DBRS Criteria: Rating Market-Linked Securities

Market-linked securities (for the purposes of this criteria) are instruments where interest and/or principal repayments are obligations of, or obligations guaranteed by, a company (typically a financial institution) where at least some part of the return of interest or principal is variable and may fluctuate in accordance with equity, currency, commodity, market price index or to the market value of a particular stock or fund. Such repayments may also be linked to baskets of any of the aforementioned.

DBRS only rates a market-linked security when the offering documentation provides that the holders of the security are contractually entitled (through either a guarantee or a direct obligation of a guarantor or issuer, respectively) to a 100% return of principal; in other words, no part of the return of any of the face amount of principal is exposed to market risks associated with equity, commodity or other prices.

With respect to payments beyond principal, the DBRS rating on a market-linked security does not address such fluctuations nor does it address the likelihood of receipt of any investment return beyond the ultimate return of principal.

DBRS may rate certain contingent capital bank instruments that are market-linked in the sense that these instruments, upon certain trigger events, may be converted to the issuing bank’s common equity, whose market value will fluctuate as does any equity security. Such contingent capital bank instruments are not, however, captured under this market-linked security criteria. DBRS will rate such contingent capital bank instruments, even if the contractual return of “principal” is potentially less than 100%. For additional information on contingent capital securities, please see the DBRS criteria Rating Bank Capital Securities – Subordinated, Hybrid, Preferred and Contingent Capital Securities.