



Insight beyond the rating.

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DBRS's Global Commitment to High Standards and Market Communication

Over the course of the last 18 months, regulators around the world have proposed and implemented new and additional regulatory reforms regarding credit rating agencies (CRAs). DBRS understands the need for regulatory change and believes that a transparent regulatory framework serves to drive commitment to high standards, facilitates ongoing regulatory dialogue and supports investor and market education. Credit ratings continue to be important to bondholders and other capital market participants. DBRS believes ratings provide a useful and supplementary risk metric and information tool for investors, issuers, counterparties, intermediaries and regulators in their decision making, notably in the absence of viable, tested alternatives. DBRS believes that it is not inappropriate for ratings to be referenced in securities legislation and in other policy documents because of the need in the market for consistent, independent measures of risk.

For its part, as a global rating agency, DBRS proactively reviews its policies and practices on an ongoing basis and continues to implement measures to enhance transparency, analytical independence, ratings processes, methodologies and governance toward building market confidence in its ratings.

Under the European Union (EU) CRA Regulation,¹ existing CRAs such as DBRS that want to be registered must have adopted the necessary measures to comply with the EU CRA Regulation and have submitted their applications by September 7, 2010. DBRS filed its application for registration under the EU CRA Regulation on September 2, 2010. The EU CRA Regulation imposes a comprehensive set of requirements aimed at the quality and transparency of ratings and at conflicts of interest.

As a Nationally Recognized Statistical Rating Organization (NRSRO²) in the United States, DBRS is in the process of implementing measures that are required under the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (the Dodd-Frank Act). The reforms include, among other areas, extensive disclosure regarding rating methodologies and data relied on to determine credit ratings, as well as market information that can be used by investors to better understand a credit rating.

Canada is planning to implement a securities regulatory regime for CRAs that want to have their credit ratings eligible for use in places where credit ratings are referred to in Canadian securities legislation that is consistent with international standards and developments (the Canadian Framework).

1. Regulation (EC) No 1060/2009 of the European Parliament and of the Council on Credit Rating Agencies came into effect in December 2009 (EU CRA Regulation).

2. DBRS is registered with the U.S. Securities and Exchange Commission (SEC) as a Nationally Recognized Statistical Rating Organization (NRSRO) pursuant to the *Credit Rating Agency Reform Act of 2006* (CRA Reform Act) and the rules adopted thereunder. Prior to the implementation of the CRA Reform Act, DBRS was designated as an NRSRO by the staff of the SEC's Division of Market Regulation.



A common thread through these regulatory regimes is the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies (the IOSCO Code). In setting high standards and principles designed to improve investor protection and CRA accountability, the IOSCO Code continues to serve as a harmonizing platform for CRA regulation around the world. DBRS has voluntarily adhered to the IOSCO Code since its initial publication in 2004. In September 2010, DBRS published its updated *Business Code of Conduct for the DBRS Group of Companies* (the Business Code) on its website, www.dbrs.com, which reflects its global compliance with the IOSCO Code.

The requirements under the EU CRA Regulation, the Dodd-Frank Act and the Canadian Framework provide for additional rating information disclosures, analytical independence, oversight and inspection by local securities market supervisors. As a global CRA, DBRS is committed to ensuring a strong culture of compliance in each of the jurisdictions in which it does business.

In addition to its updated Business Code, DBRS has continued to augment existing policies and practices and to implement new measures that reflect its commitment to high standards.

Transparency and Disclosure

DBRS publishes a wide range of information on its website, www.dbrs.com, including its rating philosophy, scales, definitions, policies, processes and methodologies, so investors, regulators and other market participants can understand the basis for a DBRS rating. DBRS has spent considerable time in updating its existing rating methodologies in all corporate sectors and structured finance (SF) product groups and has published for comment a variety of new rating methodologies.

To ensure investors are able to denote the type of rating being published, DBRS differentiates its SF ratings from traditional corporate bond ratings through the use of the symbol (sf) as a modifier on all SF ratings in its press releases and rating reports on its public website. Although having the SF modifier is a requirement under the EU CRA Regulation, DBRS has implemented the modifier on a global basis to provide consistent transparency regarding its SF ratings.

Surveillance is a key area of focus at DBRS. DBRS continues to publish monthly surveillance reporting for SF asset classes. DBRS recently launched enhanced surveillance reporting for asset-backed securities (ABS) and asset-backed commercial paper (ABCP) in Canada. These enhanced reports provide investors with a better understanding of key rating factors and drivers for each rating. The reports offer more comprehensive surveillance reporting, providing detailed historical data for trend analysis and the monitoring of triggers. They contain an extended time series (typically, a minimum of two years) presented in both data point and graph format to support trend analysis at the transaction level. Investors can also benchmark transactions within specific asset classes.

Under the EU CRA Regulation, the Committee of European Securities Regulators (CESR) will be establishing a central repository of CRAs' historical performance data (CEREP). CRAs must provide the required information twice a year in a standardized format, starting July 1, 2011, and CESR is required to publish annual summary information. DBRS is an active member of the CEREP team.



The Dodd-Frank Act will require adjustments to performance data. DBRS already publishes a wide range of performance data, including annual rating transition and default studies, monthly performance analytic reports and surveillance for various SF asset classes as well as reports on the commercial paper market and activity in Canada. In compliance with NRSRO requirements, DBRS makes publicly available a random sample of DBRS rating actions ([DBRS Rating History Samples](#)) and a complete history of all DBRS rating actions for credit ratings initially determined on or after June 26, 2007 ([DBRS Ratings Action History](#)) in XBRL (eXtensible Business Reporting Language) format, which allows investors, regulators and other market participants to compare NRSRO ratings at any point in time. DBRS Rating History Samples and DBRS Ratings Action History are available at www.dbrs.com under Regulatory Affairs.

DBRS believes that additional rating performance transparency helps drive ratings accuracy as well as improve investor education.

Independence

DBRS maintains a wide range of policies, procedures and practices to address conflicts of interest.³ The DBRS “look-back” policy for departing analysts was updated to reflect the EU CRA Regulation, and its procedures were updated for consistency with the Dodd-Frank Act requirements.

The DBRS Business Code was updated to enable the referral of tips from non-employees to the DBRS Chief Compliance Officer (CCO), via a formal process, that allege a material violation of an applicable law by an issuer rated by DBRS. Such tips may be referred to law enforcement or regulatory authorities.

The EU CRA Regulation prohibits analysts and other employees of CRAs from soliciting or accepting money, gifts or favours from anyone with whom the CRA does business. The previous DBRS policy, which prohibited analytical staff from accepting gifts or entertainment other than in the context of normal business activities, has been modified to meet the EU CRA Regulation by prohibiting all gifts.

Governance

The DBRS Business Code is supplemented by the Employee Code of Conduct (Employee Code), which provides guidance regarding DBRS standards of conduct to be followed by all DBRS staff.

As part of its governance framework, DBRS employs a global CCO who is responsible for oversight of DBRS compliance to its Business Code, staff compliance to the Employee Code and overall compliance in all jurisdictions in which DBRS does business.

The EU CRA Regulation, the Dodd-Frank Act and the Canadian Framework require a CRA to establish an independent supervisory board, board of directors or equivalent to whom the CCO reports. DBRS believes this is an important oversight mechanism to help ensure CRA compliance with regulatory requirements and any additional practices they have implemented.

DBRS Commitment

Producing high-quality ratings is the core of DBRS business. DBRS values its relationship with market participants and will continue to communicate changes it has made to its policies and practices that may result from new and changed regulation or simply resulting from its commitment to maintaining high standards to “getting the rating right.”

3. See [How DBRS Maintains Independence and Ratings Quality](#), a DBRS commentary published on November 30, 2009.



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