

Via email: rule-comments@sec.gov

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Proposed Rule -Asset Backed Securities -File No. S7-08-10

Dear Ms. Murphy:

This comment letter is in response to Release Nos. 33-9117; 34-61858 (the "Proposing Release") in which the Commission solicits comments on proposed revisions to Regulation AB and other rules regarding the offering process, disclosure, and reporting for asset-backed securities. Knowledge Decision Securities, LLC ("KDS") is pleased to provide responses to certain of the requests for comments contained in **Section III.B "Flow of Funds"**. In particular, this comment letter will discuss KDS's support of the proposed waterfall computer programming method using our current Python-based implementation experience.

Background on Knowledge Decision Securities, LLC

Knowledge Decision Securities, LLC (KDS) is a San Francisco based provider of credit-risk technology for the financial services industry. KDS holds five patents related to massively parallel credit-risk modeling systems.

KDS began as a design firm of computer-telephony integration systems for credit card banks in 1998 and has been providing knowledge-based analytical solutions for the mortgage banking industry since 2000. KDS develops prepayment and default models for all agency and non-agency mortgage products based on internal massive parallel systems tailored for predictive econometric and risk management models. KDS offers champion challenger asset valuation services based on an OAS Monte Carlo pricing framework which is built on a patented UBSysTM specialized in handling very large data arrays and nonlinear computational analytics.

KDS's flagship service provides a suite of on-demand portals providing proprietary access to the Structured Assets Valuation Engine (SAVE) for the analysis of prepayment, default, delinquency, pricing, and securitization. Dozens of major fixed income hedge funds, Wall Street investment banks, mortgage servicers, commercial banks, federal regulators and GSEs use this service. KDS has fully adopted and developed a Python based waterfall programming platform.

Comments of the Proposed Rule -Asset Backed Securities -File No. S7-08-10, Section III.B Flow of Funds

1. Waterfall Computer Programming Disclosure Is Necessary for ABS Reform

The translation and interpretation of the ABS waterfall is prone to mistakes. Particularly, the problems in interpretation can start from the initial offering where the legal documentation process takes place. In alignment with the issuer's intent and disclosure requirement, the legal counsel will translate the original waterfall programming including logic, payment sequence, and mathematical formulas into legal language. The legal language is generally sophisticated and hard to understand. The investor will interpret and translate the language into programmable models, which is referred to as "reverse-engineering the model". The increasing complexity in recent years and the ambiguity in the legal language add difficulty for investors to conduct due diligence analytics themselves. This complexity has contributed to over reliance on the rating agencies' rating mechanisms to assess the risk profile of securities. In our view, the proposed transparency of the waterfall programming together with collateral asset level disclosure mandates are both key in promoting the long run health of the ABS market. This disclosure mandate will make the analytics precisely aligned with the original model's intent and reduce the misinterpretation of the legal language.

2. Open Source Programming Supports Disclosure Initiative

Currently the industry has widely used 3rd party waterfall programming systems (e.g. Intex) or in-house waterfall engines to structure and analyze deals. The cost of purchasing a 3rd party vendor system is generally high. It is also impossible for outsiders to access in-house systems. As there is currently no regulatory mandate on disclosure of the waterfall programming, investors need to acquire models or reverse-engineer deals themselves to perform analytics. An open-source programming with a disclosure mandate will provide equal access of the original model to the public. Investors can download the model as part of the public disclosure without paying the proprietary system vendors extra premiums, which will ultimately benefit the liquidity and efficiency of the ABS market.

3. Standardization of Waterfall Programming Naming Convention and Interpreter Programming Methodologies Should Also be Proposed

Besides the proposed mandate in the disclosure of waterfall programming, we believe two more standardizations are necessary – first, the naming convention of waterfall programming commands, and second, the waterfall interpreter programming methodologies. The waterfall interpreter is the underlying mechanics to drive the function of high-level scripting language commands in waterfall programming. If both the naming and backend interpretation programming methodologies are standardized, it guarantees modeling consistency among different issuers and shelves. For example, if the payment of accrued interest is handled by a commonly accepted command call INTPAYDUE, then whenever this command occurs in a waterfall program, it will mean the same thing as in any other waterfall program and it will be interpreted the same way in the underlying interpreter's programming mechanics.

At the end of the day, investors will have the confidence in knowing that not only do they have access to the waterfall programming with consistent naming but the mechanics of it is also standardized. To promote standardization, the industry groups – e.g. American Securitization Forum (ASF), Security industry and Financial Markets Association (SIFMA), and Commercial Mortgage Securities Association (CMSA) – should form working groups together.