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METHODOLOGY

Rating Canadian Trade Receivables Securitization Transactions

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Related Research

For a list of the Structured Finance related methodologies for our principal Structured Finance asset class methodologies that may be used during the rating process, please see the DBRS Global Structured Finance Related Methodologies document on www.dbrs.com. Please note that not every related methodology listed under a principal Structured Finance asset class methodology may be used to rate or monitor an individual structured finance or debt obligation.

DBRS is a full-service credit rating agency established in 1976. Spanning North America, Europe and Asia, DBRS is respected for its independent, third-party evaluations of corporate and government issues. DBRS's extensive coverage of securitizations and structured finance transactions solidifies our standing as a leading provider of comprehensive, in-depth credit analysis.

All DBRS ratings and research are available in hard-copy format and electronically on Bloomberg and at DBRS.com, our lead delivery tool for organized, web-based, up-to-the-minute information. We remain committed to continuously refining our expertise in the analysis of credit quality and are dedicated to maintaining objective and credible opinions within the global financial marketplace.

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Key Updates

For key updates in this methodology, please refer to the press release titled “DBRS Publishes Updated Rating Canadian Trade Receivables Securitization Transactions,” dated November 1, 2017.

Scope and Limitations

DBRS Limited (DBRS) evaluates both qualitative and quantitative factors when assigning ratings to a Canadian structured finance transaction. This methodology represents the current DBRS approach for rating trade receivables securitizations supported by receivable contracts originated in Canada. It describes the DBRS approach to analysis, which includes (1) a focus on the quality of the originator/servicer, (2) evaluation of the collateral pool and (3) utilization of historically employed credit evaluation techniques. This report also outlines the asset class and discusses the methods DBRS typically employs when assessing a transaction and assigning a rating. It is important to note that the methods described herein may not be applicable in all cases. Further, this methodology is meant to provide guidance regarding the DBRS methods used in the sector 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.

Overview

This document describes the methodology DBRS applies when analyzing a Canadian trade receivables securitization transaction.

Nature of Trade Receivables

Trade receivables arise from sales of goods and services by the seller to the obligor and typically have the following traits:

- Goods and services are sold to a corporate customer,
- The underlying receivables have nominal recovery values (unsecured corporate debt),
- The receivables usually have short payment terms and
- The receivables are non-interest-bearing.

Short-Term Receivables – The receivables turn fast with typical days sales outstanding (DSO) under 60 days. The short-term nature of this asset class ensures that, if performance triggers are breached and an amortization is invoked, the losses should be limited to a defined time period. This is known as the loss horizon. Commingling is a significant risk, given the fast turnover of the receivables and the nominal recovery value of the underlying assets, if any.

Non-Interest-Bearing Receivables – Trade receivables do not usually earn interest, regardless of when the balances are paid/charged off; however, the investors of securitized trade receivable transactions are usually paid interest on their investment. Trade receivable securitizations are expected to include additional receivables (i.e., overcollateralization (OC)) to generate additional cash flow to service interest expense on the notes issued.

Dilution – Trade receivable portfolios are also affected by non-cash concessions granted by the seller. While these concessions are often a part of doing business, there is a cost to the structure in that non-cash concessions result in a reduction (or dilution) of the collected amount compared with the amount advanced in a given month. The non-cash concessions can be predictable and quantifiable, such as early payment discounts, or unpredictable and unquantifiable, such as credits awarded for defective goods or poor service. Understanding the extent of dilutions and their impact on the structure is important in the rating process as the experience is different between different sellers and industries.

Revolving Nature of Trade Receivable Transactions

Virtually all trade receivable securitizations revolve. Similar to other revolving transactions, trade receivables transactions

continually finance their receivables, typically through an asset-backed commercial paper conduit or other funding source, until the date at which the transactions are scheduled to terminate. Principal payments from securitized collateral finance new collateral on an ongoing basis. During the revolving stage, noteholder interest is paid via collections from OC. Transactions of this nature can theoretically finance their receivables indefinitely. Consistent with other revolving asset classes, trade receivable assets must conform to predetermined eligibility criteria that will be reviewed by DBRS (see Appendix 1 for an example).

Generally, revolving transactions are characterized by amortization triggers that are typically reviewed monthly, but can be reviewed more frequently. These triggers, which may include performance metrics, such as delinquency, losses and DSO, are generally in place to ensure that the transaction has the credit enhancement to support the assigned rating. Any breaches that are not cured or waived are expected to result in an amortization of the transaction. Amortization periods are expected to be relatively short, in line with the DSO of that particular transaction, but may be longer in a stressed scenario.

Operational Risk

The seller/servicer is critical to the success of a trade receivable securitization. Operational risk arises when procedures described, both during the operational review and in the transaction documents, are not adequate or followed. DBRS typically conducts operational reviews of new sellers.

Originator (Seller) Review¹

As part of the transaction assessment, DBRS will conduct an originator review in accordance with the DBRS methodology *Operational Risk Assessments for Canadian Structured Finance* to gain an understanding of the originator's capabilities, financial strength and access to resources (staff and financing) as well as to understand its underwriting guidelines. Additional time is typically spent understanding treatment of certain large customers, problematic business lines or legal issues arising from foreign jurisdictions that may be included. The goal of the review is to develop an understanding of the seller's tolerance for credit risk and management of its receivables process, including its information technology capabilities, as well as a strategic overview of its marketplace. If possible, consultation with the relevant corporate analyst will be sought to gain a better understanding of the seller's business and the industry in which it operates. This is especially important in the case where the seller is not rated. In the event that DBRS determines that an originator is unacceptable, it may decline to rate the transaction.

The originator review process typically involves a review and analysis of the following:

- Company and management,
- Financial condition,
- Controls and compliance,
- Origination and sourcing,
- Underwriting guidelines and
- Technology.

Part of the review undertaken by DBRS also includes an analysis of the validity, collectability and enforceability of the receivables. These aspects are covered by representations and warranties of the seller, covenants provided by the seller and/or its parent and related transaction legal opinions when the receivables are transferred to the special-purpose vehicle (SPV). Compliance with DBRS methodologies *Legal Criteria for Canadian Structured Finance* and, if applicable, *Rating Canadian ABCP and Related Enhancement Features* is expected.

To the extent that several divisions within the seller underwrite and collect receivables in a different manner, DBRS may request additional information from these separate groups. DBRS expects aging data to be provided for distinct business lines. The operational discussion enables a better understanding of the key risks related to trade securitizations:

- Seller risk,
- Credit risk,
- Dilution risk and
- Hedging risk.

1. Refer to the DBRS methodology, *Operational Risk Assessments for Canadian Structured Finance*, Exhibit 10.

Servicer Review²

In trade receivables securitizations, the seller is typically also the servicer of the receivables originated. Similarly, the servicer review process is outlined in the DBRS methodology *Operational Risk Assessments for Canadian Structured Finance*, which describes the manner in which DBRS typically evaluates the seller (or third parties) that service or may conduct backup servicing on the receivables. This process helps to determine the servicer's ability to collect the obligations of the receivables as well as any amounts outstanding in the case of obligor defaults. DBRS normally assesses the information gathered through the review to determine if a servicer is acceptable. The servicer review typically involves analysis of the following:

- Company and management,
- Financial condition,
- Controls and compliance,
- Loan administration,
- Customer service,
- Account maintenance,
- Default management,
- Investor reporting,
- Technology and
- Outsourcing and sub-servicing arrangements.

In instances where the servicer may have potential areas of operational risks that could lead to interrupted or decreased collections, issuers may enhance a transaction with, for example, additional credit support, dynamic triggers or a warm or hot backup servicer so that DBRS can rate the transaction. In the event that DBRS determines that a servicer is unacceptable, it may refuse to rate the deal.

Data Requests

If more than one seller or multiple divisions is/are involved, DBRS will expect separate data for each seller and/or each material division. Similar information will be expected if more than one currency is incorporated into the aggregated pool. Historical monthly information should detail the following:

- Monthly opening and closing receivables balances.
- Monthly sales and collections in multiple currencies, if any.
- Portfolio aging, usually in 30-day increments to 121+ days past due.
- Historical portfolio turnover and variance analysis.
- Gross charge-offs and recoveries.
- Monthly dilutions and other non-cash adjustments (including sample credit memos and explanations).
- Details relating to all material obligor concentration levels.

Evaluation of Credit Enhancement

Credit enhancement for trade receivable securitizations is generally evaluated by taking into account several key factors that include, but are not limited to, the following:

- Eligibility criteria,
- Delinquency and default history,
- Historical payment characteristics (e.g., seasonality, DSO, payment terms),
- Obligor concentrations and credit quality,

2. Refer to the DBRS methodology, *Operational Risk Assessments for Canadian Structured Finance*, Exhibit 10.

- Securitization structure,
- Originator's risk profile,
- Quality of the servicer,
- Underwriting procedures and policies and
- Quality of the data.

Credit enhancement typically includes:

- Credit loss reserve,
- Dilution reserve,
- Yield or cost of funds reserve,
- Replacement servicer reserve and
- Hedging reserve, if appropriate.

Each element is assessed in isolation and as a whole to determine the adequacy of available enhancement to support the assigned rating.

Dynamic Advance Rate

Credit enhancement is typically sized in the form of a dynamic advance rate, adjusted according to the performance of the portfolio. The dynamic advance rate typically consists of, but is not limited to, a credit loss reserve, a dilution reserve, a yield reserve and a replacement servicer reserve. It is important to note that these reserves are fungible.

The dynamic advance rate expects OC to increase as performance metrics worsen or decrease (subject to a lower limit or floor) as performance improves. The calculations for the expected credit enhancement, in most cases, consider the worst-performing month over the most recent 12-month period. This structural mechanic results in credit enhancement levels that adjust upward quickly as portfolio performance begins to deteriorate; however, reductions in enhancement are not achieved until a complete annual cycle has occurred, ensuring that the improved performance is sustainable before credit is given. This feature is important in a revolving portfolio that relies on repayment from obligors rather than any recovery value from underlying collateral.

Credit Loss Reserve

The credit loss reserve is intended to provide protection to the noteholders from credit losses that may arise during the life of the transaction. Notwithstanding the true sale structure of a trade receivables program, the conduit may experience a loss during amortization if the credit enhancement has not been sized to sustain high levels of obligor defaults. An obligor bankruptcy may result in significant loss levels as these receivables are typically unsecured and recovery rates are extremely low.

Because many sellers have a few large customers representing a sizable percentage of their receivables pool, the potential for loss from a small number of obligors filing bankruptcy can result in large losses to the transaction. As a result, losses are managed by restricting the levels of concentration based on the credit ratings of the obligors.

The loss reserve is the primary mitigant to address the risk of obligor default. Sellers with inconsistent, volatile data will be expected to adopt a more conservative loss proxy reflecting portfolio performance.

The loss reserve is typically calculated on a monthly basis because of the short-term nature of the assets and is a function of three components: the Default Ratio, the Loss Horizon Ratio and the Stress Factor.

Default Ratio

The Default Ratio is an estimate of the amount of credit losses experienced for each dollar of sales receivables originated. It is generally calculated as the fraction of defaulted receivables divided by the total sales in the corresponding month of origination. Historical losses are often non-existent or extremely small and the policies to charge off delinquent accounts vary by seller. To

adjust for these factors in a conservative manner, a loss proxy is assumed by including actual write-offs plus the receivables that would be deemed ineligible pursuant to the securitization program.

For example, if any receivables that are between 91 and 120 days past due are deemed ineligible, then the numerator of the Default Ratio would be the sum of the outstanding balance in the 91 to 120 days past due aging bucket plus the amount of receivables charged off during the month. Assuming a 30-day payment term on the receivables, we can assume the ineligible receivables were originated in the sales month 120 days (four months) prior. Thus, total sales four months prior would be used to complete the Default Ratio calculation. The highest Default Ratio calculated in the most recent 12 months is generally used to determine the expected loss reserve to be conservative and capture any seasonality. This also ensures that protection to the noteholders in the form of enhancement is commensurate with the performance of the receivables funded.

Loss Horizon Ratio

The loss horizon concept establishes the time period in which receivables were originated that would be embedded in the current month's receivables portfolio balance, based on the eligibility criteria in the transaction. The ratio is calculated by dividing total sales for the sales period, or horizon, by the current eligible receivables balance.

For example, assuming 30-day payment terms, if receivables were eligible until they were 90 days past due, then the matching horizon during which the sales that generated the current receivables balance occurred is four months. The ratio would be calculated as the total sales from the most recent four months divided by the total eligible receivables balance in the corresponding measurement month.

Once determined, the Loss Horizon Ratio is multiplied by the Default Ratio to estimate the amount of expected credit losses in the current pool of receivables. In the example above, if the Default Ratio is 1.0% and \$1,000 of sales are originated in each month, then \$10 ($1.0\% \times \$1,000$) of credit losses are expected in the sales origination of one month. Since the eligibility criteria would allow a four-month horizon from the sale date prior to write-off, the total expected credit losses embedded in the pool can be up to \$40 ($4 \times \10). If the current eligible receivables balance is \$1,600, then the expected credit loss percentage for that month is 2.5% ($\$40/\$1,600$). The dynamic feature of the calculation results in protection to the noteholder that reflects current performance and prevents a build-up of losses in the receivables portfolio caused by aging.

Stress Factor

Finally, once the Default Ratio and the Loss Horizon Ratio are determined, a Stress Factor is applied based on the assigned credit rating that serves to protect the rated securities from much harsher and more stressful conditions than assumed by computing a loss proxy alone.

Table 1: Stress Factor by Rating Category

	AAA	AA	A	BBB
Stress Factor	2.50x	2.25x	2.00x	1.75x

Table 2: Credit Loss Reserve Formula

$\frac{91 \text{ to } 120 \text{ Days Past Due} + \text{Charge-Offs}}{\text{Sales Four Months Prior}}$	\times	$\frac{\text{Sales in Previous Four Months}}{\text{Eligible Receivables}}$	\times	Stress Factor
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Generally, DBRS views the Stress Factors in Table 1 as minimum benchmarks. Negative qualitative factors, such as poor data quality, may result in the application of higher Stress Factors. An example of the above calculation can be seen in Table 3 and Table 4.

Table 3: Credit Loss Reserve Sample Calculation**Assumed Inputs**

91 to 120 Days Past Due Receivables	\$1,750,000
Charge-Offs in Period	\$125,000
Sales Four Months Prior	\$150,000,000
Combined Sales Previous Four Months	\$700,000,000
Eligible Receivables	\$200,000,000
Stress Factor	2.50x

Table 4: Calculation of Sample Loss Reserve Using Above Assumptions

$\frac{\$1,750,000 + \$125,000}{\$150,000,000}$	×	$\frac{\$700,000,000}{\$200,000,000}$	×	2.5
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Therefore, the expected enhancement for the loss reserve component = 11.0%.

Dilution Reserve

Dilution risk arises when the amount invoiced is reduced, caused by reasons other than default or payment. Examples of dilutive items are the return of goods, fast-pay rebates, volume rebates, invoice errors, product disputes over quantity, quality or delivery, advertising allowances and customer loyalty programs. These dilutive items could represent a shortfall of funds received by the issuer if they are not replaced by new receivables during the amortization period of the securitization program when the portfolio stops revolving. A dilution reserve is recommended to protect the notes from these risks.

Some dilutive items, such as fast-pay rebates or volume rebates, are easily quantifiable. Fast-pay rebates, if available, offer a predetermined discount rate to the seller's customers if they make their payments before a specific date; once the discount window passes, the rebate is no longer applicable. For other dilutive items, such as product disputes, it is difficult to estimate if and/or when they may occur. A review of the seller's dilution history entails understanding the nature of their dilution items and the typical time frame in which they occur after the obligors have been invoiced.

The dilution reserve is expected to capture the unique characteristics that can arise among various sellers. Though there are a number of ways to calculate the dilution reserve, it should consider key components, such as an expected dilution rate, a cushion to capture dilution rate volatility and a dilution horizon ratio. Similar to the analysis of credit risk, the expected dilution rate should take into consideration the performance of the most recent 12-month period, with reference to the sales, in which the receivables related to the dilutions were originated. Volatility is addressed with the application of Stress Factors of between 2.0 times (x) and 3.0x to determine the dilution reserve.

If dilutions have historically been stable, depending on the magnitude of potential dilutions in relation to total enhancement levels, the nature of the receivables and obligors and other risks of the transaction, DBRS may consider an indemnity from a highly rated seller. When combined with the maximum funding calculation described later, this ensures sufficient coverage against non-cash adjustments exists in the transaction and that the conduit will have access to unadjusted receivables during an amortization. If the seller's rating falls below the expected level, the indemnity should be replaced by an increase in the credit enhancement by the dilution reserve amount.

Yield or Cost of Funds Reserve

Because trade receivables are typically non-interest bearing, a yield reserve is used to cover the cost of funds of the securitization program. In general, the size of the yield reserve is a function of the cost of funds and DSO of the portfolio; however, in the event that either the cost of funds or the DSO changes from their original assumptions, it could result in a shortfall in the yield reserve. This is plausible as the cost of funds of floating-rate transactions may increase, or result from an increase in DSO, if the asset turnover rates fall. As a result, an additional stress on the yield reserve is expected to manage this risk.

Stress testing for interest rate risk at the AAA/R-1 (high) level expects reserves that are sufficient to account for the anticipated change in the cost of funds during the amortization phase. Typical calculations consider interest rate increases by a factor of 1.50x over the then-funding rate and for a DSO to increase by 1.25x over the most recent history.

Table 5: Calculation of Sample Interest Expense Reserve

Cost of Funds	2.5%
DSO	40
Interest Reserve	$2.5\% \times 1.5 \times 40 \times 1.25$
	365
	= 0.50%

Replacement Servicer Reserve

In evaluating a trade receivables transaction, DBRS assumes that credit enhancement will also be available to pay replacement servicer fees in the event that the incumbent servicer (typically the seller) is replaced. DBRS will assume an appropriate servicer fee based on observed market rates for comparable portfolios, typically between 1% and 2%.

Total Enhancement Recommendations

DBRS expects total credit enhancement to be sufficient to cover credit losses, replacement servicing fees, dilutions and interest expenses at the corresponding rating level assigned. While these items are assessed on an individual basis, a minimum level of enhancement is expected and is achieved in transactions through the reserve floor concept.

Reserve Floor

The reserve floor further supports the transaction by establishing a minimum level of enhancement, regardless of credit performance. This concept is included to recognize that default risk from obligors is unpredictable and, given the relatively short turnover and de minimis recoveries, the amount at risk in any one month can be high, especially if the portfolio is dominated by one large obligor or groups of large obligors. The adequacy of the reserve floor is based on an evaluation of historic loss and dilution performance, and includes minimum thresholds based on concentration limits incorporated into the eligibility criteria.

Concentration Limits

As noted, limits on the concentration of any particular obligor are critical to preventing large losses from obligor bankruptcy in trade receivables transactions. The concentration limits, together with the dilution component, are the basis upon which the reserve floor is evaluated. While most trade receivables transactions benefit from strong obligor and obligor industry diversification, almost all transactions are exposed to some degree of concentration risk. Similar to other asset classes, concentration risk is addressed by limiting the available funding to the larger obligors through concentration limits that are established in the eligibility criteria for each transaction.

Table 6 provides concentration limit guidelines for transactions that are characterized by sellers that provide services to a broadly diversified corporate customer base. In this scenario, each obligor is assigned a funding limit so that increases in exposure from any one obligor are managed on a dynamic basis, according to the credit rating of the obligor, with reference to the fixed enhancement floor. This additional feature increases the diversification of the obligors in the portfolio and ensures that the exposure to obligors with lower credit ratings is reduced.

Table 6: Obligor Concentration Limits

Obligor Rating (at least)	As a Percentage of Total Enhancement	
	AAA/R-1 (high) Rating	AA/R-1 (middle) Rating
AAA	100%	100%
AA (low)	50.0%	100%
A (low)	33.3%	50.0%
BBB (low)	25.0%	33.3%
BB (high) or lower, or unrated	16.6%	25.0%

Special Obligors

In limited circumstances, an obligor without a third-party credit rating may be classified as a special obligor and treated as having at least an investment-grade rating. This is possible in cases where an entity has previously been publicly rated, but no longer has a rating because it has repaid all of its debt. A credit assessment of the company is part of DBRS's analysis, which may include a DBRS private or public rating by the corporate ratings team.

Insured Receivables

Some sellers have portfolios of receivables that are insured against obligor default. Depending on the insurance coverage provided and the credit rating of the insurer, DBRS may give some credit for the insurance as a mitigant for allowing higher concentrations or for their inclusion as an eligible receivable; however, servicing, interest, dilution and eligibility reserves still need to be in place as insurers do not cover these types of losses. Receivable insurance policies are not equivalent to a credit wrap because payment on the policy is usually contingent on the seller fulfilling numerous covenants and conditions precedent in the policy. The requirements for standard notice periods, the evidence of the creation of the receivable and the risk that contract disputes could lead to the denial of claim have typically been the most significant barriers to reliance on insurance as a full substitute for credit enhancement.

Topping up the Reserve in Revolving Transactions

Trade receivable transactions typically employ a borrowing base test, on a monthly basis, to ensure that the assets and the necessary credit enhancement are continuously aligned to reflect the revolving nature of the assets. Any depletion of the credit enhancement resulting from asset deterioration is typically cured by the seller through the contribution of more receivables to the transaction. This ensures that, after each reporting period, the transaction's credit enhancement is adequate to support the assigned rating. The procedure of restoring the necessary credit enhancement each month or reporting period is called "topping up the reserve." As a result, revolving pools in effect have a fresh start each month or reporting period because the credit enhancement is restored to its requisite level. If the reserve is not topped up, the transaction is expected to wind down and an amortization period (i.e., principal and interest repayment) begins.

Non-Investment-Grade Sellers/Service Providers

When a seller is non-investment grade, there is increased potential for external financial pressures on the seller that might affect portfolio performance. For example, pressure to grant additional credit to support sales efforts, changes in obligor payment patterns or the commingling of cash during financial distress could negatively affect the investors of the securitization transaction.

The key issues related to the seller include its ability to continue to function as an operating entity and the impact on the value of the receivables portfolio during any associated period of financial impairment. DBRS will consider rating trade receivables securitization transactions for non-investment-grade sellers where the inherently higher-risk factors can be adequately addressed.

The following structural mechanics are examples of those included in a transaction to mitigate the risks of a non-investment-grade seller:

- Significant increases in the floor level of credit enhancement for each rating notch below investment grade are typically seen.
- Control of cash receipts by the conduit. All cash is to be maintained in a lockbox or transferred on a daily basis, within two business days of receipt, to accounts in the conduit's name.
- Indemnities for items that can affect the value of the receivables, such as dilution or foreign-currency risk, are typically replaced by credit enhancement.

Additional mechanics that address the risks of a non-investment-grade seller may also be considered.

Other structural mitigants that may be incorporated include the designation of a backup servicer and more frequent reporting and settlements. The use of a backup servicer will ensure that a third party is in receipt of the information relating to the portfolio and is monitoring the accuracy of the data provided. The backup servicer also represents the most likely replacement servicer, should it become necessary to engage one. More frequent reporting and settlement means the conduit will have more timely information on the outstanding assets and will be better able to align its outstanding funding with the assets available to repay the notes. Any additional structural mechanics presented to mitigate the risks noted above will also be evaluated.

Legal Risk

As DBRS-reviewed Canadian trade receivables securitization programs are typically rated at a level higher than the seller's rating, DBRS expects the structure used to effectively insulate investors from the seller's credit risk. In its analysis, the rating methodology considers the event of the seller entering into bankruptcy and being unable to originate new receivables or service the existing pool of receivables. To address this possibility, DBRS expects receivables originated by the seller to be sold on a true-sale, bankruptcy-remote basis to the note-issuing SPV. DBRS also expects there to be a first-priority perfected security interest in the receivables, supported by legal opinions, which will typically state the following:

- There are no restrictions on assignment of the receivables.
- There is no legal set-off right in favour of the obligor under the terms of the receivables contract.
- The receivable contracts are directly enforceable in favour of the noteholders.
- The transfer of the receivables to the note-issuing SPV took place on a bankruptcy-remote, true-sale basis.
- The noteholder has a first-priority perfected security interest in the receivables.
- DBRS may consider exceptions provided that the risks are mitigated to DBRS's satisfaction and in a manner that is commensurate with the rating level.

All transactions are expected to comply with DBRS's *Legal Criteria for Canadian Structured Finance* and, where appropriate, DBRS's *Derivatives Criteria for Canadian Structured Finance*.

Surveillance

After a transaction is closed, DBRS monitors its performance to ensure the ratings remain appropriate, as outlined in DBRS's *Master Canadian Structured Finance Surveillance Methodology*, which can be found at www.dbrs.com.

Appendix 1: Typical Eligibility Criteria

The fundamentals of any trade receivables securitization are that the sale and assignment of the receivables are valid, that the obligations of the obligor are enforceable and that the receivables were originated (and are serviced) in accordance with the seller's credit and collections policies. In addition, trade receivable transactions tend to only purchase receivables that are current and meet predetermined obligor and other concentration limits. To provide assurance that the securitized portfolio meets the criteria, the seller represents and warrants that they have examined the portfolio and that it meets the agreed eligibility criteria.

1. Restrictions on the obligor's place of business: receivables relating to obligors situated in other countries than that of the seller are occasionally included, but steps to perfect the conduit's security interest in all jurisdictions that represent more than 2% of the transaction are expected to be taken. Opinions are expected in the jurisdiction in which the seller or sellers have their head offices.
2. The obligor is not an affiliate of the seller.
3. The receivable is not delinquent or defaulted.
4. The receivable constitutes an account and is not evidenced by an instrument or chattel paper.
5. The receivable represents an extension of credit by the seller in the ordinary course of business to an obligor payable in cash by that obligor.
6. The receivable is payable in full; is not subject to offset rights; arises under a legal, valid and binding contract that is fully assignable by the seller; and has been earned by the seller.
7. The receivable is denominated and payable in a specific currency.
8. The receivable does not contravene applicable laws, rules or regulations.
9. The receivable has payment terms requiring payment in a timely fashion.
10. The receivable satisfies in all material aspects all applicable requirements of the seller's credit and collection policy.
11. The receivable is not the subject of any dispute, counterclaim, repurchase obligation or set-off.
12. The obligor of the receivable is not defaulted or delinquent on receivables that comprise more than a small percentage of the aggregate receivables owing by that obligor.

If, at any time, it is determined that the purchased receivables did not meet the reviewed eligibility criteria at the time they were purchased, the seller will be obligated to either repurchase such receivables at face value or substitute eligible receivables of an equivalent amount into the SPV. Any breach of this will cause an amortization of the deal.



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