



Insight beyond the rating.

August 7, 2009

Committee of European Securities Regulators (“CESR”)
Via email

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Re: DBRS comments on CESR’s Consultation Paper regarding credit rating agencies (“CRAs”) Central Repository (“Consultation Paper”)

Dear CESR:

DBRS appreciates the opportunity to comment on the Consultation Paper regarding conclusions that CESR has drawn to date for setting common standards for presentation of historical and performance information and the design of the potential output from the Central Repository (“CRep”).

DBRS is a global credit rating agency based in Toronto, Canada that was established in 1976 and is still privately owned by its founders. With offices located in New York and Chicago, DBRS maintains ratings on more than 43,000 securities of more than 2400 issuers in approximately 35 countries around the globe. DBRS has broad international regulatory recognition and market acceptance including in Canada, the United States and in Europe.¹

As a member of CESR’s Consultative Working Group (“CWG”), DBRS was one of the respondents to the March 2009 questionnaires and also participated in the pre-consultation process regarding this Consultation Paper. DBRS is very committed to the European market and plans to meet the new European CRA Regulation.

DBRS provides the following general comments followed by more specific comments on areas in the Consultation Paper that it believes requires clarification and/or may pose some issues:

General comments

DBRS understands CESR’s intent regarding the development of a minimum data set and common standards for the presentation of historical and performance information in the CRep. Many of the proposals in the Consultation Paper accommodate CRAs of different size and type to ensure ratings are not homogenized and that investors and other users continue to benefit from the diversity of ratings opinions and ratings information. However,

¹ Please refer to Regulatory Affairs on www.dbrs.com for a detailed list of DBRS registrations, recognitions and approvals in Canada, the U.S., Europe and other jurisdictions.



certain of the proposals could impose additional cost and/or differ from regulatory requirements in other jurisdictions.

For example, proposed standards such as an accuracy or performance ratio using the Gini co-efficient, the provision of both annual and semi-annual information by February 28 and August 31 each year and the granularity of certain data and segmentation may not accommodate CRAs of all sizes and impose additional costs without significant additional benefit and information. DBRS suggests that CESR consider the possibility of a phased-in project approach where additional or more complex standards are developed at a later date once the CRep is implemented with certain basic standards.

With respect to CRA performance measurement standards and reporting in other jurisdictions, as an example, the U.S. Securities and Exchange Commission (“SEC”) require the following, among other things: annual publication of default and transition statistics in defined periods and categories² due within 90 days after calendar year-end (due March 31), an annual confidential report of all ratings actions during the past year for which a CRA is registered (due June 30), and a publicly available random sample of 10% of outstanding ratings for issuer pay CRAs in machine readable form in categories for which a CRA has issued 500 or more outstanding ratings.

DBRS suggests that CESR ensure that all proposals consider the following: current availability of data versus the need for the development of additional data, additional compliance costs, and harmonization, to the extent possible, with other regulatory requirements.

Specific comments:

Scope

DBRS notes that the scope of the Consultation Paper is in line with Article 2 of the Regulation wherein private ratings would be excluded. As a point of clarification, DBRS private ratings are subject to the same policies, methodologies and objective processes as its public ratings. Performance reporting in certain jurisdictions would include private ratings. For example, DBRS 2009 Corporate and Structured Finance Rating Transition and Default studies included private ratings and reflected the SEC’s performance measurement requirements.

² The defined periods are 1, 3 and 10 year periods (unless there is no information) and the five possible categories in which a CRA is registered consist of: Structured Finance, Corporates, Financial Institutions, Insurance and Government Securities (the latter further broken into sovereigns, U.S public finance, and international public finance).



Rating categories

As a point of clarification, DBRS' rating modifiers for its bond and long term debt scale are High (H) and Low (L) which are different than those of S&P and Moody's cited in the Consultation Paper.

Also, it is not clear what is meant by the level of capacity to meet financial commitments.

Data categories

DBRS generally agrees with the definition for the number of ratings issued, the number of ratings withdrawn and the limitation on the data to be reported but notes the following:

DBRS suggests that the term “withdrawal” be defined to ensure a common understanding. For instance, DBRS uses the term “discontinued”, not withdrawal which definition is found under Rating Definitions on www.dbrs.com.

DBRS agrees that ratings that are not typically used for historical performance statistics should be excluded (such as financial strength ratings, recovery ratings or servicer ratings). These types of ratings can be considered at a later date.

Regarding the suggestion that CRAs distinguish the reason for withdrawing a rating and then bucketing it in two broad categories, there are a number of situations that may cause such withdrawal or discontinuation. Such circumstances include: when an entity retires all, or virtually all, of its outstanding debt within a particular category and has no plans to reissue in the near future or where the rated debt is no longer in the public market, where a defeasance structure removes the credit risk of the issuer as a consideration, where the debt comes to be held by a few large institutions that do not require ongoing ratings, where there is insufficient information to rate the debt or where a CRA elects to discontinue its public rating coverage of a particular entity or security and in some cases, where an issuer requests that the rating be discontinued. As such, DBRS suggests that CESR should clarify the purpose of this suggestion.

Finally, the number of ratings, not the amount rated in currency would provide a better standard for market comparison.

Time periods

DBRS suggests that time periods in general should be consistent with regulatory requirements in other jurisdictions.



In the case of short, medium and long-term periods, the U.S. SEC, for example, requires published annual performance data for 1, 3 and 10 year periods (unless there is no information) on an annual basis. DBRS meets these requirements but, in the case of Structured Finance, the 5 year period is relevant, and so DBRS provides information on this basis as well.

DBRS suggests that an annual time period is sufficient at this stage, and that semi-annual information could be provided at a later stage. In addition, DBRS suggests that a period of three months, not two months be permitted for submission to CRep for consistency with U.S. requirements.

Methodologies

DBRS suggests that unsolicited ratings should be included whether they are based on public information only or are based on issuer participation. DBRS' approach to ratings including its methodologies and rating committee processes, and its policies and procedures including those to manage potential conflicts of interest are the same whether a rating is on a solicited or unsolicited basis. Moreover, sufficient public information to support the analysis for an unsolicited rating must be available, otherwise DBRS does not issue a rating.

Specific standards

DBRS suggests that North America should be broken out into Canada and the U.S. as these markets are quite distinct and different.

Also, DBRS suggests that only one basis for Sovereign and Public Finance ratings should be included, either the local or foreign currency rating, as including both could be potentially confusing.

Potential Output Design of CRep

DBRS agrees with the proposed manner of presenting information regarding the statistical significance of data and the scope of information regarding the number of upgrades and downgrades. But it suggests that the proposed additional granularity by trend and credit watch should not be required as it is too much detail for the additional potential benefit.

DBRS agrees with the number of suggested ratings for presenting defaults and transition rates to accommodate varying size of CRAs. However, it would seem that the number of suggested ratings at the broad or whole rating class level for defaults and transition matrices versus at the finer notch level needs to be reversed. That is, the default rates at the broad rating class level need only be presented if the number of ratings at the beginning of the reference period is 200 (or 100 for sovereign ratings), not 100 (or 50 for sovereign



ratings) and at the finer notch level, the number of ratings would be 100, not 200 (for classes excluding sovereign ratings).

In terms of an accuracy ratio, DBRS understands that it is most meaningful where there is a sufficiently large sample size of the same types of credits. DBRS has some concern that the introduction of this metric may not accommodate CRAs of all sizes, especially newer and smaller CRAs. DBRS also has some concern that there may be an inordinate emphasis placed by users on the accuracy ratio without consideration of traditional outputs or metrics such as default rates, transition matrices and/or rating changes (number of upgrades and downgrades). These metrics need to be considered together, and also require the overlay or consideration of qualitative aspects and differences in CRAs. On this basis, DBRS suggests that CESR consider the introduction of an accuracy ratio on a phased-in basis.

DBRS agrees with the list of additional qualitative information to be provided but cautions CESR that the treatment of rating changes due to changes in methodology is a very subjective area. DBRS suggests that CESR consider developing a common definition for what constitutes a rating methodology change and/or materiality threshold.

DBRS would be pleased to further discuss any aspect of its comments. Should CESR require additional information, please do not hesitate to contact me.

Very truly yours,

A handwritten signature in black ink, appearing to read "Mary Keogh". The signature is fluid and cursive, with a large initial "M" and "K".

Mary Keogh
Managing Director
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