



## Limitations to Uses of a Rating

There are certain limitations to the uses of a rating as well as certain possible misconceptions, such as the following:

### **(1) “EXACTLY” THE SAME CREDIT QUALITY**

No two issuers possess exactly the same characteristics, nor are they likely to have the same future opportunities. Consequently, two issuers with the same rating should not be considered to be of exactly the same credit quality. Rather, they should be considered as having similar credit quality and, accordingly, DBRS considers holders of these issued securities to be exposed to a similar possibility of default. A rating is not static. Economic forces and opportunities are continually changing; therefore, a security's credit quality is dynamic as well. By definition, each rating category must contain a degree of variability in relative credit quality in order to span the credit quality spectrum. The credit quality can, therefore, experience some modest fluctuation within the bounds of the rating without requiring an upgrade or downgrade.

### **(2) NOT A BUY OR SELL RECOMMENDATION**

A DBRS rating is not a buy/sell/hold recommendation. A rating is not a comment on the market price of a security nor is it an assessment of the appropriateness of ownership given various investment objectives. DBRS does not in any way evaluate the pricing of an issue or relative yield and does not provide investment advice.

DBRS believes that investors will use its ratings to assist them in gauging credit risk and to better understand the issuer and the security in question.

Non-credit risks that can meaningfully impact the value of the securities issued include: (1) Market risk – the risk that the value of a security can change due to fluctuations in interest rates, exchange rates, call provisions, prepayment risk, etc. (2) Trading liquidity risk – the risk that there may not be an acceptably priced market available at the point where the issuer wishes to sell. (3) Covenant risk – while DBRS reviews covenant structures as part of its rating process, there are numerous covenants that could affect the investor, but normally have little impact on the rating of the security, which include soft retraction situations, fixed / floating pricing, issuer abilities to exchange or redeem securities, and the ability to defer payments and non-cumulative structures.



### **(3) REFLECTION ON MANAGEMENT**

One of the factors involved in a rating is an evaluation of management's level of experience and competence. A low rating, however, does not necessarily reflect poorly on management. For example, it may be management's strategic initiative to pursue growth using a debt financed acquisition. While this may cause the company to inherit a higher financial risk profile, stockholders may benefit from the strategy.

Generally, management continually balance the demands of stockholders and creditors. As both groups provide capital to finance a company's long term goals, focusing on a rating to evaluate management performance could be inappropriate.

### **(4) THE RATING SYMBOL**

DBRS uses rating symbols as a simple and concise method of expressing its opinion to the market. While some investors may equate the rating symbol with the rating itself, in fact DBRS ratings usually consist of broader contextual information regarding the security provided by DBRS in rating reports, which generally set out the full rationale for the chosen rating symbol, and in other releases.

This additional information may be very useful to investors. For example, an investor concerned with portfolio diversification may consider a BBB rating on the securities of a U.K. mining company differently if the rating was driven by support from a BBB rated manufacturing parent in the U.S.

### **(5) THE STRUCTURED FINANCE MODIFIER**

DBRS uses the modifier "(sf)" next to the rating category in its press releases, ratings reports and on its public website for ratings that meet specific criteria to indicate that the rating applies to a structured finance instrument. The structured finance modifier does not change the meaning or definition of the rating in any way, nor does it change the risk of the particular structured finance instrument.

The structured finance modifier is applied to ratings in respect of the following structured finance instruments:

- Asset-backed securities (ABS)
- Asset-backed commercial paper (ABCP)
- Residential mortgage-backed securities (RMBS)
- Single- and multi-tranched collateralized debt obligations (CDOs) and credit default swaps (CDSs) with the exception of 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 an SF instrument