



Methodology
Rating Canadian ABCP

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Appendix summarizing methodology added April 2011



Insight beyond the rating.

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TABLE OF CONTENTS

Introduction	5
ABC Basics	5
The DBRS Approach	6
Threshold Issues	6
Risk Overview	6
At the Conduit Level	6
At the Series Level	6
At the Transaction Level	6
The DBRS Short-Term Rating Scale	7
Threshold Issues	8
Conduit Sponsorship Criteria	8
Capital Requirements	8
Disclosure Requirements	9
Human Resources	9
Information Systems	9
Outsourcing of Functions	10
Ongoing Requirements	10
Onsite Review	10
Seller Requirements	10
ABC Risk Analysis	12
The Conduit Level	12
Legal Risk/Legal Review	12
Legal Elements of an ABCP transaction	12
True Sale Versus Loan	13
Security Interest	13
Consolidation	13
Bankruptcy and Fraudulent Conveyance and Preferences Legislation	14
Revolving Versus Amortizing Structures	14
Commingling Risk	15
Partial Commingling	16



The Series Level	17
Credit Enhancement	17
Overcollateralization	17
Excess Spread	18
Reserve Accounts	18
Letters of Credit	18
Subordination	18
Program Wide Credit Enhancement	19
Rating PWCE	19
Determining Required Credit Enhancement	19
Liquidity Risk	20
Rating Liquidity	21
Interest Rate, Foreign Exchange and Counterparty Risk	21
The Transaction Level	23
Dilution risk	24
Transaction Surveillance and Reporting	25
Appendix 1: Glossary	26
Appendix 2: Rating Canadian ABCP Summary	27
Limitations	27
Application of Rating ABCP Methodology	27



Introduction

The purpose of this publication is to provide greater transparency to the rating process by outlining the methodology that DBRS applies when rating Canadian asset-backed commercial paper (ABCP).¹ It should be noted, however, that the scope of this methodology is limited to Canadian ABCP, which funds traditional, non-synthetic, non-levered financial assets. Traditional asset classes include, but are not limited to, automotive and equipment loans and leases, credit cards receivables and commercial and residential mortgages. For information on the DBRS rating approach to Canadian structured credit products such as collateralized debt obligations and collateralized bond obligations, please see *Rating Canadian Structured Credit Transactions*, available at www.dbrs.com.

The methodology outlined herein should not be seen as static. DBRS reviews market and legal developments on an ongoing basis to ensure that its policies and practices remain relevant. This publication should not be seen as prescribing a rigid template applicable in all circumstances. DBRS recognizes that each transaction is different and that mitigating factors may lead DBRS to modify some of its requirements.

ABCP BASICS

ABCP is a form of asset-backed security created to fund asset-backed transactions. Asset-backed transactions involve the legal separation of a pool of assets and their associated cash flows and contractual rights from the entity that generally originates, and in all cases owns, the assets prior to the transaction (the Seller).² Sellers are usually corporations seeking to raise financing through the issuance of debt. This transaction, referred to as securitization, comprises three distinct elements: 1) the transfer of assets from the Seller to a special purpose vehicle (SPV), 2) the SPV's issuance of debt to fund the purchase of the assets, and 3) the timely payment when due of interest and principal to noteholders from cash flow generated by the transferred assets and structural enhancements built into the transaction. The SPV will be bankruptcy remote from the Seller and can therefore issue securities backed by the cash flows and credit strength of the assets. In Canada, SPVs usually take the form of a trust and have their activities, assets and powers carefully restricted to those required for the transaction. SPVs that issue ABCP are referred to as ABCP Conduits.

ABCP has a term to maturity of 364 days or less. ABCP conduits may also issue securities with a maturity in excess of 364 days, referred to as medium-term notes (MTNs) or term asset-backed securities (ABS). ABCP is usually issued on a discount basis, but Conduits may also issue interest-bearing securities, which would be the case for term ABS.

1. For DBRS's methodology when rating U.S. ABCP, please see *Asset-Backed Commercial Paper Criteria Report: – U.S. ABCP Conduits* on www.dbrs.com.

2. See Appendix A: Glossary of Terms for the definitions of capitalized terms.



THE DBRS APPROACH

When rating ABCP, DBRS takes a comprehensive approach that involves a consideration of the appropriateness of Sponsors and Sellers, a review of risk elements at all levels of the transaction, and an examination of the legal structure and liquidity support available.

Threshold Issues

A number of threshold issues must be addressed before DBRS will assign a rating. DBRS maintains Conduit sponsorship requirements and Seller requirements that must be satisfied. Counterparties to the Conduit such as trustees and financial services agents are also subject to scrutiny and rating requirements where applicable.

Risk Overview

DBRS examines risk on three levels, the Conduit level, the Series level and the Transaction level. A brief description of these levels of analysis can be found below. These themes will be examined in greater detail in the pages that follow.

At the Conduit Level

DBRS will examine the Conduit's constating documents to obtain comfort that legal matters have been appropriately addressed and that structural and operational risks have been considered. The legal documentation must reflect the proposed structure and anticipated business issues. This review should not be seen as perfunctory or somehow secondary to credit analysis. Failure to address non-credit risks adequately may result in a rating lower than what would result purely on the basis of credit analysis, or may mean that DBRS is unable to rate the transaction.

At the Series Level

DBRS will review Series-level documentation to ensure that the features of a Series of securities issued by the Conduit are compatible with the rating. Liquidity and credit enhancement agreements and their providers will also be examined at the Series level or at the Transaction level as appropriate.

At the Transaction Level

Assets typically securitized include loans, leases and mortgages. However, Conduits do not purchase individual contracts representing the obligations of individual consumers from Sellers. Sellers bundle together assets such as loans and leases and sell a package to the Conduit that may contain thousands of underlying contracts. These bundles of underlying contracts represent the assets of the Conduit and, along with structural enhancements, will be relied upon to pay interest and principal on the ABCP. These bundles of underlying contracts are referred to as the Assets of the Conduit, and the structure around the purchase of an Asset is referred to as a Transaction.

As the Assets that support ABCP are essential to the repayment of the ABCP, DBRS will review the credit characteristics of each asset pool held by a Conduit. This review will include an examination of any structural enhancements built into the Asset or the Transaction. DBRS will generally rate a series of ABCP issued by a Conduit at the rating level reflective of the weakest underlying Asset supporting the Series. This "weakest link" approach, coupled with the requirement that DBRS review and rate each Transaction entered into by the Conduit prior to its purchase is a different approach from that taken by certain other major rating agencies, which may use a portfolio approach or rely more extensively on liquidity providers to mitigate certain risks.

The transaction may also include Transaction-specific counterparties such as credit enhancers or liquidity or swaps providers. DBRS will seek to ensure that the risks introduced by these counterparties are properly considered.



THE DBRS SHORT-TERM RATING SCALE

With more short-term rating gradations than other credit rating agencies, DBRS offers commercial paper investors more specificity with regard to credit risk. DBRS's ratings of R-1 (high), R-1 (middle) and R-1 (low) on an ABCP Conduit correspond to a AAA to an A (low) long-term risk profile. DBRS believes that these more granular short-term ratings help investors to better understand the risks inherent in ABCP portfolios.

Short-Term Rating Scales Comparison

DBRS	S & P	Moody's	Fitch Ratings
R-1 (high)	A-1+	P-1	F1+
R-1 (middle)	A-1+	P-1	F1+
R-1 (low)	A-1	P-1	F1
R-2 (high)	A-2	P-2	F2
R-2 (middle)	A-2	P-2	F2
R-2 (low)	A-2	P-2	F2
R-3 (high)	A-3	P-3	F3
R-3 (middle)	A-3	P-3	F3
R-3 (low)	A-3	P-3	F3
D			

Note: The above table is provided for comparison purposes only and may not reflect an exact representation of comparable rating categories.



Threshold Issues

As referenced above, before DBRS will consider rating an ABCP transaction, certain threshold issues must be addressed. DBRS will rate an ABCP transaction only when it is satisfied as to the financial wherewithal and operational capabilities of the Conduit Sponsor (the entity that establishes a Conduit) and the Seller(s) that transfer Assets to the Conduit.

CONDUIT SPONSORSHIP CRITERIA

Conduits are typically established by banks or finance companies that have available a pool of financial assets suitable for securitization. For example, an automotive finance firm may establish a Conduit to fund the loans it has entered into with its retail customers. In addition to establishing the Conduit, the Sponsor will often contract with the Conduit as an administrator and service provider and may be the only Seller of assets sold to the Conduit. A Conduit that acquires assets exclusively from one Seller is known as a single-seller Conduit. A Conduit may also be established by an entity that does not originate the financial assets being securitized; these Conduits are commonly referred to by association with the Conduit Sponsor. Conduits may be single-seller Conduits that purchase assets exclusively from one Seller, or may be multi-seller Conduits that purchase assets from numerous Sellers.

Given the central role of the Sponsor in the day-to-day operation and administration of the Conduit, the financial strength, experience and ability of the Sponsor are material to any rating of ABCP issued by the Conduit. DBRS therefore maintains minimum criteria that a Sponsor must meet in order to establish an ABCP Conduit that will issue securities ratable by DBRS.

In addition to serving as DBRS criteria for ABCP Conduit sponsorship, the below will also guide DBRS when considering Conduit Sponsors that issue term ABS.

Capital Requirements

To ensure Conduit Sponsors have the financial wherewithal to meet their obligations to the Conduit, DBRS requires Sponsors to maintain a minimum level of equity capital as follows:

- The Sponsor will be required to maintain unencumbered equity equal to the greater of \$5 million and 5% of the outstanding ABCP to a maximum of \$50 million. This must be identifiable in audited financial statements of the Sponsor or its parent entity.
- In a single-seller transaction, the Sponsor or the Seller will be required to meet the minimum equity requirement outlined above.
- Where the proposed Sponsor is a financial institution (or a subsidiary of a financial institution) regulated by the Bank Act (Canada) that has a DBRS long-term rating of at least A (low), DBRS will deem the capital requirements to have been met.

The sponsorship and day-to-day functioning of a Conduit requires capabilities and experience that a prospective Sponsor cannot be assumed to possess solely by satisfying the above capital requirements. Operational “bench strength” and intimate knowledge of the operation of an ABCP Conduit must be demonstrated. Where the proposed Sponsor is a financial institution (or a subsidiary of a financial institution) regulated by the Bank Act (Canada) that has a DBRS long-term rating of at least A (low), DBRS will be satisfied that the necessary resources and abilities are available.

In instances where the proposed Sponsor is not a financial institution or a subsidiary of a financial institution regulated by the *Bank Act* (Canada) that has a DBRS long-term rating of at least A (low), the criteria below will be applied and must be satisfied:



Disclosure Requirements

Noteholders should have the ability to know the parties they are dealing with and relying upon for the handling of repayment of their investment. DBRS feels that it is important that sponsorship of the Conduit be disclosed in a transparent and accessible manner. To this end, DBRS requires:

- Full disclosure to DBRS of all administrators of the Conduit.
- Where the Sponsor is privately held, or narrowly held, full disclosure of all beneficial owners of the Sponsor.
- Prior notice of any changes of beneficial ownership of a privately/narrowly held Sponsor.
- Prior notice of any change of administrator or appointment of a sub-administrator.
- Prior notice of any change of structure of the Conduit or Sponsor.
- DBRS will publish a report on the Conduit that may disclose, among other things, the sponsorship of the Conduit, the structure of the Conduit and the ownership of the Sponsor.

Human Resources

Prior to the establishment of the Conduit, the Sponsor must have resources in place, or in the case of legal resources, available, to manage the following functions:

- Legal: Legal capabilities, with a proven track record in securitization transactions at a law firm, an investment bank, a buy-side investment firm, or a rating agency.
- Quantitative: Strong analytical and modelling capabilities, including expertise in pricing and surveillance.
- Debt Market Experience: Proven track record in the fixed income and securitization market, with direct experience in managing/analyzing credits (either on an entity or portfolio basis).
- Risk Management: Experienced risk manager, with surveillance and monitoring experience in the credit market.
- Liability Management: Experience in managing treasury and funding of liabilities (commercial paper, fixed-rate notes or medium-term notes), including distribution of commercial paper in the Canadian market and experience with liquidity and asset liability management.
- Back Office/Servicing: Experience in executing and servicing securitization transactions, including transaction reporting and settlements, record-keeping, audit, payroll, security and human resources.

Staff filling the above roles must be professionals with demonstrated experience and a proven ability to manage the above functions for the type of Conduit proposed. Appropriate policies and procedures must be well developed and documented.

After the Conduit is established, DBRS expects that the Sponsor will have access to staff experienced in disaster recovery, planning and business continuation planning, and the development and management of systems for financial analysts and, if appropriate, a support team.

Information Systems

Prior to the establishment of the Conduit, the Sponsor must demonstrate the following systems infrastructure:

- General: Hardware and software required to maintain an office (i.e., servers, computers and software).
- Quantitative: Systems for quantitative review of transactions (i.e., spreadsheet transactions and models for pricing and surveillance).
- Reporting and Treasury Management: Systems for tracking asset and liability management (i.e., commercial paper tracking systems).
- Back-Office: Systems to handle settlement and transfers.



Outsourcing of Functions

DBRS understands that there are many methods by which the above criteria can be satisfied. One possible method is to outsource key functions to third parties. Outsourcing of certain functions is acceptable under limited circumstances, provided that:

- The third party has significant expertise and/or is a highly rated entity.
- The agreement between the Sponsor and the third party is well documented and is provided to DBRS for review.
- The term of the agreement is greater than the longest term of any Asset held by the Sponsor.

Ongoing Requirements

The Sponsor will be required to provide DBRS with an annual certificate of compliance signed by an officer of the corporation.³ The certificate will generally state, among other things, that as of the last DBRS onsite meeting, there have been no material changes within the organization. Material changes should be reported to DBRS immediately and may involve a follow-up meeting with the Sponsor, if necessary. The certificate will also attest to the structure of the ABCP Conduit. Any change to the contractual counterparties to the Conduit must be subject to the Rating Agency Condition. An audit by a well-known international accounting firm may also be requested by DBRS on an annual basis.

Onsite Review

As part of the approval process, for all new ABCP Conduit Sponsors, members of the DBRS ratings team will perform an onsite review at the Sponsor's offices. In general, the review will cover the following subjects:

- Legal ownership and structure.
- Overall business and investment strategy and objectives.
- Staff in support of Conduit operations.
- Systems.
- Internal controls, processes and procedures.
- Portfolio management, surveillance and administration.
- Third-party providers of service or other contractual counterparties to the Conduit.

For each of the above areas, where applicable, DBRS will focus on: (1) quality, (2) controls, (3) transparency, and (4) capacity.

The above criteria are a set of minimum criteria and DBRS reserves the right to amend, modify, or change the criteria at its sole discretion at any time. DBRS reserves the right to reject any Sponsor application, notwithstanding the fact that a Sponsor may meet the minimum criteria described above.

SELLER REQUIREMENTS

Along with the Sponsor, the Seller of the assets is an essential player in an ABCP transaction. The Sponsor and the Seller are sometimes the same entity, but this is not always the case. Regardless of the relationship between these two parties, a Seller will be expected to meet certain criteria. These requirements are intended to provide comfort that a Seller maintains appropriate credit and collection policies and is capable of fulfilling its obligations to the Conduit. Sellers typically act as Servicers, and the below criteria is also intended to ensure that a Seller is suitable for this vital role.

Given the stringent requirements of a highly rated securitization transaction, DBRS will assess the adequacy of new Sellers and the eligibility of receivables⁴ against the following criteria:

3. In rare circumstances where the Sponsor is not a corporation, DBRS will require a certificate from an officer of the general partner.

4. The eligibility requirements described in (5) are intended to insure that sufficient credit history is available for analysis. DBRS maintains additional asset eligibility requirements, please see *Legal Criteria For Canadian Structured Finance* available at www.dbrs.com.



(1) The Seller's management possesses deep, specific and reputable experience in the business, in terms of originating and servicing the assets being securitized.

(2) The Seller has been conducting business for a minimum of three years or maintains a minimum unsecured long-term BBB (low) rating from DBRS or is otherwise satisfactory to DBRS.

Proposed non-investment-grade Sellers may be considered by DBRS on a case-by-case basis but will be subject to greater scrutiny and must meet higher thresholds in a number of regards before acting as Seller to any DBRS-rated ABCP Conduit.

(3) The Seller has maintained and continues to maintain alternate financing arrangements (through a banking, private or alternative capital markets source) so as to not create undue reliance on short-term ABCP financing, which can be discontinued if a Transaction termination event occurs.

(4) The Seller maintains equity sufficient in substance to support the representations and warranties, covenants and indemnities provided in the securitization transaction. Specifically, the Seller will be responsible for the repurchase of ineligible receivables and must maintain the financial capability to do so. Should the company's resources be viewed as insufficient to support these obligations, a performance guarantee satisfactory to DBRS from a suitably rated entity may be considered.

(5) The receivables have been originated, managed and collected for a minimum of three years in order to demonstrate that the contracts are bona fide and that the credit and collection policies are time-tested. Credit performance related to delinquencies, defaults and write-offs should also be available for a period of at least three years. The length of these periods may vary, depending on the asset class. Ideally, credit performance data would be available over a business cycle; otherwise, highly conservative credit enhancement assumptions would typically be used. For asset classes that are new or unique, it may also be appropriate that receivables initially season on a Seller's balance sheet prior to the transfer to the Conduit.

(6) The servicing of the receivables may also require the involvement of an experienced third party (either as primary or back-up Servicer) or a performance guarantor of suitable credit quality if a Seller's servicing experience or resources are viewed as inadequate. The complexity of servicing required, the ease by which asset servicing could be transferred and the method in which cash collections are segregated (e.g., via lock-box or blocked account arrangements) from those of the Seller/Servicer are all important considerations when assessing the adequacy of servicing arrangements. More information on DBRS criteria for Servicers can be found in *Legal Criteria for Canadian Structured Finance*, available at www.dbrs.com.

It should be noted that the above serve as general Seller requirements. Further information and requirements pertaining to particular asset classes can be found in DBRS's methodology publications on specific asset classes.



ABCP Risk Analysis

The analysis of credit risk is the foundation of the DBRS ABCP rating process. DBRS's approach to credit risk is unique in a number of respects and differentiates a DBRS ABCP rating from that of other nationally recognized statistical rating organizations (NRSROs). The DBRS approach can be described as being "all about the Assets".

While the credit risk of the underlying assets is the most obvious risk to which holders of ABCP are exposed, it is not the only risk considered by DBRS. DBRS must be satisfied that certain non-credit risks have been appropriately mitigated before a rating can be assigned; indeed, these other risk elements may act as a ceiling on the rating or mean that DBRS is unable to rate the transaction.

In examining risk, DBRS takes a comprehensive approach and examines risk at the Conduit, Series and Transaction level.

THE CONDUIT LEVEL

The formation and structure of the Conduit are vital to the mitigation of legal and operational risks. In addition to being designed to mitigate these risks, the structure must reflect DBRS's understanding of the transaction and address any anticipated business issues.

Legal Risk/Legal Review

A robust legal structure is essential if the desired rating is to be assigned and retained for the duration of the transaction. DBRS performs its own in-house review of the relevant legal documentation associated with the establishment of a Conduit, the issuance of ABCP and the acquisition of Assets. This review is intended to ensure that DBRS legal criteria have been satisfied and that legal risks to the structure and noteholders have been appropriately considered.

DBRS maintains comprehensive legal criteria with regard to the legal aspects of asset-backed transactions. What follows is a summary of these criteria; for more information, please see *Legal Criteria for Canadian Structured Finance*, available at www.dbrs.com.

Legal Elements of an ABCP transaction

One of the most important legal concepts in any ABS transaction is bankruptcy remoteness. A Conduit will be considered bankruptcy remote when the bankruptcy or insolvency of the Seller or any other transaction party will not cause the bankruptcy or insolvency of the Conduit or permit the creditors or a trustee in bankruptcy of a bankrupt party to pursue the Conduit or its Assets. A number of elements must be satisfied before DBRS will consider a Conduit to be bankruptcy remote from the Seller:

- The transfer of the Assets from the Seller to the Conduit must constitute a true sale.
- The Conduit must have an unencumbered ownership interest in the Assets and there can be no outstanding liens or security interests in the Assets that could compromise the Conduit's interest (other than those securing the ABCP).
- In the event of the bankruptcy or insolvency of the Seller, neither the Conduit nor its Assets will be substantively consolidated into the estate of the Seller.
- The transfer cannot be set aside under applicable bankruptcy, fraudulent conveyance or preferences legislation.



True Sale Versus Loan

Assets must be transferred from the Seller to the Conduit in such a manner that they can no longer be considered property of the Seller or part of its estate (i.e., the transfer must constitute a true sale). If the Asset Purchase Agreement is not properly structured and documented, there is a danger under applicable case law that the transfer could be re-characterized by a court as a financing as opposed to a sale. Such a re-characterization could result in the assets being vulnerable to the claims of the Seller's creditors, including a trustee in bankruptcy, and would also result in the assets becoming part of an insolvent Seller's estate, thereby being subject to any restructuring proceedings. Such an outcome could interfere with cash flows needed to service the ABCP and possibly reduce cash flows permanently to support the restructuring of the Seller under the broad discretion of the restructuring court.

DBRS requires a legal opinion from counsel, with DBRS listed as an addressee, that the transfer of assets from the Seller to the Conduit would be considered by a court to be in the nature of a true sale and not re-characterized as a financing by way of loan.

Security Interest

DBRS requires assurance that the Conduit has unencumbered ownership of the Assets, that the ABCP benefits from a first-priority security interest in the Assets and that no creditors of the Seller hold valid material claims and/or registered interests in or to those Assets.

Generally, a single registration can be used to perfect multiple sales under the same transaction without the need for searches at the time of each sale. Certain Assets, such as securities and chattel paper, can be perfected by possession. In those circumstances, registration may not be sufficient and additional steps will be required to ensure that the Conduit's interests are properly protected.

DBRS also expects to be provided with an opinion from counsel, with DBRS listed as an addressee, that will usually state that all necessary and advisable searches have been conducted, that searches have revealed no registered interests in the Assets (or, if interests have been discovered, that they have been released) and that all registrations or other steps necessary to perfect the interest of the Conduit in and to the Assets have been taken.

Owing to its civil law tradition, security interest matters are dealt with differently in Québec than in the common law provinces. For a comprehensive review of DBRS requirements when a Conduit purchases and holds Québec assets, please see *Legal Criteria for Canadian Structured Finance*, available at www.dbrs.com

Consolidation

Canadian courts may have the power to order substantive consolidation in a bankruptcy or reorganization whereby separate corporate entities will have their assets and liabilities consolidated and treated as one debtor. This avenue can be used under extraordinary circumstances to allow creditors of each entity to reach the assets of the entire consolidated estate. This power does not arise from the Companies' Creditors Arrangement Act or the Bankruptcy and Insolvency Act (BIA), but rather from the general equitable and discretionary powers of the court.

While substantive consolidation is often referred to as an extraordinary remedy, case law demonstrates that it is available in Canada and that the courts may order consolidation in appropriate cases.

Procedural consolidation is a tool by which a court allows separate but related entities to file for bankruptcy protection on a consolidated basis. One stay order can freeze the claims of creditors and cash flows in all related entities in a group. Procedural consolidation differs from substantive consolidation in that it is initiated by the bankrupt, as opposed to by the bankrupt's creditors, and individual creditors remain classified separately for voting purposes on the restructuring proposals of the bankrupt.



DBRS's criteria is predicated and based on structured finance transactions being arranged so that if the Seller becomes insolvent, the Conduit will not be responsible for the obligations of the Seller, the creditors of the Seller will not be able to look to the assets of the Conduit and a court would be unlikely to consolidate the assets of the Conduit and the Seller. Generally, DBRS will not require a non-consolidation opinion. However, DBRS may request a non-consolidation opinion in certain circumstances, including those in which the Seller maintains control over the Conduit.⁵

Bankruptcy and Fraudulent Conveyance and Preferences Legislation

The BIA provides creditors with the ability to challenge the sale of assets, depending on the nature and timing of the sale, the condition of the Seller at the time of the sale and the relationship between the Seller and the Conduit. Since the circumstances under which these remedies are available depend largely on the factual circumstances surrounding the transaction, DBRS expects a Seller to deliver an officer's certificate confirming the following prior to the closing of an asset purchase transaction:

- The Seller is not insolvent or close to insolvency.
- The completion of the sale will not cause the Seller's insolvency.
- No act or proceeding has been taken to dissolve, wind up, liquidate or reorganize the Seller or put the Seller into bankruptcy.
- The Seller has entered the agreement to sell the assets in good faith, not for the purpose of defeating, hindering, delaying, defrauding, impeding, obstructing, prejudicing or oppressing the rights and claims of creditors.
- The consideration paid for the assets approximates the fair-market value of the assets.
- The Seller and Conduit deal at arm's length.

DBRS will require a legal opinion from the Seller's counsel, with DBRS listed as an addressee, regarding the applicability of the BIA to the sale of the assets and specifically stating that the creditors of the Seller would not have a claim against the assets sold in the event of the Seller's bankruptcy.

Although somewhat duplicative of previously mentioned BIA provisions, provincial legislation dealing with fraudulent conveyances and preferential assignments is designed to prevent debtors from disposing of their assets in an attempt to defeat creditors.

The legal opinion from the Seller's counsel with respect to the applicability of the BIA should also include applicable fraudulent preference and conveyance statutes within its scope.

Revolving Versus Amortizing Structures

In addition to the class of assets funded, another key feature of an ABCP transaction is whether it has been designed as an amortizing or revolving structure.

Revolving transactions involve a revolving phase and a wind-down phase and are generally used for assets with short durations, such as credit card and trade receivables. During the revolving phase, the Conduit will purchase assets on an ongoing basis while issuing and repaying maturing ABCP in a process known as "rolling the paper." An examination of the Seller's credit, collection and underwriting policies is essential in a revolving transaction and these practices must be documented and formalized. Assets that enter the Asset Pool, both at the time of closing and after closing, must be originated in a manner consistent with these policies and processes. DBRS must be notified of any material changes in these policies and procedures to determine that such changes will not result in a downgrade of the rated securities.

Revolving transactions will at some point enter a wind-down phase. Wind-downs may be voluntary or involuntary:

5. This is rare in Canada, but more frequent in jurisdictions where corporate SPVs are common (e.g., the United States).



Voluntary Wind-Down: For various reasons, the Sponsor or Seller may choose to wind down an ABCP Transaction. In this case, the portfolio of Assets purchased by the Conduit will amortize. During the amortization of the Assets within the Conduit's portfolio, maturing ABCP is typically repaid by both collections from the assets and from issuing new ABCP. This will recur until the Transaction is completely amortized.

Involuntary Wind-Down of a Transaction: An involuntary Transaction wind-down may occur if Trigger Events set out at the Transaction's inception occur. Common Transaction-level Trigger Events include:

- Failure of performance triggers: The Transaction documentation may contain performance triggers linked to losses, delinquencies, payment rate or residual value losses.
- End of revolving period: Where no extension of the revolving period has been agreed to by the Sponsor and Seller and provided that the Rating Agency Condition is satisfied.

Involuntary Wind-Down of a Series: An involuntary Series wind-down may occur if Trigger Events set out at the Series' inception occur. Common Series-level Trigger Events include:

- Failure of the Transaction asset test: The principal of the non-defaulted assets held by the Series should be greater than or equal to the principal of all the Series' liabilities at all times.
- Failure of the Transaction liquidity test: The total available liquidity commitments must exceed the principal and interest of all outstanding ABCP issued by the Series at all times.

Involuntary Wind-Down of a Conduit: An involuntary Conduit wind-down may occur if Trigger Events set out at the Conduit's inception occur. Common Conduit-level Trigger Events include:

- Failure to pay: Subject to any applicable cure or notice periods, failure to pay any obligation when due.
- Insolvency: Any proceeding is instituted by or with regard to the Conduit seeking to adjudicate the Conduit bankrupt or insolvent.

The breach of a Transaction- or Series-level Trigger Event will prohibit the Conduit from purchasing new assets under the affected Transaction or Series or issuing additional ABCP backed by that Transaction or under the affected Series. All further collections derived from the affected Asset will be "locked-up" in Collection Accounts to which only the noteholders or their legal representatives have access.

Amortizing Transactions see the Conduit purchase a discrete pool of assets which generate monthly principal and interest payments with new assets being purchased after closing only as discrete pools.⁶ As the underlying obligors pay down their outstanding principal balance, these amounts are used to reduce the outstanding balance of ABCP used to finance the Transaction. The Conduit will continue to issue new ABCP until the Assets are completely amortized. Historical static pool analysis is used when modelling the proposed Transaction.

Commingling Risk

Commingling refers to a practice that allows funds collected from Sellers for the Conduit to remain in the Servicer's regular corporate accounts, commingled with the Servicer's own funds to be remitted generally monthly on settlement dates. It is often onerous from an administrative viewpoint for Servicers to immediately separate collections of securitized assets from those of other assets. DBRS does not always require that the Servicer place funds collected from Sellers in a segregated Collection Account immediately upon receipt. It is DBRS's general policy to allow commingling of funds for investment-grade Servicers. Where DBRS has some concerns about a Servicer that is rated investment grade, a maximum allowable commingling period may be imposed, typically two to three days.

6. Subject to the exception that assets that do not meet eligibility criteria may need to be replaced.



Non-investment-grade Servicers are typically not permitted to commingle cash receipts for more than a short period of time and, in some cases, may be required to have Sellers remit directly to segregated collection accounts. Funds collected by non-investment-grade Servicers should be deposited directly into collection accounts or lock-boxes or placed in sweep accounts held by the Servicer. Sweep accounts are swept on a daily basis, with the funds being transferred to collection accounts. DBRS may also require that a blocked account agreement be entered by the financial institution where the account is held. The blocked account agreement would be a tripartite agreement between the financial institution, the Conduit and the Servicer, allowing the Conduit to take control of the account in prescribed circumstances. If an investment-grade Servicer were to be downgraded to non-investment grade while ABCP remained outstanding, DBRS would require that the commingling criteria for non-investment-grade Servicers be followed.

Credit card transactions see large volumes of money being collected by the Servicer on a revolving basis. Due to the large sums of money involved, DBRS's commingling requirements for Servicers in credit card transactions are somewhat more stringent. Servicers rated R-1 (low) and higher are allowed to commingle on the same terms as investment-grade Servicers in non-credit card transactions. Credit card Servicers rated between R-1 (low) and BBB are generally allowed a commingling period that reflects the time frame between settlement periods, usually one month. If rated below BBB, DBRS's non-investment-grade Servicer criteria will apply. However, some commingling may be allowed in these circumstances where required by the transaction documentation to permit the purchase of new receivables (see the Partial Commingling subsection below).

DBRS will consider allowing non-rated Servicers to collect funds on a case-by-case basis and only if satisfied that commingling risk is appropriately mitigated. If cash from securitized assets is commingled with the Servicer's corporate funds, it may become impossible to separate the cash owed to the Conduit from that of other creditors in instances where fewer funds are available than necessary to satisfy all claims. If the Conduit cannot establish ownership over its funds, it may be forced to share those funds with other creditors in a Servicer bankruptcy scenario.

The terms of all Transactions must include an amortization event relating to non-payment by the Servicer. While such non-payment event may have a short cure period (up to three business days), in cases where partial commingling is permitted (see below), there can be no requirement for notice from any party to the transaction in order for the amortization event to be triggered.

There are two other concerns associated with commingling. The first is the possibility that commingled cash may be tied up in a bankruptcy or Companies' Creditors Arrangement Act (CCAA) proceeding. There may be a prolonged period before funds are forwarded to the Conduit or such cash may be used to satisfy other creditors, making it wholly or partially unrecoverable by noteholders. The shorter the allowed commingling period, the less the exposure, although terminating the Servicer and changing remittance obligations could be delayed or frustrated in a restructuring proceeding.

The second and more important consideration is the ongoing cash flow arrangement associated with the transaction. While commingled cash may be caught up in a CCAA or BIA filing, safeguards should be in place to ensure that further cash flows are not caught up as well. A court-ordered stay after a CCAA filing could mean that cash flow arrangements and other servicing agreements cannot be changed after the Servicer enters court protection. It is therefore necessary to take a proactive approach.

Partial Commingling

DBRS recognizes that flexibility is required in certain revolving Transactions such as credit card transactions, where collections may need to be used to frequently purchase new receivables. As such, instead of requiring the remittance of all collections on a daily basis when commingling is no longer permitted, commingling by the Servicer of collections in excess of what is required to be paid or deposited for the next distribution or settlement date (partial commingling) may be permitted without any effect on the rating of the transaction, subject to the following conditions:



- (1) A daily asset test must be conducted by the Servicer in accordance with the terms of the transaction to ensure there are sufficient eligible assets to meet a defined minimum required amount.
- (2) A daily monitoring of the occurrence of any amortization event must be completed by the Servicer.
- (3) The above two conditions must be certified by an officer of the Servicer on a monthly basis, confirming that no amortization event has occurred during that month and that the asset test has been complied with on a daily basis during that month.

If any of the above conditions are not met, the revolving period will, subject to cure periods, end and partial commingling will no longer be permitted. Once the revolving period ends, no commingling of funds will be permitted and all collections will need to be remitted to a trust account within the time frame set out in the terms of the transaction.

THE SERIES LEVEL

A Conduit may choose to issue a number of different Series of securities. Securities issued within a Series have similar features and rights but may differ substantially from securities of a different Series issued by the same Conduit. One of the most important distinctions between Series of ABCP is the right of recourse to the Assets held by the noteholders. A Series may be supported exclusively by Assets pledged to that Series, or a Series may be supported by all Assets held by the Conduit.

Credit Enhancement

A vital element of an ABCP transaction is the level of credit enhancement or credit protection that is provided. The provision of credit enhancement is one of the elements of securitization that allows ABCP to obtain the highest credit ratings. Of significant importance is the composition of such enhancement. Enhancement can take several forms, each with distinct advantages and disadvantages. Forms of credit enhancement commonly seen in DBRS-rated ABCP transactions include, but are not limited to, the following: overcollateralization, excess spread, the holding of cash and securities in reserve funds, letters of credit, subordinated notes and program wide credit enhancement (PWCE).

With the exception of PWCE, the forms of credit enhancement listed above are common to both term ABS and ABCP. PWCE, on the other hand, is unique to ABCP and provides to investors an extra element of protection beyond that offered by Transaction-specific forms of credit enhancement. As its name suggests, PWCE is a form of fungible credit enhancement that may be utilized by the Conduit to support the performance of a Transaction or Transactions funded in a single Series or all Series in a Conduit. Conduits are typically structured so that Transaction-specific credit enhancement will first be exhausted if a Transaction begins to experience losses. Once all credit enhancement available to a specific Asset has been depleted, PWCE will be available to mitigate further credit deterioration. Therefore, in order for an investor holding ABCP issued by a Conduit with PWCE to experience a loss due to diminishing credit quality of the underlying Assets, the deterioration must be greater than the credit enhancement provided at the Transaction level and it must also deplete the entire PWCE available within the Series.

Overcollateralization

Overcollateralization is the most common form of credit enhancement seen in structured finance transactions. Simply put, overcollateralization refers to the practice of issuing a lesser dollar amount of securities than the value of the assets transferred to and held by the Conduit. This ensures that, if the Assets are liquidated due to an amortization or Trigger Event or if some of the Assets do not perform as expected or decline in value, sufficient Assets will still be available to cover the Conduit's obligations.



Excess Spread

Excess spread refers to the difference in the yield generated by the Assets held by the Conduit and the funding cost of the ABCP issued by the Conduit. Put more simply, this is the amount by which interest collected on the Assets surpasses interest paid on the ABCP. Excess spread provides regular cash flow to the Conduit and is necessary for the credit enhancement it provides and to pay expenses incurred by the Conduit, in addition to the cost of funds. Examples of such expenses include trustee and professional fees and government filing and registration levies. Excess spread will also mitigate any losses suffered on the Assets.

Reserve Accounts

Reserve accounts provide liquidity in order to meet obligations of the Conduit to noteholders and to cover losses that may be suffered on the Assets. They are necessary to meet the timing differences sometimes experienced as the underlying Assets are liquidated to repay noteholders. Funds in reserve must be held in highly liquid, highly rated securities or cash and must be available on each maturity date for the underlying notes. DBRS maintains criteria with regard to the institutions in which reserve funds may be held, and the securities eligible to be held in reserve accounts (please see *Legal Criteria for Canadian Structured Finance*, available at www.dbrs.com).

A number of variations can exist on reserve accounts. Reserves may be funded upfront upon the closing of the Transaction by the Seller, or they may be funded from collections on the Assets until reaching a specified percentage of outstanding ABCP. There may be a requirement to maintain reserve funds at a specified dollar amount until the Transaction winds down or the dollar amount of reserve funds may fluctuate as a percentage of outstanding ABCP. In Transactions where a specified dollar amount is maintained as the Transaction amortizes, reserve funding provides an increasing percentage of enhancement with each payment date.

Letters of Credit

A letter of credit is an agreement between a provider, usually a bank, and a beneficiary – in this context, an ABCP Conduit. Under the terms of the contract, in defined circumstances, the provider forwards funds directly to the beneficiary in satisfaction of obligations of a third party. Letters of credit are attractive as a type of credit enhancement as they form contractual obligations between the beneficiary and the provider, independent of the conduct or status of the third party. Accordingly, the credit strength of a letter of credit is the credit strength of the provider, often a highly rated bank. DBRS will generally require that the provider hold a rating of AA (low) and R-1 (middle) or otherwise satisfy the Rating Agency Condition, but DBRS may allow exceptions to this requirement on a case-by-case basis.

While letters of credit are not currently common in a structured finance context, they are sometimes used as a form of credit enhancement. When employed, letters of credit act in a similar manner to cash reserves and are available to meet periodic shortfalls.

Subordination

Subordination refers to the practice of issuing more than one class of securities, each with different rights and entitlements. Subordinate notes are junior, or subordinate to, senior notes, meaning that collections received from the assets will first be used to pay more senior notes. Only after the Conduit's obligations to senior notes are paid in full will collections be directed to amounts payable on subordinate notes. Subordinate notes therefore suffer losses taken by the Conduit on its Transactions before those losses flow through to senior noteholders. Subordinate notes will be rated lower than senior notes, or may not be rated.



Program Wide Credit Enhancement

PWCE is a fungible layer of protection generally available to all Transactions within a Series or the entire Conduit. PWCE is typically drawn after losses experienced by a Transaction exceed credit enhancement available to that Transaction. If a particular Transaction's credit enhancement is insufficient to cover the deterioration of such a Transaction, PWCE will absorb the excess loss unless the PWCE has been depleted. Thus, Transaction-specific credit enhancement acts as a first-level enhancement while PWCE is typically regarded as second-level enhancement.

The entities providing PWCE are required to provide an irrevocable commitment, hold a rating of at least AA (low) and agree to provide funds on a same-day funding basis. PWCE providers are typically the same financial institutions that sponsor the Conduit.

DBRS views the provision of PWCE positively as it provides an extra layer of protection to noteholders above and beyond the credit enhancement built into each of the underlying Transactions.

Rating PWCE

DBRS may provide to the PWCE provider a PWCE rating. This rating does not reflect the credit strength of the PWCE provider, but rather reflects DBRS's opinion as to the probability that the PWCE provider will be called up to fund its commitment and that it will incur a loss. In other words, it is an opinion as to the probability that credit deterioration experienced by any one of the Transactions will be greater than the Transaction-specific credit enhancement available to that Transaction. PWCE providers find these ratings useful for risk-weighting and capital allocation purposes.

Determining Required Credit Enhancement

An essential step in the rating process is determining the level of credit enhancement required to support the desired ratings for a Transaction. In determining Transaction-level credit enhancement requirements, DBRS considers, among others, the following factors:

- Asset eligibility criteria.
- The history of delinquencies, defaults and losses and other pertinent asset performance metrics.
- Historical payment characteristics.
- The historical timing of losses on vintage pools.
- Customer concentrations.
- The Seller's risk profile.
- The quality of the data provided to DBRS.
- The quality of the Servicer.
- Underwriting procedures and policies and recent changes therein.
- Idiosyncratic factors specific to the particular asset class.
- Industry/asset comparables.

As mentioned above, DBRS maintains published methodologies for rating commonly securitized asset classes. These methodologies guide DBRS in determining the required levels of credit enhancement for each individual Transaction.



Liquidity Risk

Assets transferred from a Seller to a Conduit are typically accounts receivables, loans, leases or mortgages. With the exception of accounts receivables, the assets are contracts that require Sellers to repay their obligation to the Seller over a number of months or years. When such assets are transferred to a Conduit that issues term ABS, the assets are generally term-matched to the liabilities. However, when such assets are transferred to a Conduit that issues ABCP, an asset-liability mismatch is created as short-term obligations (typically, 30-day) are issued while being backed by long-term assets.

In a typical structured finance transaction, the indenture trustee⁷ has the right in certain circumstances to take possession of the Assets held by the Conduit so that they may be liquidated to repay noteholders. This exposes holders of ABCP to the risk that market conditions may not permit the liquidation of the Conduit's term assets in a manner that allows the ABCP to be repaid in a timely fashion.

In order to address this asset-liability mismatch risk, DBRS requires that liquidity agreements be entered by Conduits that issue ABCP. DBRS typically requires that the liquidity provider hold and maintain minimum ratings of AA (low) or R-1 (middle) to support an R-1 (high) rating. If a liquidity provider is downgraded below the minimum rating, it must, within 30 days, assign its obligations to an institution with the required rating or provide a guarantee of its obligations from an institution with the required rating. Failure to do so within 30 days will result in the full amount of the liquidity facility being drawn.

DBRS must be satisfied that the liquidity agreement will not expire while ABCP is outstanding and will generally ensure that at least six months' notice be required to terminate the agreement. If the liquidity provider terminates the liquidity agreement prior to the transaction expiry, it must (1) purchase all of the assets of the Conduit at par or (2) purchase all outstanding ABCP; otherwise, the liquidity facility will be drawn in full.

The liquidity provider will be committed to providing liquidity upon the request of the Conduit except in very remote circumstances. Circumstances in which the liquidity provider will be relieved of its obligation to provide liquidity include the following:

- The Conduit is bankrupt or insolvent.
- The rating of the Conduit or the Assets held by the Conduit are discontinued, withdrawn or reduced to near-default status. (If certain structural protections are in place, the liquidity provider may be relieved of its obligation to provide liquidity when the Assets held by the Conduit are rated higher than D.)

The conditions under which the provider is not required to fund reflect the fact liquidity agreements are not intended to transfer credit risk to the provider. Therefore, the provider will only be required to fund "good assets," meaning non-defaulted Assets plus credit enhancement minus outstanding liabilities.

Liquidity may be provided at the Transaction level, the Series level or the Conduit level. Liquidity agreements may take a number of forms. The three forms outlined below are used by one or more Canadian ABCP Conduits:

7. An indenture trustee is a trustee appointed by the Conduit to act as an agent of noteholders and specified creditors. In addition to being empowered to enforce noteholders' rights, the indenture trustee serves an administrative function, collecting funds due to the noteholders from third-parties and distributing said funds in accordance with the terms of the transaction documentation.



Liquidity Asset Purchase Agreement (LAPA): Under the LAPA form of liquidity agreement, the liquidity provider will be obligated to purchase the assets held by the Conduit and thus take the Assets out of the Conduit and onto its own balance sheet. The LAPA will contain a funding formula which will be relied upon to determine the purchase price of the assets. DBRS will review the funding formula before the LAPA is entered by the Conduit to ensure that the purchase price will be adequate to retire all outstanding ABCP in whole and on time.

Note Purchase Agreement (NPA): Under the NPA form of liquidity agreement, the liquidity provider will be obligated to purchase outstanding notes of the Conduit. The notes will have been issued at a discount and the purchase price will be their face value.

Liquidity Loan Agreement (LLA): Under an LLA, the provider agrees to lend the Conduit an amount determined by a funding formula and accept a proportionate amount of Assets held by the Conduit as collateral for the loan. DBRS will review the funding formula before the LLA is entered by the Conduit to ensure that the purchase price will be adequate to retire outstanding ABCP in whole and on time. The Conduit must pay the liquidity provider back for this loan from either issuance of ABCP or the cash flows produced by the Assets held as collateral for the loan. Any outstanding liquidity loans should be properly counted as a liability of the Conduit. An LLA is essentially a revolving credit facility.

Regardless of the form of liquidity agreement used, the standards outlined above remain the same. For more information on liquidity support for ABCP, please see the press release on *Global Liquidity Standard Criteria* issued by DBRS on September 12, 2007.

Rating Liquidity

In a manner similar to the one in which DBRS provides ratings to PWCE providers, DBRS can also provide a liquidity rating to liquidity providers. Again, the rating is not a reflection of the liquidity providers' creditworthiness, but is rather a reflection of DBRS's opinion as to the probability that the liquidity provider will incur a loss when called upon to fund its commitment. These ratings are useful to liquidity providers for risk-weighting and capital allocation purposes.

Interest Rate, Foreign Exchange and Counterparty Risk

The Conduit, and by extension noteholders, may be exposed to interest rate risk. Interest rate risk arises when there is a term rate (fixed/floating or basis) mismatch between the Conduit's assets and its liabilities. This generally occurs when the Assets in the Conduit's portfolio pay a fixed rate of interest while the Conduit has issued floating-rate notes. It may also occur when the basis of the rate (bankers' acceptances/prime/commercial paper/ABCP) for the Conduit's assets differs from the liabilities.

Foreign exchange risk arises when a Conduit has assets that pay in a currency other than the currency in which the ABCP is issued. If the currency in which the assets are denominated were to weaken relative to the ABCP currency, the cash flow from those assets would lose value and could be insufficient to service the interest and/or principal payment due holders of the ABCP.

Swap agreements are often used to hedge interest rate and foreign exchange risk. However, a swap agreement simply substitutes counterparty risk for the risk being mitigated. DBRS will therefore require that the swap counterparty and the swap documentation comply with DBRS's swap criteria.



At all times that ABCP remains outstanding, the swap counterparty must maintain a credit rating of at least A (high) or R-1 (middle). If the counterparty is downgraded and fails to maintain a rating of A (high) or R-1 (middle), it must take one of the following remedial actions within 30 days:

- Post additional acceptable collateral covering one payment period in advance, to be rebalanced each payment period (for a total return swap, the amount to be posted must be subject to the satisfaction of the Rating Agency Condition); this option is only available if there is a second downgrade trigger.
- Provide a guarantee acceptable to DBRS from a guarantor rated at least A (high) or R-1 (middle) that satisfies the Rating Agency Condition.
- Assign its obligations under the swap to a counterparty that holds a rating of at least A (high) or R-1 (middle) and satisfies the Rating Agency Condition.
- Take such other action that satisfies the Rating Agency Condition.

If none of the above actions have been taken by the end of the 30th day, the swap must terminate at par for the Conduit.⁸

If the swap documentation contains a second ratings threshold and the counterparty is subsequently downgraded and fails to maintain a rating of at least BBB (high) or R-2 (high), one of the following actions must be taken within 30 days (unless otherwise indicated below):

- Assign the downgraded counterparty's obligations to another counterparty that holds a rating of at least A (high) or R-1 (middle) and that satisfies the Rating Agency Condition.
- Post additional acceptable collateral covering all future payment obligations of the downgraded counterparty under the swap.
- Take such other action that satisfies the Rating Agency Condition.

If none of the above actions have been taken by the end of the 30th day, the swap must terminate at par for the Conduit.

Swaps will only be acceptable if they are based on the International Swaps and Derivatives Association (ISDA) Master Agreement and other ISDA standard agreements (including the Confirmation, Schedule and Credit Support Annex).

For a more comprehensive review of DBRS swap criteria, please see *Swap Criteria for Canadian Structured Finance Transaction* at www.dbrs.com.

8. In this context, "at par for the Conduit" 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 Conduit in connection with such early termination, and (c) no amount should be payable by the Conduit in connection with such early termination.



THE TRANSACTION LEVEL

A wide range of assets can be securitized. In Canada, four asset classes support more than 80% of ABCP issuance. Residential mortgage, automotive loans and lease, credit card transactions and equipment financing dominate the Canadian ABCP landscape.

An ABCP Conduit typically acquires Assets via an Asset Purchase Agreement (sometimes called a securitization agreement) with a Seller. DBRS will conduct an in-depth analysis of the credit aspects of the Assets purchased by the Conduit and will assign a rating to each Transaction. In rating the Transaction, DBRS will apply its applicable asset class-specific methodology. All DBRS asset class methodologies are available at www.dbrs.com. As an appendix to the rating report published for each DBRS-rated Conduit, DBRS will list each Transaction funded by the Conduit and the Transaction's rating (please see below). DBRS monitors the Transactions on an ongoing basis and publishes each Transaction's rating as part of its monthly ABCP report available at www.dbrs.com. DBRS believes that this level of transparency provides investors with meaningful insight into the Assets backing their investment.

Appendix A: Detailed Conduit Report

Pool Asset Composition

Assets Funded by Bay Street Funding Trust, Short-Term ABN, Series 1, Class A Notes

Deal	Asset Class	Seller Industry	Seller Rating	Funded Amount	Total CE	CE / Loss Coverage	Delinquency	Performance Ratios			Other*	Deal Rating
								Default	Loss	Yield		
3	Auto Fleet	Fin. Svc. - Other	Inv	23,548,691	16.74%	120.71	0.43%		0.15%			R-1 (H)
4	Trade Rec.	Communications	Inv	165,000,000	15.00%	12.40	14.54%	1.21%			0.58%	R-1 (H)
5	Auto Leases	Cptv. Auto	Non Inv	12,735,090	>100%	231.54	0.24%		0.41%		27.11%	R-1 (H)
9	Auto Loans	Cptv. Auto	Non Inv	2,737,208	>100%	190.51	0.66%		1.96%			R-1 (H)
14	Auto Leases	Cptv. Auto	Non Inv	207,086,170	44.27%	65.48	0.79%		0.34%		14.37%	R-1 (H)
15	Eqpt. Finance	Fin. Svc. - Other	Inv	459,721,800	13.02%	55.17	0.21%		0.24%			R-1 (H)
16	Eqpt. Finance	Fin. Svc. - Other	Inv	144,308,653	10.77%	45.60	0.21%		0.24%			R-1 (H)
17	Floorplan	Cptv. Auto	Non Inv	431,000,000	25.70%	907.00			0.03%		22.90%	R-1 (H)
18	CLO	Fin. Svc. - Other	Not Rated	71,663,200	>100%	n/a					543.95%	R-1 (H)
19	Auto Leases	Fin. Svc. - Other	Not Rated	39,486,811	12.46%	Inf	0.20%					R-1 (H)
21	Conv. Mtg.	Fin. Svc. - Bank	Inv	80,795,356	4.50%	Inf	0.50%		0.00%	5.29%	0.14%	R-1 (H)
28	Auto Rental	Fin. Svc. - Other	Non Inv	0	0.00%	n/a					1.71	R-1 (H)
Total				1,638,082,979								

Assets Funded by Bay Street Funding Trust, Short-Term ABN, Series 2

Deal	Asset Class	Seller Industry	Seller Rating	Funded Amount	Total CE	CE / Loss Coverage	Delinquency	Performance Ratios			Other*	Deal Rating
								Default	Loss	Yield		
22	Eqpt. Finance	Fin. Svc. - Other	Not Rated	114,274,276	17.65%	n/a						R-1 (M)
Total				114,274,276								

* Other stands for the following ratios: Dilution Ratio for trade receivables transactions, Residual Loss Ratio for auto leases transactions, Payment Rate for floorplan transactions, Asset Coverage for collateralized loan obligations (CLOs), Prepayment Rate for conventional mortgages transactions and T3-Month Cash Coverage for auto rental transactions.

This table is for illustrative purposes only and reproduces information contained in the May 26, 2009, *Rating Report* of Bay Street Funding Trust. For further and current information on Bay Street Funding Trust, please see www.dbrs.com.



DBRS will generally rate a Series of ABCP issued by a Conduit at the rating level that is reflective of the weakest underlying Transaction funded by that Series. In other words, the lowest-rated Transaction acts as a ceiling on the rating. This ensures that all Transactions funded by a particular Series are of a credit quality commensurate with the rating of that Series. This “weakest link” approach is a key element that differentiates a DBRS ABCP rating. The provision of liquidity or PWCE will not elevate a rating to a level unobtainable purely on the strength of the underlying Transactions.

The DBRS emphasis on asset quality is further reflected by the DBRS requirement that all Asset Purchase Agreements entered into by the Conduit be subject to satisfaction of the Rating Agency Condition. A Rating Agency Condition is a requirement that, prior to a certain action being taken, DBRS confirm in writing that no negative rating action will result from that action. Through this mechanism DBRS has an ability to monitor new Transactions entered into by the Conduit and to ensure that the credit quality of the Conduit’s Transactions remain appropriate for the rating of the ABCP.

Dilution risk

Most relevant in trade receivable and credit-card transactions, dilutions are non-cash adjustments to the receivables. These include, but are not limited to, discount incentives to customers for early payment, errors in invoice amounts and returned goods. The Conduit will normally have recourse back to the Seller to compensate for dilutions. If the Seller were to become bankrupt, however, the amounts owed to the Conduit by the Seller would be in jeopardy. To mitigate this risk, DBRS requires Transactions to contain a dilution reserve. The required level of dilution reserve is based on historical performance levels and may be adjusted monthly to reflect recent performance.



Transaction Surveillance and Reporting

Assigning a Conduit ABCP rating is not a one-time event. DBRS ratings are monitored for so long as rated securities remain outstanding to ensure that the credit quality of the underlying Transactions remains commensurate with the rating of the ABCP.

DBRS monitors each Conduit on a monthly basis, based on reports submitted by the respective Conduit administrators detailing the performance of each underlying Transaction. These reports are designed to identify any weaknesses within a Conduit's portfolio in order to ascertain whether rating action is appropriate. Key elements addressed in the reports may include, but are not limited to, the following:

- A summary of the Conduit's assets.
- Each Transaction's name.
- The outstanding funded amount of each Transaction.
- Relevant performance ratios for each Transaction.
- Transaction-specific credit enhancement levels.
- Program-wide credit enhancement levels, if applicable.
- Liquidity provider commitments and ratings.
- The ratings of counterparties, if applicable.
- Portfolio performance as related to Transaction-specific amortization triggers.
- Conduit performance as related to Conduit-wide amortization triggers.

If a Sponsor refuses to forward this information, or refuses to permit DBRS to disclose the information provided, DBRS may withdraw its rating on the Conduit.

Based on the information provided to DBRS in the Conduit Reports, DBRS publishes the Monthly Canadian ABCP Report (the Report). The Report provides market level data for total outstanding ABCP issued by all DBRS rated Canadian ABCP Conduits. In addition, the Report is broken down by Conduit and gives detailed information as to the performance of each Transaction engaged in by the Conduit, and includes the Transaction's rating.

Appendix 1: Glossary

Assets: The underlying assets held by the Conduit, including all credit enhancement supporting the notes issued by the Conduit.

Asset Purchase Agreement: Contractual agreement between a Seller and a Conduit whereby assets are transferred to the Conduit and consideration is paid by the Conduit to the Seller in return for said assets.

Conduit: The special purpose vehicle which is bankruptcy remote from all Sellers of assets to it and which purchases assets from Sellers through funding provided by the issuance of debt securities.

Obligor: Underlying debtor, contractually bound to pay the Seller under the terms of the contract giving rise to the asset.

Rating Agency Condition: A requirement that prior to a certain action being taken, DBRS confirm in writing that no negative rating action will result from that action.

Seller: The entity, usually a corporation, that securitizes the assets to raise funds.

Servicer: The entity responsible for administering, maintaining and performing collections on the assets that have been transferred to the Conduit. It is common in structured finance transactions for the Seller to act as Servicer.

Special Purpose Vehicle (SPV): Also referred to as a special purpose entity (SPE). An entity created for the purpose of separating asset risk from Seller risk in a structured finance transaction. In a typical Canadian structured finance transaction, the SPV acquires assets from the Seller and advances funds to the Seller in consideration for the assets. The SPV subsequently issues securities backed by the transferred assets. The activities, assets and powers of an SPV are carefully circumscribed to those necessary for the structured finance transaction. Trusts are the most common form of SPV in Canada, although corporations or limited partnerships may also be used.

Sponsor: Entity that establishes a Conduit. The Sponsor will often contract with the Conduit to act as an administrator or other service provider to the Conduit.

Transaction: An agreement between the Conduit and a Seller whereby the Conduit agrees to purchase or lease certain assets (which may include tangible assets, loans and/or receivables) based on an agreed-upon structure (including eligibility criteria and pre-determined enhancements and Trigger Events, among other things).

Trigger Event: An event, as defined or prescribed in transaction documentation, the occurrence of which may result, subject to applicable notice and cure periods, in certain consequences that have been included in the transaction for the protection of noteholders, such as the termination and replacement of the Servicer, a lock-up of cash that may no longer be released to the Seller, an early amortization of the Transaction, the immediate acceleration of a Transaction and repayment of any ABCP outstanding, or an involuntary wind-down of a Conduit, Series or Transaction, as applicable.

Appendix 2: Rating Canadian ABCP Summary

LIMITATIONS

- Future asset performance may deviate significantly from past performance.
- The methodology considers the current legal and regulatory framework, including consumer protection regulations and its impact on the structure of transactions as of the date of publication of this summary.

APPLICATION OF RATING ABCP METHODOLOGY

Threshold issues are considered when reviewing a new conduit, new series or new transaction as required for a rating request. This analysis will incorporate the applicable key variables depending on the nature of the requested review.

Summary of Risk Analysis Applied to Rating ABCP

Threshold Issues	Analysis	Key Variables
Conduit Sponsorship Criteria	Capital requirements	<ul style="list-style-type: none"> • Minimum of greater of unencumbered equity of \$5 million and 5% of outstanding ABCP to maximum of \$50 million. • If the sponsor is a financial institution regulated by the Bank Act, its minimum rating is A (low).
	Disclosure requirements	<ul style="list-style-type: none"> • Sponsorship of conduit must be disclosed in transparent and accessible manner (to be published in DBRS rating report).
	Human resources	<ul style="list-style-type: none"> • Resources must be in place to cover the following functions: legal, quantitative, debt markets, risk management, liability management and back office/servicing.
	Information systems	<ul style="list-style-type: none"> • The sponsor must demonstrate the capability for hardware and software to maintain an office; systems for quantitative analysis, reporting and treasury function; and back office.
	Outsourcing functions	<ul style="list-style-type: none"> • Outsourcing functions is acceptable on a limited basis if the counterparty has significant experience, the contract is well documented and the term is longer than the longest term of any of the assets.
	Ongoing requirements	<ul style="list-style-type: none"> • An annual certificate of compliance with the above requirements must be provided by the sponsor.
	On-site review	<ul style="list-style-type: none"> • An on-site review will be performed with all new sponsors.
Seller Requirements	Determination of ability to fulfill servicing requirements.	<ul style="list-style-type: none"> • Experience in originating and servicing securitized assets. • Minimum of three years experience or BBB (low) rating (specific additional requirements for non-investment-grade sellers). • Alternate financing sources maintained so that securitization is not last available financing. • May have requirement for experienced third party as primary or backup servicer.



Summary Review Process for ABCP Risk Analysis

Structural Considerations	Analysis	Key Variables
Conduit Level	Legal review	<ul style="list-style-type: none"> Review of documents associated with the conduit establishment, issuance of ABCP and acquisition of assets (see also Legal Criteria for Canadian Structured Finance).
	ABCP transaction review	<ul style="list-style-type: none"> Ensure transfer of the assets from the seller to the conduit supported by true-sale opinion. Assets are to be unencumbered There should be no substantive consolidation into the estate of seller in the event of bankruptcy of the seller. The transaction will not be set aside under appropriate legislation.
	True sale versus loan	<ul style="list-style-type: none"> Assets must be transferred to the conduit and no longer considered the property of the seller or its estate. Supported by legal opinion that the transaction would be considered a true sale and not re-characterized as a financing by way of a loan.
	Security interest	<ul style="list-style-type: none"> The conduit must have unencumbered ownership of the assets and benefit from a first-priority security interest in the assets. Supported by an opinion that all necessary searches have been completed and no other registrations exist.
	Consolidation	<ul style="list-style-type: none"> Creditors of the seller should not be able to look to the assets of the conduit for repayment should the seller seek bankruptcy protection.
	Bankruptcy and fraudulent conveyance	<ul style="list-style-type: none"> An officer's certificate from the seller indicating that it is not insolvent nor will entering into the transaction cause it to become insolvent, supported by an opinion stating that the creditors of the seller would not have a claim against the assets.
	Revolving versus amortizing structures	<ul style="list-style-type: none"> Revolving transactions involve ongoing purchase of assets with short durations and require confirmation by the seller that no material changes in underwriting or its credit and collections policies have occurred. Revolving transactions will incorporate wind-down provisions related to the transaction that cease purchases and lead to the liquidation of the pool. Amortizing transactions have discrete pools of assets that collect on a monthly basis, reducing the associated notes.
	Commingling risk	<ul style="list-style-type: none"> Cash collected between settlement periods as assets repay. Commingling generally allowed for investment-grade sellers. Non-investment-grade sellers generally required to remit collections on a daily basis to a segregated account. Partial commingling may be allowed in excess of the cash required for distribution on the next settlement for certain asset classes, provided that a daily asset test and monitoring is followed.



Summary Review Process for ABCP Risk Analysis

Structural Considerations Analysis

Key Variables

Series Level

- Each series of notes can be supported by different assets or can share in the proceeds of assets with other series.
- Program-wide credit enhancement (PWCE) may be available to provide support to the noteholders beyond the transaction-specific enhancement.
- It provides a second loss level of protection that is drawn after the transaction-specific enhancement is exhausted.
- PWCE may be available at either the series level or the conduit level.
- This can be rated based on the probability that the PWCE will be drawn upon and that it will incur a loss.

Transaction Level

Credit enhancement

- The following are the most common forms of credit enhancement available to protect the noteholders:
- **Overcollateralization:** Assets contributed to the conduit that it does not fund through the issuance of ABCP.
- **Excess Spread:** Yield generated by the assets in excess of the funding costs of the conduit (available monthly to cover losses).
- **Reserve Account:** Cash or highly liquid investments held in the name of the conduit to provide liquidity for timing issues and cover losses.
- **Letters of Credit:** From a highly rated financial institution, they function similar to a reserve account.
- **Subordination:** Additional series of notes that are junior in ranking to other notes in terms of payment of principal and interest.



Summary Review Process for ABCP Risk Analysis

Structural Considerations	Analysis	Key Variables
	Liquidity risk	<ul style="list-style-type: none"> • The funding of assets by ABCP has inherent asset-liability duration mismatch and risk for ABCP investors. • To address the risk that market demand for ABCP may not be sufficient or the ABCP fails to roll over due to unforeseen events, all conduit sponsors should comply with DBRS conduit liquidity criteria, including Global Liquidity Standard (GLS) liquidity backup lines, in support of outstanding conduit notes. • Liquidity facilities meeting GLS are available from financial institutions rated a minimum of AA (low) or R-1 (middle) are required for R-1 (high) ABCP to be issued. • These have few restrictions on draws and are designed to support funding on the basis of a good asset test. <p>The following are the forms of liquidity generally used:</p> <ul style="list-style-type: none"> • Liquidity Asset Purchase Agreement (LAPA): Purchases assets owned by the conduit. • Note Purchase Agreement (NPA): Purchases outstanding notes of the conduit. • Liquidity Loan Agreement (LLA): Provides a loan to the conduit to refinance outstanding notes. • Liquidity lines can be rated on the basis of the probability that the liquidity provider will suffer a loss should the line be drawn upon.
	Interest rate and foreign exchange risk	<ul style="list-style-type: none"> • These risks exist when there is a mismatch between the interest rate basis charged on the assets and the notes issued (fixed/floating or basis rate) or the currency of the underlying assets is different from that of the notes. • In both cases, this risk can be mitigated through the use of a swap (details for the requirements are found in DBRS's <i>Swap Criteria for Canadian Structured Finance Transactions</i>). • Transactions are reviewed by DBRS prior to closing by the conduit in accordance with published asset-class methodologies. • Post closing, performance of all transactions is monitored monthly, with individual transaction statistics provided as part of the conduit reporting in the <i>Monthly ABCP Report</i>. • DBRS rates each series of notes issued by a conduit on the basis of the transactions underpinning the notes. • The rating of the series cannot exceed that of the lowest-rated transaction funded by that series.

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