August 2, 2010

Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090
Attention: Elizabeth M. Murphy, Secretary

Dear Securities and Exchange Commission,

My name is James F. Gammill, Jr. and I appreciate the chance to comment on the proposed rules for Asset-Backed Securities (file number S7-08-10). I offer the perspective of someone who has previously served in government, academia, and the financial services sector in a variety of roles, many of which have been related to markets for derivatives, structured products and futures contracts.

Motivation for Proposed Rules

The first and last sentences of the first paragraph in the Commission's Executive Summary are:

> *"The recent financial crisis highlighted that investors and other participants in the securitization market did not have the necessary tools to be able to fully understand the risk underlying those securities and did not value those securities properly or accurately….These proposals are designed to improve investor protection and promote more efficient asset-backed markets."*

I applaud the Commission's emphasis on the promotion of **efficiency** as a primary motivation for its current work, and that appropriate and timely **valuation** of these securities is central to the efficient working of asset-backed markets.

As one who is currently not employed or otherwise heavily invested in the success of the securitization industry per se, I would like to offer some initial comments about efficiency and valuation before commenting on some of the specific questions posed.

Efficient Asset-Backed Markets

The phrase "efficient asset-backed markets" can mean different things. For instance, we can consider the operational efficiency of the securitization practices, the informational efficiency of the securitized markets, and the economic efficiency of securitization as one type of intermediation offered by the financial sector.

Operational Efficiency

Improving the operational efficiency of the asset-backed markets is a goal that should be relatively uncontroversial. Very few participants benefit from inadvertent errors and avoidable administrative costs due to lack of standard processes. Many of the proposed rules appear to be based on collaborative work with industry groups (such as the ASF) designed to improve the operational efficiency of the markets, and this collaboration is good.

Informational Efficiency

The informational efficiency of asset-backed markets is a more charged and divisive topic. It is useful to think of securitization as an industry in its self, providing intermediation services to its "customers", who are both the ultimate suppliers of capital through savings, and the ultimate

deployers of business capital and consumer credit. The customers, whether they are borrowers or lenders, want as low intermediation costs as possible -- that is what an "efficient" asset-backed market means to them.

One source of informational inefficiency is the lack of tools and information to value asset-backed securities properly. Upgrading the valuation abilities of market participants, particularly the customers of securitization, will create more informationally efficient markets, and lower the customers' adverse selection costs of trading.

But reducing the adverse selection costs of the customers also implies reducing the trading profits of those on the opposite side of the trade -- the dealers and the hedge funds and other traders dedicated to supplementing the market-making services available to the less informed participants. Thus, unlike improvements in operational efficiency which should be welcome by virtually all participants, structural changes that shift the informational balance will not be unanimously welcome.

Moving towards more transparent markets regarding pricing and transaction flow would increase informational efficiency. As experience in the futures contract markets has shown, standardized descriptions and exposure to auction market mechanisms promotes liquidity and price discovery. To the extent that the asset-backed industry could introduce more standardization among its securities and support the development of auction markets, these gains in informational efficiency are available.

Financial Sector Efficiency

Finally, the efficiency of the asset-backed markets can be considered in context of the broader financial system, where non-market institutions provide capital intermediation services as well. As these proposed rules shift the expectations among the participants within the securitization business, it may be that some participants start to regard some non-securitized intermediation services more favorably. (For instance, households that prefer a high level of privacy regarding their financial matters may turn to other sources of credit in response to greater public disclosures about individual loans.) A transfer of financial activity from one form of intermediation to another may have minimal effect on overall financial sector efficiency, even if it is negative regarding a particular type of intermediation.

Overall, I encourage the Commission to consider "efficiency" from a number of different perspectives, including the three described above.

Valuation

The underlying principles of valuation for asset-backed securities is well understood, and at least in my perspective, the experience of the financial crisis did not challenge these basics. The value of a credit instrument is the discounted value of the cash flows. It's that simple -- and it's that hard. In addition, market-making is a valuable service in its own right, and a transaction price reflects both the underlying value of the item traded plus some liquidity premium to compensate the market-maker. At the depth of the crisis, market-making services essentially shut down and a wholesale decline in market valuations was the result.

Looking forward, for complex asset-backed structures valuation is a computationally intensive process that requires the simulation of thousands of scenarios and working out and discounting the associated cash flows. While this may sound overwhelming to some, in fact the relentless advances in large scale distributed computing make this a very manageable problem, at least for those who embrace the latest technologies. (Those who are tied to twenty year old legacy

technologies, however, will find it much more difficult.) Instead, the more persistent challenge is having the accurate and complete data to describe the current status of these securities and to realistically project the range of possible future performance of them.

Thus, it is encouraging to see the Commission propose rules that directly address the need to spur innovations regarding the valuation of asset-backed securities.

Specific Comments on Proposed Rules and Previously Posted Comments

I am writing this on the last day of the comment period, so I have the benefit of reviewing some of the comments already posted. In the remaining sections of this letter I will address several specific topics.

Waterfall Model Requirement

I support the inclusion of a waterfall model as part of the publicly available information about an asset-backed deal. While I think Python is a good computer language well suited to waterfall modeling, I do not think that the required disclosure should be in the form of a computer program. Instead, a better solution is to provide an XML document that describes the waterfall, and thus could be used by programs in any modern computer language.

Although I have not thoroughly reviewed it, it appears that comment #61, submitted by Sunir Kapoor of UBmatrix, Inc., has a detailed proposal along these lines, which I commend for closer review.

Support for Open Source Alternatives for Waterfall Models and Loan and Securities Identifiers

Comment #57, submitted by Kevin F. McCarthy of Intex Solutions, Inc., presents a number of objections to the Commission's call for publicly waterfall models. While I have a different opinion than Intex regarding the potential costs and benefits of the Commission's proposal, I can agree with the call to "let the market determine the technology". In that sense, an XML based standard is agnostic about the underlying choice of a computer language and would allow a market-driven development of alternatives.

More broadly, I am optimistic that the securitization market will eventually coalesce around an open-source solution. I see a similarity in the dominant position that Microsoft had as an operating system in the 1990s and the position that Intex has with its waterfall software models. (My observation is based on my experience as a user of the Intex software and data (from 1998 to 2003), on my own structured modeling experience before and after my time as an Intex user, and on conversations with market participants at the ASF Conference in 2009.)

In the same way that Linux has proved to be a robust competitor to Microsoft's operating systems, I am optimistic that an open source initiative to create a repository of XML waterfall definitions and supporting data would also be a welcome and healthy competitor in this sector. Linux is not an isolated example -- MySQL and Wikipedia are two others -- of an open source initiative succeeding in a market where traditional business organizations were not as successful at challenging a dominant incumbent. I encourage the Commission to consider such a possibility.

In a similar vein, I encourage the Commission to promote non-proprietary identifiers for securities and loans, either as an alternative or as a supplement to proprietary and trademarked identifiers such as CUSIP and ASF LINC™.

If the Commission is interested in exploring this option further, I suggest the Commission

participate in the upcoming Gov 2.0 Summit 2010, to be held (conveniently) at the Grand Hyatt in Washington DC on September 7 and 8.

Connection to Section 719 of Dodd-Frank and Derivatives Markets

The waterfall model requirement appears to be related to the Study on Feasibility of Requiring Use of Standardized Algorithmic Descriptions for Financial Derivatives, called for in Section 719 of the recently passed Dodd-Frank legislation. The issues of python versus XML versus other alternatives may be better considered in coordination with this study, if it also studies how to provide some kind of software code base for the valuation of complex financial instruments.

More generally, there are other relevant points of connection between the securitization business and the derivatives business. Some of the complexity in the structure of asset-backed deals is driven by the needs of derivative dealers for accumulating or reducing certain kinds of term-structure or other risks, as opposed to the needs of the ultimate end-users of securitized credit and capital flows. This topic may arise in the course of the study proposed by Section 719.

Sincerely,

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