as well as the rankings of a servicer or the ratings of providers of credit, liquidity or other support for the rating on the SF instrument.

DBRS considers rankings or ratings of servicers or other support providers (referred to as composite ratings) that are the product of a separate engagement, unrelated to the terms or timing of any SF instrument and undertaken for independent purposes to fall outside the scope of the Amended Rule. For more information about DBRS Servicer Evaluations please refer to www.dbrs.com/about/ratingScales.

DBRS commitment to the market

DBRS will continue to dialogue with market participants in order to appropriately interpret the Amended Rule and to achieve implementation in compliance with the Amended Rule. DBRS may issue additional press releases to update the market on its interpretations.

*See press release titled DBRS: Update on Implementation of Amended SEC Rule 17g-5 on Structured Finance Ratings released on May 21, 2010.

*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.

Mary Keogh, CA
Managing Director - Regulatory Affairs
+1 416 597 3614
mkeogh@dbrs.com

Daniel Curry
President, DBRS, Inc.
+1 212 806 3244
dcurry@dbrs.com

Huston Loke
Co-President, DBRS Limited
+1 416 597 7533
hloke@dbrs.com



Insight beyond the rating.

Copyright © 2010, 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. ALL DBRS RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT <http://www.dbrs.com/about/disclaimer>. ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON <http://www.dbrs.com>.