

TYI, LLC

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**Via email: [RMDconsultation@bankofengland.co.uk](mailto:RMDconsultation@bankofengland.co.uk)**

The Head of Risk Management Division  
Bank of England  
Threadneedle Street  
London, EC2R 8AH

**Re: Extending eligible collateral in the Discount Window Facility and information transparency for asset-backed securitisations**

Ladies and Gentlemen:

TYI, LLC appreciates the opportunity to submit this letter in response to the request of the Bank of England (the “Bank”) for comments regarding its Consultative Paper on Extending eligible collateral in the Discount Window Facility and information transparency for asset-backed securitisations (the “Consultative Paper”).

**Introduction**

*The Goals of Enhanced Disclosure and a Proposed Solution*

As stated in the Consultative Paper, “the Bank must be able to risk manage and value collateral accepted in its operations.” Accordingly, “the Bank has ... been giving consideration to the information that it requires from issuers of ABS in order to be able, more easily and efficiently, to undertake risk management of the collateral.”

The Consultative Paper notes that “information asymmetry” exists between the information that issuers report to investors in asset-backed securities and covered bonds (“ABS”) and the information that is needed in order to allow risk management of the underlying assets. The Bank believes that investors, who have to value the security and manage the risk of ownership, “should reasonably expect to receive as much information about credit quality [of the underlying assets] as the originator of those assets.”

In order to solve the problem of information asymmetry in the ABS markets, it is necessary to address not only the quantity of information provided but also the timing of the disclosure of this information. In the ABS market, a select few have access to loan-level performance information on a daily basis. They can legally trade on the loan-level information days, even weeks, before most other market participants receive the information.

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Firms such as Goldman Sachs, HSBC and Morgan Stanley have subsidiaries involved in originating, billing and collecting loans backing ABS. They receive “fresh” loan-level performance data on a daily basis that they can use for trading and risk management.

By contrast, other ABS investors and market participants currently have to wait to receive the “stale” accumulation of daily loan-level performance data in a single periodic report. The periodic report is distributed to investors by trustees, third party data vendors or on a website on a once-per-month or less frequent basis.

If ABS investors should reasonably expect to receive as much granular information as the originator about the credit quality of the underlying assets, ABS investors should also reasonably expect to receive fresh information rather than stale information accumulated in monthly or less frequent periodic reports.

The Consultative Paper suggests making cash-flow models available and discusses using monthly data with these models. Even if the Consultative Paper’s proposal is adopted, it will not solve the information asymmetry problem in the ABS markets.

The usefulness of the cash-flow models is directly related to the frequency of the data fed into them. Even if the assumptions in the cash-flow models are identical, having different frequencies, fresh versus stale, used as the starting point for the models could yield dramatically different results. The frequency with which granular data is available dictates the frequency with which the cash-flow model’s performance can be checked and adjustments to its assumptions can be made.

If loan-level data were available to ABS market participants on a daily basis, then fresh data could be fed into cash-flow models. This would level the playing field for all ABS market participants. All cash-flow models would start with the same granular data and could be monitored and revised on a daily basis. By contrast, feeding stale data on a weekly, monthly or less frequent basis into the cash-flow models would continue to allow a select group of firms to retain their informational advantage in the ABS markets.

To solve the problem of information asymmetry in the ABS markets, the Bank should require that each ABS eligible for acceptance as collateral provide all market participants with performance data on a daily basis on the individual loans that support the ABS. If all market participants receive equal and full information on a daily basis, they can evaluate the risk and return of the ABS in both the primary and secondary markets.

### *New Infrastructure – Providing Transparency Using Today’s Technology*

To provide all market participants with accurate and unbiased loan-level performance data on a daily basis will require the development by independent parties of a new data-handling infrastructure to collect, standardise and disseminate this information. The new infrastructure would be built using existing information technology and would facilitate the ability of ABS market participants to analyse, value and monitor transactions ranging from loan portfolio pledges to covered bonds to asset-backed securities. It is described in this letter under “New Infrastructure”.

There is no material difference in the cost to an ABS issuer of providing fresh loan-level data on a daily basis or stale loan-level data on a once-per-week basis or on a once-per-month basis. All of the data can be handled electronically and the total amount of data to be handled by the data-handling infrastructure described in this letter would be the same regardless of distribution frequency. There are no technical barriers to providing all market participants with performance and cash-flow data on a daily basis and fresh daily data should be offered so that best risk management practices can be implemented.

Loan-level and cash-flow information should be provided daily for all asset types backing ABS. This would apply whether the ABS are publicly traded or privately placed or are backed by a relatively small number of commercial mortgage loans or a large number of credit card receivables.

Besides loan-level detail, the information provided daily should include online reports. Examples of what these reports would show include: detailed information on the ongoing cash-flow; the performance of each tranche, including losses that were allocated to each tranche and the remaining balance of financial assets supporting each tranche as well as the percentage coverage for each tranche in relation to the ABS as a whole; the waterfall triggers and their status; the counterparties involved in a transaction and their credit rating; details of cash injected into the transaction by the originator/sponsor bank or any other support provided to the transaction; and stratification tables showing average concentrations of different types of assets into which permitted investments are made. Finally, market participants should be able to access each transaction’s legal documentation.

### *Trustworthy – Perceived to be Accurate and Unbiased*

The loan-level performance data provided by the data-handling infrastructure proposed in this letter must be trusted in such a manner that, like stock price data from the New York Stock Exchange (“NYSE”), trusting the data is not a question. It must come from a data-handling infrastructure overseen and operated by independent third parties who have no actual or perceived conflicts of interest.

Only then can all ABS market participants use the data provided on a daily basis to value, price and trade asset-backed securities.

Firms such as IBM and Oracle have the resources and expertise to manage the day-to-day operation of the infrastructure discussed in this letter. My firm has the subject matter expertise, as reflected in a U.S. patent covering this type of data handling infrastructure, to coordinate the development and ongoing operation of this infrastructure.

### *Minimum Requirements for Valuing and Risk Managing ABS*

In order to value and manage the risk of an ABS investment, three requirements are necessary:

- a) Fresh performance data on a daily basis on the individual loans that support the ABS and the implication of this performance for each part of the structure of the ABS;
- b) A data-handling infrastructure which allows all market participants to look at information on their desktops for a particular ABS at a summary level or to drill down into loan-level detail to answer specific questions for risk managing and valuing the ABS; and
- c) Data that can be trusted.

## Table of Contents

<b>Frequency of Disclosure</b> .....	7
<i>Best Practice is to Look at Loan-Level Performance Daily</i> .....	7
<i>Current Collateral Performance Reporting Practices</i> .....	7
<i>Information Asymmetry: The Gap Between Current and Best Practices</i> .....	8
<i>Some Firms Have Used Information Asymmetry to Their Benefit</i> .....	8
<i>Eliminating Information Asymmetry in the ABS Market</i> .....	9
<b>New Infrastructure</b> .....	9
<i>How Loan-Level Performance Data is Provided Daily</i> .....	9
<i>Information That Will be Made Available to Market Participants</i> .....	10
<i>Cost – Built into New ABS and Offset by the Benefits of Transparency</i> .....	11
<i>Support for and Coordination of the Master Database</i> .....	12
<b>Trustworthiness of Data</b> .....	13
<i>Perceived to be Accurate and Unbiased</i> .....	13
<i>Full Disclosure Requirement</i> .....	14
<i>Accuracy of Data</i> .....	14
<b>Expansion of eligible collateral in the Discount Window Facility</b> .....	15
<i>Operational issues, Paragraph 35</i> .....	15
(ii) <i>The Bank would be interested to know from counterparties how long they envisage systems development would take in order to meet the proposed requirements for provision of data to the Bank and demarcation of loans provided to the Bank.</i> .....	15
(iii) <i>Counterparties are asked to comment on their ability to provide updated information on both pre-positioned loan portfolios and loan portfolios provided as collateral on a weekly basis.</i> .....	15
<b>Enhanced disclosure requirements for eligibility of ABS collateral in the Bank of England’s operations</b> .....	15
<i>Granular Asset Information, Paragraph 47</i> .....	15
(i) <i>Do counterparties perceive any constraints in providing loan-level data (a) to the Bank and (b) to the wider investor community?</i> .....	15
(ii) <i>Do counterparties envisage any constraints in providing loan-level data for a particular asset class?</i> .....	15
(iii) <i>Do counterparties envisage any constraints in providing loan-level data on each bond payment date and stratification data on a monthly basis?.....</i>	16
(iv) <i>Would historic performance data (eg over at least the past three years) and a loan-level pool cut at closing be readily available?</i> .....	16
(v) <i>How long would it take for banks/issuers of ABS to develop their systems to regularly provide such data?</i> .....	16
<i>Information on ABS structures, Paragraph 54</i> .....	16
(i) <i>Do issuers perceive any problems in ensuring cash-flow models, as verified by the issuer or arranger, are made available to investors?</i> .....	16

(ii) Does there need to be a degree of uniformity in how the models operate? .....	17
(iii) Are there any other parties who would be suitable as providers of cash-flow models?.....	17
Investor reporting, Information storage and availability, paragraph 62 .....	17
(i) Is a single data depository or separate websites preferred?.....	17
(ii) Are there any other potential solutions? .....	18
Standardised legal documentation and post-trade reporting, Paragraph 67 ...	18
(ii) The Bank would be interested in obtaining participants' views on the desirability of greater pricing transparency? .....	18
Implementation, paragraph 69 .....	18
(i) The Bank would be grateful for feedback from its counterparties/issuers of ABS as to minimum feasible timeframes for each of the above proposals. ....	18
(ii) Do investors in ABS have any views on these proposals and whether the data the Bank is looking for would be useful? Is there any other data investors might find useful? .....	19

## Frequency of Disclosure

### *Best Practice is to Look at Loan-Level Performance Daily*

The most important issue in improving ABS disclosure standards is the frequency with which loan-level performance data is disclosed to market participants. To date, most of the industry's focus has been on the less important issue of what specific standardised data elements should be provided. However, without the right disclosure frequency, the benefits of standardised data are limited because stale data cannot be the basis for market participants making fully informed investment decisions.

In May 2009, the European Parliament passed the [Amended European Capital Requirements Directive](#). The Directive sets the global standard for best practices in ABS. Under this legislation, investors are required to know what they own and issuers are required to provide the necessary data.

In the context of ABS, knowing what one owns requires understanding the structure of the ABS and the impact of the underlying assets' performance. This performance must be regularly monitored from the time an initial investment is contemplated through purchase and until the ABS matures or is sold. Successful monitoring requires readily available, timely, reliable and relevant information on the underlying assets.

As exemplified by Goldman Sachs and recommended by its CEO in an October 12, 2009 Financial Times column as the basis for systemic risk monitoring, the best practice in knowing what one owns when it comes to a loan or securities portfolio is to look at every position every day. Packaging loans into an ABS should not change the best practice for investors of risk managing ABS investments by monitoring performance of the underlying loans on a daily basis.

### *Current Collateral Performance Reporting Practices*

There is a process built into most ABS transactions to generate a once-per-month report. At the beginning of the month, the servicer or sub-servicer performing the daily billing and collecting function transmits to the trustee, at a minimum, a monthly servicer report that reflects the daily data for the prior month. The trustee then forwards the stale accumulated data in the monthly servicer report to other market participants.

Once-per-month or less frequent reporting did not prevent the several hundred billion dollars of losses in or the freezing of the ABS market in the recent credit crisis, nor did it subsequently help the market to thaw.

### *Information Asymmetry: The Gap Between Current and Best Practices*

Current reporting practices create an information gap in the ABS markets. Firms such as Goldman Sachs, HSBC and Morgan Stanley through their billing and collecting subsidiaries have access to fresh information on the performance of the underlying loan collateral on a daily basis. All other ABS market participants, including investors and rating agencies, must wait to receive stale summary information in a once-per-month or less frequent report.

The gap between the information available to most ABS market participants and the daily information available to some ABS investors (particularly those that have billing and collecting subsidiaries) can be described as “information asymmetry”. Columbia University Professor Joseph Stiglitz won a Nobel Prize in Economics for observing that in markets with information asymmetry, when the firms with the information take advantage of the firms without such information, the firms without such information leave the market until the information advantage is eliminated.

#### *Some Firms Have Used Information Asymmetry to Their Benefit*

Various newspaper reports have discussed how some firms have used information asymmetry in the ABS market to their benefit.

On November 9, 2007, the Wall Street Journal’s Heard on the Street column documented how Morgan Stanley used its daily access to subprime loan performance data from its ownership of a subprime mortgage company. According to the column, Morgan Stanley used such loan performance data to profitably short the ABS market. Morgan Stanley’s reported use of this information suggests that there is no legal or Chinese wall between an investor’s access to performance data daily and its trading and/or underwriting businesses.

Morgan Stanley was not the only firm that used its superior daily access to loan performance data to profitably trade in the ABS market. On January 21, 2010, the Wall Street Journal discussed Goldman Sachs’ acquisition of a subprime mortgage lender. Goldman invested in the subprime lender when it was launched in 2005 and bought the firm in 2007. According to the article, “mortgage experts say the acquisition likely gave Goldman a clearer view of the market as other parts of the company made bets on home loans.” These bets generated nearly \$4 billion in profits for Goldman.

HSBC took a different approach in order to profit from its access to loan performance data on a daily basis. On March 18, 2010, the Financial Times reported on Project Opaque, an initiative at HSBC to reduce its exposure to Wall Street because of its concerns about the health of Wall Street companies. HSBC was worried about “overly optimistic assumptions about ...the value of asset-

backed securities.” With its ownership of HSBC Finance Corp., and its resulting access to fresh data regarding loans backing ABS, HSBC was in a position where it could compare Wall Street’s assumptions with actual performance and therefore could risk manage its exposure.

### *Eliminating Information Asymmetry in the ABS Market*

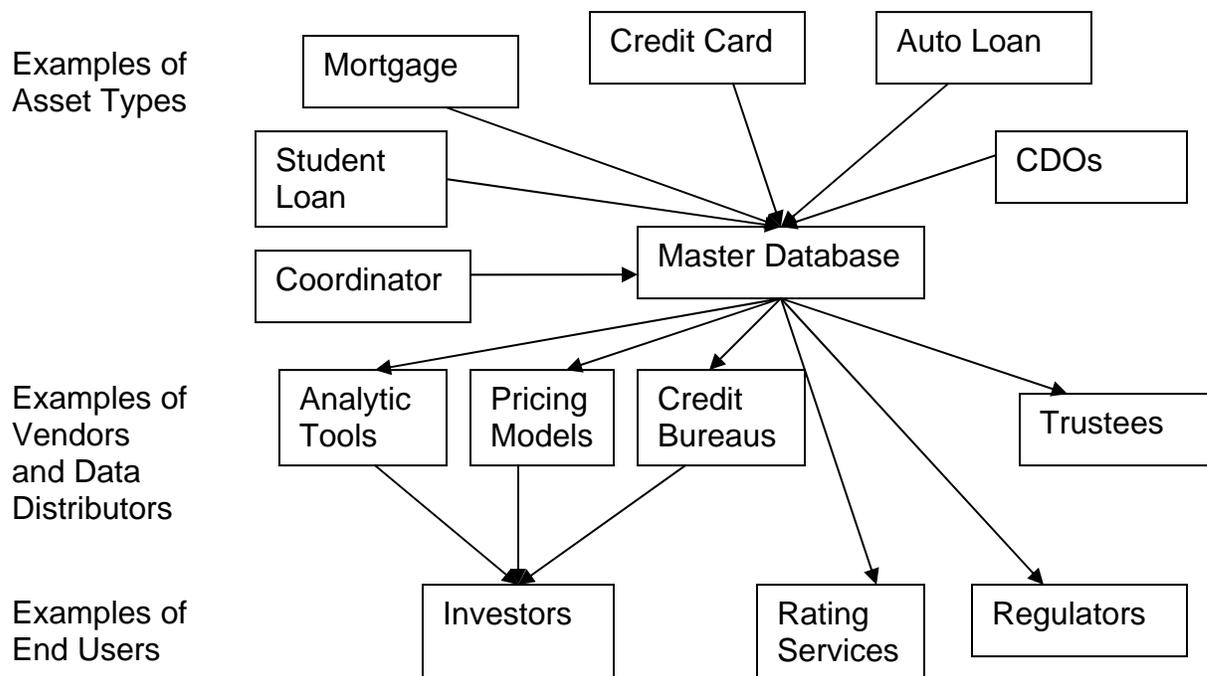
The best billing and collection practices require that the firms that perform the billing and collecting of loans backing ABS track those loans on a daily basis. The information systems used to track the loans are also the source of information for the once-per-month or less frequent reports. The way to eliminate the information asymmetry in the ABS market is to provide access to the data daily from such information systems and not wait for the once-per-month or less frequent reports.

With today’s technology, this data can be collected, standardised, analyzed and distributed each day so that it is available to all market participants.

### **New Infrastructure**

#### *How Loan-Level Performance Data is Provided Daily*

An important issue in improving disclosure standards in ABS is how ABS data is provided to market participants. What is the appropriate infrastructure for collecting, storing and distributing loan-level deal specific performance information daily for the ABS market? The chart below shows the basic framework.



Under this structure, performance data on the loans underlying ABS or loan portfolio pledges will be collected electronically on a daily basis from every servicer and/or sub-servicer that handles the daily billing and collecting for every ABS whether or not the ABS was publicly issued or privately placed. This collateral performance data will be stored in a master database (the “Master Database”).

*Information That Will be Made Available to Market Participants*

The information in the Master Database will be made available to end users either directly for free over the Internet or through new and existing data distribution channels (such as Bloomberg and Reuters).

The Master Database is a platform that supports existing vendors and data distributors as well as the addition of new data elements from third parties. Existing vendors and data distributors in the ABS market will continue to be able to sell their reporting, analyzing, modeling, forecasting and pricing services to end users using information from the Master Database. In addition, third parties such as credit bureaus and residential real estate valuation firms can combine their information with the information in the Master Database and offer it to end users.

Besides loan-level detail, the ABS information provided daily should include online reports. Examples of what these reports would show include: detailed information on the ongoing cash-flow; the performance of each tranche, including losses that were allocated to each tranche and the remaining balance

of financial assets supporting each tranche as well as the percentage coverage for each tranche in relation to the ABS as a whole; the waterfall triggers and their status; the counterparties involved in a transaction and their credit rating; details of cash injected into the transaction by the originator/sponsor bank or any other support provided to the transaction; and stratification tables showing average concentrations of different types of assets into which permitted investments are made. Finally, market participants would be able to access each ABS transaction's legal documentation.

By using the Master Database, each end user will be able to obtain the ABS data and reports that the end user wants. Each market participant will be able to choose the level of detail that it wants to see regarding the loan-level data. Some, like investors in AAA-rated tranches, might choose pool or tranche summarized loan-level information. However, these investors need the option to be able to drill down into the loan-level data daily in order to know what they own. Investors in subordinated tranches, such as hedge funds, might want to have the loan-by-loan data daily because they are first in line to absorb any losses and would want to closely monitor the performance of the underlying assets.

#### *Cost – Built into New ABS and Offset by the Benefits of Transparency*

The cost of providing cash-flow and loan-level performance data daily should be built into the flow of funds (the “waterfall”) for each new ABS transaction. This cost would be offset by the lower yield required by investors who no longer have to receive extra compensation (in the form of higher yields) because they cannot see the cash-flow and loan-level performance data daily through the opacity of current reporting practices. Offering cash-flow and loan-level data daily will be an effective tool for increasing the demand for and reducing the cost of an issuer's asset-backed securities.

If the cost of providing cash-flow and loan-level performance data daily is built into each new ABS transaction, then this data can be made available for free to market participants. This will create competition in the value added portion of the information supply chain as third party pricing services would be expected to use such data in order to provide services that reduce investors' reliance on ratings or dealer pricing models. With third party pricing services also comes information-based trading that reflects competing views of the future and more liquid secondary markets.

Based on the cost of comparable services for ABS, the anticipated cost of providing market participants with cash-flow and loan-level performance data on a daily basis for an individual ABS transaction would be approximately 5 basis points (0.05%) of the principal amount of the loans supporting the transaction.

## *Support for and Coordination of the Master Database*

There are many high quality firms with no conflicts of interest, such as IBM and Oracle, which can supply all of the technical resources from data integration to hosting to support the day-to-day operation of the Master Database. Such a firm would be the single data depository described in the Consultative Paper.

The selected firm will do the heavy lifting to support the data-handling infrastructure. It will be responsible for the ongoing collection of the data from the servicers and sub-servicers, the standardisation of this data using industry templates when available, the linking of the data to the specific ABS, the production of summary reports and the dissemination of the information to market participants.

What these potential single data depositories lack is the proven subject matter expertise to see the pitfalls in designing, developing and implementing a daily loan-level deal specific data-handling infrastructure for ABS. If the data handling infrastructure and the Master Database are to be completed in a timely manner, the data depository provider should be given the right design for the Master Database and specific tasks. In addition, the data depository provider would have to be overseen on an ongoing basis once the infrastructure is in place in order to promote the proper functioning of the Master Database.

The industry specific subject matter expertise behind the design of the Master Database and the data-handling infrastructure resides with an independent coordinator (the "Coordinator").

The role of the Coordinator is critical. It bridges the gap between the servicers and the other participants in the ABS markets. It works with the market participants to ensure that they obtain the data that they need on a daily basis. It establishes the various processes and systems necessary for the servicers to submit the loan-level data electronically daily. It directs compliance of the Master Database so that differences in regulations between nations are properly implemented. It reduces both the complexity and the industry's cost of providing loan-level deal specific performance information daily to each market participant's desktop while maintaining the highest possible quality standards for the data. It maximizes the flexibility of the transparency transmission mechanism so that it can meet the evolving needs for transparency into the future.

Expertise is the single most important factor for evaluating and selecting the Coordinator. My firm has the expertise required for the Coordinator role. I have devoted a substantial portion of my career to developing daily loan-level reporting methodologies for the ABS industry. As an example of my subject matter expertise, I patented a data-handling infrastructure for the ABS markets. This

patented infrastructure includes collecting, storing and distributing privacy protected, deal specific, loan-level performance information daily.

## **Trustworthiness of Data**

### *Perceived to be Accurate and Unbiased*

Improving disclosure standards in ABS requires providing accurate and unbiased ABS data to market participants on a daily basis in such a manner that, like stock price data from the NYSE, trusting the data is not a question.

The current infrastructure has actual conflicts of interest, as participants such as Goldman Sachs and Morgan Stanley receive data on the loans backing ABS on a daily basis and trade on this information before other market participants receive this data.

In order to provide deal specific loan-level information to all market participants, a new data-handling infrastructure will be needed to collect, store and distribute the information to the market. The Bank suggests that at least one data depository be set up to perform this function. The data depository would establish all of the various processes and systems necessary for the firms handling the daily billing and collecting to electronically submit the loan-level data. This data will be checked for accuracy and consistency and entered into a database. The data will then be made available to all market participants including investors, rating services, data providers, central banks and other regulators.

The Bank asked whether there should be one data depository or whether there should be several data depositories (websites).

Regardless of whether there are one or multiple data depositories, the new infrastructure for collecting, storing and distributing loan-level data should be free of actual or perceived conflicts of interest. All market participants need to know that they can trust the data on a daily basis to credibly value, price and trade asset-backed securities. This is necessary if the new infrastructure is going to help restore confidence in the ABS market.

The new data-handling infrastructure and the daily loan-level deal specific data should also be perceived as free of the types of structural conflicts of interest that would be present if the infrastructure was controlled by and the data offered by a single existing market participant. Each existing market participant would be perceived as being able to gain a competitive advantage if it controlled the new data-handling infrastructure. The involvement of existing market participants in the new data-handling infrastructure would tilt an otherwise level playing field without clear value added.

The ideal conflict free data-handling solution is a single point of entry data depository coordinated and operated by two independent third parties. This single point of entry data-handling infrastructure would combine the global resources of the firm handling the data on a day-to-day basis with the subject matter expertise of the firm coordinating the data-handling infrastructure.

#### *Full Disclosure Requirement*

Any firm that is proposed to be involved in either the day-to-day operation of the Master Database or the Coordinator role should be required to make a full disclosure of all competitive and financial interests in the design of the database, the presentation of the data, the analysis of the data, and the use of the data, including:

- Is the firm engaged in a related business that could gain a competitive advantage from its role? Examples of such related businesses include data distribution, pricing services, trustee services, monitoring, analytic solutions, consulting, ratings services, investment as a principal or agent or portfolio manager, and underwriting.
- Does the firm have investments that could benefit from its role, such as long or short positions in ABS transactions?

#### *Accuracy of Data*

The new data handling infrastructure should also provide an audit trail. Market participants should know that the data they are receiving from the Master Database is the same as the data submitted by the servicers or sub-servicers to the Master Database.

## **Expansion of eligible collateral in the Discount Window Facility**

### *Operational issues, Paragraph 35*

*(ii) The Bank would be interested to know from counterparties how long they envisage systems development would take in order to meet the proposed requirements for provision of data to the Bank and demarcation of loans provided to the Bank.*

Based on discussions with several of the largest global issuers and leading information consulting firms, the data-handling infrastructure solution proposed in this letter for both ABS transactions and pledging loans as collateral can be implemented in a timeframe of approximately twelve (12) to eighteen (18) months.

The European Central Bank (“ECB”) Public Consultation on the Provision of ABS Loan-Level Information in the Eurosystem Collateral Framework also proposed similar requirements for the provision of ABS loan-level data and asked about the time needed for system development. The Association for Financial Markets in Europe (“AFME”) published its [February 26, 2010 response](#) saying it would take twelve (12) months to meet these requirements for the provision of data.

*(iii) Counterparties are asked to comment on their ability to provide updated information on both pre-positioned loan portfolios and loan portfolios provided as collateral on a weekly basis.*

From a technological perspective, given the data handling infrastructure proposed in this letter, it is as easy and cost effective to provide updated information on both pre-positioned loan portfolios and loan portfolios provided as collateral on a daily basis as on a weekly basis.

## **Enhanced disclosure requirements for eligibility of ABS collateral in the Bank of England’s operations**

### *Granular Asset Information, Paragraph 47*

*(i) Do counterparties perceive any constraints in providing loan-level data (a) to the Bank and (b) to the wider investor community?*

Given the data-handling infrastructure proposed in this letter, there are no constraints for providing loan-level data to either the Bank or the wider investor community on a daily basis.

*(ii) Do counterparties envisage any constraints in providing loan-level data for a particular asset class?*

The data-handling infrastructure proposed in this letter can handle all types of loans. There are no constraints, including number of loans or receivables, in providing loan-level data for any particular asset classes. As a result, loan-level data should be required for all asset classes. Investors have said that if they cannot evaluate the loan-level information internally, they will turn to third parties for assistance.

*(iii) Do counterparties envisage any constraints in providing loan-level data on each bond payment date and stratification data on a monthly basis?*

The data-handling infrastructure proposed in this letter would make both loan-level and stratification data available on a daily basis. Through either data vendors or a web interface, users could access predefined stratification tables or create their own.

*(iv) Would historic performance data (eg over at least the past three years) and a loan-level pool cut at closing be readily available?*

One of the strengths of the data-handling infrastructure proposed in this letter is that it makes historic and current loan-level data readily available. When the issuer is set-up on the data-handling infrastructure, historical information would be captured. If three years of history are available electronically at the issuer, then three years of history would be captured. All available historical performance data and loan-level pool cut data will be readily available at closing and over the life of the transaction.

*(v) How long would it take for banks/issuers of ABS to develop their systems to regularly provide such data?*

Based on discussions with several of the largest global issuers and leading information consulting firms, the data-handling infrastructure solution for ABS transactions proposed in this letter can be implemented in a timeframe of approximately twelve (12) to eighteen (18) months.

*Information on ABS structures, Paragraph 54*

*(i) Do issuers perceive any problems in ensuring cash-flow models, as verified by the issuer or arranger, are made available to investors?*

Issuers should be responsible for making accessible all the information necessary for an investor to make a fully informed investment decision. They should provide all the terms of the transaction so that investors can put these terms into the cash-flow model, analytic model or pricing model of the investor's choice.

One of the major responsibilities of the data-handling infrastructure proposed in this letter will be to make publicly available in a standardised format all the terms of the transaction structure. These terms will be verified by the issuer/arranger and will accurately reflect the legal structure of an asset-backed security. The standardised format would feature: clear diagrams of the deal structure; description of which classes of notes hold the voting rights and what proportion of noteholders are required to pass a resolution; description of all the triggers in the transaction and the consequences of such triggers being breached; what defines an event of default; and diagrammatic cash-flow waterfalls, making clear the priority of payments of principal and interest, including how these can change in consequence to any trigger breaches. End users will be able to import these terms and use them to form the basis for their cash-flow models.

There are numerous firms (such as Intex, ABSXchange, Deloitte and Lewtan Technologies/ABSnet) that compete and offer cash-flow modeling capabilities. There are other firms that compete with these firms by offering pricing services based on the output of proprietary cash-flow models. There is no reason for issuers to alter the existing competition in the marketplace by verifying the cash-flow models of a couple of these competitors. Rather, it is the issuer's role to provide the information through the proposed data-handling infrastructure so third party modeling and pricing services all have the same starting information.

*(ii) Does there need to be a degree of uniformity in how the models operate?*

There does not need to be uniformity in how the models operate. They just have to have uniform access to the same loan-level information. How or if the models use this information is a choice driven by the market and reflects the success of each firm's models or pricing service.

*(iii) Are there any other parties who would be suitable as providers of cash-flow models?*

As discussed above, there are many firms that have cash-flow models or, in the case of third party pricing services and credit rating services, that use cash-flow models in delivering their product. In addition, there are firms that, given access to daily loan-level data and the structure of ABS transactions, might begin to offer cash-flow models or third party pricing services. The goal of enhancing transparency should not be to also artificially limit how it is used by giving existing market participants an advantage.

*Investor reporting, Information storage and availability, paragraph 62*

*(i) Is a single data depository or separate websites preferred?*

The two criteria for evaluating any solution for providing ABS data should be: 1) does the solution provide fresh data on a daily basis or stale data with some lag time; and 2) does the solution provide data to end users for free or are they required to pay a fee to access the data.

Under a single data depository infrastructure, the cost for collecting the data and providing the loan-level data on a daily basis to all market participants would be incorporated into the flow of funds for each ABS transaction. This is the “fresh” and “free” data delivery model. “Fresh” refers to data provided on a daily basis to ABS investors rather than “stale” data being provided on a weekly or less frequent basis. “Free” refers to data being provided without charge to ABS investors rather than requiring investors to pay a fee to access this data.

Not charging market participants for the data will also promote the growth of new value added services such as independent third party pricing services which would in turn reduce investors’ reliance on rating services and dealer pricing models.

*(ii) Are there any other potential solutions?*

The other potential solutions are dramatically inferior to the data handling infrastructure proposed in this letter which provides fresh loan-level information on a daily basis free of charge to all market participants, including end users such as the Bank. Any other potential solution will result in end users paying a fee to access the loan-level information.

*Standardised legal documentation and post-trade reporting, Paragraph 67*

*(ii) The Bank would be interested in obtaining participants’ views on the desirability of greater pricing transparency?*

One frequently mentioned way to improve transparency in ABS is a secondary market trade price reporting system. A secondary market trade price reporting system cannot achieve the same outcome as a system that provides loan-level data on a daily basis. Price data by itself does not tell the value of an asset-backed security. To make a buy/hold/sell decision, investors need to be able to independently value the asset-backed security using current cash-flow information and then compare this valuation with the prices shown by dealers. Price transparency without daily data is just market participants bidding blindly.

*Implementation, paragraph 69*

*(i) The Bank would be grateful for feedback from its counterparties/issuers of ABS as to minimum feasible timeframes for each of the above proposals.*

Since the systems development work for loans to be provided as collateral parallels the enhanced collateral disclosure work for ABS transactions, they would both be finished at approximately the same time. According to the AFME response to the ECB Public Consultation referred to above under “Operational Issues, Paragraph 35”, this would be 12 months.

Based on discussions with several of the largest global issuers and leading information consulting firms, the data-handling infrastructure solution for both ABS transactions and pledging loans as collateral discussed in this letter can be implemented in approximately a twelve (12) to eighteen (18) month timeframe.

*(ii) Do investors in ABS have any views on these proposals and whether the data the Bank is looking for would be useful? Is there any other data investors might find useful?*

Investors in ABS believe that the data the Bank is looking for would be useful, as evidenced by the AFME response to the ECB Public Consultation referred to above under “Operational Issues, Paragraph 35”. The critical issue in the usefulness of the data, as highlighted by the investors, is eliminating any information asymmetry between market participants. As noted by the AFME, “investors are also supportive of the provision of loan level data to all classes of investors and all market participants as the provision of information to only some investors (for example those in the more junior classes, or solely those that currently hold the securities) would cause an unhelpful information asymmetry between investors and/or potential investors” in the ABS market.

Without loan-level data on a daily basis, market participants cannot independently analyse and credibly value asset-backed securities based on full information. As pointed out by well-known economists Harry Markowitz and John Taylor, the only way to value these asset-backed securities is to have the information on the underlying collateral.

In the absence of loan-level performance data on a daily basis, the ABS market has relied on dealer and ratings-based models that use out-of-date information. All the dealer models, including cash-flow, correlation and spread, used for valuing asset-backed securities failed in August 2007 when BNP Paribas could no longer credibly value asset-backed securities for a fund. Ratings-based models failed shortly thereafter. In the fall of 2007, Moody’s and S&P testified before the U.S. Congress that they did not have the data necessary to make timely updates to their ratings.

Without access to loan-level deal specific performance data on a daily basis, no amount of improvement in these models would provide the credibility to restore confidence for a liquid, functioning market for ABS. Data provided on a daily basis should be the starting point for modeling. In addition, such data would be

used to check the accuracy of the assumptions in the model against the actual performance of the loans underlying the asset-backed securities.

Thank you again and I very much appreciate the opportunity to submit these comments. If you have any questions, please do not hesitate to contact me. You can reach me in the United States at (781) 453-0638 or at [tyillc@comcast.net](mailto:tyillc@comcast.net).

Sincerely,

A handwritten signature in cursive script that reads "Richard G. Field".

Richard G. Field  
Managing Director