

7th September 2007

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

Re: Additional comments to CESR's Questionnaire regarding the Rating of Structured Finance Instruments (CESR/07/394)

JP Morgan welcomes this opportunity offered by CESR to comment further on the Questionnaire with an extended deadline (CESR/07/564). Following our internal discussion, we thought that it maybe helpful to send you further comments to clarify some of our original points made in our submission, dated 27 July 2007. The comments, which should be read in conjunction with our earlier response, are from JP Morgan's investment banking business, acting as an arranger and bookrunner of structured finance transactions for third-party clients, sellers in some securitisation programmes, and a trading house of asset-backed securities and other structured finance instruments. Please note that both our earlier and these additional comments are with reference to securitisations of assets from European jurisdictions only. The recent market turmoil does not change our view, given in our original submission, in a significant way. In particular we view the recent market events, over the summer, as liquidity-driven, rather than credit-driven.

On the question 3, we have incorporated additional comments as below.

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, for European jurisdictions, rating agencies apply predetermined and robust methodologies to rating structured finance transactions - these methodologies are based on statistical/numerical approaches and generally supplemented by on-site due diligence visits with the seller and servicer of the transaction. We believe that rating agencies 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 JP Morgan provides liquidity lines to the conduits that they administer or for on-balance sheet warehouse facilities.

On the question 4, we have incorporated additional comments as below.

Generally speaking, rating agencies take a sensible approach to assessing structural risks in European transactions. We believe that disclosure by rating agencies to the market about their rating methodologies helps to make third parties aware of the risks which rating agencies are assessing. On occasion, we believe that the approach taken can be too inflexible or conservative which can result in some unnecessary economic inefficiencies in transactions from European jurisdictions – 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.

On the question 6, one additional paragraph is inserted after the original first paragraph.

We believe that the deterioration in the performance of US sub-prime mortgage backed securities transactions should reinforce the importance to the rating agencies of their surveillance of all structured finance transactions; however, for European jurisdictions, we do not believe that rating agencies should overreact to news relating to deals and should only place transactions on downgrade/negative watch where there is a good reason to do so and, in these cases, do so in a timely manner.

Yours faithfully,



Bradford Craighead
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European Securitised Products