19 December 2008

International Organization of Securities Commissions (IOSCO)
Standing Committee on Secondary Markets (SC2)

Transparency of structured finance products in the secondary market

Questionnaire for Industry Participants

Background of project

The report of the Technical Committee (TC) of the International Organisation of Securities Commissions (IOSCO) on the Subprime Crisis[1] concluded that the recent market turmoil had particularly affected structured finance products (SFPs) which are not publicly traded. The TC mandated its Standing Committee on Regulation of Secondary Markets (SC2) to examine together with the financial services industry the viability of a secondary market post-trade transparency system for different types of SFPs, focusing in particular on whether the nature of SFPs lends itself to such transparency.

Purpose of survey

The purpose of this survey is to identify the types of SFPs that SC2 should focus on for this project on the viability of a secondary market post-trade transparency system and the general regulatory approaches taken by SC2 members with regard to trading transparency of these products in the secondary market. It also seeks SC2 members' and industry views on key issues, challenges, costs and benefits arising from post-trade transparency for SFPs.

Definitions

For the purpose of this survey, key terms are defined as follows:

'Structured Finance Products' are financial instruments which meet the following three key features:

(1) They are based on pooling of assets usually sold to a special purpose vehicle (SPV). The assets can either be cash instruments or credit derivatives;

(2) There is subsequent guarantee and/or credit or maturity tranching of liabilities which are backed by the asset pool;[2]

(3) There is de-linking of the credit risk of the collateral asset pool from the standalone special purpose vehicle (SPV).

Credit card ABS, auto-loan ABS, student loan ABS, agency[3] RMBS, prime RMBS, sub-prime RMBS[4], CMBS, cash CDO/CBOs, synthetic CDO/CBOs, cash SME CLOs, cash leveraged

[1] http://www.iosco.org/library/pubdocs/pdf/IOSCOPD273.pdf
[2] This excludes covered bonds as their liabilities are not tranched.
[3] Agency MBS are MBS issued by government-sponsored entities or GSEs such as Fannie Mae and Freddie Mac or government agencies (Ginnie Mae) in the US. Loans eligible for GSE-issued MBS are also referred to as "conforming".
[4] Including UK non-conforming RMBS

loan CLOs, synthetic leveraged loan CLOs and Asset-backed Commercial Paper are examples of SFPs. SFPs can be issued through public offerings or private placements.

'Secondary markets' is defined broadly to include secondary trading on traditional public markets (such as exchanges and alternative trading systems/multilateral trading facilities) as well as bilateral trades executed over-the-counter (OTC).

'Post-trade transparency' relates to information about traded volume and prices (and possibly other information) which is disseminated publicly to market participants shortly after a transaction is concluded.

QUESTIONNAIRE TO INDUSTRY PARTICIPANTS

RESPONDENT DETAILS

Name of institution:	Markit Group Limited
Type of organisations: buy-side firm, sell-side firm, trade association, market data vendor, exchange (or other public trading platforms), others:	Financial Information Services Company
Region/country from which your trading book is run:	N/A
Types of SFPs your institution is buying/selling and location of underlying pools of assets (America, Asia or Europe):	N/A
Name of contact person and contact details:	Marcus Schüler Managing Director Level 5 2 More London Riverside London SE1 2AP +44 20 7260 2388 marcus.schueler@markit.com

QUESTIONS

A. SFPs within the scope of this project

Q1 – **Column 1 of table 1 below provides a list of SFPs which we are proposing to include in this project. Please indicate whether any other SFPs should be included.**

Whilst we could think of some smaller segments of the market such as Auto Lease securitizations that are not explicitly mentioned in your list, we are of the view that the proposed scope and level of detail of your questionnaire is probably more than sufficient.

B. Volume and frequency of secondary trading in SFPs

Q2 – N/A

C. Nature of the secondary market in SFPs

Please answer the questions in this section with regard to your jurisdiction

Q3 - Please indicate in **table 2** below:

a) Whether the SFPs identified in column 1 are traded on exchange, on other public trading platforms or OTC. Please provide the breakdown between 'organised' public platforms and OTC (provide an estimate if you do not have the exact figure).

b) Who are, in the secondary market, the main sellers of each SFP identified in column 1 (if possible, with percentages). Where appropriate indicate how it varies according to the seniority of the tranche: AAA, Mezzanine and Equity/First Loss.
Where possible please use the following categories to facilitate the processing of responses: Bank Buy and Hold, Bank Trading Book, Bank Conduit, Money Markets Funds/Fund Manager, Hedge Funds, Insurance or Others.

c) Who are, in the secondary market, the main buyers of each SFP identified in column 1 (if possible, with percentages). Where appropriate indicate how it varies according to the seniority of the tranche: AAA, Mezzanine and Equity/First Loss.
Where possible please use the following categories to facilitate the processing of responses: Bank (see above for bank categories), Money Markets Funds/Fund Manager, Hedge Funds, Insurance, Retail investors or Others.

d) How standardised (low, medium or high) in terms of deal structure, credit quality and homogeneity of collateral each of the SFPs identified in column 1 are.
Where appropriate indicate how it varies according to the seniority of the tranche: AAA, Mezzanine and Equity/First Loss.

Table 2—Questions relating to nature of secondary market in SFPs

Products	**Traded on exchange, other public trading platforms or OTC (and relative percentage) (Q3 a)**	**Seller types (Q3b)**		**Buyer types (Q3 c)**		**Degree of standardisation (Q3 d)**
		Pre crisis (Q2 2007)	**Currently (December 08)**	**Pre crisis (Q2 2007)**	**Currently (December 08)**	
Credit card ABS						**High**
Auto loans ABS						**High**
Student Loans ABS						**High**
Agency RMBS						**Medium** While all recent deals were based on pass-through structures and hence quite standardised, deal structures were not standardised prior to that.
Prime RMBS						**Low**
Sub-prime RMBS[5]						**Medium**
Prime CMBS						**Low**
Sub-prime CMBS						**Low**
Cash CDO/CBOs						**Low**
Synthetic CDO/CBOs						**Low**
Cash SME CLOs						**Low**
Cash leveraged loan CLOs						**Low**
Synthetic leveraged loan CLOs						**Low**
ABCP						

[5] **Please also include data for UK non-conforming RMBS**

D. Existing price transparency in SFPs

Q4 - Please indicate in **table 3** below:

a) Sources of price information (e.g. dealer quotes, consensus average price, mark to model, price of new issue, CDS) used for price discovery for each SFP identified in column 1.

The price information that is relevant for price discovery and valuation of SFPs will generally be provided from a variety of sources such as dealer runs, CDS on ABS, as well as consensus-based, cash-flow based, and model-based pricing services offered by a number of providers.

Vendors of pricing services for SFPs will typically provide two distinct approaches which are model-based pricing and dealer-contributed consensus pricing, while cash flow models are mostly used to create the relevant inputs for them. Typically market participants would use a commercially available or an internally built cash flow model into which they input various assumptions per deal, e.g. prepayment rate, default rate, and spread, to then solve for the valuation price of the bond. While different firms will mostly use the same cash flow model for a specific deal, parties can differ in their valuation based on their individual assumptions. Model-based pricing uses cash flow models, other inputs, and generic assumptions per asset class to derive a theoretical price. Generic assumptions may be gleaned from research reports or analyst insights for particular asset classes. It is worth noting that for both cash flow and model-based approaches the valuation price can deviate from the market price which will ultimately be driven by supply and demand.

Consensus Pricing Services

In addition to these approaches, consensus pricing services play a particularly important role for the pricing of illiquid products such as SFPs that are dominated by buy-to-hold investors. Please find below an overview of the pricing services that Markit currently offers for this market segment.

1. European SFPs

Markit's European ABS pricing service currently produces daily prices for more than 4,000 European SFPs. Coverage tests have shown that this number represents more than 80% of the bonds that are relevant to ABS investors. All prices are based on end-of-day book-of-record contributions from market makers. After applying a number of cleansing algorithms to remove stale data and outliers, the published consensus prices will just be the average of the remaining contributions. These prices are therefore neither model-based nor "manipulated" in any other way. Please note that, in addition to consensus prices, we will not only publish the actual contributions that we accepted but also the ones that we rejected. This is to maximise transparency for users of this service.

2. US SFPs

In providing pricing information for the US cash ABS market, Markit has determined that a wholesale consensus-based pricing service is not feasible. This is because a majority of bonds are priced by just one dealer, usually the lead manager. Markit has therefore tailored its approach for US cash ABS accordingly:

1. We currently publish consensus pricing on a number of benchmark deals based on dealer contributions, which is effectively a month-end service on Prime and Alt-A

RMBS. We are currently in discussions with market makers to expand this exercise to other market segments including early vintage Subprime RMBS, consumer ABS, and CMBS.

2. We also operate an evaluated bond pricing service for the broader US RMBS market. Whilst we currently publish pricing data for around 15,000 subordinated subprime securities, we are planning to expand this service to other parts of the US SFP market later this year.

3. Additionally, we are in the process of building a quotes engine to provide users with an interface to compile and review quote information from dealer runs and pricing which is being distributed by market makers via other means.

4. Markit also offers a consensus-based pricing service for US CDS of ABS which can be an important input for the pricing of US SFPs. This service is based on spread and risky duration feeds from all relevant dealers allowing the creation of composite levels for around 2,500 instruments. A further 3,600 instruments are priced as derived composites for which Markit takes account of the vintage, the sector and the rating of each underlying bond.

3. Synthetic CDOs

The results of our Markit Totem service will often provide the starting point for pricing synthetic CDOs across regions. Within Markit Totem, we currently poll market makers for their pricing of the entire capital structure of 27 global portfolios at the end of every month. The results of this price verification service are available to market makers that contributed to the service and whose contributions were accepted. Additionally we provide investors with valuations for their synthetic CDO positions based on broadly accepted models that are calibrated to the Markit Totem results on a regular basis.

Markit Valuations Manager

Finally, you should be aware of the launch of Markit Valuations Manager, a tool that we think will be at the core of an industry-led solution to significantly increase valuation and pricing transparency in the entire market, including SFPs. Based on the support of key market makers and with a view to consolidating all available pricing data in one place, we have created Markit Valuations Manager which is designed to offer a central source of all valuation information to clients. The service compiles multi-dealer marks and allows users to compare individual bank contributions together with Markit's independent composite price. While Markit Valuations Manager currently includes most "regular" credit products, it will be expanded to also cover SFPs during the second quarter of 2009. The service is expected to work in conjunction with Markit's other Structured Finance offerings as detailed above.

All said we are of the view that the wealth of pricing sources and commercially available services is largely sufficient in providing pricing transparency for SFPs.

b) Whether price information which is currently available commercially is adequate for price discovery for each SFP identified in column 1. If this is not the case, please explain why. Can you indicate what price information you find the most useful?

We are of the view that commercially available pricing information is largely sufficient to allow price discovery and valuations for SFPs. A trade reporting regime would make little difference to most market participants given that trading activity in this market segment is very limited, as it has always been, even in the most benign environment.

In contrast to coverage by the services currently present in the market, only a very small portion of the whole universe of SFPs ever trades, e.g. according to dealers probably less than 50 bonds in the asset class of European SFPs every week. This must lead to the conclusion that no matter how a transparency regime for European SFPs is defined, its "coverage" will always end up to be minuscule in contrast to the one that exists through a variety of established pricing sources and services already.

c) Whether you are aware of any post-trade reporting information being available to market participants for each SFP identified in column 1. Where appropriate explain how the reporting system works.

Table 3 – Questions relating to existing price transparency in SFPs

Products	Sources of price information for price discovery (Q4a)	Adequacy of prices available commercially (Q4b)	Post-trade reporting information available (Q4c)
Credit card ABS	Europe – Markit's contributor-based pricing service		
Auto loans ABS	Europe – Markit's contributor-based pricing service		
Student Loans ABS			
Agency RMBS			
Prime RMBS	Europe – Markit's contributor-based pricing service US – Markit's contributor-based CDS of ABS pricing service US – Markit's consensus-based pricing service on benchmark bonds		
Sub-prime RMBS[6]	Europe – Markit's contributor-based pricing service US – Markit's contributor-based CDS of ABS pricing service US – Markit's evaluated pricing service		
Prime CMBS	Europe – Markit's contributor-based pricing service US – Markit's contributor-based CDS of ABS pricing service		
Sub-prime CMBS			
Cash CDO/CBOs	Europe – Markit's contributor-based pricing service (coverage is limited)		
Synthetic CDO/CBOs			
Cash SME CLOs	Europe – Markit's contributor-based pricing service (coverage is limited)		
Cash leveraged loan CLOs	Europe and US – Markit's contributor-based loan pricing service		
Synthetic leveraged loan CLOs			
ABCP			

[6] **Please also include data for UK non-conforming RMBS**

E. Need for post trade transparency in SFPs

Q5+6– What do you see as the potential benefits/drawbacks associated with the creation of mandatory post-trade transparency for SFPs?

We are of the view that post-trade transparency in general can be an important element of efficient and well-functioning securities markets but it is by no means sufficient in itself. The characteristics of the products and markets have to be taken into account when deciding on the appropriateness of a transparency regime. That said it is worth emphasising a number of characteristics that distinguish SFPs from other financial products:

- Given their complexity in addition to other factors SFPs do not have any significant retail involvement. This is very much in contrast to the equity markets and has a number of implications for their liquidity as well as for the design of an appropriate transparency regime.

- SFPs can be regarded as illiquid by their nature as most bonds are held only by a small number of investors on a buy-to-hold basis. This implies that:

    - Trade information for SFPs will always be quite sparse, with only 1% to 5% of the bond population trading in a typical week, and

    - A specific ABS tranche will often only be relevant for a handful of market participants on the buy- and the sell-side. This situation is particularly pronounced for lower quality tranches of SFPs and implies that, once a trade for these assets is publicised, it will be easy for those involved in the deal to identify both the buyer and the seller of the bonds. As such, the idea of "anonymity" of the counterparties of reported trades must be regarded as a myth.

The existence of the above product characteristics of SFPs must lead to the general conclusion that, for the majority of these products, the upside of post-trade reporting will be fairly limited. However, as the TRACE experience and the recent SIFMA survey have demonstrated, post-trade reporting could reduce liquidity further as dealers are not willing to commit capital anymore if their trades are publicised. The risk to market liquidity is particularly high for illiquid instruments such as SFPs. We are of the view that even a careful design of a post trade transparency regime for these products might not be sufficient to mitigate this potential downside.

Whilst the provision of some additional data points through trade reporting might carry some value, we believe that the importance of transactional data is often hugely overstated compared to other sources of pricing:

- Only a tiny fraction of the total universe of SFPs ever trades in a typical week. Even if bond A has traded today, knowledge of this traded price will not necessarily enable investors to come up with a price even for very similar bonds. Only a consensus pricing service based on contributions from knowledgeable market makers for all bonds across asset classes and tranches or model-based approaches are positioned to provide this information to the market.

- Whilst dealers do not submit actual transaction prices as their end-of-day book-of-record price we think that this idea should not even be considered as it is wrong to assume that a recent transactional price is the most reliable indicator of the current level. In contrast, as market makers would confirm, the fact that a SFP has traded

at a certain level will be a strong reason for the current price to be different. To use an example: if the bid/offer price for a specific SFP was 80/86, and a client sold a block of bond "A" to a dealer at 80 (transaction), the new quote at the end of the day might be 78/84 with an 81 mid market price (book-of-record price). Using the transaction price for the end-of-day valuation would clearly be inaccurate as the new mid market price is 1 point higher, and the next tradable bid 2 points lower.

- While dealers do not submit transaction prices, any trades that they have observed during the day will have an impact on where they set their book-of-record price for that specific bond at the end of the day. Furthermore, the observed trades will also be incorporated by the dealer in a knowledgeable fashion into his marks for other bonds of the same issuer and bonds of other issuers in the same market segment. To use the above example: while the dealer will mark bond A at 81 at the end of the day, he will probably also lower prices for other bonds of the same issuer, and most likely not just by 2 points for all of them, but reflecting his view on differences between the bonds. Also, he will probably lower prices for bonds of other issuers in the sector reflecting the bond trade that he has completed.

To summarise the implications of the above example, while just one transaction occurred at 80 for bond A, book of record prices will not only reflect the accurate current mid market for this specific bond at 81, but they will also take the impact of this trade on the pricing of all other bonds from the same issuer, as well as on prices of similar bonds from different issuers into account.

All said we strongly encourage IOSCO to listen to the views of all stakeholders in the SFP market and to potentially consider an industry-led solution if there is sufficient support for it. We would expect such a regime to be designed in a way that allows it to deliver some desired enhancements in transparency while avoiding unintended consequences that could cause additional damage to the markets.

Q7 – Do you believe that some types of SFPs are more suited to a post-trade transparency regime than others? If so, please identify the specific type(s) of SFPs and explain.

As outlined above, we very much doubt that the introduction of a post trade transparency regime is appropriate for an asset class as illiquid as SFPs, and are of the view that an ill-designed regime has the potential to reduce liquidity even further. That said the major characteristics of a regime that can deliver a desired improvement in transparency while not causing significant damage to liquidity will be a proper definition of its scope, the reported information, and the use of appropriate delays for larger trades.

We are of the view that the scope of a transparency regime for SFPs can only be the subsection of the market that is reasonably liquid, standardised, and of higher credit quality, while smaller, lower quality, stand-alone deals cannot be covered. It would therefore be necessary to define a number of criteria such as asset class, rating, and minimum issue size with the aim of identifying bonds that might be suitable. Within the universe of ABS it will probably only be the AAA rated RMBS and CMBS bonds from regular issuers that could qualify. The big question is whether in the current environment the number of bonds that are reasonably liquid, even if "liquidity" is generously defined, will actually surpass 50 to 100 for each region, and whether the introduction of a post-trade transparency regime for such a small number of bonds could justify the effort.

Q8 - Should a mandatory post-trade transparency regime be introduced for SFPs, please indicate what kind of information (e.g. price, size) could be reported without impacting liquidity or participation in the SFP market.

Trade reporting for SFPs should generally provide the following details of a trade:

- Buy / Sell
- Instrument (ISIN/CUSIP)
- Notional of the trade
- Price
- Date and time

The exact notional of the trade should not be reported once it has exceeded a certain threshold. On the one hand, this would represent an important measure to ensure the anonymity of the counterparties and avoid the unintended consequences of damaging liquidity in the market. On the other hand, information about the exact size of an institutional trade seems to be of little added value from a transparency perspective.

The threshold at which the published amount should be capped must be tailored to the characteristics of the different market segments and currencies. A cap of $/€ 5mm and £ 1mm respectively seems to be a sensible starting point for a discussion for $/€ and £ denominated SFPs respectively. On that basis both a €6mm and a €9mm trade notional should just be reported as "€5mm or above".

Q9 – **What features should a centralized reporting system for SFPs have?**

For illiquid SFPs it will often take market makers days, if not weeks or even months, to shift a sizeable position that they have acquired from a client. We are therefore of the view that reporting delays and their proper definition are of paramount importance for creating a regime that avoids the unintended consequence of seriously reducing the liquidity of the product.

In this respect a tiering of delays linked to the size of the trade is certainly needed. Given the very low frequency of trades occurring for SFPs we do not think that an approach based on average daily turnover that was used as part of MiFID is advisable. Instead, a potential delay matrix for SFPs would be more static, and could be defined as follows:

Trade Size	**Delay**
Up to €250,000	End of day
Up to €1mm	End of next business day
Up to €5mm	T+3 business days
Above €5mm	T+7 business days

Reporting delays should be tailored to the characteristics of the specific market segments: While the above delays might be appropriate for $/€-denominated SFPs, the threshold amount for £-denominated bonds should be lower.

We feel quite strongly that trade reporting should not be used to provide additional details of the underlying. While it is certainly not the purpose of a trade transparency regime and it would massively complicate its introduction, many of those additional details are already provided through other channels and the relevant market participants will be aware of this information anyway.

Also, the overall design of any transparency regime should be based on the principles of MiFID instead of trying to mimic TRACE: As there is no need to defend its competitive position, the TRACE monopoly model is certainly not the ideal set up to deliver innovation,

reduce costs, or listen to its users and other stakeholders. A competitive model such as the one used for European OTC Equities where dealers can choose which platform they want to report to, will cause the different platforms to thrive to improve and is therefore desirable.

Q10/11 – Do you believe that the absence of post-trade transparency in SFPs has contributed to the market turmoil? Do you believe that post-trade transparency in SFPs could contribute to market recovery?

We are of the view that it is not the lack of post trade transparency that caused liquidity to shrink and bid/offer spreads for SFPs to widen. The real causes include the increased uncertainty about the quality of the underlying asset pools, a reduction in leverage by the banks, a cut down in risk appetite, and the sharp increase in funding costs. In our view none of these factors can be remedied by additional post trade transparency either.

In the current market environment, an ill-designed post-trade transparency regime for SFPs is unlikely to cause market makers to tighten their bid/offers. If anything, we would expect it to have the opposite effect: Most market practitioners would agree with the results of some TRACE-related academic research that the introduction of post-trade transparency for illiquid products can reduce the willingness of market makers to commit capital. Given that most SFPs are illiquid, there is a substantial risk that public trade reporting will force market makers to widen bid/offer spreads, and in an extreme case, create a “market” where trades are executed on an order basis only.

In addition to the liquidity-related concerns that we voiced above, IOSCO should be aware of the potentially damaging effect that post-trade reporting for SFPs might have on the overall health of the financial sector. As you are certainly aware, recent political pressure has caused some relaxation of mark-to-market obligations and guidance from accounting standard setters that encourages users to value positions based on their own assumptions if markets are inactive. The introduction of a post-trade transparency regime for SFPs might have the opposite effect: The publication of a transaction at a low price might force holders of the assets to write them down to the traded price even if the transaction was forced or not representative of fair value for some other reason. Recent experience has shown that the same SFP can trade at very different prices on the same day, linked to circumstances known only to the parties involved. Anecdotal evidence suggests that price differentials of more than 20 points for the same bond have been observed for trades on the same day. In such a situation, public reporting of these trades will create additional confusion, not clarity, about the “true” fair value of this product.

Q12 – Do you believe that post-trade transparency requirements should be implemented after other transparency initiatives (such as enhanced information on the quality/performance of the underlying assets, standardization of investor reports, etc)? If so, can you please indicate which other transparency initiatives should be implemented before post-trade transparency requirements.

We share the view of regulatory bodies that a number of deficiencies that need to be addressed have become apparent in the area of SFPs and we have therefore actively participated in initiatives that aim at increasing both transparency and standardisation:

- Markit provides all the relevant ABS sector spreads, as well as current composite prices and price histories for the most liquid European SFPs to the quarterly ESF/SIFMA Structured Finance Industry Report free of charge.

- Furthermore, Markit itself is in the process of creating a European Transparency Platform to provide centralised access to offering circulars and investor reports for European ABS free of charge.

In our opinion investors will need a clearer picture of the collateral issuance and up-to-date performance data for specific deals to be able to properly access valuations. Standardisation and timeliness of reporting across European ABS should be the focus. However, it is worth stating that, for some categories of SFPs, such transparency is not a problem. For US RMBS for example, deal structures and performance as well as loan-level data are broadly available. Nevertheless the asset class remains frozen as SFPs are more highly dependent on modelling assumptions and the lack of consensus on those is driving differences in values. If there was broad consensus on foreclosures and HPA, prices in this sector should be expected to converge pretty quickly.

All said we do not see why and how these various ongoing efforts need to be linked to the discussions about post-trade transparency for the asset class. We are of the view that other initiatives should be kept separate to allow for a speedy and efficient resolution of each of the respective issues. If anything, the successful implementation of other transparency or standardisation increasing initiatives for SFPs should be expected to reduce the need for the introduction of a post trade transparency regime for this market segment.

Q13 – Do you believe that now is an appropriate time to implement post-trade transparency requirements? If not, please indicate the reason(s) and when you believe that it would be more appropriate.

As TRACE-related research has shown and as market participants would confirm, the risk that a mandatory post trade transparency regime will damage market liquidity is particularly relevant for illiquid instruments. For SFPs that are illiquid by their nature, even a careful design of a post trade transparency regime might not be sufficient to mitigate this potential downside. The current market environment, in which the illiquidity of the asset class is even more pronounced, only serves to increase the risks created by a post trade transparency regime. This could potentially lead to a situation where trades would occur on an order basis only.

In addition to the concerns voiced above, IOSCO should be aware of the potentially damaging effect that post-trade reporting might have on the overall health of the financial sector in the current environment. Public trade reporting might oblige holders of the assets to write them down to the traded price even if the transactions were forced or for some other reason not representative of fair value. Also, when the same product trades at hugely different levels on the same day, explained by circumstances known only to the parties involved, trade reporting will create additional confusion, not clarity, about the “true” fair value of this product.

Q14 – Do you think more requirements for loan level information from issuers and cash flow modeling tools by 3rd party vendors in Europe would help pricing transparency and create more standardisation in valuing SFP?

Yes, it would certainly help in the valuation of many SFPs, particularly when using model based pricing approaches. Indeed whilst some cash flow models and loan level data are available in Europe we feel that more could be made available by originators and trustees in order to provide greater transparency for European SFPs.

In comparison to the US market, Europe lags significantly in terms of availability of loan level information as it is only published for a small number of deals such as UK non-conforming RMBS. We feel that market participants would benefit from having this data made freely available while the tools to analyse the data would also have to be built and provided by the vendors.

Further to the above, we are of the view that the timeliness of trustee reporting in Europe also falls short compared to the US. In certain cases it takes trustees of European deals a number of weeks to provide reports for the latest payment date. As a result, market participants will not be able to use the most up-to-date bond and deal data when making investment decisions. Central sources of trustee reports will enable investors to access whatever information is available and also creates awareness of how frequently deal updates can be expected. Markit is in the process of building a European transparency portal which will provide such information to all market participants free of charge.