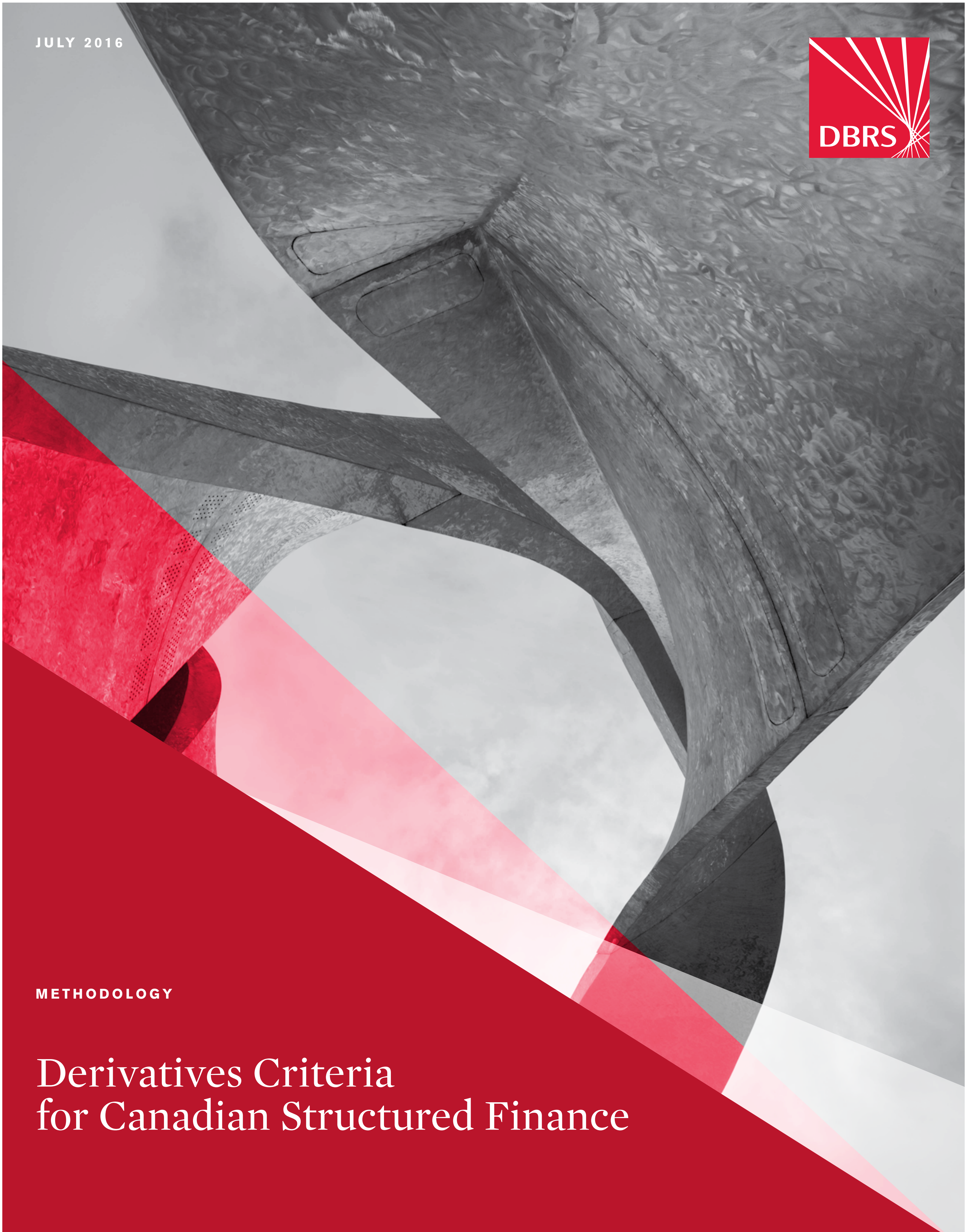

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METHODOLOGY

Derivatives Criteria for Canadian Structured Finance

Contact Information

Jamie Feehely
Managing Director, Canadian Structured Finance
Global Structured Finance
Tel. +1 416 597 7312
jfeehely@dbrs.com

Tim O'Neil
Senior Vice President CDN, ABS
Global Structured Finance
Tel. +1 416 597 7477
toneil@dbrs.com

Debbie Caruso
Senior Vice President, CDN Legal
Canadian Structured Finance
Global Structured Finance
Tel. +1 416 597 7389
dcaruso@dbrs.com

Banu Unal
Senior Vice President, Legal
Global CMBS
Tel. +1 416 597 7344
bunal@dbrs.com

Ryan Therrien
Assistant Vice President, CDN Legal
Canadian Structured Finance
Global Structured Finance
Tel. +1 416 597 7434
rtherrien@dbrs.com

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Derivatives Criteria for Canadian Structured Finance

Scope and Limitations

DBRS Limited (DBRS) evaluates both qualitative and quantitative factors when assigning or confirming ratings in respect of a Canadian structured finance transaction or instrument. This methodology represents and describes the current DBRS approach to evaluating derivatives arrangements that are part of Canadian structured finance transactions. It is important to note that the various topics discussed in this methodology may not be applicable or relevant in all cases, depending on the transaction structure and issuance in question and the related rating or transaction assessment level. Further, this methodology is meant to provide guidance regarding the DBRS methods used in Canadian structured finance and should not be interpreted with formulaic inflexibility, but understood in the context of the dynamic environment in which it is intended to be applied.

Introduction

DBRS reviews proposed derivatives arrangements as part of its analysis of Canadian structured finance ratings or transaction assessments in respect of Canadian ABCP ratings. When a derivatives arrangement is included in a Canadian structured finance transaction, DBRS considers it imperative that the derivatives counterparty be in a position to meet its payment obligations to the note issuer in order to assess whether noteholder payments can be made according to the payment priorities in the transaction documentation. As such, DBRS needs to be satisfied that counterparty risks have been mitigated in a manner that is commensurate with the relevant rating or transaction assessment.

This publication is intended to provide transparency to the transaction assessment and ratings process by outlining the considerations and DBRS's expectations applicable to derivatives arrangements that are part of Canadian structured finance transactions.[1] Since the expectations and considerations set out in this publication are primarily intended to mitigate derivatives counterparty risk, it is not intended to apply to the structured finance note issuer, and as such, DBRS reviews the derivatives documents to ensure that the note finance issuer does not incur any non-standard obligations or risk that could compromise its payment obligations to its noteholders.

Where any ratings levels or rating thresholds are used in this publication in relation to an entity, the long-term rating thresholds typically refer to an entity's Issuer Rating or senior unsecured debt rating, and the short-term rating thresholds typically refer to an entity's commercial paper or short-term debt rating, unless otherwise indicated. In addition, DBRS determines (in accordance with its policies and procedures) whether a Critical Obligations Rating or other similar bail-in rating is the appropriate rating level against which to measure rating thresholds used in this Methodology. DBRS considers, on a case-by-case basis, circumstances where the entity's rating is at a relevant minimum rating threshold described in this Methodology, but such rating is Under Review with Negative Implications.

Key Points

Derivatives arrangements that are typically considered by DBRS in the context of Canadian structured finance transactions can generally be grouped in two main categories: (1) hedging arrangements used in traditional securitization transactions, such as interest rate, basis and currency swaps, or caps, floors, collars or other similar derivatives arrangements with fixed notional amounts and derivatives where the notional amounts amortize or otherwise follow an uncertain payment profile[2]; and (2) credit default swaps or other derivatives whose primary purpose is to provide protection against the default of one or more entities.

1. In circumstances where a Canadian ABCP Conduit purchases notes or assets, or enters into a transaction that is not directly rated by DBRS, in respect of each such Canadian ABCP transaction DBRS assigns a transaction assessment in accordance with the DBRS methodology *Rating Canadian ABCP and Related Enhancement Features* (as well as other applicable methodologies). "ABCP" and "transaction assessment" are defined in DBRS's *Legal Criteria for Canadian Structured Finance*, which can be found at www.dbrs.com.
2. DBRS does not expect any such hedging arrangements to be used for credit enhancement purposes.

The primary purpose of the approach applied by DBRS in considering derivatives arrangements is the removal of the credit risk associated with the derivatives counterparty from the rated/assessed transaction or mitigation of that risk before the counterparty defaults. In DBRS's view, this may be achieved by building certain structural features in the derivatives arrangement such as inclusion of downgrade ratings thresholds for the relevant derivatives counterparty, and certain remedial actions to be taken by the counterparty upon a downgrade, such as replacement of such counterparty or collateralization of the obligations of such counterparty prior to the point where it might be expected to default or procurement of a guarantee with respect to the obligations of such counterparty. Depending on the particulars and purpose of the derivatives arrangement, different approaches may be used to address the relevant risk.

In addition, this Criteria consider the collateralization arrangements that may be used by any such counterparty upon a ratings downgrade. Generally speaking, the primary purpose of collateralization of the counterparty's obligations is to remove one party's exposure to another under a derivative by requiring the downgraded party to provide collateral with sufficient value. As such, in addition to determining the amount of the exposure that needs to be collateralized, the framework also considers the nature of the collateral that may be provided, and, assuming that the value of that collateral is itself subject to fluctuations, how to determine whether collateral with sufficient value is provided by the downgraded party whereby the related credit risk is adequately mitigated.

Depending on the nature of the relevant derivatives arrangement, DBRS has different expectations with respect to the counterparty and collateralization arrangements. DBRS's expectations with respect to hedging transactions contemplated in category (1) above are set out in The DBRS Approach to Hedging Counterparty and Collateral Arrangements for Canadian Structured Finance Transactions (which is attached as Schedule A hereto). The framework followed by DBRS in considering derivatives transactions contemplated under the general category (2) above is set out in The DBRS Approach to Derivatives Counterparty and Collateral Arrangements for Credit Derivatives (which is attached as Schedule B hereto).

This publication also provides transparency into DBRS's expectations on some of the other aspects of derivatives arrangements that are deemed pertinent by DBRS for purposes of the overall ratings analysis. It is worth noting, however, that no single framework can be sufficiently exhaustive to contemplate every set of circumstances that may arise in the context of a transaction. Therefore, even where a transaction, on its face, incorporates the expectations and considerations discussed in this publication, DBRS may decide that the risk of the counterparty and/or the circumstances are such that guidelines contemplated herein are inadequate or inappropriate and additional structures may need to be considered to mitigate the applicable risk commensurate with the target rating or assessment level.

This publication sets out the relevant considerations and DBRS's expectations in assessing Canadian structured finance transactions where the highest rating assigned to relevant securities is higher than AA (low) (sf) or R-1 (middle) (sf) by DBRS. In situations where the applicable notes are rated below AA (low) (sf) or R-1(middle) (sf) by DBRS, DBRS may modify some of the expectations and considerations as DBRS deems appropriate for the applicable rating level.

Acceptable Documentation and Legal Matters

General Legal Matters

DBRS expects derivatives transactions to be based on, and documented by, the ISDA Master Agreement and other International Swaps and Derivatives Association (ISDA) standard agreements (including the Confirmation, Schedule and Credit Support Annex (CSA), where applicable). DBRS reviews derivatives documentation (as well as any documentation governing the Eligible Institution or custodian holding any posted collateral, where applicable) and specifically expects to see the following in such documents:

- Material amendments and waivers or consents (as determined by the issuer and its counsel)[3], assignments and transfers (including legal successors, in this case) subject to satisfaction of the Rating Agency Condition[4] (unless, in the case of an assignment or transfer (including a legal successor, in this case), it is to a counterparty that satisfies the relevant First Ratings Threshold and the assignment or transfer is on the same terms and in writing and does not result in any adverse consequences to the note issuer or the noteholders, such as there being no adverse tax consequences or increased costs for the note issuer).

3. References in this Criteria report to "material" amendments, waivers and consents are intended to refer to "material" as determined by the issuer and its counsel.
4. Rating Agency Condition is defined in DBRS's *Legal Criteria for Canadian Structured Finance*, which can be found at www.dbrs.com.

- Prompt written notice to DBRS of all non-material amendments and waivers (as determined by the issuer and its counsel) as soon as possible after they become effective.
- Limited recourse language (i.e., the counterparty's recourse is limited to the assets of the note issuer that are related to the particular transaction or note issuance).

Non-petition language (i.e., the counterparty (and, if applicable, any guarantor or credit support party) agrees that it will not commence bankruptcy proceedings against the note issuer for at least one year plus one day after repayment in full of the outstanding related notes).

Payment Priorities to Counterparties

The determination of payment priority to derivatives counterparties is based on four separate types of payments: (1) regular derivatives payments, (2) regular adjustments to payments (where payments are reset each payment period), (3) amendments to the notional amount or other amendments that may result in additional costs to the note issuer/trust and (4) early termination payments.

1. Regular Payments under the Derivatives

DBRS expects regular payments to rank no higher in priority than the payment of interest on the most senior DBRS-rated notes on an ongoing basis under the transaction waterfall.[5] The pari passu ranking of this payment with the payment of interest to the noteholders reflects the importance of the relationship between the payment under the derivatives and cash flows in the transaction.

2. Regular Adjustment Payments

Where a derivatives arrangement is adjusted at the beginning or end of each payment period and adjustment payments are to be made by the parties accordingly, in the absence of any default or termination event, DBRS expects these payments to rank no higher in priority than the payment of principal on the most senior DBRS-rated notes on an ongoing basis under the transaction waterfall.[6]

3. Amendments to the Notional Amount

DBRS expects amendments to the notional amount or other aspects of the derivatives arrangement that result in additional costs to the note issuer to rank below principal payments on the lowest-ranking notes rated by DBRS in the transaction waterfall.

4. Early Termination Payments

If there is a termination of the derivatives arrangement where the counterparty is the sole affected or defaulting party, DBRS expects any termination payments to the counterparty to rank below principal payments on the lowest-ranking notes rated by DBRS in the transaction waterfall. Because of this subordination, DBRS expects that payments to counterparties at this stage in the transaction are not netted to ensure the intended priority of payments is respected. If the counterparty is neither the sole affected nor sole defaulting party, DBRS expects payments due to the counterparty to rank no higher in priority than the payment of principal on the most senior DBRS-rated notes.

To the extent that the counterparty is a foreign entity, DBRS may in certain circumstances request a legal opinion or other information satisfactory to it to ensure that the above-mentioned priority of payments are enforceable against such counterparty at all times that the derivatives arrangement is outstanding.

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5. DBRS reviews the payment priorities in respect of hedging arrangements that are structured to support classes other than most senior class of DBRS-rated notes on a case-by-case basis.
6. DBRS reviews the payment priorities in respect of hedging arrangements that are structured to support classes other than most senior class of DBRS-rated notes on a case-by-case basis.

Posted Collateral Held in Accounts at Eligible Institutions

DBRS expects collateral posted in connection with the derivatives arrangements in the form of cash, investment property or securities to be held in an account in the name of a third-party custodian or the structured finance issuer at an Eligible Institution.[7] In the case where the account is held by an unrated securities intermediary, it is possible to satisfy the Rating Agency Condition[8] by relying on the securities intermediary's parent rating, provided that the parent is a financial institution that meets the Eligible Institution rating threshold (or otherwise satisfies the Rating Agency Condition). It may also be possible to satisfy the Rating Agency Condition with respect to an account bank that does not meet the Eligible Institution rating threshold by relying on the institution's parent guarantee, provided that the guarantee is in a form satisfactory to DBRS and the parent itself meets the Eligible Institution rating threshold (or otherwise satisfies the Rating Agency Condition). Alternatively, the account bank risk can be mitigated in some other way satisfactory to DBRS.

In order to mitigate the risk relating to the account bank, DBRS expects there to be downgrade triggers or other satisfactory mitigants included in the relevant documentation relating to the Eligible Institution or its parent bank, as the case may be, such that if the Eligible Institution or its parent bank no longer meets the Eligible Institution rating threshold (if applicable) or does not satisfy the Rating Agency Condition, and no other satisfactory mitigant is in place, the account(s) is (are) relocated to another Eligible Institution within 30 calendar days. Collateral may also be held by a custodian, provided that such Custodian satisfies the expectations and considerations applicable to custodians as set out in DBRS's *Legal Criteria for Canadian Structured Finance* (which can be found at www.dbrs.com).

In addition, DBRS expects the account in which the relevant collateral is held is bankruptcy remote, such that on the bankruptcy of the counterparty, any funds in the account are not at risk of being caught up in the counterparty's bankruptcy proceedings. Some examples of ways to satisfy DBRS in this regard are (1) by providing a legal opinion from counsel to the counterparty that is addressed to DBRS opining on the bankruptcy remoteness of the account, (2) by setting up the account in the name of the note issuer, custodian or trustee or (3) in exceptional circumstances, (a) by the account being held in the name of the counterparty together with a perfected first-priority security interest granted in favour of the note issuer or trustee (which can be achieved provided that (i) the method of perfection or formality as required by applicable law is completed, and (ii) DBRS is satisfied of this by (A) receipt of a legal opinion satisfactory to DBRS or (B) otherwise, at DBRS's discretion, that the note issuer/trust holds a first-priority perfected security interest in the account), or (b) by the account being held in trust for the note issuer/trust. Option (3) would likely only be considered acceptable to DBRS if there are other acceptable features of the Canadian structured finance transaction that mitigate this risk.

Collateral Arrangements

Delivery Amount

The Delivery Amount is determined based on the excess of the Credit Support Amount (as defined in the ISDA credit support documentation, which is the amount required to be covered; that is, the note issuer's exposure to the counterparty in respect of the derivative) over the value of collateral (if any) already posted.

Minimum Transfer Amount

ISDA credit support documentation requires collateral (or additional collateral) to be posted where the amount required to be delivered (the Delivery Amount) exceeds the Minimum Transfer Amount. DBRS reviews the Minimum Transfer Amount proposed to determine whether it is consistent with the ratings requested. DBRS typically expects a Minimum Transfer Amount not exceeding CAD 100,000, or its equivalent, to be specified unless an Event of Default or Termination Event (as defined in the ISDA documentations) has occurred, in which case the Minimum Transfer Amount should be zero.

7. In DBRS's *Legal Criteria for Canadian Structured Finance* (which can be found at www.dbrs.com), an Eligible Institution is defined as typically being a Canadian chartered bank or trust company that has a rating of least A (high) or R-1 (middle) by DBRS (or its equivalent) or otherwise satisfies the Rating Agency Condition.
8. Note that where any of the mitigants referred to in this publication are subject to satisfaction of the Rating Agency Condition, this means that DBRS has indicated in writing that the proposed action will not lead the rating(s) of any note(s) that may be affected in such circumstances to be downgraded or withdrawn solely as a result of such proposed action. If reference to satisfaction of the Rating Agency Condition relates to a proposed action that will be completed in connection with the initial assignment of a rating or a transaction assessment, the Rating Agency Condition is considered to be satisfied upon assignment of the initial rating or transaction assessment, as the case may be.

Derivatives Counterparty as Calculation Agent

The note issuer in a structured finance transaction is likely to be a special purpose vehicle, lacking either significant operational infrastructure, or the systems or expertise necessary to adequately value derivative obligations. Assuming this is the case in the majority of derivatives transactions contemplated under this publication that include derivatives, DBRS expects that the counterparty also acts as Calculation Agent (as referred to in the ISDA documentation). Consistent with ISDA documentation, DBRS expects that in performing its obligations, the counterparty be subject to a contractual obligation to act in good faith and in a commercially reasonable manner.

Notwithstanding the obligation, when acting as Calculation Agent, to act in good faith and in a commercially reasonable manner, DBRS may nevertheless request the counterparty to confirm that the valuation it applies to the derivative for the purposes of determining the Delivery Amount (as determined under the relevant transaction documents) is consistent with that used for its own internal valuation purposes. DBRS may also periodically request the counterparty to approach third parties for quotations in relation to the derivative. Where the valuation of the derivative depends on a weighted-average life or other amortization profile for notional amounts under the derivative, DBRS requests details of the method used to determine that weighted-average life or pay-down profile.

Monitoring and Surveillance

DBRS monitors the exposure of a note issuer to the counterparty throughout the life of the rated security or the related underlying transaction, and may, notwithstanding compliance with the provisions of this publication, take rating action in relation to the rated securities in situations where the risk to the note issuer posed by counterparty default is no longer consistent with the then assigned ratings.

In order to be able to do this, DBRS may request that the derivative mark-to-market (MTM) be supplied to it even when there is no requirement for the posting of collateral. In addition to the requested MTM, DBRS may use other valuations and analysis to determine the exposure of the note issuer to the derivative counterparty. In addition, once the counterparty is downgraded below either the First or the Second Rating Thresholds, DBRS expects periodic information in relation to: (1) the valuation of the derivative and the collateral provided pursuant to the credit support documentation and (2) where relevant, efforts made by the counterparty to facilitate its replacement.

Exclusions

To the extent a derivatives arrangement is considered by DBRS as “off-market” at inception and is not easily replaceable in a regular market without incurring significant costs (for example, balance guaranteed swaps, revenue swaps and total return swaps, among others) or a derivatives arrangement is structured to provide credit protection in addition to hedging of a certain risk, DBRS considers such derivatives arrangements to be more akin to credit enhancement, and therefore expects the counterparty to such arrangements to meet the credit enhancer rating thresholds indicated in DBRS’s *Legal Criteria for Canadian Structured Finance* (which can be found at www.dbrs.com). DBRS reviews these “one-off” or “multi-purpose” derivatives arrangements on a case-by-case basis.

The considerations and expectations set out in this publication do not apply to structured credit and securitization transactions that have no connection to Canada (whether with respect to the assets or the issuer and other transaction parties).

Conclusion

DBRS expects that derivatives used in Canadian structured finance transactions meet the considerations and expectations set out in this publication. In situations where the rating of the applicable notes is below AA (low) (sf) or R-1 (middle) (sf) by DBRS, DBRS may modify some of the elements of this Criteria as DBRS deems appropriate for the applicable rating or transaction assessment level.

Schedule A: The DBRS Approach to Hedge Counterparty and Collateral Arrangements for Canadian Structured Finance Transactions

Counterparty Risk And Acceptable Ratings Thresholds

1. Rating of AA (sf) or higher or R-1 (high) (sf)

DBRS expects hedge counterparties involved in Canadian structured finance transactions where the applicable notes are rated at AA (sf) or higher or R-1 (high) (sf) by DBRS to meet the minimum ratings thresholds indicated below or otherwise satisfy the Rating Agency Condition. Alternatively, the hedge counterparties may have their obligations guaranteed by a guarantor that meets the minimum ratings thresholds indicated below as long as the terms of the guarantee are satisfactory to DBRS.

First Ratings Threshold: **A (high) or R-1 (middle)** by DBRS (or its equivalent) or the hedge counterparty otherwise satisfies the Rating Agency Condition.

Second Ratings Threshold: **BBB (high) or R-2 (high)** by DBRS (or its equivalent) or the hedge counterparty otherwise satisfies the Rating Agency Condition.

2. Rating of AA(low) or R-1 (middle) (sf)

DBRS expects hedge counterparties involved in Canadian structured finance transactions where the applicable notes are rated at AA (low) (sf) or R-1 (middle) (sf) by DBRS to meet the minimum ratings thresholds indicated below or otherwise satisfy the Rating Agency Condition. Alternatively, the hedge counterparties may have their obligations guaranteed by a guarantor that meets the minimum ratings thresholds indicated below as long as the terms of the guarantee are satisfactory to DBRS.

First Ratings Threshold: **"A" or R-1 (low)** by DBRS (or its equivalent) or the hedge counterparty otherwise satisfies the Rating Agency Condition.

Second Ratings Threshold: **BBB or R-2 (middle)** by DBRS (or its equivalent) or the hedge counterparty otherwise satisfies the Rating Agency Condition.

3. Rating Below AA (low) or R-1 (middle) (sf)

In situations where the applicable notes are rated below AA (low) (sf) or R-1 (middle) (sf) by DBRS, DBRS may modify some of the elements of this Criteria as DBRS deems appropriate for the applicable rating or transaction assessment level.

Acceptable Remedial Actions when a Counterparty is Downgraded

If the Relevant First Ratings Threshold is Not Maintained

DBRS expects that the hedge documentation for Canadian structured finance transactions include provisions such that, in the event that the hedge counterparty is downgraded below the relevant First Ratings Threshold or the counterparty no longer satisfies the Rating Agency Condition, as applicable, the counterparty takes at least one of the following remedial actions within 30 calendar days in order to avoid potential ratings action on the notes rated or transactions assessed by DBRS:

1. Post acceptable collateral (as discussed in more detail below in this Schedule) pursuant to an ISDA Credit Support Annex (CSA).[9]
2. Provide a guarantee from a guarantor (an Eligible Guarantor) that (a) meets the relevant First Ratings Threshold or (b) satisfies the Rating Agency Condition, provided that the terms of the guarantee are satisfactory to DBRS.[10]

9. This remedial action is only available if the derivatives transaction includes a Second Ratings Threshold.
10. Guarantees are generally considered to be satisfactory if they contain certain protection provisions, they are irrevocable and there are no adverse consequences to the note issuer or the noteholders, such as there being no tax consequences or increased costs for the note issuer. This remedial action is only available if the Eligible Guarantor is subject to similar downgrade provisions as the counterparty. In other words, DBRS expects the transaction documents to include provisions where, if the Eligible Guarantor's rating falls below the relevant First Ratings Threshold, the guarantor is no longer an Eligible Guarantor and is either replaced or the counterparty whose obligations have been guaranteed takes one of the other remedial actions suggested above in the time frame indicated. DBRS expects that any costs associated with procurement of an acceptable guarantee are borne by the counterparty.

3. Assign the downgraded counterparty's obligations under the hedging arrangement, on substantially the same terms and in writing, to another counterparty that meets the relevant First Ratings Threshold or otherwise satisfies the Rating Agency Condition, provided that the assignment does not result in any adverse consequences for the note issuer or the noteholders, such as there being no tax consequences or increased costs for the note issuer.[11]
4. Take such other action agreed to between the applicable parties that satisfies the Rating Agency Condition.

If none of the above actions has been taken by the hedge counterparty by the end of the 30th calendar day following its downgrade, DBRS expects the hedging arrangement to terminate, whereby each party to the hedge makes all final exchanges and/or payments required to be made on termination of the derivatives arrangement in accordance with the underlying documentation. DBRS assumes that the counterparty will make all payments determined to be payable by it in this context. In the event that the counterparty fails to make its final termination payments, or in the event that the issuer is required to make a termination payment to the counterparty in accordance with the documentation notwithstanding that the counterparty is the defaulting party, DBRS will conduct further analysis to determine whether there may be any ratings impact.

It is not necessary for each of the above remedial actions to be included in the transaction documents at the outset of the transaction or note issuance in order to satisfy this Criteria, provided that it is clear in the transaction documents that, upon a downgrade, the counterparty takes one of the above steps to mitigate the counterparty risk within 30 calendar days of its downgrade.

If the Relevant Second Ratings Threshold is Not Maintained

Assuming that the counterparty did not assign its obligations after it was downgraded below the relevant First Ratings Threshold and that there is a Second Ratings Threshold in the transaction documentation, DBRS expects the documents to provide that if a counterparty is subsequently downgraded below the relevant Second Ratings Threshold or it no longer satisfies the Rating Agency Condition, as applicable, it takes at least one of the following remedial actions within 30 calendar days:

- Assign the downgraded counterparty's obligations under the derivatives arrangement, on substantially the same terms and in writing, to another counterparty that meets the relevant First Ratings Threshold or otherwise satisfies the Rating Agency Condition, provided that the assignment does not result in any adverse consequences for the note issuer or the noteholders, such as there being no tax consequences or increased costs for the note issuer.[12]
- Post additional collateral (as discussed in more detail below in this Schedule) pursuant to an ISDA CSA.
- Take such other action agreed to between the applicable parties that satisfies the Rating Agency Condition.

If none of the above actions has been taken by the counterparty by the end of the 30th calendar day following its downgrade, DBRS expects the derivatives arrangement to terminate whereby each party to the derivatives transaction makes all final exchanges and/or payments required to be made on termination of the transaction in accordance with the underlying documentation. DBRS assumes that the counterparty will make all payments determined to be payable by it in this context. In the event that the counterparty fails to make its final termination payments, or in the event that the issuer is required to make a termination payment to the counterparty in accordance with the transaction documents notwithstanding that the counterparty is the defaulting party, DBRS will conduct further analysis to determine whether there may be any ratings impact.

As above, it is not necessary for each of these remedial actions to be included in the transaction documents at the outset in order to satisfy this Criteria, provided that it is clear in the documents that upon a downgrade, the counterparty takes one of the above steps to mitigate the counterparty risk within 30 calendar days of its downgrade.

11. DBRS expects that any costs associated with finding a replacement counterparty are borne by the counterparty.
12. See footnote 10.

Acceptable Collateral for Hedges and Valuation Percentages

Collateral Delivery Considerations[13]

The process with respect to collateral delivery arrangement begins with the determination of the note issuer's exposure to the counterparty with the MTM of the derivative used as an indicator of this level. This framework assumes that the valuation of both the derivative and any collateral posted occurs no less frequently than weekly. As the MTM of a derivative can fluctuate between valuation dates, the method for determining the amount of collateral to be posted at each rating threshold provides for an additional derivative volatility cushion to account for the volatility of the derivative's MTM from one period to the next.

Credit Support Amount at the First Rating Threshold

If the counterparty is, or has been downgraded to below the First Rating Threshold, but remains above the Second Rating Threshold, the framework determines the exposure to be collateralized as follows:

Max (0; MTM + hedge notional[14]* derivative volatility cushion)

The derivative volatility cushions are as follows:

For Single-Currency Interest Rate Swaps, Caps, Floors and Collars

	Note Rating 1	
Derivative Weighted-Average Life years) 2	AA (sf) or higher or R-1(high) (sf)	AA(low) (sf) or R-1(middle)(sf)
0-1	0.25%	0.15%
1-3	0.50%	0.30%
3-5	1.00%	0.75%
5-7	1.50%	1.25%
7-10	2.50%	2.00%
10-20	3.50%	2.50%
Greater than 20	4.00%	3.00%

1 Each column refers to the highest rating on the related securities supported by the derivatives arrangement. In situations where the applicable notes are rated below AA (low) (sf) or R-1 (middle) (sf) by DBRS, DBRS may modify some of the elements of this Criteria as DBRS deems appropriate for the applicable rating or transaction assessment level.

2 DBRS expects, for the purposes of determining the swap volatility cushions contemplated herein, that the weighted-average life be determined based only on scheduled payments in which the possibility of voluntary prepayments by underlying obligors is ignored, as is the potential for their default.

For Cross-Currency Swaps

	Note Rating	
Derivative Weighted-Average Life years)	AA (sf) or higher or R-1(high) (sf)	AA(low) (sf) or R-1(middle)(sf)
0-1	2.00%	1.25%
1-3	2.50%	1.50%
3-5	2.75%	2.00%
5-7	3.00%	2.25%
7-10	3.50%	2.50%
10-20	4.25%	3.00%
Greater than 20	5.00%	4.00%

13. For the purposes of simplifying the explanation in this section, it has been assumed that a single swap has been entered into under the ISDA Master Agreement.
14. Where different notional amounts exist under the swap, such as for a currency swap, the relevant notional amount will be for the leg of the transaction whose cash flows support the rated securities.

For Single-Currency, Single-Index Basis Swaps

	Note Rating	
Derivative Weighted-Average Life (years)	AA (sf) or higher or R-1 (high) (sf)	AA (low) (sf) or R-1 (middle) (sf)
0-1	0.25%	0.15%
1-3	0.50%	0.30%
3-5	0.80%	0.70%
5-7	0.95%	0.75%
7-10	1.20%	0.95%
10-20	1.50%	1.00%
Greater than 20	1.80%	1.05%

Credit Support Amount at the Second Rating Threshold

Upon a downgrade to below the Second Rating Threshold, the credit risk of the hedge provider becomes more of a concern. The framework now assumes a higher likelihood of the note issuer being exposed to movements in the value of the derivative (and therefore the cost of replacing the original counterparty) and as a result provides for higher derivative volatility cushions.

Where the counterparty is downgraded to below the Second Rating Threshold, the framework determines the exposure to be collateralized as follows:

Max (0; MTM + hedge notional * derivatives volatility cushion; next payment[15])

The derivative volatility cushions are as follows:

For Single-Currency Interest Rate Swaps and Caps, Floors and Collars

	Note Rating	
Derivative Weighted-Average Life (years)	AA (sf) or higher or R-1 (high) (sf)	AA (low) (sf) or R-1 (middle) (sf)
0-1	0.75%	0.50%
1-3	1.25%	0.75%
3-5	2.00%	1.50%
5-7	3.00%	2.00%
7-10	5.00%	3.00%
10-20	7.00%	5.00%
Greater than 20	9.00%	6.50%

15. The net amount due from the derivative counterparty on the immediately following payment date. In relation to currency swaps, this amount would be calculated based on the difference between the counterparties' payments, expressed in the currency required by the note issuer, even if such payments would not actually required to be netted under the swap.

For Cross-Currency Swaps

	Note Rating	
Derivative Weighted-Average Life (years)	AA (sf) or higher or R-1 (high) (sf)	AA (low) (sf) or R-1 (middle) (sf)
0-1	7.00%	5.00%
1-3	7.50%	5.50%
3-5	8.00%	6.00%
5-7	9.00%	7.00%
7-10	10.00%	8.00%
10-20	12.00%	9.00%
Greater than 20	14.00%	12.00%

For Single-Currency, Single-Index Basis Swaps

	Note Rating	
Derivative Weighted-Average Life (years)	AA (sf) or higher or R-1 (high) (sf)	AA (low) (sf) or R-1 (middle) (sf)
0-1	0.75%	0.50%
1-3	1.25%	0.75%
3-5	1.60%	1.40%
5-7	1.90%	1.45%
7-10	2.40%	1.50%
10-20	3.00%	2.00%
Greater than 20	4.05%	2.30%

DBRS notes the following points:

- First, the exposure of the note issuer is floored at zero, consistent with the premise that it is only the derivative counterparty that may be subject to an obligation to post collateral.
- Second, while the framework contemplates that the MTM of the derivative may be netted against the derivative volatility cushion, it is nevertheless possible that collateral may need to be posted by the counterparty at a time when the MTM of the derivative shows it to be 'in-the-money' for the counterparty. This would occur when the MTM of the derivative in favour of the counterparty was less than the derivative volatility cushion, reflecting the risk that the value of the derivative might move during the relevant valuation period such that it would become in-the-money for the note issuer.
- Finally, in cases where the derivative counterparty has been downgraded below the Second Rating Threshold, in determining the amount of collateral that needs to be posted the framework includes, in the calculation, the net amount due from the counterparty on the next following payment date. This ensures that the note issuer is provided with sufficient funds to cover its imminent obligations in respect of the rated obligations, therefore mitigating immediate liquidity issues associated with the counterparty's default.

Valuing Collateral to be Delivered

The framework assumes that collateral provided by a hedge counterparty will be limited by the transaction documentation to either cash or interest-bearing debt issued by sovereign entities and provinces, in each case, rated at least AA (low).

To avoid currency risk, DBRS expects collateral to be posted in the same currency as the counterparty's payment obligations unless the currency risk is otherwise mitigated to DBRS's satisfaction. In addition, the valuation percentages listed only apply in the case where the collateral being posted is in the same currency as the counterparty's obligations. To the extent that collateral is being posted in a currency other than the currency of the counterparty's obligations, as above, DBRS expects that the currency risk is mitigated to DBRS's satisfaction in addition to the relevant valuation percentage being applied.

No reduction is necessary where same currency cash collateral is provided.

First Rating Threshold

Collateral Maturity (years)	All Rating Levels (and Transaction Assessments)
0-1	99.70%
1-3	99.00%
3-5	98.50%
5-7	98.00%
7-10	97.50%
10-20	97.00%
Greater than 20 years	96.00%

Second Rating Threshold

	Note Rating	
Collateral Maturity (years)	AA (sf) or higher or R-1 (high) (sf)	AA (low) (sf) or R-1 (middle) (sf)
0-1	99.00%	99.50%
1-3	98.00%	99.00%
3-5	96.50%	97.50%
5-7	95.00%	97.00%
7-10	93.00%	95.00%
10-20	90.00%	93.00%
Greater than 20 years	86.00%	90.00%

The rates set out above apply to both fixed-rate and floating-rate collateral.

Timing/Maturity Date of Hedges Used in Canadian Structured Finance Transactions

For a hedging transaction to be considered acceptable by DBRS, DBRS expects that an unhedged position does not exist at any point during the transaction that may expose the note issuer to risks, including at the tail end of the maturing receivable pool. As such, DBRS expects the applicable hedge to have a maturity profile that meets or exceeds (1) the final payment profile of the underlying assets in the transaction, or (2) the date on which all outstanding notes issued in relation to the transaction have been paid in full.

Schedule B: The DBRS Approach for Derivatives Counterparty and Collateral Arrangements for Credit Derivatives

Counterparty Risk and Acceptable Ratings Thresholds

1. Rating of AA (sf) or higher or R-1 (high) (sf)

DBRS expects credit derivatives counterparties involved in Canadian transactions where the applicable notes are rated at AA (sf) or higher or R-1 (high) (sf) by DBRS to meet the minimum ratings thresholds indicated below or otherwise satisfy the Rating Agency Condition. Alternatively, the derivatives counterparties may have their obligations guaranteed by a guarantor that meets the minimum ratings thresholds indicated below as long as the terms of the guarantee are satisfactory to DBRS.

First Ratings Threshold: **A (high) or R-1 (middle)** by DBRS (or its equivalent) or the derivatives counterparty otherwise satisfies the Rating Agency Condition.

Second Ratings Threshold: **BBB (high) or R-2 (high)** by DBRS (or its equivalent) or the derivatives counterparty otherwise satisfies the Rating Agency Condition.

2. Rating of AA (low) (sf) or R-1 (middle) (sf)

DBRS expects credit derivatives counterparties involved in Canadian transactions where the applicable notes are rated at AA (low) (sf) or R-1 (middle) (sf) by DBRS to meet the minimum ratings thresholds indicated below or otherwise satisfy the Rating Agency Condition. Alternatively, the derivatives counterparties may have their obligations guaranteed by a guarantor that meets the minimum ratings thresholds indicated below as long as the terms of the guarantee are satisfactory to DBRS.

First Ratings Threshold: **"A" or R-1 (low)** by DBRS (or its equivalent) or the derivatives counterparty otherwise satisfies the Rating Agency Condition.

Second Ratings Threshold: **BBB or R-2 (middle)** by DBRS (or its equivalent) or the derivatives counterparty otherwise satisfies the Rating Agency Condition.

3. Rating Below AA (low) (sf) or R-1 (middle) (sf)

In situations where the applicable notes are rated below AA (low) (sf) or R-1 (middle) (sf) by DBRS, DBRS may modify some of the elements of this Criteria as DBRS deems appropriate for the applicable rating or transaction assessment level.

Acceptable Remedial Actions when a Counterparty is Downgraded

If the Relevant First Ratings Threshold is Not Maintained

DBRS expects that the credit derivatives documentation includes provisions such that, in the event that the derivatives counterparty is downgraded below the relevant First Ratings Threshold or the counterparty no longer satisfies the Rating Agency Condition, as applicable, the counterparty takes at least one of the following remedial actions within 30 calendar days in order to avoid potential ratings action on the notes rated or transactions assessed by DBRS:

- Post Acceptable Collateral (see the table below for a list of Acceptable Collateral) pursuant to a CSA to cover the counterparty's payment obligations for at least one payment period. DBRS expects the amount of Acceptable Collateral to be posted by the counterparty to be deposited one payment period in advance, which can be rebalanced at the end of each payment period according to the MTM valuation as determined by the Calculation Agent in accordance with the terms of the CSA.[16]
- Provide a guarantee from a an Eligible Guarantor that (a) meets the relevant First Ratings Threshold or (b) satisfies the Rating Agency Condition, provided that the terms of the guarantee are satisfactory to DBRS.[17]

16. See footnote 9.
17. See footnote 10.

- Assign the downgraded counterparty's obligations under the derivatives arrangement, on substantially the same terms and in writing, to another counterparty that meets the relevant First Ratings Threshold or otherwise satisfies the Rating Agency Condition, provided that the assignment does not result in any adverse consequences for the note issuer or the noteholders, such as there being no tax consequences or increased costs for the note issuer.[18]
- Take such other action agreed to between the applicable parties that satisfies the Rating Agency Condition.

If none of the above actions has been taken by the derivatives counterparty by the end of the 30th calendar day following its downgrade, DBRS expects the derivatives arrangement to terminate, whereby each party to the derivatives arrangement makes all final exchanges and/or payments required to be made on termination of the derivatives arrangement in accordance with the underlying documentation. DBRS assumes that the counterparty will make all payments determined to be payable by it in this context. In the event that the counterparty fails to make its final termination payments, or in the event that the issuer is required to make a termination payment to the counterparty in accordance with the documentation notwithstanding that the counterparty is the defaulting party, DBRS will conduct further analysis to determine whether there may be any ratings impact.

It is not necessary for each of the above remedial actions to be included in the transaction documents at the outset of the transaction or note issuance in order to satisfy this Criteria, provided that it is clear in the transaction documents that upon a downgrade, the counterparty takes one of the above steps to mitigate the counterparty risk within 30 calendar days of its downgrade.

If the Relevant Second Ratings Threshold is Not Maintained

Assuming that the counterparty did not assign its obligations after it was downgraded below the relevant First Ratings Threshold and that there is a Second Ratings Threshold in the transaction documentation, DBRS expects the documents to provide that if a counterparty is subsequently downgraded below the relevant Second Ratings Threshold or it no longer satisfies the Rating Agency Condition, as applicable, it takes at least one of the following remedial actions within 30 calendar days:

- Assign the downgraded counterparty's obligations under the derivatives arrangement, on substantially the same terms and in writing, to another counterparty that meets the relevant First Ratings Threshold or otherwise satisfies the Rating Agency Condition, provided that the assignment does not result in any adverse consequences for the note issuer or the noteholders, such as there being no tax consequences or increased costs for the note issuer.[19]
- Post additional Acceptable Collateral (see the table below for a list of Acceptable Collateral)[20] pursuant to a CSA to cover all net future payment obligations owing by the downgraded counterparty under the derivatives arrangement. The amount of Acceptable Collateral to be posted by the counterparty at this stage can be determined on an MTM valuation basis by the Calculation Agent in accordance with the terms of the CSA, calculated at least weekly (or more frequently if it is considered necessary or prudent under the circumstances).
- Take such other action agreed to between the applicable parties that satisfies the Rating Agency Condition.

If none of the above actions has been taken by the counterparty by the end of the 30th calendar day following its downgrade, DBRS expects the derivatives arrangement to terminate, whereby each party to the derivatives transaction makes all final exchanges and/or payments required to be made on termination of the transaction in accordance with the underlying documentation. DBRS assumes that the counterparty will make all payments determined to be payable by it in this context. In the event that the counterparty fails to make its final termination payments, or in the event that the issuer is required to make a termination payment to the counterparty in accordance with the transaction documents notwithstanding that the counterparty is the defaulting party, DBRS will conduct further analysis to determine whether there may be any ratings impact.

As above, it is not necessary for each of these remedial actions to be included in the derivatives documents at the outset of the transactions or note issuance in order to satisfy this Criteria, provided that it is clear in the transaction documents that upon a downgrade, the counterparty takes one of the above steps to mitigate the counterparty risk within 30 calendar days of its downgrade.

18. See footnote 10.
19. See footnote 10.
20. See footnote 21.

Acceptable Collateral for Credit Derivatives and Valuation Percentages

DBRS considers the collateral listed in the table below (Acceptable Collateral for Credit Derivatives) to be acceptable to meet a counterparty's collateral posting obligations in the event that it does not meet the relevant First Ratings Threshold or relevant Second Ratings Threshold for ratings or transaction assessments of AA (sf) or higher or R-1 (high) (sf) by DBRS (or its equivalent). For all other rating categories, the collateral to be posted and applicable valuation percentages are reviewed by DBRS on a case-by-case basis and considered satisfactory to DBRS for the applicable rating category or transaction assessment.

Each type of Acceptable Collateral for Credit Derivatives is listed with a related valuation percentage, which is to be applied to the valuation of that collateral by the Calculation Agent of the applicable derivatives transaction. DBRS expects the valuation of the collateral to be calculated by the Calculation Agent on a regular basis, and at least as frequently as weekly in the event that the counterparty does not meet the relevant Second Ratings Threshold. All other types of proposed collateral and applicable valuation percentages are subject to satisfaction of the Rating Agency Condition, with the valuation percentage to be determined at or prior to the time of posting.

To avoid currency risk, DBRS expects collateral to be posted in the same currency as the counterparty's payment obligations unless the currency risk is otherwise mitigated to DBRS's satisfaction. In addition, the valuation percentages listed only apply in the case where the collateral being posted is in the same currency as the counterparty's obligations. To the extent that collateral is being posted in a currency other than the currency of the counterparty's obligations, as above, DBRS expects that the currency risk is mitigated to DBRS's satisfaction in addition to the relevant valuation percentage being applied.

Acceptable Collateral for Credit Derivatives and Valuation Percentages [21]

Type of Acceptable Collateral

Canadian-Dollar-Denominated Collateral	Valuation Percentage
Cash.	100%
Canadian-dollar-denominated debt obligations of or guaranteed by the government of Canada (Federal Governments), with a remaining term to maturity at the time of transfer of less than or equal to 35 calendar days, provided they are not subject to a withholding tax exigible by any governmental authority.	100%
Canadian-dollar-denominated debt obligations of or guaranteed by a bank governed by the Bank Act (Canada) with a long-term rating of at least AA (low) by DBRS (or its equivalent) or a short-term rating of at least R-1 (middle) by DBRS (or its equivalent) (Bank Obligations), with a remaining term to maturity at the time of transfer of less than or equal to 35 calendar days, provided they are not subject to a withholding tax exigible by any governmental authority.	100%
Canadian-dollar-denominated asset-backed commercial paper (ABCP) issued by Global Liquidity Standard (GLS)-compliant ABCP issuers (Permitted ABCP), the underlying assets of which are not collateralized debt obligations (CDOs) and such Permitted ABCP has a short-term rating of R-1 (high) (sf) by DBRS (or its equivalent), with a remaining term to maturity at the time of transfer of less than or equal to 35 calendar days, provided it is not administered by, or does not have liquidity support provided by, the counterparty to the swap or any affiliate of the counterparty to the swap.	100%
Federal Governments with a remaining term to maturity at the time of transfer of more than 35 calendar days but less than or equal to one year, provided they are not subject to a withholding tax exigible by any governmental authority.	99.5%
Canadian-dollar-denominated debt obligations of or guaranteed by the government of a Canadian province with a long-term rating of at least AA (low) by DBRS (or its equivalent) or a short-term rating of at least R-1 (middle) by DBRS (or its equivalent) (Provincial Governments), with a remaining term to maturity at the time of transfer of less than or equal to one year, provided they are not subject to a withholding tax exigible by any governmental authority.	99%
Federal Governments with a remaining term to maturity at the time of transfer of more than one year but less than five years, provided they are not subject to a withholding tax exigible by any governmental authority.	98.5%
Provincial Governments with a remaining term to maturity at the time of transfer of more than one year but less than or equal to five years, provided they are not subject to a withholding tax exigible by any governmental authority.	
Federal Governments with a remaining term to maturity at the time of transfer of more than five years but less than or equal to ten years, provided they are not subject to a withholding tax exigible by any governmental authority.	97.5%
Bank Obligations, in each case with a remaining term to maturity at the time of transfer of more than 35 calendar days but less than or equal to one year, provided they are not subject to a withholding tax exigible by any governmental authority.	97.5%
Permitted ABCP, the underlying assets of which are not CDOs and that has a short-term rating of R-1 (high) (sf) by DBRS (or its equivalent), with a remaining term to maturity at the time of transfer of more than 35 calendar days but less than or equal to one year, provided it is not administered by, or does not have liquidity support provided by, the counterparty to the swap or any affiliate of the counterparty to the swap.	97%
Provincial Governments having a remaining term to maturity at the time of transfer of more than five years but less than or equal to ten years, provided they are not subject to a withholding tax exigible by any governmental authority.	

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1 Each column refers to the highest rating on the related securities supported by the derivatives arrangement. In situations where the applicable notes are rated below AA (low) (sf) or R-1 (middle) (sf) by DBRS, DBRS may modify some of the elements of this Criteria as DBRS deems appropriate for the applicable rating or transaction assessment level.
2 DBRS expects, for the purposes of determining the swap volatility cushions throughout this Criteria that the weighted-average life be determined based only on scheduled payments in which the possibility of voluntary prepayments by underlying obligors is ignored, as is the potential for their default.
3 This list of Acceptable Collateral for Credit Derivatives and the related valuation percentages is applicable to ratings or transaction assessments of AA (sf) or higher or R-1 (high) (sf) by DBRS (or its equivalent). For all other rating categories, the collateral to be posted and applicable valuation percentages are reviewed by DBRS on a case-by-case basis and considered to be satisfactory to DBRS for the applicable rating category or transaction assessment.

Acceptable Collateral for Credit Derivatives and Valuation Percentages

Type of Acceptable Collateral

U.S.-Dollar-Denominated Collateral	Valuation Percentage
Cash.	100%
U.S.-dollar-denominated debt obligations of the U.S. Treasury (U.S. Treasury Obligations) with a remaining term to maturity at the time of transfer of less than or equal to 35 calendar days, provided they are not subject to a withholding tax exigible by any governmental authority.	100%
U.S.-dollar-denominated debt obligations of or guaranteed by the government of Canada (USD Federal Governments) with a remaining term to maturity at the time of transfer of less than or equal to 35 calendar days, provided they are not subject to a withholding tax exigible by any governmental authority.	100%
U.S.-dollar-denominated debt obligations of or guaranteed by a bank governed by the Bank Act (Canada) that has a long-term rating of at least AA (low) by DBRS (or its equivalent) or a short-term rating of at least R-1 (middle) by DBRS (or its equivalent) (USD Bank Obligations), with a remaining term to maturity at the time of transfer of less than or equal to 35 calendar days, provided they are not subject to a withholding tax exigible by any governmental authority.	100%
U.S.-dollar-denominated ABCP issued by a GLS-compliant issuer (Permitted USD ABCP), the underlying assets of which are not CDOs and such Permitted USD ABCP has a short-term rating of R-1 (high) (sf) by DBRS (or its equivalent), with a remaining term to maturity at the time of transfer of less than or equal to 35 calendar days, provided it is not administered by, or does not have liquidity support provided by, the counterparty to the swap or any affiliate of the counterparty to the swap.	100%
U.S.-dollar-denominated debt obligations of or guaranteed by the government of a province of Canada (USD Provincial Governments), with a long-term rating of at least AA (low) by DBRS (or its equivalent) or a short-term rating of at least R-1 (middle) by DBRS (or its equivalent), with a remaining term to maturity at the time of transfer of less than or equal to 35 calendar days, provided they are not subject to a withholding tax exigible by any governmental authority.	98%
U.S. Treasury Obligations with a remaining term to maturity at the time of transfer of more than 35 calendar days but less than or equal to one year, provided they are not subject to a withholding tax exigible by any governmental authority.	98%
USD Federal Governments with a remaining term to maturity at the time of transfer of more than 35 calendar days but less than or equal to one year, provided they are not subject to a withholding tax exigible by any governmental authority.	
USD Provincial Governments with a remaining term to maturity at the time of transfer of more than 35 calendar days but less than or equal to one year, provided they are not subject to a withholding tax exigible by any governmental authority.	97.5%
USD Bank Obligations, in each case with a remaining term to maturity at the time of transfer of more than 35 calendar days but less than or equal to one year, provided they are not subject to a withholding tax exigible by any governmental authority.	97.5%
Permitted USD ABCP, the underlying assets of which are not CDOs and such Permitted USD ABCP has a short-term rating of R-1 (high) (sf) by DBRS (or its equivalent), a remaining term to maturity at the time of transfer of more than 35 calendar days but less than or equal to one year, provided it is not administered by, or does not have liquidity support provided by, the counterparty to the swap or any affiliate of the counterparty to the swap.	97%

Corporate Headquarters | DBRS Tower – 181 University Avenue Suite 700 Toronto, ON M5H 3M7 | TEL +1 416 593 5577 | www.dbrs.com