Annex B

Summary of Comments and CSA Responses

We received written submissions from one commenter (The Canadian Advocacy Council for Canadian CFA Institute Societies) on the Amendments and the Changes.

No.	Subject	Summarized Comment	CSA Response
Specific questions relating to Kroll application for designation as a DRO			
1	Do you agree that a Kroll long term credit rating of “BBB” and a Kroll short term credit rating of “K3” would be the appropriate rating categories for purposes of the ABS Short Form Eligibility Criteria?	The commenter submitted that: • The ratings grid relating to the proposed amendments to the definition of “designated rating” in section 1.1 of NI 44-101 seems to imply that a credit rating from one of the DROs is equivalent to the same credit rating from Kroll. • Nonetheless, we do not have sufficient information with respect to the assumptions used by Kroll and the DROs in their rating methodologies for ABS to comment as to whether a Kroll long term rating of “BBB” and a Kroll short term rating of “K3” is equivalent to the credit ratings from the existing DROs. • However, based on its certifications, standards, experience with ABS and its transparency (for example, it makes available on its web site the methodologies and framework used for rating ABS securities), Kroll would appear to be an appropriate choice to rate ABS in Canada.	We thank the commenter for their input. As noted in the July 2017 Materials, • Based on the information provided by Kroll, it appears that a Kroll long term credit rating of “BBB” and a Kroll short term credit rating of “K3” are the appropriate rating categories for purposes of the ABS Short Form Eligibility Criteria. • Under the ABS Short Form Eligibility Criteria, an ABS issuer must have a “designated rating” from a DRO, which would include a long term credit rating at or above “BBB” (for DBRS, Fitch and S&P) or “Baa” (for Moody’s). • As part of its work in determining the appropriate rating categories of Kroll, staff compared a large number of credit ratings of Kroll for numerous ABS issuers in the

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			United States against those of DBRS, Fitch, S&P and Moody's for the same issuers. This work allowed staff to consider if Kroll regularly gave higher or lower credit ratings than its competitors. • Staff considered the experience of Kroll in rating ABS issuers in the United States to be relevant in determining the appropriate rating categories of Kroll for purposes of the ABS Short Form Eligibility Criteria.
2	We have considered the experience of Kroll in rating ABS issuers in the United States in determining the appropriate rating categories of Kroll for purposes of the ABS Short Form Eligibility Criteria. Do you agree that this U.S. experience is relevant to the Canadian marketplace?	The commenter submitted that Kroll's experience in the U.S. is relevant in the Canadian marketplace, especially since the market for ABS securities in the U.S. (particularly residential mortgage backed securities and commercial mortgage backed securities) experienced a more severe turmoil in the financial crisis than its Canadian counterpart (save for the asset-backed commercial paper sub-market).	We thank the commenter for their input.

No.	Subject	Summarized Comment	CSA Response
3	Do you think there is an increased potential for rating shopping by ABS issuers if the Proposed Amendments are implemented? If so, why or why is that a concern?	The commenter does not think there is an increased potential for rating shopping by ABS issuers. On the contrary, the commenter submitted that if Kroll is designated as a DRO, it will offer Canadian investors an additional and alternative credit perspective on ABS securities. The commenter also submitted that: • The commenter released a survey of its members in the Americas region with a primary investment practice of fixed income in June 2014, which indicated that 24% of its members believe that removing regulatory requirements for financial firms to rely on ratings altogether would have the biggest positive impact on the reliability of credit ratings. • In addition, 11% of its members believed that new entrants in the market had the biggest positive impact on the reliability of credit ratings. • Approximately 60% of participants in the survey indicated that all rating agency models have conflicts of interest (resulting in part from the issuer-pay model), and that increased transparency and competition would be the best solution. The commenter noted that: • In the U.S., SEC Rule 17g-5 requires NRSROs and certain "arrangers", including issuers of structured finance products, to disclose to other rating organizations that the arranger is in the process of determining an initial credit rating, and each arranger must make the same information provided to the credit rating organization it hired available to the other rating organizations. • The SEC rule is intended in part to deal with the issue of rate shopping. • More prescriptive disclosure with respect to ratings under consideration, similar to what is specifically mandated by the SEC rule, could assist with additional transparency to the marketplace.	We thank the commenter for their input. At this time, we do not propose to introduce requirements similar to those in SEC Rule 17g-5.