

Methodology

*Swap Criteria for Canadian Structured
Finance Transactions*

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Swap Criteria for Canadian Structured Finance Transactions

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Swap Criteria for Canadian Structured Finance Transactions

Hedging transactions play a very important role in most structured finance transactions. When a swap is included in a structured finance transaction, it is imperative that the hedge counterparty meet its payment obligations so that noteholder payments can be made according to the payment priorities in the transaction documentation. In order to provide a AAA or R-1 (high) rating on debt obligations that rely in part on hedging transactions, DBRS must be satisfied that certain hedging transaction risks have been mitigated.

The following is DBRS's swap criteria for Canadian structured finance transactions that are or will be rated AAA or R-1 (high) by DBRS. In situations where the ratings of the applicable securities are or will be rated below AAA or R-1 (high) by DBRS, DBRS may modify some of the requirements set out below as it deems appropriate for the applicable rating level. The DBRS swap criteria may also apply to structured finance transactions that involve Canadian assets funded in the United States; however, the methodology is not intended to apply to U.S. structured credit and securitization transactions with U.S. assets only and no connection to Canada.

For ease of reference, a summary of DBRS's Canadian structured finance swap criteria (including a summary of requirements for transaction parties and DBRS requirements for other key swap provisions) is provided in Appendix A.

COUNTERPARTY RISK AND ACCEPTABLE RATINGS THRESHOLDS

Swap counterparties for Canadian securitization or structured finance transactions (excluding Canadian covered bonds) rated AAA or R-1 (high) by DBRS (collectively referred to as "structured credit transactions") must meet DBRS's required minimum ratings thresholds. Alternatively, they must have their obligations guaranteed by a guarantor that meets the required minimum ratings thresholds and satisfies the Rating Agency Condition¹ and the guarantee must be satisfactory to DBRS.

First Ratings Threshold

DBRS's swap counterparty First Ratings Threshold for Canadian structured credit transactions is A (high) or R-1 (middle) by DBRS (or its equivalent)² or the swap counterparty must satisfy the Rating Agency Condition.

Second Ratings Threshold

DBRS's swap counterparty Second Ratings Threshold for structured credit transactions where a second ratings trigger is used is BBB (high) or R-2 (high) by DBRS (or its equivalent) or the swap counterparty must satisfy the Rating Agency Condition. Note that two ratings triggers are typically only used in collateralized debt obligation and other complex structured finance transactions or where one of the ways to mitigate a counterparty downgrade is for the counterparty to post collateral, as discussed below.

ACCEPTABLE REMEDIAL ACTIONS WHEN A COUNTERPARTY IS DOWNGRADED

If the First Ratings Threshold Is Not Maintained

If a counterparty is downgraded below the required ratings of the First Ratings Threshold, the counterparty must take at least one of the following remedial actions within 30 days:

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1. Note that where any of the mitigants referred to in this publication are subject to satisfaction of the Rating Agency Condition, DBRS must confirm in writing that the proposed action or remedy will not cause the current ratings of any notes that may be affected in such circumstances to be withdrawn or reduced solely as a result of such proposed action or remedy.
 2. Reference to "its equivalent" as used throughout this publication refers to DBRS's rating equivalent.



(1) Post additional Eligible Collateral (see the table below for a list of Eligible Collateral) pursuant to an International Swaps and Derivatives Association (ISDA) Credit Support Annex to cover at least one payment period in advance, to be rebalanced at the end of each payment period. Note that for a total return swap, the amount to be posted is subject to satisfaction of the Rating Agency Condition.³

(2) Provide a guarantee from a guarantor that meets the First Ratings Threshold, provided that such guarantor also satisfies the Rating Agency Condition (an Eligible Guarantor) and the guarantee is satisfactory to DBRS (note that it will only be acceptable if it contains certain required protection provisions, is irrevocable and meets certain other criteria, such as there being no tax consequences or increased costs for the note issuer).⁴

(3) Assign the downgraded counterparty's obligations under the swap documentation, on substantially the same terms and in writing, to another counterparty that meets the First Ratings Threshold and satisfies the Rating Agency Condition (and provided that the assignment will not result in any tax consequences or increased costs for the note issuer).

(4) Take such other action agreed to between the parties to the hedging transaction that satisfies the Rating Agency Condition.

If none of the above actions has been taken by the end of the 30th day, the swap must terminate at par for the note issuer.⁵

If the Second Ratings Threshold Is Not Maintained

Assuming that the counterparty did not assign its obligations after it was downgraded below the First Ratings Threshold and that there is a Second Ratings Threshold in the transaction documentation, if a counterparty is subsequently downgraded below the Second Ratings Threshold, the counterparty must take at least one of the following remedial actions within 30 days:

(1) Assign the downgraded counterparty's obligations under the swap documentation, on substantially the same terms and in writing, to another counterparty that meets the First Ratings Threshold and satisfies the Rating Agency Condition (and provided that the assignment will not result in any tax consequences or increased costs for the note issuer).

(2) Post additional Eligible Collateral (see the table below for a list of Eligible Collateral) pursuant to an ISDA Credit Support Annex to cover all future payment obligations under the swap.

(3) Take such other action agreed to between the parties to the hedging transaction that satisfies the Rating Agency Condition.

If none of the above remedial actions has been taken by the end of the 30th day, the swap must terminate at par for the note issuer.⁶

3. This remedial action is only available if the hedging transaction includes a Second Ratings Threshold as it may not be appropriate to only post collateral one payment period in advance for the life of the transaction, depending on the severity of the downgrade.

4. This remedial action is only available if the Eligible Guarantor is subject to similar downgrade provisions as the counterparty. In other words, the transaction documents must include a provision where, if the Eligible Guarantor's rating falls below the First Ratings Threshold, the guarantor is no longer an Eligible Guarantor and must either be replaced or the counterparty whose obligations have been guaranteed must take one of the other remedial actions suggested above.

5. In this context, "at par for the note issuer" means (a) each party must make all final exchanges and/or payments required to be made on termination of the swap, (b) the downgraded counterparty must pay all amounts determined to be payable by it to the note issuer in connection with such early termination and (c) no amount should be payable by the note issuer in connection with such early termination.

6. See footnote 5.



ELIGIBLE COLLATERAL AND VALUATION PERCENTAGES

The collateral listed in the table below is acceptable to meet a counterparty's posting obligations (Eligible Collateral). Each type of Eligible Collateral is listed with a valuation percentage, which is applied to the valuation of that collateral by the Calculation Agent of the applicable hedging transaction. All other types of proposed collateral are subject to satisfaction of the Rating Agency Condition, with the valuation percentage to be acceptable to DBRS at the time of posting. To avoid currency risk, U.S.-dollar-denominated collateral is only permitted when the payment obligation under the hedging transaction is in U.S. dollars (see the Key Risk Matters section below for more information on acceptable ways to deal with currency risk).

Eligible Collateral and Valuation Percentages

Type of Eligible Collateral	Valuation Percentage
Canadian-Dollar-Denominated Collateral	
Cash.	100%
Canadian-dollar-denominated debt obligations of or guaranteed by the government of Canada (Federal Governments), with a remaining term to maturity at the time of transfer of less than or equal to 35 days, provided they are not subject to a withholding tax exigible by any governmental authority.	100%
Canadian-dollar-denominated debt obligations of or guaranteed by a bank governed by the <i>Bank Act</i> (Canada) with a long-term rating of at least AA (low) by DBRS (or its equivalent) or a short-term rating of at least R-1 (middle) by DBRS (or its equivalent) (Bank Obligations), with a remaining term to maturity at the time of transfer of less than or equal to 35 days, provided they are not subject to a withholding tax exigible by any governmental authority.	100%
Canadian-dollar-denominated asset-backed commercial paper (ABCP) issued by Global Liquidity Standard (GLS) compliant ABCP issuers (Permitted ABCP), the underlying assets of which are not collateralized debt obligations (CDOs) and such Permitted ABCP has a short-term rating of R-1 (high) by DBRS (or its equivalent), with a remaining term to maturity at the time of transfer of less than or equal to 35 days, provided it is not administered by, or does not have liquidity support provided by, the counterparty to the swap or any affiliate of the counterparty to the swap.	100%
Federal Governments with a remaining term to maturity at the time of transfer of more than 35 days but less than or equal to one year, provided they are not subject to a withholding tax exigible by any governmental authority.	99.5%
Canadian-dollar-denominated debt obligations of or guaranteed by the government of a Canadian province with a long-term rating of at least AA (low) by DBRS (or its equivalent) or a short-term rating of at least R-1 (middle) by DBRS (or its equivalent) (Provincial Governments), with a remaining term to maturity at the time of transfer of less than or equal to one year, provided they are not subject to a withholding tax exigible by any governmental authority.	99%
Federal Governments with a remaining term to maturity at the time of transfer of more than one year but less than five years, provided they are not subject to a withholding tax exigible by any governmental authority.	98.5%
Provincial Governments with a remaining term to maturity at the time of transfer of more than one year but less than or equal to five years, provided they are not subject to a withholding tax exigible by any governmental authority.	98%
Federal Governments with a remaining term to maturity at the time of transfer of more than five years but less than or equal to ten years, provided they are not subject to a withholding tax exigible by any governmental authority.	97.5%



Eligible Collateral and Valuation Percentages

Type of Eligible Collateral	Valuation Percentage
Bank Obligations, in each case with a remaining term to maturity at the time of transfer of more than 35 days but less than or equal to one year, provided they are not subject to a withholding tax exigible by any governmental authority.	97.5%
Permitted ABCP, the underlying assets of which are not CDOs and that has a short-term rating of R-1 (high) by DBRS (or its equivalent), with a remaining term to maturity at the time of transfer of more than 35 days but less than or equal to one year, provided it is not administered by, or does not have liquidity support provided by, the counterparty to the swap or any affiliate of the counterparty to the swap.	97%
Provincial Governments having a remaining term to maturity at the time of transfer of more than five years but less than or equal to ten years, provided they are not subject to a withholding tax exigible by any governmental authority.	95%
U.S.-Dollar-Denominated Collateral (Only Permitted if There Is a U.S.-Dollar Element to Swap)	
Cash.	100%
U.S.-dollar-denominated debt obligations of the U.S. Treasury (U.S. Treasury Obligations) with a remaining term to maturity at the time of transfer of less than or equal to 35 days, provided they are not subject to a withholding tax exigible by any governmental authority.	100%
U.S.-dollar-denominated debt obligations of or guaranteed by the government of Canada (USD Federal Governments) with a remaining term to maturity at the time of transfer of less than or equal to 35 days, provided they are not subject to a withholding tax exigible by any governmental authority.	100%
U.S.-dollar-denominated debt obligations of or guaranteed by a bank governed by the <i>Bank Act</i> (Canada) that has a long-term rating of at least AA (low) by DBRS (or its equivalent) or a short-term rating of at least R-1 (middle) by DBRS (or its equivalent) (USD Bank Obligations), with a remaining term to maturity at the time of transfer of less than or equal to 35 days, provided they are not subject to a withholding tax exigible by any governmental authority.	100%
U.S.-dollar-denominated ABCP issued by a GLS-compliant issuer (Permitted USD ABCP), the underlying assets of which are not CDOs and such Permitted USD ABCP has a short-term rating of R-1 (high) by DBRS (or its equivalent), with a remaining term to maturity at the time of transfer of less than or equal to 35 days, provided it is not administered by, or does not have liquidity support provided by, the counterparty to the swap or any affiliate of the counterparty to the swap.	100%
U.S.-dollar-denominated debt obligations of or guaranteed by the government of a province of Canada (USD Provincial Governments), with a long-term rating of at least AA (low) by DBRS (or its equivalent) or a short-term rating of at least R-1 (middle) by DBRS (or its equivalent), with a remaining term to maturity at the time of transfer of less than or equal to 35 days, provided they are not subject to a withholding tax exigible by any governmental authority.	98%
U.S. Treasury Obligations with a remaining term to maturity at the time of transfer of more than 35 days but less than or equal to one year, provided they are not subject to a withholding tax exigible by any governmental authority.	98%
USD Federal Governments with a remaining term to maturity at the time of transfer of more than 35 days but less than or equal to one year, provided they are not subject to a withholding tax exigible by any governmental authority.	98%
USD Provincial Governments with a remaining term to maturity at the time of transfer of more than 35 days but less than or equal to one year, provided they are not subject to a withholding tax exigible by any governmental authority.	97.5%



Eligible Collateral and Valuation Percentages

Type of Eligible Collateral	Valuation Percentage
USD Bank Obligations, in each case with a remaining term to maturity at the time of transfer of more than 35 days but less than or equal to one year, provided they are not subject to a withholding tax exigible by any governmental authority.	97.5
Permitted USD ABCP, the underlying assets of which are not CDOs and such Permitted USD ABCP has a short-term rating of R-1 (high) by DBRS (or its equivalent), a remaining term to maturity at the time of transfer of more than 35 days but less than or equal to one year, provided it is not administered by, or does not have liquidity support provided by, the counterparty to the swap or any affiliate of the counterparty to the swap.	97%

Eligible Collateral Held in Accounts at Eligible Institutions

Any Eligible Collateral in the form of cash must be held in an account with an Eligible Institution.⁷ Eligible Collateral in the form of investment property or securities must also be held in an account with an Eligible Institution, but in the case where the account is held with an unrated securities intermediary, it is possible to satisfy the Rating Agency Condition by relying on the securities intermediary's parent rating, provided that the parent is a financial institution that meets the Eligible Institution rating requirements. It may also be possible to satisfy the Rating Agency Condition with respect to an Eligible Institution that does not meet the rating requirements by relying on the institution's parent rating if the parent guarantees the institution's obligations and it meets the Eligible Institution rating requirements. Collateral may also be held by a Custodian, provided that it meets the requirements for a Custodian as set out in DBRS's *Legal Criteria for Canadian Structured Finance* (which can be found at www.dbrs.com). In each of the above cases, there must be downgrade triggers in the relevant documentation such that if the Eligible Institution, Custodian or parent's rating no longer meets the required ratings nor can it satisfy the Rating Agency Condition, the applicable party must be replaced by an entity that does meet such requirements within 30 days.

In addition, DBRS must be satisfied that the account is bankruptcy remote such that on the bankruptcy of the counterparty, any funds in the account will not be at risk of being caught up in the counterparty's bankruptcy proceedings. This can be achieved by a legal opinion being provided by counsel to the counterparty, by setting up the account in the name of the note issuer or, in exceptional circumstances, by being held in the name of the counterparty together with a perfected first-priority security interest or the account must be held in trust for the note issuer/trust.

If DBRS considers it acceptable for the collateral account to be held in an account in the name of the counterparty that is not in trust for the note issuer/trust, an account control agreement must be entered into by the securities intermediary, the counterparty and the note issuer/trust (or such other method of perfection as required by applicable law must be completed), and DBRS must be satisfied that the note issuer/trust holds a first-priority perfected security interest in the account.

PAYMENT PRIORITY TO COUNTERPARTIES

The determination of payment priority to swap counterparties is based on four separate types of swap payments: regular swap payments; regular adjustments to swap payments (where payments are reset each payment period); amendments to the notional amount or other amendments that may result in additional costs to the note issuer/trust; and termination payments.

7. In DBRS's *Legal Criteria for Canadian Structured Finance* (which can be found at www.dbrs.com), an Eligible Institution is defined as typically being a Canadian chartered bank or trust company that has a rating of least AA (low) and R-1 (middle) by DBRS or an institution that otherwise satisfies the Rating Agency Condition.



Regular Swap Payments

Regular swap payments should rank no higher in priority than the payment of interest on the senior notes on an ongoing basis under the transaction waterfall. The equivalent ranking with the payment of interest to the noteholders reflects the importance of the swap payment cash flows in the transaction.

Regular Adjustment Payments

Where a swap is adjusted at the beginning or end of each payment period and swap adjustment payments must be made by the parties accordingly, in the absence of any default or termination event, these payments should rank no higher in priority than the payment of principal to senior noteholders on an ongoing basis under the transaction waterfall.

Amendments to the Notional Amount

Amendments to the notional amount or other aspects of the swap that result in additional costs to the note issuer should rank below both senior and subordinated principal payments to the noteholders in the transaction waterfall.

Termination Payments

If there is an event of termination where the counterparty is the sole affected or defaulting party, any termination payments to the counterparty should rank below principal payments to all noteholders in the transaction waterfall. Because of this subordination, payments to swap counterparties at this stage in the transaction should not be netted to ensure the intended priority of payments is respected. If the counterparty is neither the sole affected nor sole defaulting party, payments due to the counterparty should rank no higher in priority than the payment of principal to the senior noteholders.

KEY RISK MATTERS

When rating a transaction, DBRS considers the following risks, which must be mitigated:

- Cross-currency risk, if applicable.
- Prepayment rates that differ from the forecast schedule – fast pay/slow pay risk.
- Basis risk (where the funding costs differ from the note interest rate (prime, LIBOR, banker's acceptance (BA) or commercial paper (CP)).
- Fixed/floating interest rate risk.

As these risks are separate and distinct from one another, different counterparties (with the required ratings) may be required to assume them.

Market Structures to Address Certain Key Risks

Cross-Currency Risk

Currency risk can arise if the collateral posted under a swap or the assets securitized are in a different currency than the debt obligations. There may also be currency-rate fluctuations between the time the assets were securitized or the original collateral was posted and the time at which value is assessed. One way to avoid currency risk altogether is if any posted collateral under a swap or the funding of the assets being purchased is denominated in the same currency as the note issuer's obligations.

If a transaction involves different currencies, DBRS expects this risk to be mitigated by a cross-currency swap. Any other method of addressing this risk must satisfy the Rating Agency Condition and must take into account the time frame of the exposure to the currency risk. Other methods of addressing cross-currency risk that may satisfy the Rating Agency Condition include the following:

(1) Using forward agreements, where the conversion rate is set at various maturity dates.

(2) Using an acceptable additional amount of posted collateral (e.g., where the other currency is U.S. dollars, using a 10% cushion based on the gross notional amount of the swap, to be posted in the form of Eligible Collateral, where the value of the collateral is reset monthly to ensure fluctuations greater than 10% are addressed appropriately).



(3) Where appropriate, taking an indemnity from a seller that meets the Indemnitor Ratings Threshold (as defined below) to cover movements in the exchange rate between settlement periods (this mitigation method is only acceptable in exceptional circumstances because in the event the seller providing the indemnity is downgraded rapidly, it may be difficult to find another means to cover the risk if a replacement indemnity cannot be provided in time or at all).

Prepayment Risk

Prepayment risk relates to the difference between the actual prepayment speed of a traditional-asset transaction and the forecast speed embedded in the swap. A common method used to deal with this risk that is acceptable to DBRS (and would satisfy the Rating Agency Condition) is to enter into a balance guarantee swap, whereby the counterparty under the swap agrees to reset the notional value of the swap on a monthly basis to reflect the new asset pool balance. In this manner, the notional value is not affected by any changes in the prepayment speed that may be experienced over the life of the assets in the transaction pool. Another method to address prepayment risk that DBRS may consider acceptable is to buy a series of caps and floors to create a band in which the outstanding pool balance will be maintained. This structure has the benefit of being flexible through the use of caps or floors in the event the prepayment speed changes substantially.

Basis Risk

Basis risk (prime, LIBOR, BA or CP) represents the gap between the cost of funds to the note issuer (CP) and the basis of the swap (BA). In exceptional circumstances, DBRS may consider it acceptable to take an indemnity from a seller that meets the Indemnitor Ratings Threshold (as defined below) to address this risk; however, as above, there are risks in accepting an indemnity in the event of a rapid downgrade of the seller or when the indemnity is unsecured and cannot be replaced in time or at all. If DBRS does not think an indemnity is an appropriate way to mitigate basis risk, the following are other methods that DBRS may consider acceptable:

- (1) Use a cash reserve account, with the amount required to be deposited being greater than the highest monthly anticipated spread to be fully funded at the beginning of the transaction.
- (2) Ensure there is sufficient spread from the pool of assets available to mitigate the risk.
- (3) If the pool is being discounted due to subvention of interest, the discount rate can be increased to ensure sufficient cash flow is available in the transaction to address the risk.
- (4) Enter into a basis swap whereby the counterparty agrees to pay the cost of funds or CP rate rather than the BA rate.

Fixed/Floating Rate Risk

The fixed/floating rate risk exists when a pool of assets is funded by a liability that has a different interest rate basis. Generally, this is because the obligors of the assets in the transaction pools have financed their assets on the basis of a fixed rate of interest, while the securitization transaction is funded through the issuance of floating-rate notes. DBRS expects the interest mismatch risk to be addressed by an interest rate swap (where one swap party agrees to pay a fixed rate of interest and receive a floating rate of interest in return and the other agrees to pay a floating rate of interest and receive a fixed rate in return). Scheduled payments on the interest rate swap are based on the forecast cash flows from the pool of assets and interest generated on those assets, with the forecast balance of the pool acting as the basis for the notional value of the swap.

Back-to-Back Swaps

One structure acceptable to DBRS that is used by a note issuer to pass certain of the above risks back to the counterparty is a back-to-back swap, where the note issuer enters into a swap with a financial institution as counterparty and the financial institution then enters into a similar swap with the seller to pass the risk it takes under the first swap with the note issuer back to the seller. Certain variations of the back-to-back swap include a monthly reset of the notional amount and a basis risk swap to address cost-of-funds risk. Back-to-back swaps are used to address prepayment risk and interest rate risk.



Timing/Maturity Date of Swaps

For a swap to be considered acceptable by DBRS, it must have a maturity profile that meets or exceeds the final payment profile of the underlying assets in the transaction (or payment in full on all outstanding notes issued in relation to the transaction) to ensure that an unhedged position does not exist that may expose the note issuer to risks at the tail end of the maturing receivable pool. In other words, the swap must extend to at least the last payment date of the underlying assets or until all outstanding notes have been paid in full.

Indemnities

If, in exceptional circumstances, DBRS considers it acceptable to address one of the above risks by an indemnity from a financial institution, seller or parent company, the terms of the indemnity must be acceptable to DBRS, the indemnitor must satisfy the Rating Agency Condition and it must maintain the following minimum ratings thresholds (the Indemnitor Ratings Threshold):

- Non-financial institutions and sellers (or a guarantor of the indemnitor that has the required Indemnitor Ratings Threshold and satisfies the Rating Agency Condition (an Acceptable Indemnitor Guarantor)) must be rated at least BBB (low) by DBRS (or its equivalent) or otherwise satisfies the Rating Agency Condition.
- Financial institutions (or an Acceptable Indemnitor Guarantor) must be rated at least A (low) by DBRS (or its equivalent) or otherwise satisfies the Rating Agency Condition.

An indemnity will only be acceptable if the terms of the indemnity are satisfactory to DBRS (including the Indemnitor being subject to non-petition language as described below). In particular, the relevant documentation must include downgrade provisions such that, if the rating of the indemnitor (or the Acceptable Indemnitor Guarantor) falls below the Indemnitor Ratings Threshold, the indemnitor must take one of the following remedial actions within ten days:

- Provide a replacement indemnity on substantially the same terms from an entity that meets the required Indemnitor Ratings Threshold (or its Acceptable Indemnitor Guarantor meets such threshold) and satisfies the Rating Agency Condition.
- Such other remedy that satisfies the Rating Agency Condition.

ACCEPTABLE SWAP DOCUMENTATION AND LEGAL MATTERS

Swaps will only be acceptable if they are based on the ISDA Master Agreement and other ISDA standard agreements (including the Confirmation, Schedule and Credit Support Annex). DBRS will specifically expect to see the following in the swap documentation:

- Amendments, assignments and transfers requiring satisfaction of the Rating Agency Condition (unless, in the case of a transfer, it is to a counterparty that satisfies the First Ratings Threshold and the transfer is on the same terms and in writing and does not result in any tax consequences or increased costs for the note issuer).
- Limited recourse language (recourse limited to the assets of the note issuer).
- Non-petition language (i.e., the counterparty (and, if applicable, any guarantor, Indemnitor or credit support party) agrees that it will not commence bankruptcy proceedings against the note issuer for at least one year plus one day after the termination of the transaction or repayment in full of the outstanding notes).

CONCLUSION

Compliance with the swap criteria indicated in this publication is required for Canadian structured credit transactions. In situations where the ratings of the applicable securities are or will be rated below AAA or R-1 (high) by DBRS, DBRS may modify some of the requirements set out above as it deems appropriate for the applicable rating level.



Appendix A: Summary of Swap Criteria

Summary of Requirements for Transaction Parties

Transaction Party	Minimum Rating	Replacement	Other
Swap Counterparty	<p>First Ratings Threshold: A (high) or R-1 (middle) by DBRS or otherwise satisfies RAC.</p> <p>If Second Ratings Threshold is used: BBB (high) or R-2 (high).</p> <p><i>Note: If the Swap Counterparty doesn't meet the First Ratings Threshold, RAC may be satisfied by relying on a guarantee of the Swap Counterparty's obligations, provided that the guarantor meets the First Ratings Threshold requirements.</i></p>	<p>A (high) or R-1 (middle) by DBRS or otherwise satisfies RAC.</p>	<ul style="list-style-type: none"> • If Swap Counterparty's rating drops below First Ratings Threshold or no longer satisfies RAC, it must do one of the following within 30 days: <ol style="list-style-type: none"> (1) Post acceptable collateral in an amount equal to one payment period in advance (as long as the Swap Counterparty is subject to the Second Ratings Threshold). (2) Provide a guarantee from an entity that meets the First Ratings Threshold and the guarantee satisfies RAC. (3) Assign obligations to an entity that meets the First Ratings Threshold and the assignment is on the same terms. (4) Take such other action that satisfies RAC. • If the Swap Counterparty is subject to the Second Ratings Threshold and the Swap Counterparty did not assign its obligations after breaching the First Ratings Threshold, if its rating drops below the Second Ratings Threshold, it must do one of the following within 30 days: <ol style="list-style-type: none"> (1) Post acceptable collateral in an amount equal to all future payments. (2) Assign obligations to an entity that meets the First Ratings Threshold and the assignment is on the same terms. (4) Take such other action that satisfies RAC. • Should be subject to non-petition clause. • Legal successors, assignees and transferees (other than due to a downgrade) must meet First Ratings Threshold (or otherwise satisfy RAC) and succession, assignment and/or transfer must be on the same terms (i.e., no tax consequences, etc.).



Summary of Requirements for Transaction Parties

Transaction Party	Minimum Rating	Replacement	Other
Eligible Institution/Account Bank	<p>AA (low) and R-1 (middle) by DBRS or otherwise satisfies RAC.</p> <p><i>Note: If the Swap Counterparty doesn't satisfy the minimum rating requirement, RAC may be satisfied by relying on a guarantee of the Account Bank's obligations, provided that the guarantor meets the First Ratings Threshold requirements.</i></p>	<p>AA (low) and R-1 (middle) by DBRS or otherwise satisfies RAC.</p>	<ul style="list-style-type: none"> • Eligible Collateral must be held at an Eligible Institution/Account Bank that meets the minimum rating (or with a Custodian – see below) and must be bankruptcy remote from the Swap Counterparty. • Account should be in the name of the note issuer. • If the Account Bank's rating drops below the minimum rating threshold (and it can no longer satisfy RAC), it must be replaced by an account bank that meets the minimum rating (or otherwise satisfies RAC) within 30 days. • Should be subject to non-petition clause. • Legal successors, assignees and transferees (other than due to a downgrade) must meet minimum rating threshold (or otherwise satisfies RAC) and succession, assignment and/or transfer must be on the same terms (i.e., no tax consequences, etc.).
Custodian	<p>A (low) or R-1 (low) by DBRS or otherwise satisfies RAC.</p> <p><i>Note: If unrated or doesn't meet the minimum rating requirement, RAC may be satisfied by relying on the Custodian's parent rating if its parent satisfies the above rating requirements and it guarantees the Custodian's obligations. If the Custodian is holding investment property or collateral and is an unrated securities intermediary (or doesn't satisfy the minimum rating requirement), RAC may be satisfied by relying on the Custodian's parent rating if it is a financial institution that meets the above rating requirements, even if the parent does not guarantee the Custodian's obligations.</i></p>	<p>Satisfies RAC or has been appointed by extraordinary resolution (with prior written notice to DBRS of proposed noteholder meeting to consider appointment of replacement and prompt written notice to DBRS of replacement once approved).</p>	<ul style="list-style-type: none"> • Can hold Eligible Collateral on behalf of a Swap Counterparty if it meets the minimum rating. • Legally entitled to act in all relevant provinces and territories where it intends to hold assets records, or investments. • Limitation of liability of the Custodian should exclude its negligence, willful misconduct, bad faith and fraud. • Should remain responsible for its obligations and liable for the acts or omissions of any delegate notwithstanding any delegation of its duties. • Should be subject to non-petition clause. • Handing over assets, records, documents, files and/or collateral upon the Custodian's replacement or enforcement of the transaction security, etc., should not be subject to payment in full of outstanding fees or expenses to the Custodian (these should be accounted for in the transaction waterfall only). • Legal successors, assignees and transferees (other than due to a downgrade) must meet minimum ratings threshold (or otherwise satisfy RAC) and succession, assignment and/or transfer must be on the same terms (i.e., no tax consequences, etc.). • Documents should include downgrade trigger such that if the Custodian (or parent/guarantor) no longer satisfies the minimum rating or the RAC, a replacement must be appointed within 30 days.



Summary of Requirements for Transaction Parties

Transaction Party	Minimum Rating	Replacement	Other
Indemnitor	<p>If a non-financial institution (a parent of the seller/originator or a guarantor): At least BBB (low) by DBRS or otherwise satisfies RAC.</p> <p>If a financial institution: At least A (low) by DBRS or otherwise satisfies RAC.</p>	<p>If a non-financial institution (a parent of the seller/originator or a guarantor): At least BBB (low) by DBRS or otherwise satisfies RAC.</p> <p>If a financial institution: At least A (low) by DBRS or otherwise satisfies RAC.</p>	<ul style="list-style-type: none"> • In exceptional circumstances DBRS may consider it acceptable to use an indemnity from a financial institution, seller or parent company to mitigate cross-currency risk, prepayment risk, basis risk or fixed/floating rate risk. • The terms of the indemnity must satisfy RAC. • Should be subject to non-petition clause. • Documents should include downgrade trigger such that if the Indemnitor no longer satisfies the minimum rating or the RAC, a replacement must be appointed that meets the minimum rating within 10 days (and the indemnity must be on the same terms) or the risk must be mitigated in some other way that satisfies RAC.

Summary of Other Swap Requirements

Provision	DBRS Swap Criteria
Priority of Swap Payments	<p>The following are acceptable priorities of swap payments in a transaction waterfall:</p> <p>(1) Regular Swap Payments: Should rank no higher than pari passu with interest on the senior Rated Securities.</p> <p>(2) Regular Adjustment Payments: Should rank no higher than pari passu with principal on the senior Rated Securities.</p> <p>(3) Amendments to the Notional Amount: Should rank below principal on both senior and subordinated Rated Securities.</p> <p>(4) Termination Payments: (a) If the counterparty is the sole affected or defaulting party, termination payments should rank below principal payments on all Rated Securities (and no netting of payments should be permitted at this stage) and (b) if the counterparty is neither the sole affected nor sole defaulting party, termination payments should rank no higher than pari passu with principal on the senior Rated Securities.</p>
Timing/Maturity Date of Swaps	<p>The swap maturity date must extend to the last payment date on the underlying assets or the date on which all the outstanding notes issued by the note issuer under the related transaction have been paid in full (whichever is earlier).</p>
Amendments	<ul style="list-style-type: none"> • Material amendments to any swap documents should be subject to satisfaction of RAC. • DBRS should receive prior written notice of all non-material amendments.
Assignments and Transfers	<p>Assignments and transfers by the swap counterparty should be subject to satisfaction of RAC unless the assignment/transfer is to a counterparty that satisfies the First Ratings Threshold, the transfer is on the same terms as the swap being transferred and in writing, and the assignment/transfer will not result in any tax consequences or increased costs for the note issuer.</p>
Swap Documentation	<p>Must be ISDA documentation (including ISDA Master Agreement, ISDA Schedule and Credit Support Annex) with accompanying Confirmation(s)</p>

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