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Schroders

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The Committee of European Securities
11-13 Avenue de Friedland
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FRANCE

Dear Sirs

QUESTIONNAIRE ON THE RATING OF STRUCTURED FINANCIAL INSTRUMENTS

Schroders is an independent asset management house. We are a global provider of investment services with over €190billion under management. We are grateful for the opportunity to respond to the questionnaire. We have the following comments.

<u>Rating Process</u>

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

   Yes. Structured financial ratings are usually sold as separate subscription from corporate ratings although there will usually be some discount available for subscriptions to multiple products. E-mail notification is available for ratings changes.

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

   We believe the disclosures are reasonable. However, we would like to see more recognition of the globalization of ratees, raters, and clients and a discontinuation of regional subscription pricing whereby there is a 'first' user in each geographic region thereby limiting quantity discounts within a firm. We are unaware of the specifics of fees charged to ratees, but understand that this is the primary source of rating agency income.

<u>Rating methodologies</u>

3. What are your views on the fact that the agencies use different analytical models to assess the portfolio credit risk?

   We believe each agency should use its own model and ideally such models should be transparent. That said we would expect there to be similarities between models.

   Are you satisfied with the way the rating agencies assess such risk?

   Obviously not, since we have seen massive downgrades and expect to see many more on relatively unseasoned Asset Backed Securities (ABS).

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)?

   We consider that they do a thorough and professional job in these areas.

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

   Generally Yes. Disclosure of corporate rating methodologies has improved greatly.

<u>On-going surveillance of the transactions</u>

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.)?

   We would like to see more frequent updates. Issuer reports are not always easy to interpret, particularly for non-specialists — frequent agency updates based on interpretation of issuer reports (particularly how actual performance compares to rating model assumptions) would be very useful.

   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?

   We believe there could be a good deal more consistency and explanation of terminology, especially as to what numbers are and are not comparable from pool to pool, together with the highlighting of period to period changes in metrics.

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

   Ratings changes are usually well documented and explained. However, with the fundamental underlying modelling now in question, there appears to be a need to articulate new standards for various ratings.

<u>Potential risks (conflicts, resourcing)</u>

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

   In structured finance there is no residual obligor with an ongoing business or cash flow stream; the holder is entirely reliant on the flows from the structure, hence on the assumptions and safeguards built into the structure and any ancillary enhancements. Structured finance primarily exists to provide increased leverage. The combination of these two facts makes it inherently more risky than corporate credit and therefore great care and caution must be exercised around all elements of the financing.

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 not aware, but would regard such advice outside the ratings process as a conflict.

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 do not believe there is a risk of a conflict since the CRA must analyze all elements of the structure and its enhancements in order to rate the deal. It is just practical to rely on its own ratings of the enhancement provider. Certainly contingent liabilities to structures should and do factor into the analysis of the enhancement provider's own rating.

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

We believe conflicts need to be avoided. We do not see a conflict as set out in question 10 but would consider that any conflict arising as set out in question 9 is one to be avoided rather than managed. CRAs primary service to the investment community is that of an independent arbiter of credit quality. Any compromise of that role diminishes the value of the ratings provided.

12. Do you think those measures are effective?

See 11 above.

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

Recent events suggest resources are proving to have been inadequate. The use of ratings models have undoubtedly allowed the agencies to reduce the resources devoted to analysis of structured finance. The failure of the models used (at least as to some structures) is necessitating a massive re-rating. Obviously this is beyond the agencies' capacity over a short time frame, so ratings changes will be made and publicized over time. We consider that this is a practical necessity and nothing can be done about it. However, in the future, with models having failed, the agencies may well have to undertake more labour intensive analysis than in the past. If so, this will naturally result in additional resources being used.

Yours faithfully

Schroders

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