



*Insight beyond the rating.*

**CONTACT**

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

**MEDIA CONTACT**

**Caroline Creighton**  
Senior Vice President,  
Communications  
Tel. +1 416 597 7317  
ccreighton@dbrs.com

## Strengthening Transparency

A cornerstone of the new and changing regulations affecting credit rating agencies (CRAs) is transparency and disclosure with respect to what ratings mean; how they are analyzed, determined and monitored; and how they perform. In addition, regulators also want to know that ratings are independently produced and conflict-free.

The U.S. Securities and Exchange Commission (SEC) recently released a set of proposals (the SEC May Rule Proposals) for nationally recognized statistical rating organizations (NRSROs) that includes, among other things, new and additional disclosures that must accompany each rating, methodology requirements and enhancements to disclosures regarding the performance of NRSRO ratings.<sup>1</sup> DBRS is in the process of assessing these proposals for comment and compliance. The Canadian Securities Administrators (CSA) also proposed a regulatory framework for CRAs that wish to have their ratings eligible for use in Canadian securities legislation that calls for additional ratings transparency and disclosure.<sup>2</sup> The European Union Credit Rating Regulation 1060/2009 (EU CRA Regulation) requires a high level of public rating disclosure and transparency.

Strengthening rating transparency and disclosure has been an area of continuous focus at DBRS. Indeed, the DBRS motto is “insight beyond the rating.” Independent and robust rating policies, processes and methodologies are the cornerstone of high-quality ratings. All DBRS rating policies, methodologies and performance statistics are publicly available at no cost on the DBRS website at [www.dbrs.com](http://www.dbrs.com).

### *Methodologies*

The DBRS methodology approach is not based solely on statistical analysis but includes a combination of both quantitative and qualitative considerations. Methodologies should not be seen as static. Rather, DBRS reviews market, industry, product and legal developments on an ongoing basis to ensure that its methodologies remain relevant. Over the last year, DBRS has updated its structured finance (SF) methodologies to provide additional detail regarding the analytical considerations it factors into its analysis. DBRS has also published for comment a variety of new SF rating methodologies.

During 2010, DBRS implemented a specially designated area on its website called EU Disclosures ([www.dbrs.com/eudisclosures](http://www.dbrs.com/eudisclosures)) where it publishes its EU methodologies and rating policies, among other things, in line with the EU CRA Regulation and to provide targeted investor focus.

---

1. In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), the SEC published rule proposals on May 18, 2011, for comment by July 30, 2011.

Refer to <http://www.sec.gov/rules/proposed/2011/34-64514.pdf>.

2. Proposed National Instrument 25-101 Designated Rating Organizations, Related Policies and Consequential Amendments.



More recently, DBRS has undertaken to update all of its corporate methodologies to provide investors and other market participants with additional insight into the rationale behind DBRS rating opinions. In addition to outlining the general business and financial risk considerations, the updated corporate methodologies review a number of industry-specific rating considerations and outline key financial metrics used in DBRS analysis of individual entities within each sector. These updated methodologies provide additional detail regarding the qualitative and quantitative factors that DBRS has always considered and, as such, DBRS has taken no rating action as a result of the publication of these methodologies.

Importantly, all DBRS rating press releases indicate the applicable methodology or methodologies that are used in the rating and also outline the key analytical considerations. As indicated above, DBRS plans to augment its rating disclosures for new regulations and to reflect best practices.

### *Sovereigns*

In addition to strengthening transparency in the area of methodologies, DBRS also focuses on global risk areas that pose concern to investors, regulators and other market participants. One such area is sovereign ratings and risks.

DBRS has devoted a section of its website to the area of [Sovereigns](#) to provide simple and easy access by investors to this significant risk area. Among other things, this section includes press releases, ratings reports, commentaries, industry studies and methodologies related to DBRS Sovereigns ratings. As part of the corporate methodology update, DBRS recently published an updated sovereigns methodology entitled [Rating Sovereign Governments](#).

Given the impact of sovereign risk on other corporate and SF rating exposures, DBRS also recently published the following commentaries: [The Effect of Sovereign Risk on Securitizations in the Euro Area](#) and [Sovereign Ratings Provide a Benchmark for other DBRS Credit Ratings](#).

To reflect best practices, DBRS now classifies sovereign ratings as “issuer ratings.” This nomenclature applies to all sovereign ratings, including long-term foreign currency ratings, long-term local currency ratings and short-term liabilities in local and foreign currencies. The DBRS [Issuer Rating](#) definition is available on its website.

The Sovereigns section of the DBRS website also provides links to the areas of Canadian [Infrastructure](#), [Provinces and Municipalities](#) and [Universities](#).

### *Rating Performance*

On March 31, 2011, DBRS published its [2010 DBRS Corporate Rating Transition and Default Study](#) and [2010 DBRS Structured Finance Rating Transition and Default Study](#). The rating transitions presented in the SF study represent the following securities issued in the United States, Canada and Europe: asset-backed securities, commercial mortgage-backed securities, residential mortgage-backed securities and structured credit transactions. For the corporate area, the study provides detail for industrials, financial services, public finance, insurance companies and sovereign credit performance.

In addition to the global transition and default studies, DBRS makes publicly available a random sample of DBRS rating actions ([DBRS Rating History Sample](#)) and a complete history of all DBRS rating actions for credit ratings initially determined on or after June 26, 2007 ([DBRS Rating Actions Initially Determined on or after June 26, 2007](#)) in XBRL (eXtensible Business Reporting Language) format, which allows investors, regulators and other market participants to compare NRSRO ratings at any point in time.<sup>3</sup>

---

3. DBRS Rating History Samples and DBRS Ratings Action History are available at [www.dbrs.com](http://www.dbrs.com) under Regulatory Affairs.



Among other things, the SEC May Rule Proposals intend to “standardize” the production and presentation of NRSRO transition and default rates and augment the rating action history, thereby eliminating the need for the random rating history samples. These proposals target rating accuracy and seek to improve comparisons among NRSROs.

Under the EU CRA Regulation, the European Securities and Markets Authority (ESMA)<sup>4</sup> is establishing a central repository of CRAs’ historical global performance data (CEREP). CRAs must provide the required information twice a year in a standardized format, starting July 1, 2011. ESMA in turn will publish the information to allow market participants compare and contrast CRA performance. DBRS is an active member of the CEREP team.

Together, these initiatives serve to provide investors and other market participants with a broad array of rating performance information to assist in their decision making.

---

#### 4. ESMA has assumed the work of the former Committee of European Securities Regulators (CESR).

Copyright © 2011, DBRS Limited, DBRS, Inc. and DBRS Ratings Limited (collectively, DBRS). All rights reserved. The information upon which DBRS ratings and reports are based is obtained by DBRS from sources DBRS believes to be accurate and reliable. DBRS does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS ratings, reports and any other information provided by DBRS are provided “as is” and without representation or warranty of any kind. DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Representatives) be liable (i) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS or any DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. Ratings and other opinions issued by DBRS are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness or recommendations to purchase, sell or hold any securities. A report providing a DBRS rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS receives compensation for its rating activities from issuers, insurers, guarantors and/or underwriters of debt securities for assigning ratings and from subscribers to its website. DBRS is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS. ALL DBRS RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT <http://www.dbrs.com/about/disclaimer>. ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON <http://www.dbrs.com>.