




COMMERCIAL MORTGAGE
SECURITIES ASSOCIATION



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Securities Industry and
Financial Markets Association

25 June 2008

Commissioner McCreevy
European Commissioner for Internal Market and Services
Office BERL 9/111
B-1049 Brussels
Belgium

Re: Industry Initiatives to Improve Transparency in Securitisation Markets - Issuer and Investor Focused Initiatives

Dear Commissioner McCreevy,

In the spirit of and as a complement to the 5 October 2007 ECOFIN Roadmap the associations listed above and their members are pleased to summarise below further work completed or still underway to enhance transparency for investors and standardise the environment in which they operate.

There are eight issuer and investor-focused initiatives in total¹, designed to:

- o Standardise disclosure practices by issuers;
- o Facilitate and broaden investor access to transaction information;
- o Enhance usability and comparability of information;
- o Strengthen investor good practice.

The full documentation relating to these eight initiatives has been provided to your staff and can be summarised as follows:

¹These initiatives, taken together, form one of three main industry initiatives in response to section 1 of the Roadmap to "enhance transparency for investors, markets and regulators". The other initiatives are described in separate letters and address (1) increasing transparency in the reporting of securitisation exposures under the Capital Requirements Directive, and (2) the creation of a new Securitisation Data Report.

1. ABCP Issuer Disclosure Code of Conduct: Following a survey of ABCP market activity, including investor feedback, and a review of the legal obstacles to disclosure in the ABCP market, the International Capital Market Association (ICMA) and ESF have completed and published an ABCP issuer disclosure code of conduct to encourage consistent, relevant and regular information disclosure to investors.

2. Term Securitisation Issuer Transparency and Disclosure Principles: The ESF, SIFMA and CMSA have consulted with investors as to steps that could help improve transparency and information flow for RMBS, CMBS and ABS. In response, The ESF, SIFMA and CMSA are developing a number of principles for issuer transparency and reporting, tailored to the needs of separate RMBS, CMBS, CDO, consumer ABS, insurance securitisation and other asset classes. Draft principles for RMBS and CMBS are being developed first, with the other asset classes to follow. The ESF, SIFMA and CMSA expect to issue the principles for RMBS and CMBS by the end of 2008, and for the other asset classes soon thereafter.

3. Opening Access to Transaction Information: The ESF, SIFMA and CMSA believe that on EEA-listed public term transactions, upfront and ongoing information should be openly accessible whether through the use of websites managed by parties to the transaction or through the services of commercial data providers. In some cases, website providers utilise passwords to monitor access. If the website provider wishes to retain the password restriction on such transactions, the issuers will be encouraged to either i) make sure that the information is also available from an unrestricted source, or ii) ‘comply or explain’ by including an explanation in the relevant prospectus as to the rationale for retaining password restrictions, and not making the information publicly available through other means. This issue will be covered in the Issuer Transparency and Disclosure Principles above.

4. Development of Industry Data Portals: Improved accessibility as per 3 above will increase transparency, enable a greater level of analysis and facilitate comparisons of transaction performance. It is expected that the competitive environment for the provision of data will drive commercial data providers to develop ‘data portals’ whereby basic prospectus and investor reports for EEA listed transactions can be centrally accessed through those sites at low or no cost. In early June, a commercial data provider launched such a portal, providing free access to over 1,000 EEA-listed securitisation prospectuses and investor reports, and a second portal launch by another provider is expected very soon. The ESF, SIFMA and CMSA are encouraging additional data providers to promote similar initiatives.

5. Centralised RMBS and CDO Issuer/Manager Directory: As a first step in helping to make information more broadly available and easily accessible, the ESF will, by the end of June, provide on its website a centralised directory of links to various European RMBS, CDO and other relevant industry sites.

6. Improve Standardisation, Digitisation and Granularity of Information: As part of its initiatives, the ESF, SIFMA and CMSA have completed a number of analyses on current business practices and legal issues for term securitisation disclosure in the EU. As a next step, the ESF, SIFMA and CMSA are now actively discussing enhancements to transparency and consistency in reporting practices via greater digitisation and standardisation of reporting

templates, to the maximum extent practical allowing for differences in national business practices. For example, the American Securitization Forum (ASF) is working to develop standardised issuance and surveillance formats for US non-agency RMBS that will incorporate existing data requirements as well as a substantial increase in new loan-level data fields. Rather than issuers of US RMBS delivering similar data in different formats to rating agencies and investors, issuers will be encouraged to deliver data in a more standardised format to each rating agency. The ESF will explore a similar project for European RMBS transactions by updating the existing ESF Securitisation Market Practice Guidelines, which will likely focus on either developing country-specific reports, or eventually a single pan-European format, to the extent that differences in national regulatory reporting formats can be overcome. In some cases, this could include loan-by-loan reporting to increase the granularity of information provided to investors. Depending on technical issue resolution, the US reporting formats are expected to be finalised in 2008 and implemented in 2009. European implementation will be coordinated with US implementation. In addition, the ESF, SIFMA and CMSA are exploring if any changes could be made to improve the clarity of information provided to investors so as to improve investor understanding of structured products. In respect of CMBS, CMSA has developed and continues to refine a standardised reporting format for CMBS transactions.

7. Standardising Definitions: In a global marketplace, investors and other market participants need consistency in the definitions of various products. For example, ‘subprime RMBS’ and ‘non-conforming RMBS’ have a different meaning in the US, UK and other countries. The ESF, SIFMA and CMSA have prepared questionnaires for RMBS and CMBS structures regarding the use of definitions in RMBS and CMBS structures globally. Part of the challenge for non-conforming and subprime RMBS in Europe is that standardised consumer credit scores are not publicly available, as are FICO scores in the US, which enable the determination of what is categorised as prime vs. subprime RMBS. As a result, and until a publicly-usable consumer credit scoring framework is developed in Europe, the ESF, SIFMA and CMSA have drafted a comparative table as to the current meanings of ‘non-conforming RMBS’ and ‘subprime RMBS’. The CMBS questionnaire has already been circulated. The RMBS questionnaire will be launched in the near future. The ESF and SIFMA are interested to coordinate their RMBS and ABS work in this area with the European Commission’s initiative on credit scoring systems, and the recently established Expert Group on Credit Histories. Timing will depend on the progress of this group.

8. Developing Investor Credit Assessment and Valuations Principles: It is important that institutional investors have the internal processes in place to be able to analyse, assess, value and compare securitisation investments, since in the past some investors may have placed too heavy reliance upon the credit rating agencies. In the first place, the ESF, SIFMA and CMSA are in the process of developing securitisation investor credit assessment principles to ensure investors have well articulated investment processes in place to independently assess the credit of a transaction. In addition, the ESF, SIFMA and CMSA are discussing securitisation investor valuation principles, in particular for structured credit investors who are subject to mark to market rules. Draft principles are expected to be circulated in the summer of 2008, with implementation targeted for year end 2008 or shortly thereafter.

In addition to the initiatives discussed in this document, the ESF is working together with the ASF and SIFMA on two initiatives that are intended to complement these action points at a more macro level, namely:

- A report on securitisation and structured credit markets including recommendations to rebuild investor and broader public confidence in these markets. The report will serve as a basis to develop and promote the adoption of guiding principles for appropriate market standards and industry good practice in key areas. The report is expected to be released during the summer.
- Recommendations on credit rating agencies, and structured finance ratings designed to address the decline in investor confidence and enhance the ability of market participants to understand credit ratings in the context of their own independent credit assessment. This work is also expected to be completed during the summer.

We hope that you will welcome these additional initiatives and we will keep you and your staff informed on our progress.

Yours sincerely,

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