

October 4, 2017

British Columbia Securities Commission  
Alberta Securities Commission  
Financial and Consumer Affairs Authority of Saskatchewan  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorité des marchés financiers  
Financial and Consumer Services Commission (New Brunswick)  
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island  
Nova Scotia Securities Commission  
Superintendent of Securities, Newfoundland and Labrador  
Superintendent of Securities, Northwest Territories  
Superintendent of Securities, Yukon Territory  
Superintendent of Securities, Nunavut

**BY EMAIL**

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Dear Sirs/Mesdames:

**Re: CSA Notice and Request for Comment Relating to Designated Rating Organizations  
(the “Proposed Amendments”)**

The Canadian Advocacy Council<sup>1</sup> for Canadian CFA Institute<sup>2</sup> Societies (the CAC) appreciates the opportunity to provide the following comments on the Proposed Amendments, specifically as it relates to the application by Kroll Bond Rating Agency, Inc. (“Kroll”) for designation as a DRO, and the CSA’s proposal to recognize the credit ratings of Kroll only with respect to the alternative eligibility criteria for issuers of asset-backed securities (ABS) to file a short form prospectus or shelf prospectus.

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<sup>1</sup> The CAC represents more than 15,000 Canadian members of the CFA Institute and its 12 Member Societies across Canada. The CAC membership includes portfolio managers, analysts and other investment professionals in Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada. See the CAC's website at <http://www.cfasociety.org/cac>. Our Code of Ethics and Standards of Professional Conduct can be found at <http://www.cfainstitute.org/ethics/codes/ethics/Pages/index.aspx>.

<sup>2</sup> CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion for ethical behavior in investment markets and a respected source of knowledge in the global financial community. The end goal: to create an environment where investors’ interests come first, markets function at their best, and economies grow. CFA Institute has more than 149,603 members in 163 countries, including 143,386 CFA charterholders and 148 member societies. For more information, visit [www.cfainstitute.org](http://www.cfainstitute.org).

We wish to respond to the following specific questions posed with respect to the Proposed Amendments.

*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 ratings grid relating to the proposed amendments to the definition of “designated rating” in section 1.2 of NI 44-101 *Short Form Prospectus Distributions* seems to imply that a credit rating from one of the Designated Rating Organizations 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 securities 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 securities and its transparency requirements (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 securities in Canada.

*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?*

Yes, we are of the view 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).

*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?*

We do not think there is an increased potential for rating shopping by ABS issuers. On the contrary, if Kroll is certified as a DRO, it will offer Canadian investors an additional and alternative credit perspective on ABS securities.

We note that in the United States, SEC Rule 17g-5 requires nationally recognized statistical rating organizations 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 rule is intended in part to deal with the issue of rate shopping. More prescriptive disclosure with respect to methodologies and ratings under consideration, similar to what is specifically mandated by the SEC Rule, could assist with additional transparency to the marketplace.

The CFA Institute released a survey of its members in the Americas region with a primary investment practice of fixed income in June 2014<sup>3</sup>, which indicated that 24% of its members believe that removing the regulatory and statutory requirement 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.

*4. What would be the implications to Canadian market participants if the EU did not continue to recognize the Canadian regulatory regime in NI 25-101 as “equivalent” for regulatory purposes in the EU? We are interested in details of how you would be impacted.*

If the EU did not recognize the Canadian regulatory regime as equivalent, securities issues could be ineligible to certain investors pursuant to their investment policy statements, rating related investment restrictions, and regulatory requirements, unless those statements were updated to include the new permissible ratings.

### **Concluding Remarks**

We thank you for the opportunity to provide these comments. We would be happy to address any questions you may have and appreciate the time you are taking to consider our points of view. Please feel free to contact us at [chair@cfaadvocacy.ca](mailto:chair@cfaadvocacy.ca) on this or any other issue in future.

(Signed) *The Canadian Advocacy Council for  
Canadian CFA Institute Societies*

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<sup>3</sup> CFA Institute. “Credit Rating Agency Survey Results”. Survey, June 2014.