

Date

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Dear Sirs

QUESTIONNAIRE REGARDING THE RATING OF STRUCTURED FINANCE INSTRUMENTS

M&G has been looking after savers since 1931 and now has £17bn of retail funds under management and more than 750,000 investors. Since May 1999 M&G has been part of the Prudential Group and now has responsibility for the management of all of Prudential's assets in the UK and Europe. Total assets managed by M&G are thus some £155bn covering Institutional, Retail and Life and Pension clients. Of this some £64bn is in fixed income investments making M&G one of Europe's leading players in the fixed income market.

M&G has on this occasion decided to restrict its comments to four key questions:

- B) 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)?*

It is clear that CRAs do not correctly rate all structured products, for example Constant Proportion Debit Obligations ("CPDOs"). We believe that this is due to the banks who structure such products being better resourced than the CRAs and the CRAs being under pressure to rate such structures very quickly. In the case of CPDOs we believe that ratings were initially given before all aspects of the risks attendant in such structures had been thought through.

- B) 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?*

Structured product ratings are by and large only as robust as the ratings of the underlying assets. It is pretty clear that CRAs have not been monitoring those underlying assets sufficiently closely as evidenced by the recent simultaneous downgrades of several hundred sub-prime assets.

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B) 8. *Are there any risks unique to rating structured finance compared to corporate credit ratings?*

We would refer you to B) 6. above. If the underlying assets are not properly rated then neither will the structured product.

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

The short answer is "no". This has been a perennial problem for CRAs but has been exacerbated in the bull market of recent years. Good CRA staff are head hunted by banks and fund managers leaving inexperienced and junior staff to rate assets and products.

We believe that despite CRAs earning huge fees from rating structured products this does not translate into sensible pay and working conditions for staff, which are generally poor.

Yours faithfully



Simon Pilcher
Chief Executive, Fixed Income