JPMorgan

27 July 2007

The Committee of European Securities Regulators
11-13 Avenue de Friedland
75008 Paris
France

Dear Sirs/Madams,

Re: Response to Questionnaire regarding the Rating of Structured Finance Instruments (CESR/07-394)

JPMorgan welcomes the opportunity to respond to CESR's Questionnaire regarding the rating of structured finance instruments (ref CESR/07-394). JPMorgan is a leading global financial services firm with assets of nearly $2 trillion and operations in more than 50 countries. The firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing, asset and wealth management and private equity. With nearly 12,000 employees, JPMorgan has a strong and lasting presence in the UK.

We are responding from our investment banking business cluster. Our comments are in relation to Section B, "Questions addressed to the users of ratings and other interested parties". The comments from various teams in our business have been put together, and I am pleased to be your initial contact point if you have any questions. Our response can be made public.

Please find our comments in the attached.

Yours faithfully,

Cécile Houlot
Managing Director
European Securitised Products

<u>QUESTIONNAIRE REGARDING THE RATING OF STRUCTURED FINANCE INSTRUMENTS</u>

Please note: the responses outlined below are comments from the Investment Banking businesses, focusing on wholesales, of JPMorgan only.

B) QUESTIONS ADDRESSED TO THE USERS OF RATINGS AND OTHER INTERESTED PARTIES
Please indicate what your role (interest, involvement and experience) is in the structured finance market.

JPMorgan is an arranger and bookrunner of structured finance transactions for third-party clients, seller in some securitisation programmes, and a trading house of asset-backed securities and other structured finance instruments. JPMorgan has been involved in the European structured finance market since its early stages.

JPMorgan also administers five multi-seller conduit securitization vehicles that are rated A-1/P-1/(F1+) by S&P, Moody's and Fitch.

Rating process
1. Do you consider that access to and availability of structured finance ratings (and any subsequent changes) is satisfactory?

Yes, generally CRAs are available to provide ratings on structured finance transactions and are open to exploring new asset classes or jurisdictions where structured finance transactions are being contemplated – it would be beneficial for CRAs to be as proactive as possible for these new emerging markets and asset classes to ensure that their development in the structured finance arena is not hindered.

Once rated or changes, public ratings appear on rating agency websites and are announced immediately through e-mail notices and various forms of announcement. It would be helpful if there was the same immediacy in terms of having cusips added to the website, so information can be easily queried.

2. Are you satisfied with the CRAs disclosures on their fees policy?

We recognise the policy of separating those persons at CRAs who discuss fees and the analysts on transactions. We do not have any issues on this point.

In some areas of the structured finance space, such as the conduit market, it would be helpful for market participants if there was greater transparency in the complete fee structure for a transaction up-front. Additionally, it would be helpful if fees were more consistent globally within each agency.

Rating methodologies

3. What are your views on the fact that the agencies use different analytical models to assess the portfolio credit risk? Are you satisfied with the way the rating agencies assess such risk?

We believe that estimating credit quality is inherently difficult and subjective. We accept that different methodologies and analytical models can be used to assess credit risk and believe that different approaches to modelling portfolio credit risk can help to keep a healthy debate among market participants.

Generally speaking, rating agencies apply predetermined and robust methodologies to rating structured finance transactions and are viewed as providing a valuable service to the structured finance market.

Market participants such as investment banks may also have their own internal models for assessing portfolio risk which are often based to a large extent on the CRAs criteria, for example in the case of the conduit markets where banks such as JPMorgan provide liquidity lines to the conduits that they administer or for on-balance sheet warehouse facilities.

4. Are you satisfied with the way the rating agencies assess the structural risks of the deals (i.e. legal risks, *cash flow analysis, third parties' involvement in the transaction)?*

Generally speaking, rating agencies take a sensible approach to assessing structural risks in transactions. On occasion, we believe that the approach taken can be too inflexible or conservative which can result in some unnecessary economic inefficiencies in transactions – these inefficiencies can range from liquidity lines sized too conservatively or periods which are too conservative during which cash is held in low yielding GIC accounts rather than distributed in a more efficient way.

For certain asset classes, rating agencies can take an overly conservative view on the performance of such assets relative to other similar asset classes. Rating agencies should be aware that this can curtail the growth of lending activities in these asset classes, which could, in turn, result in fewer investment options for investors. It should be noted, however, that rating agencies are generally willing to listen to the arguments presented by issuers and arrangers and analyse them further.

5. Are you satisfied with the way the CRAs disclose their methodologies?

Generally speaking, rating agencies take great efforts to disclose their methodologies to the market, although there are normally some elements in structured finance transactions where their feedback is not completely transparent. Transparency, however, has improved over the years and continues to do so. Understandably, CRAs do not publish to the market detailed methodologies for new asset classes or jurisdictions but tend to do so once a critical mass of transactions is reached.

On-going surveillance of the transactions

6. Are you satisfied with the frequency and quality of the information provided by the rating agencies to the market in connection with the monitoring of rated structured products (e.g. monitoring reports, special comments, etc.)? Are you satisfied with the frequency and quality of the information provided by the issuers/arrangers of structured transactions in order to monitor rated structured products?

Generally speaking, rating agencies ensure that detailed information is provided to the market on new transactions in the form of pre-sale reports and new issue reports to which the market (e.g. investor community) generally seems to attribute value. It would be helpful if pre-sale or new issuance reports were more consistently produced. Some issuances seem to receive them while others do not. Rating agencies seem generally cautious not to overreact to news relating to deals and seem to look to maintain rating stability where possible and appropriate.

Generally speaking, issuers report the performance of their transactions on a monthly or quarterly basis. This provides market participants with a large, and increasing, amount of data on the structured finance market.

Rating agencies regularly update conduit investors by reaffirming the ratings of the conduits, and in many instances when a new transaction is funded via one of the conduits. In addition, some rating agencies provide periodic updates on the structure and contents of the conduits and some differentiate themselves by updating these articles more frequently (in addition to surveillance articles which show the asset make up of the conduit), but we think it would benefit the whole market if all the rating agencies did this more consistently as no single rating agency rates all conduits.

7. Are you satisfied with the CRAs disclosures on the reasons for a change in a structured finance rating?

Yes, generally speaking, rating agencies ensure that a reasonable explanation is provided where structured finance ratings are revised. Rating agencies also generally make themselves available for questions from market participants, which helps users to understand the rating agencies' positions better.

CRAs need to make sure that upgrades and downgrades of structured finance transactions are taken on a more timely basis and that they are not seen to be lagging the market

Potential risks (conflicts, resourcing)

8. Are there any risks unique to rating structured finance compared to corporate credit rating?

Generally speaking, structured finance transactions are set up according to more prescriptive documentation (such as a pre-defined priority of payments (or ‘waterfall’) for how cash is distributed). This means that structured finance transactions are generally more inflexible than corporate ones. This feature, however, is well understood by market participants. Because corporations are inherently much more flexible then companies, investors in corporate credit must contend with greater uncertainty regarding upgrades or downgrades resulting from corporate actions. Good and topical examples would be M&A activity or LBO’s that result in increased leverage and rating downgrades.

In addition, conduit ratings reflect the quality of the assets being financed, the structure of the conduit including any programwide credit enhancement or other structural features to benefit investors, as well as the liquidity lines typically provided to the conduit to give commercial paper investors comfort that, among other things, maturing commercial paper can be refinanced.

9. Are you aware of any CRAs which provide ex post ancillary/advisory services? If so, do you perceive any potential conflicts of interest between the structured rating activity and any ex post ancillary/advisory services those CRAs may provide (i.e. pricing or valuation models)?

We are aware that agencies provide, or own companies that provide, such services. We see these services as being inherently quite different from the provision of credit ratings and see little potential for conflicts of interest.

10. Is there a risk of conflicts of interest when a rating agency provides the rating of the provider of credit enhancement to structured finance products it has also rated?

We see very little, if any, potential for conflicts of interest in this regard:
- Methodologies regarding the use of credit enhancement (particularly wraps) are straightforward
- There appear few incentives for structured finance rating analysts to influence their corporate ratings analyst on a credit enhancement provider’s rating.
- Corporate and structured finance analysts typically sit in separate teams and both, in our experience, prize their objectivity.

Support for conduit transactions may be provided by third parties. The individuals who rate the entities that provide this credit support are, to the best of our knowledge, different to those that rate the conduits.

11. Are you satisfied with the way the agencies’ communicate the measures they have adopted to manage those potential conflicts of interests?

Yes, we believe there is a clear division of responsibilities to address conflicts of interest.

12. Do you think those measures are effective?

Yes, we have no knowledge of these controls breaking down

13. Is there sufficient resource and experience at the rating agencies to deal effectively with the demand for structured finance ratings?

We believe that senior personnel at rating agencies generally have sufficient experience to provide oversight on the structured finance rating process. As the market continue to grow, rating agencies need to ensure that they maintain levels of human resources at more junior levels to ensure that both conduit and other structured finance transactions can continue to be rated and that sufficient time is available for the rating process to remain rigorous.

In the conduit market, it would be helpful for CRAs to put into context the relative experience of different conduit administrators in order to facilitate the turnaround time for rating transactions.

IOSCO Code on Structured Finance

14. Does the current IOSCO Code of Conduct for CRAs deal appropriately with the risks in the rating of structured finance?

Our review of the IOSCO Code of Conducts suggests to us that it is comprehensive and appropriate in addressing the risks of CRAs rating structured finance transactions.

Additional comments
15. Are there any additional points you would like to raise, on the basis of your experience in the structured finance business?

We reiterate that rating agencies provide a valuable service to the structured finance market. We would encourage rating agencies to continue to increase transparency on structured finance transactions which they rate (such as greater disclosure around methodologies). We accept that the CRAs generally ensure that a robust rating methodology is adopted and implemented on a transaction by transaction basis, and that a good degree of effort is made by the rating agencies to answer questions from market participants and attend industry events to make their positions better understood.

Additionally, we would encourage more communication and consistency among each agency’s counterparts around the world.