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**15<sup>th</sup> September 2006**

**European Commission  
Internal Market and Services DG  
Brussels  
BELGIUM**

**RESPONSE TO EUROPEAN COMMISSION CALL FOR EVIDENCE ON PRICE  
TRANSPARENCY IN NON-EQUITY MARKETS**

**Dear Sirs:**

The European Securitisation Forum (ESF)<sup>1</sup> is pleased to respond to the European Commission's (Commission) Call for Evidence on "Pre- and post-trade transparency provisions of the Markets in Financial Instruments Directive (MiFID) in relation to transactions in classes of financial instruments other than shares" (the Call for Evidence). In line with the ESF's mission, we recommend and implement market standardisation policies, practices, guidelines and related documentation, to promote liquidity, transparency and efficiency in the primary and secondary European securitisation markets.

The ESF is also a co-signatory of the high level joint response of today's date from the twelve associations listed in such response and including the Bond Market Association (BMA), the International Swaps and Derivatives Association (ISDA) and the London Investment Banking Association (LIBA) (the Joint Response). The ESF fully supports the high-level comments made in the Joint Response and is pleased to provide additional input specific to the European securitisation market.

***1. Do you have any comment on the proposed scope of the Report?***

The Commission's approach seems reasonable.

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<sup>1</sup> The ESF, a forum of the Bond Market Association, is a pan-European trade association comprised of 160 members, including investment and commercial banks, rating agencies, sellers, investors, law and accounting firms, stock exchanges, trustees and IT service providers. Its mission is to promote the development of the European securitisation markets (including ABS and CDO markets) via legal and regulatory advocacy, market education and information, and establishment of market standards and practices.



**2. *Do you consider this classification scheme to be sufficient for the purposes of the review?***

The ESF generally agrees with the classification for ABS instruments. For the Commission's information, a classification that is generally accepted in the securitisation industry is as follows:

- Residential mortgage-backed securities (RMBS)
- Commercial mortgage-backed securities (CMBS)
- Consumer asset-backed securities (ABS) (Including Credit Cards; Autos Loans)
- Corporate ABS (Including Equipment; Aircraft; Whole business Loans)
- Collateralised Debt Obligations (CDOs), which can be further segregated by collateral type: CBOs (bonds); CLOs (loans) and CDOs backed by other assets such as ABS, CMBS, credit default swaps (CDS) and real property
- Standardised tranches of synthetic indices
- Other (excluding ABCP)

It should be noted that securitisation transactions could be of a cash or synthetic nature and therefore some of the deals would also fall under derivatives category proposed by the Commission (e.g. CDS of ABS). However, the ESF strongly supports having all types of securitised products (cash or synthetic) within the same category as these transactions are similar in their structure.

Covered bonds should not be part of the ABS classification, as these would be more appropriately categorised as cash bonds. This is due to the nature of covered bond transactions where a debt obligation is backed by a pool of assets, typically residential and commercial mortgages and public sector assets, in addition to the financial strength of the obligor, which is typically a financial institution. In contrast, in an ABS, RMBS, CMBS or CDO transaction the sole source of repayment of interest and principal is the underlying asset cash flow.

**3. *Do you consider there are possible policy rationales for mandatory transparency we have not listed?***

The ESF agrees with the comments made in the Joint Response in relation to the "investor protection" and "market efficiency" policy rationales. With respect to the "response to technological developments" rationale, we stress that the ABS market is not one of the markets where "technological developments have increased reliance on more centralised, multi-lateral electronic trading as opposed to bilateral negotiations". The overwhelming majority of the ABS transactions are carried out over-the-counter. Because of the bespoke and client tailored nature of this market (see below for further details), this



product does not lend itself to centralised trading via, eg, electronic trading. This policy rationale is therefore both inappropriate and irrelevant for the ABS market.

There are a number of initiatives in the public sector with the purpose of increasing transparency in the European markets working in close contact with the securitisation industry. Mandatory transparency could potentially harm these initiatives while we welcome various European Commission projects coordinating with the securitisation industry. The ESF is currently working with the European Commission's Mortgage Funding Expert Group to identify barriers to integration of each of the funding models including RMBS with the aim of proposing possible solutions for the barriers identified and make concrete recommendations to the Commission. The ESF is also involved with the European Financial Market Lawyers Group (EFMLG), a group composed of legal experts from major financial institutions active in the EU financial markets dedicated to undertaking initiatives intended to foster the harmonisation of laws and market practices, with the purpose of undertaking a review of relevant pieces of Community legislation as well as of national laws of EU Member State having an impact on securitisation.

The securitisation market is recognised as transparent in terms of information availability since investors rely solely on asset cash flows for repayments rather than corporate credit. The ESF has historically been on the forefront of promoting transparency in the securitisation area and published "A Framework for European Securitisation<sup>2</sup>" in 2003 to set forth visionary and aspirational goals for the evolution and enactment of a more uniform and harmonised framework for securitisation in Europe. The document provides substantive guidance to legislative and regulatory bodies across Europe and in Sections 11 and 12 deals respectively with "Listing Disclosure and Reporting" as well as "The rights of Investors". Each section includes a list of consolidated goals as well as additional goals for future consideration. More specifically, ESF Goal 11.2 states that "investors and potential investors in a securitisation transaction should be entitled to provision of on-going information in respect of that transaction in a timely and accessible manner". The ESF Position also states that "Laws and regulations relating to provision of information should not be an impediment to providing all relevant information to investors relating to a securitisation transaction and the securitised assets".

#### ***4. Do you agree with our proposals for prioritisation of the review?***

The ESF agrees with the Joint Response. MiFID provides sufficient protection for retail investors accessing non-equity markets via advice. MiFID also contains restrictions on retail direct access to derivatives and complex products which is particularly relevant to the ABS market. The investor protection regulatory rationale should focus on the entities

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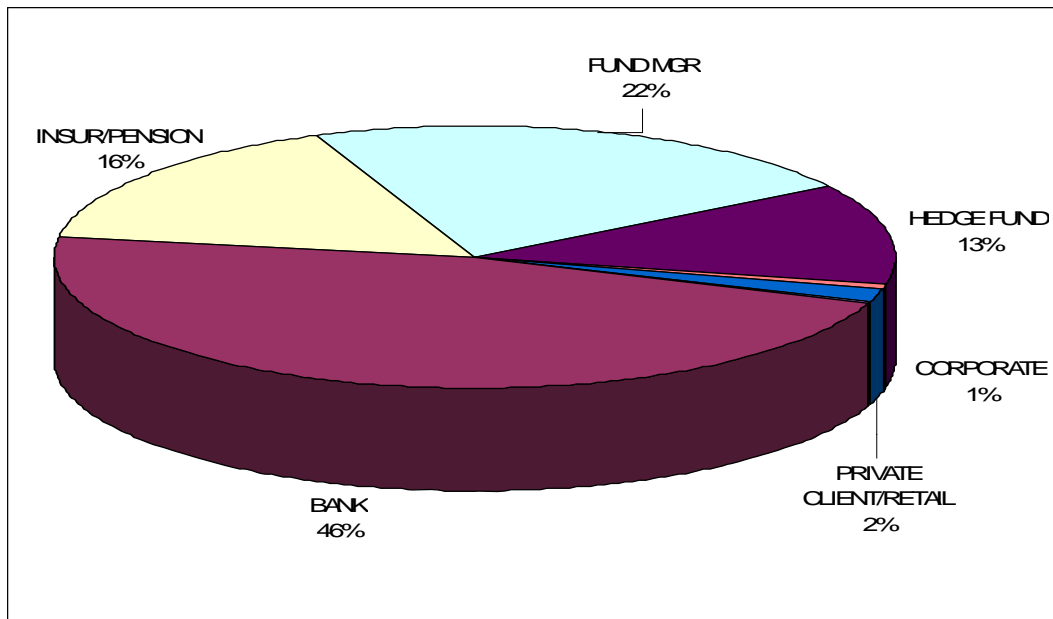
<sup>2</sup> The document can be found at [http://www.europeansecuritisation.com/pubs/A\\_Framework\\_For\\_European\\_Securitisation.pdf](http://www.europeansecuritisation.com/pubs/A_Framework_For_European_Securitisation.pdf)



that distribute such products to retail, not on those who structure them or make markets in them in an overwhelmingly institutional environment.

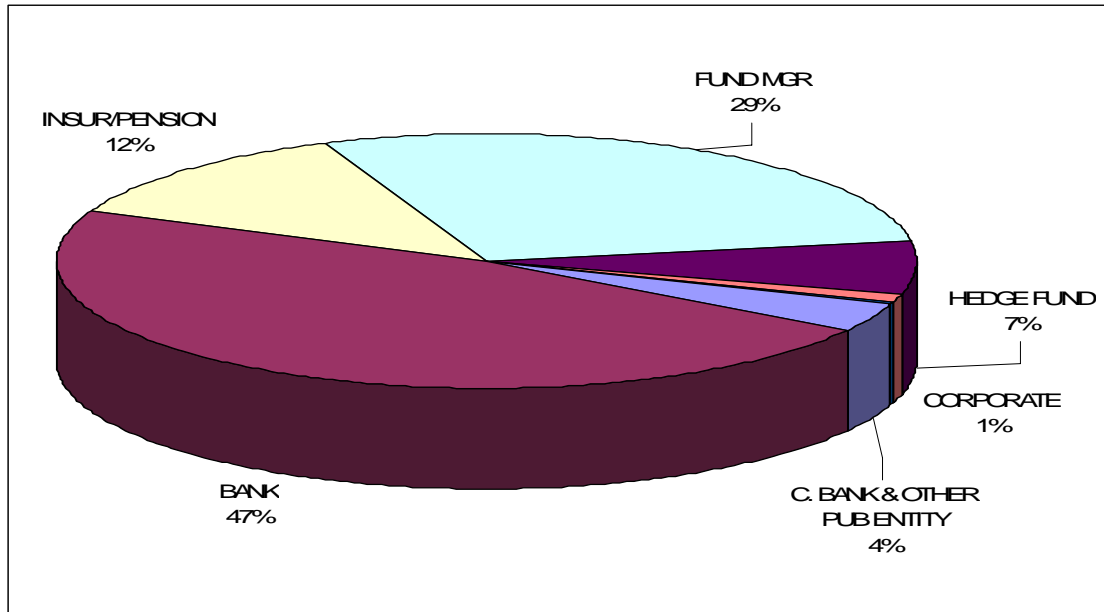
As the Commission will note from the pies below, the level of retail participation in the securitisation market is very limited. In the primary securitisation market the presence of retail investors is negligible, similarly for secondary trading. In addition, the currency denomination of securitisation transactions is almost always above the €50,000 minimum denomination that the Prospectus Directive sets for a public offering. Occasionally securitisation transactions are packaged and sold to retail investors via structured funds; however these funds tend to balance the risk by diversifying the portfolio and therefore minimising the risk sustained by investors. They also benefit from the transparency available to institutional investors, where banks still represent about half of the total institutional investor community.

### CDO Investor Type



Source: BMA top 20 EU bookrunners primary distribution survey, September 2006

## ABS Investor Type



Source: BMA top 20 EU bookrunners primary distribution survey, September 2006

The ESF therefore agrees with the Commission's proposed prioritisation of fixed income instruments but recommends that securitisation transactions should, for the time being, be excluded from the Commission's review as the EC policy rationale is not particularly relevant or of concern to this segment of the fixed income markets.

ABS require a time-intensive data collection and evaluation process. Unlike a government or corporate obligation, investors and traders in ABS must first verify the security cash flows, and then develop a view on what the underlying cash flows are likely to be based on various prepayment, default and recovery assumptions. Depending on the differences in assumptions between buyers and sellers, this can materially affect the bid/offer spread and most importantly slow down and raises cost of the trading process.

If, or as and when the Commission deems it necessary to review these markets, we recommend that the Commission adopts the classification proposed in response to Question 2.

5. *To what extent do you consider there to be:*
  - a. *observable or demonstrable problems with respect to the possible policy rationales for transparency identified above in relation to one or more of the instrument markets under review?*



***b. evidence that mandatory pre- or post-trade transparency would solve any of those problems?***

Although ABS markets do not have the benefit of the research referred to in the Joint Response, we do not believe that there is evidence of a market failure in the ABS market justifying mandating price transparency regulation. We recognise that on lower rated as well as on unrated tranches there is lower liquidity and transactions take longer to execute, because a longer time period is required to analyse these more complex and more credit intensive tranches. This is not a failure of the market, but the result of an important due diligence process from the buyer.

The level of pre- and post-trade transparency for securitisation has seen dramatic improvements in recent years due to industry-led initiatives from representative organisations (such as the ESF) and several market data service providers. We set out below some of the most important industry-led initiatives that have added and continue to add transparency in the ABS market. The ESF strongly believes in self-regulation as it allows market participants to reach consensus on terms of both pre- and post-issuance reporting among other things (a typical example is provided below). The costs related to these efforts are totally absorbed by the industry. Additionally, given that the work is carried out by consensus among various market participants the level of compliance tends to be higher.

Below are a number of transparency initiatives including: the ESF's Securitisation Market Practice Guidelines (Guidelines); the description of some of the increasing number of price valuation and modelling services; and the sophisticated indices for ABS pricing, all of which contribute to a more efficient and more transparent marketplace.

Since 1998, the ESF has been promoting best practices for securitisation market participants aimed at improving the quality, uniformity and availability of pre- and post-issuance reporting for European transactions. The ESF is also promoting consistent practices through a standardisation process of formulas and assumptions which ultimately results in increased transparency. The ESF Guidelines are a set of recommendations that ESF members hold as best practices. These recommendations have been agreed among a wide array of securitisation market participants including institutional investors, issuers, arrangers, rating agencies, lawyers, traders and trustees across Europe. The most recent version of the Guidelines was issued in May 2006. This update features new recommendations for RMBS transactions at security, collateral, loan and contact information level. The ESF has been at the forefront of harmonising reporting across Europe by promoting consistent definitions for key elements of pre- and post-issuance<sup>3</sup> reporting. In some instances where the differences among jurisdictions could not allow a

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<sup>3</sup> The full document can be found at:

<http://www.eurosecuritisation.com/pubs/FinalESFGuidelines16May06.pdf>.



common definition, the ESF has advocated more transparency so that investors and other market participants could make an informed decision (eg this is the case for delinquencies on the underlying assets, or prepayments). These fields and definitions are being monitored and updated regularly to bring greater efficiency in the European securitisation markets. The Guidelines are currently being translated into French, German, Italian and Spanish. Although the ESF strongly encourages following these best practice recommendations, compliance with the Guidelines is voluntary.

Another example of how the industry is developing market standards to improve transparency is the industry's development of specific recommendations for the application of the Market Abuse Directive (MAD) to European CMBS transactions. Since most securitisations and CDOs involve the use of special purpose vehicles, the industry is being proactive as to how the MAD's disclosure requirements should be applied by these vehicles. A specific section dedicated to these recommendations will be added to the Guidelines and we will be delighted to share it with you once finalised this year. Additionally, work has begun to harmonise post-issuance collateral reporting for European CDOs to further improve timeliness and regularity of the information provided to investors and market participants. Finally, the ESF is also considering development of a European CDO library similar to the Bond Market Association CDO library<sup>4</sup> in the United States. Due to the private placement nature of many CDO transactions, this initiative would improve access to information and improve liquidity for those participants who chose to contribute information to the library.

In addition, there have been a number of recent initiatives to improve the level of transparency in the valuation of securities issued and traded in the European securitisation and CDO market. The ESF is attempting to maximise the level of pricing information disseminated to investors through various valuation services. For example, among others, Markit receives daily contributed mark to market prices, spreads and average life assumptions from a consortium of daily contributors who are active market makers in the ABS space. It collates prices for all asset classes of European securitised deals including ABS, MBS and CDOs and uses algorithms to clean the data before publishing daily closing marks via its website. All data is anonymous and is fully downloadable in various formats. More than 3,800 securities are currently priced via Markit's European ABS pricing service and the breadth and depth of coverage has grown significantly since the November 2005 launch when around 1,350 securities were priced. FT Interactive Data, another service provider, offers current and historical evaluations, factors and related data for asset- and mortgage-backed securities. FT Interactive Data's team of fixed income evaluators closely monitors the structured product markets, interest rate movements, new issue and secondary market activity, and other pertinent data. To determine a tranche evaluation, FT Interactive Data generates predicted cashflows for

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<sup>4</sup> More information regarding the BMA CDO library can be found at [http://www.cdolibrary.com/\(wzyd1hiweor442ztkaridi2d\)/aboutcdo.aspx](http://www.cdolibrary.com/(wzyd1hiweor442ztkaridi2d)/aboutcdo.aspx).



each tranche by using actual pool or loan level collateral information supplied by industry leaders in asset- and mortgage-backed analytical information, and projected prepayment speeds that are updated on a regular basis; applies up-to-date tranche specific spreads, based on objective market information available to FT Interactive Data's structured product evaluators at any given time, over an appropriate benchmark curve.

In January 2006, Bloomberg has launched a generic price service for European ABS. Bloomberg Generic Price (BGN) for European ABS securities takes average of all prices Bloomberg receives (maximum 25, average is between 5 and 10) and uses a mathematical algorithm to ensure a robust average to only use prices that match moving averages, and delete old prices and prices that deviate too far from the mean. Currently there are 1,100 composite prices calculated on a daily basis for European ABS securities. It is an indicative mid-price used for market-to-market evaluation, portfolio pricing or as an indication of how the bond is priced in the market (maximum number of contributors: 25, minimum: 2). Bloomberg also provides a yield analysis which enables investors and market participants to calculate various yields, is crucial in facilitating pricing in the ABS primary and secondary markets. Lead-managers directly contribute amortisation scenarios to their deals on Bloomberg and depending on the amortisation scenarios, various yields are then computed.

There are a number of other service providers, such as the major rating agencies, ABSxchange LLC, ABSNet, EuroABS, Hypoport AG<sup>5</sup>, Intex, Reuters, TREPP and other companies that provide various valuation services.

Another important development has been the introduction of ABS indices. In January 2004, the Lehman Brothers ABS Index was launched providing bond and portfolio level pricing, including a range of risk and return statistics that are intended to help portfolio managers price, monitor and benchmark their portfolios. There are currently over 1,200 bonds that are priced daily. These include floating rate and fixed rate bonds in Euro and sterling. The index covers all investment grade categories, ranging from triple-A to triple-B. In terms of outstanding balance, the index covers over two-thirds of the outstanding balance of bonds in the European ABS market. The pricing data on the index is published on LehmanLive, a web platform for clients. The bond level index pricing data is provided to Markit and the aggregate benchmarking data is provided to such data providers as Bloomberg and Reuters.

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<sup>5</sup> Hypoport AG provides the market with EUROPACE for investors, a deal library and research portal that focuses on European ABS deals. For each deal investors and other interested market participants can view and download deal related data in an asset class specific format. The EUROPACE for investors-database covers deal, collateral and tranche data as well as offering circulars, investor reports. Users can define triggers for automated alerts, enhance their surveillance via performance monitoring and deal comparison functionalities.



More recently Deutsche Bank launched a European AAA Floating Rate Securitised Bond index. The index captures the performance of the expanding European ABS and MBS sector and focuses on the largest and most liquid AAA component of Euro-denominated bonds. The index serves as a tool for portfolio benchmarking and provides a basis for the development of index-based trading/structuring. As with all DBIQ and iBoxx® indices, the European AAA Floating Rate Securitised Bond index rules have been designed to be simple yet effective with market representation and underlying liquidity the key aims. Transparency of pricing is a key feature, with daily levels provided by Deutsche Bank's ABS trading desk. The index is currently rebalanced on a monthly basis and any cash flow received from pay-downs and coupons is fully reinvested into the index at month end. The index rules, including minimum tranche size thresholds, have been designed so that the bonds selected reflect the most liquid and traded issues within that sector. In June, 2006 Deutsche Bank also launched ABSquant Europe, a web-based system that provides up-to-date collateral performance data on benchmark European securitisations. Other organisations are exploring similar types of indices.

Most of the major investment banks have full-time trading and research staffs that have access to sophisticated computer models that can also assist in modelling and pricing cash flows.

Therefore we do not believe that there is any evidence of demonstrable concerns that the securitisation industry is not already addressing itself. This market is in constant evolution and it is critical that it is allowed to continue to develop in an efficient, competitive and innovative manner for its participants.

**6. *To what extent could recent and upcoming technological and market developments in relation to the instrument markets under review:***

- a. contribute to a relatively inexpensive extension of mandatory transparency?***
- b. render mandatory transparency unnecessary?***

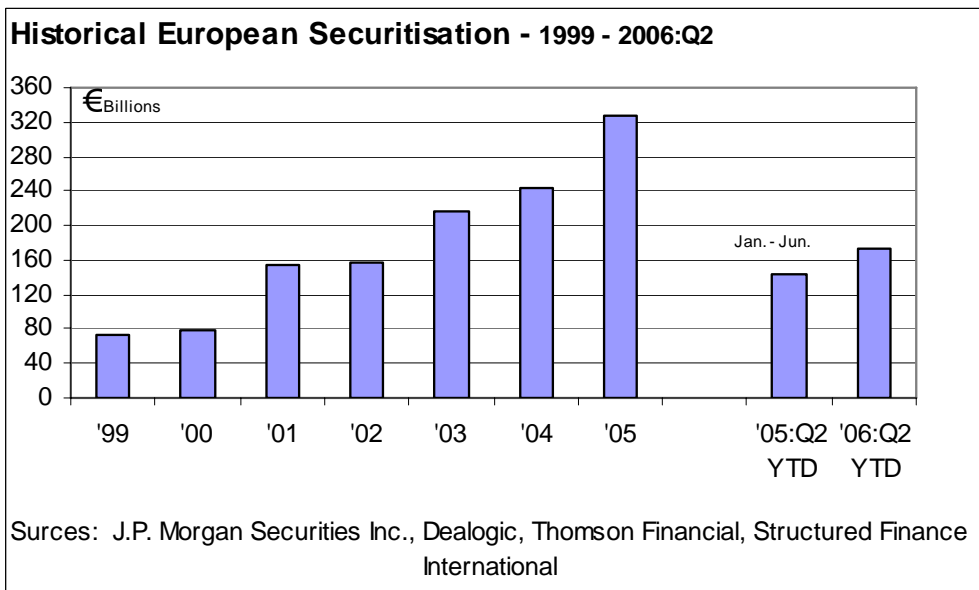
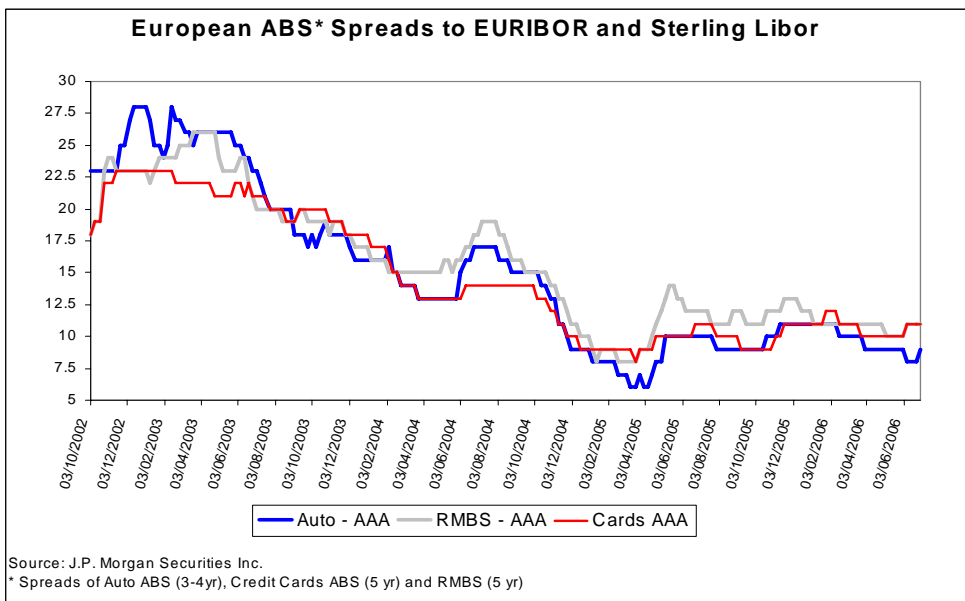
We agree with the Joint Response.

**7. *To what extent are non-equity financial instruments different from equities so that lower levels of mandatory transparency in those markets may be justified?***

Like all other fixed income markets, the ABS market is very different from the equity markets. Generally ABS price movements are limited and are driven primarily from movements in interest rates and credit spreads. But it is also quite different from the other fixed-income markets. ABS are sometimes referred to as a “structured products”. This term tends to be used rather loosely so we think it is important to clarify the types of structures and products that it generally covers, as well as the main price formation features.



The European securitisation market has not only grown in size, but liquidity has also improved and spreads have tightened (see charts below). As part of this trend, the narrowing of spreads has been driven by increased demand, which in turn is the result of strong historical performance, new investor base entering this segment of the fixed income market as well as steadily increasing investor appetite for all types of ABS. The growth of the market in terms of both issuance and trading volume has overall increased pre- and post-trade transparency.





There are a wide variety of structured products of three main types<sup>6</sup>:

(i) First, *securitisation transactions* typically involve the sale of assets by an issuer to a Special Purpose Vehicle (SPV) which then issues tranching notes solely backed by those assets (or sometimes in combination with derivatives used as asset hedges). Even amongst the largest tranches of the most well-known frequent residential mortgage-backed securities (RMBS) issuers, there is a lack of comparability between tranches of transactions because the assets and the structures are different. This means that they will, in many cases, particularly for the unrated and lower-rated mezzanine tranches, fall into the illiquid end of the spectrum of fixed income products, although the liquidity in some of the unrated and lower-rated tranches has improved somewhat.

(ii) Secondly, there are transactions that involve the issue of a bond or other security with an ‘embedded’ OTC derivative – either as a *primary “structured note” new issue offering through a debt or medium term note programme*, or alternatively created by *the repackaging desk of an arranging bank or trading desk*. By virtue of the inclusion of an OTC derivative, these structured notes raise the same issues as for derivatives<sup>7</sup>. These products are normally tailored to meet specific client objectives, which makes all the considerations associated with OTC derivatives relevant.

(iii) Thirdly, if created by trading desks, these “*structured credit*” transactions can either be in all cash, all derivative or a combination.

Even where there is a bond or other security which is to be listed on exchange, the initial transaction will normally be made with the client to purchase the security on its creation and, given the proprietary nature of the structures, it will normally be difficult to obtain information on comparable prices or valuations. There will also normally be very little after-market trading in the security and, to the extent that the firm does trade the security, it may be difficult to obtain comparable prices or valuations for similar reasons to those described above.

In all types of structured product, the pricing and terms of different transactions are not comparable. The underlying assets in the categories (i) and (iii) above are typically corporate bonds, corporate credit default swaps, asset backed securities (ABS), derivatives on asset-backed securities, or a combination.

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<sup>6</sup> For further details, see BMA/ICMA/ISDA response to FSA Discussion Paper on Best Execution, Annex B (“Fundamentals of Bond, Derivatives and Structured Products Markets”), available at <http://www.bondmarkets.com/assets/files/MiFID%20response%20to%20FSA%20DP%20on%20best%20ex%2014%20July%202006.pdf>

<sup>7</sup> As above, Annex B p.29-31



The pricing of securitisations, structured notes and structured credit transactions ranges from somewhat complex to very complex, depending on the transaction. For instance, in each securitisation or structured credit transaction, two fundamental aspects need to be evaluated on a transaction by transaction basis: a) asset characteristics, and b) structure characteristics, including the use of derivatives as hedges. Each broad category involves a multi-step evaluation process. We provide below an example of this pricing process on the most simple and well-recognised of asset classes – a UK residential mortgage securitisation transaction.

Regarding *asset* analysis, prior to pricing a transaction or development of a potential benchmark, a trader would need to evaluate the following aspects:

- 1) Geographic and borrower concentration: how granular is the pool in terms of number of borrowers, and what is the risk of a particular geographic area suffering an economic downturn, as well as correlation to the credit risk of assets from different geographic areas within that pool.
- 2) Perceived quality of the asset servicer: investors will generally require a wider spread for pools serviced by less-well known or smaller servicers, and less of a concession or no concession for large well known servicers.
- 3) Credit default probability: what is the historical arrears rate, historical default rate, variability of those rates, and prospects for recovery if defaults occur. This requires an analysis of the underwriting characteristics of the underlying mortgages (loan to value ratios, debt to income multiples, debt history etc., as well as analysis of the timing of arrears, defaults and recoveries, including lags and foreclosure costs). The trader will also need to make a pricing adjustment depending on whether the pool is backed by prime or rather non-conforming assets, as well as an evaluation of any buy-to-let assets included in the pool. Pricing will also be affected by the type of mortgage itself (ie whether it is for a property purchase or a re-mortgaging/refinancing). Lastly, the trader will need to evaluate mortgage payment types, including fully amortising, interest-only, or reverse mortgages.
- 4) Eligibility criteria for asset substitution (for transaction with revolving features or substitution rights): if the quality of substituted assets could be worse than the initial pool, the trader will need not only to constantly obtain current pool information, but also evaluate the potential performance of those substituted assets.
- 5) Historical and projected principal repayment and prepayment rates: this will have a material impact on the weighted average life of a security. In the UK, for example, prepayment rates on prime RMBS have ranged from approximately 20



to 40% per year, and for non-conforming product, the rates typically range from 20-60% per year due to borrower's incentives to refinance at lower borrowing costs as their financial situation improves. It is unlikely that these prepayments will be constant for the life of the pool, so traders must continuously evaluate the timing of prepayments as well. Seasonality adjustments will also need to be made, since not only do prepayment rates vary depending on the time of year (they are typically higher in the summer), but also the impact of seasonality on default rates (which are typically higher after Christmas). This also includes an assessment of pool seasoning – even if asset pools have similar projected remaining weighted average lives, they could have very different payment characteristics depending on the coupons/rates that borrowers are paying and on changes in the macroeconomic environment since the assets were originated. Higher coupon mortgages are likely to prepay faster than current-coupon mortgages, even though the projected weighted average life for two pools may be similar.

Regarding *structure* analysis, prior to pricing a transaction, a trader would need to evaluate the following aspects:

- 1) Cash flow allocation sequence: each transaction will have a very specific cash flow allocation/waterfall sequence for both interest and principal that complicates pricing comparisons between various transactions. In some transactions, all principal is allocated sequentially, and in other transactions on a pro-rata basis amongst tranches, and in some it may switch between the two depending on certain asset criteria.
- 2) Credit enhancement structure and usage: each transaction will require an analysis of whether reserve funds are sized appropriately given the credit characteristics, and also whether they are fully funded or short of targeted levels. This will include checking whether any drawings have been made on liquidity facilities, since investors are likely to demand a wider spread if liquidity facilities have been tapped to cover temporary shortfalls.
- 3) Credit enhancement trigger analysis: each transaction will likely have a “trigger” mechanism whereby if certain credit related performance is breached, then cash flows are allocated in a different sequence, which will affect the timing of principal payments.
- 4) Derivatives: some transactions include interest rate swaps, caps, floors and options in order to reduce potential asset/liability mismatches within the structure. The trader must evaluate the quality of the counterparties and potential mismatches, particularly given actual pool performance.



- 5) Ratings and pool performance reports: the trader must identify which rating agencies have rated which tranches of a transaction and verify whether original ratings have changed or are under review, since a rating change in one tranche may affect the pricing of the other tranches. In addition, the trader will need to check current pool performance information to see how the pool may have changed subsequent to the offering circular being initially distributed.
- 6) Size of tranches: due to the cash flow sequencing process, most subordinated tranches will be relatively small. Since the subordinated tranches will be the most credit intensive, this small size and credit intensity will generally result in relatively wide bid/offer spreads. As a rule of thumb, the smaller the size, the less liquid the tranche.
- 7) Securities price: the spread at which an RMBS trades will depend on how far away from par the current price is, since prepayment rates will materially affect spreads. For example, a bond with an above-market coupon will probably trade at a higher yield as compared to a current or below-market coupon, since investors could actually lose money by buying a security above par and if rapid repayments occurred, then they would only receive par back.
- 8) Basel I and Basel II risk weightings: for bank investors, investor appetite, and therefore yield, will be affected by the credit risk weightings. For example, under Basel II, standardised-approach banks will have a 20% of 8% risk weighting for an AAA RMBS, while an investor bank using an advanced internal ratings-based approach could have a risk weight of 7% of 8%.

The above example illustrates the complexity of pricing for the most straight-forward asset class in Europe. For other transactions, such as structured notes, structured credit transactions and CDOs, the pricing considerations are typically even more complex than illustrated above, unless the transaction is a traded index.

**8. *What data sources do you consider relevant to the issues you have raised (if appropriate, cross-refer to your answers below)? Would you or your organisation be prepared to produce any relevant data if necessary?***

There are a variety of ABS valuation data sources as indicated in the response to Question 6.

Additionally, the ESF is working to increase the coverage of the ESF Securitisation Data Report,<sup>8</sup> issued on a quarterly basis, which provides issuance, trend, and

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<sup>8</sup> Available at: <http://www.europansecuritisation.com/esfResearch.html>



spread information on the European ABS and CDO markets. The ESF is currently working on publishing information regarding the outstanding value of the European RMBS market, as it is the most relevant sector of securitisation in Europe with about half of the total annual issuance. In the first six months of 2006 European ABS, RMBS, CMBS and CDO issuance totalled about €173billion. Once again, the ESF work in this area is driven by all European securitisation market participants.

9. *Are there academic or institutional papers or ongoing work that should be considered in preparing the Report not included in our bibliography?*

We remain at the Commission's disposal to provide further evidence on pre- and post-trade transparency in the European securitisation market.

10. *What conclusions do you draw from the existing academic debate and the ongoing work being conducted by the interested parties?*

As mentioned above, interested parties in the European securitisation market are constantly working towards a more efficient, more liquid and more transparent market.

11. *In your view, how applicable is the academic or institutional literature concerning transparency in the cash equities markets to the present discussion?*

We agree with the Joint Response.

12. *What similarities and what differences are there between US and EU markets that should be borne in mind when seeking to draw inferences from the TRACE experience in the US?*

This question does not concern the securitisation market.

13. *To the extent that you have identified problems or believe that others may do so, do you agree that only EU-level action would be appropriate in the present case?*

We agree with the Joint Response.

14. *If you have identified problems or believe that others might do so, to what extent do you consider those problems would disappear as a natural product of market evolution in the short-to-medium term?*

We agree with the Joint Response. Evolution in the European securitisation market is showing that the market is developing to provide more transparency and liquidity.



15. *In respect of both pre- and post-trade transparency, are the four options the right ones to consider, and in particular should other options be considered?*

We agree with the Joint Response.

16. *Would you, in light of your answers to the other questions, favour any of the four options in relation to pre- and post-trade transparency (or another option you might propose for consideration) in respect of transactions in any of:*

We strongly favour the “no change” option (both for pre- and post-issuance trade transparency) for the ABS market for all the reasons mentioned above.

We would welcome the opportunity to assist the Commission with any further questions it may have on the European securitisation market. Please do not hesitate to contact Rick Watson (Managing Director, Head of the ESF) or Marco Angheben (Associate Director, ESF) at +44.20.77 43 93 11 should you have any questions.

Yours sincerely,

Rick Watson  
Managing Director and Head of the ESF