

PPM America, Inc. 750 Lexington Avenue 10<sup>th</sup> Floor New York, NY 10022

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

August 2, 2010

Re: Asset Backed Securities Proposed Rules; Release Nos. 33-9117 and 34-61858; File No. S7-08-10

Dear Ms. Murphy:

PPM America, Inc. ("we" or "us") is pleased to have the opportunity to provide these comments to the Securities and Exchange Commission (the "SEC") on the proposing release referenced above (the "Proposing Release"). The Proposing Release sets forth certain changes to the rules governing asset-backed securities transactions (the "Proposed Rules"). Our comments focus on Section VI of the Proposing Release, which contemplates changes to the disclosure regime for privately issued structured finance products that rely on the safe harbors provided by either Rule 144A or Rule 506 of Regulation D, each as promulgated by the SEC under the Securities Act of 1933 (the "Safe Harbors").

#### **Background of PPM America, Inc.**

We are an investment management company formed in 1990 and registered with the SEC under the Investment Advisers Act of 1940. We are an indirect subsidiary of Prudential plc, a publicly traded holding company incorporated in the United Kingdom which had approximately \$470 billion in assets under management worldwide (as of December 31, 2009). Prudential plc is in no way affiliated with Prudential Financial, Inc., a company whose principal place of business is in the United States of America.

We provide investment advisory services primarily to our affiliates, including Jackson National Life Insurance Company, as well as some unaffiliated institutional clients. As of June 30, 2010, we managed approximately \$75 billion of investments across a broad array of public and private fixed income and equity securities. This included approximately \$13.9 billion of structured finance products, which consisted in part of residential and commercial mortgage-backed and other asset-backed securities. Our clients' investments in structured finance products are comprised of a wide variety of collateral types and structures, including publicly registered and privately-placed securities, which have been issued both with and without reliance on the Safe Harbors. We have given serious consideration to the Proposed Rules and provide the following comments based on our experience as an active investor in structured finance products.

# Our Concerns with the Contemplated Changes to the Disclosure Regime for Privately-Issued Structured Finance Products

We appreciate that increased and more consistent disclosure and the resulting transparency is both necessary and welcomed by the investor community. Standardization leads to an improved ability to analyze structured pools of assets and to assess risk. Defining specific data fields and reporting methodologies is helpful for certain larger commoditized asset classes that are generally issued in the publicly registered market. We applaud the American Securitization Forum in their work to define reporting requirements for these sectors. However, for the reasons set forth below, we believe that the private market should be treated differently, and that private transactions with sophisticated investors should not be required to comply with the public disclosure regime.

In particular, we are concerned that imposing a public-style standard of disclosure on private transactions that utilize the Safe Harbors will negatively impact market innovation and efficiency. This in turn may limit the investment opportunities available to investors while decreasing the availability and increasing the cost of credit to consumers and businesses. Certain types of structured finance products are traditionally issued in the private market because the standardized public disclosure regime (in particular, the requirements of Regulation AB, as promulgated by the SEC under the Securities Act of 1933 and the Securities Exchange Act of 1934 ("Regulation AB")) is not applicable to or appropriate for such products. It is not clear how these types of securities would comply with the public disclosure rules, and therefore they may cease to be issued. In addition, even where compliance with the disclosure regime of the registered market is possible, meeting such requirements may simply be too burdensome for certain issuers or require issuers to divulge proprietary business models, which could result in such issuers turning away from the structured products market generally. This is particularly true with regard to small and medium-sized finance companies and lending institutions as well as those issuers of all sizes that engage in niche or specialty lending.

We further believe that requiring private transactions that rely on the Safe Harbors to comply with public disclosure requirements may actually result in less useful information being available to investors and will limit investors' ability to influence the structure of the securities they are considering for purchase. In the private structured finance market, particularly with respect to assets that are non-commoditized, we generally find access to data has not been restricted and when requested, investors are able to receive customized information necessary to perform the appropriate level of analysis. Much of the most valuable information for thorough credit analysis and risk assessment is gleaned from in depth due diligence, including detailed discussion with management teams and review of business operations. In conjunction with performing this due diligence, investors often have the opportunity to provide input on the structure of the securities that will be issued. The knowledge gained through such process and the ability to influence the structure of the securities is far more useful to investors than receiving pre-defined public-style disclosure.

We are concerned, however, that the opportunity to perform such detailed due diligence and to influence the structure of transactions will be lost if public-style disclosure is required. In our experience, when particular disclosure is mandated, issuers are unwilling to provide any disclosure beyond that which is legally required (i.e., the required disclosure forms a "ceiling" of information beyond which no additional information will be provided, as opposed to a "floor" from which an investor can request additional details). The problem is demonstrated in the publicly-registered asset-backed securities market, where information requests beyond current standardized requirements are generally not met. This inhibits the ability of sophisticated investors in private transactions to understand more nuanced assets through face to face due diligence meetings with management and site visits. This problem will likely be substantially exacerbated if the new rules are interpreted to require information that is distributed to one

investor to be distributed to all investors.<sup>1</sup> It will be extremely difficult, if not impossible, to make available to all investors the type of information routinely obtained by sophisticated private investors through detailed due diligence and personal interaction with the issuer, and therefore issuers may simply be unwilling to make such information available to any investors.<sup>2</sup>

We understand that certain market participants are concerned that if the enhanced disclosure requirements contained within the Proposed Rules are applied only to the publicly registered market, large issuers who currently offer their securities in the public market may choose to issue in the private market in order to avoid such requirements. In our view, it is highly unlikely that any significant number of public issuers would take such step, because the incentives for issuing in the public market make it generally preferable for the larger scale issuers to continue to do so. Public market issuers have access to a greater number of investors which generally allow them to issue their securities at lower yields due to the fact that a significant number of accounts managed by investors are bound by internal requirements and portfolio parameters that prohibit investing in transactions that are not publicly registered.<sup>3</sup> Investors in more generic structured finance products to which Regulation AB is applicable are also more likely to invest in the public market because they appreciate the standardized disclosure requirements of Regulation AB. The enhanced disclosure requirements contemplated by the Proposed Rules are unlikely to change issuer preference to issue in the public market, especially if such disclosure requirements are a result of industry collaboration by market participants. In any event, fear of migration of public issuers to the private placement market in order to avoid disclosure requirements is not an appropriate rationale for imposing standardized disclosure requirements across all issuers in the private placement market.

As shown by the chart set forth as exhibit A hereto, collateralized debt obligations ("CDOs") comprised a substantial majority of all private placements in the years leading up to the financial crisis. In our view, inaccurate modeling assumptions relating to home price appreciation, poor loan-level underwriting, misaligned incentives and the lack of understanding of the effects of the leverage employed by CDOs (as well as by structured investment vehicles ("SIVs")) were the primary causes of harm to investors during the financial crisis, and not a lack of available information. With the exception of CDOs and SIVs, the private placement market generally performed relatively well through the financial crisis. Therefore, we believe that requiring the disclosure of additional information will not address the root causes of the private placement market's role in the financial crisis. We believe the new risk retention requirements contemplated by the recent financial regulatory reform legislation, as well as consumer protection regulation, will serve to keep incentives aligned and will greatly reduce the probability of a return to the overheated private market conditions that led to the financial crisis without the need to apply public disclosure requirements to private issuances.

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<sup>&</sup>lt;sup>1</sup> Such an interpretation of the new rules is possible by way of analogy to registered transactions, where once information has been shared with any investor, it generally must be made publicly available for all investors to review. In today's environment, in which market participants are inclined to take extremely conservative positions on legal interpretations so as to avoid potential non-compliance, this could easily lead to a view that substantially all communications during the offering process on private transactions would have to be made available to investors and potential investors, including oral communications.

<sup>&</sup>lt;sup>2</sup> We note that a similar effect is taking place already in communications between issuers and rating agencies as a result of the SEC's amendments to Rule 17g-5, as promulgated by the SEC under the Securities Exchange Act of 1934 ("Rule 17g-5"). It is our understanding that oral communications between rating agencies and issuers (and other offering process participants) have for the most part been discontinued or severally restricted due to compliance concerns.

<sup>&</sup>lt;sup>3</sup> We recognize that in the period leading up to the financial crisis, in some cases there was little differentiation in pricing between the public market and the private placement market. This phenomenon exists in part today as a result of the limited supply of structured finance products on the market. Due to many factors (including the new risk retention requirements and consumer protection regulations), we believe it is unlikely that the market conditions that gave rise to this phenomenon will exist in the future and therefore we expect greater differentiation in pricing to develop as the market recovers and more structured finance products become available for investment.

#### Our Proposed Changes to the Disclosure Regime for Privately-Issued Structured Finance Products

We do not believe that compliance with the public disclosure regime should be required in order for privately issued structured finance products that utilize the Safe Harbors to be sold to investors who are sufficiently experienced in such market and capable of assessing the risks and potential rewards of their investment. Therefore, we urge the SEC to exempt from the public disclosure requirements privately issued securities that are sold only to those investors who can demonstrate an appropriate level of structured finance product sophistication. This requirement should not focus solely on the amount of structured finance products the investor owns and invests in, but should more importantly take into consideration the qualitative nature of an investor's commitment to structured finance products. Examples of qualitative measures that an investor could be required to represent would include having the proper policies and procedures in place to underwrite and approve structured finance products; maintaining appropriate staffing expertise; and having access to adequate modeling and analytical tools. To the extent the amount of an investor's structured finance product holdings are taken into account in determining the requisite sophistication, it is important that such requirement not be too restrictive so as to eliminate the smaller investor base that specializes in assessing risk and investing in subordinated tranches of non-generic issuances. We believe that setting such threshold at \$100 million is appropriate and would allow sophisticated investors who specialize in private placements to continue to participate in that market, thereby providing finance companies continued access to the structured finance product market. Unlike certain other market participants, we do not believe that either the size of the issuer or the size of the issuance should be taken into account in determining when relief from the public disclosure requirements should be granted. The SEC's purpose in proposing the changes to the private disclosure regime is to protect investors by increasing the quantity and quality of the information available to them, and the relative size of the issuer or issuance is not relevant to this concern.

In addition, we believe that the SEC's goal of making the private securitization market more transparent would be furthered by making certain relevant transaction information more accessible to investors. On private transactions, other than in connection with the initial offering, it may be difficult in some cases for investors to easily gain access to the legal contracts setting forth the terms of the issuance (the "Operative Documents"). In addition, it is sometimes difficult for investors to obtain historical monthly surveillance reports concerning the performance of the securities and the underlying assets (the "Monthly Reports"). We suggest that issuers be required to make available to existing investors both the Operative Documents and the Monthly Reports in a central, easily accessed location, such as a website maintained by the trustee. The Operative Documents are necessary for structural transparency, while the Monthly Reports provide valuable information relating to the performance of the transaction. We note that mandating ready access to specific items that are clearly identified by regulations, such as the Operative Documents and the Monthly Reports, would improve transparency without giving rise to the concerns we expressed above about the proposed expanded disclosure requirements. It is important, however, that the rules relating to mandating access to Operative Documents and Monthly Reports respect the legitimate confidentiality concerns of private market participants.

Finally, we believe the SEC's desire to enhance transparency in the private market would be furthered by regulations designed to enable beneficial owners of securities to better interface with other beneficial owners of those securities.<sup>4</sup> This would enable the owners to have conversations concerning proposed amendments and waivers to transactions as well as permitting them to discuss other issues relating to the exercise of their voting rights. Although this could be accomplished by making the identity of the existing beneficial owners available to other beneficial owners, this would likely raise legitimate

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<sup>&</sup>lt;sup>4</sup> We note that since most structured finance products are issued in book-entry form, the beneficial owner of the securities is not the registered holder. The actual beneficial owner of the security often holds through a participant in the book-entry system and is generally one or more steps removed from the registered holder.

confidentiality concerns. Therefore, we suggest requiring trustees to act as a go-between for communication among beneficial owners of the securities. The trustee would likely need to initiate communication through the appropriate book-entry system participant in order to make contact with the actual beneficial owner.<sup>5</sup>

### Other Concerns Relating to the Impact of the Proposed Rules on the Private Placement Market

The following specific comments highlight additional concerns we have with respect to application of the Proposed Rules to the private structured finance product market:

#### A Waterfall Computer Program should not be a Requirement for Private Placement Offerings

Requiring investors to be provided with a waterfall computer program as part of the private offering process will cause loss of flexibility, transaction structures to become overly simplistic and the private placement market to become less innovative. Customized structures are necessary to maintain the flexibility and creativity of the private market which serves as the "proving ground" for companies to grow. This requirement will also increase the cost of issuance, which could either prevent certain issuers from accessing the securitization market or result in such costs being passed on to consumers and businesses. In addition, requiring waterfall computer programs in source code only would require additional programming requirements which would be duplicative and unnecessary since sophisticated investors already maintain access to robust waterfalls programs through either third party vendor models or in-house modeling capabilities.

## Issuers should not be Required to Provide Information to NRSROs to Facilitate Unsolicited Ratings of Private Placement ABS

The SEC has requested comment as to whether issuers should be required to provide information to nationally recognized statistical rating organizations that wish to provide unsolicited ratings on unregistered transactions. We firmly believe issuers should not be required to provide this information, because providing reliable ratings for structured finance products of the type that are generally sold in the private market requires an understanding of all aspects of an issuer's business model, competitive practices and origination and/or servicing practices. This information is obtained through extensive due diligence including site visits and meetings with management. We are concerned that encouraging unsolicited ratings to be given without the benefit of this qualitative review and due diligence process will result in ratings with significantly less integrity and value to investors. Moreover, we believe that if issuers are required to make such information available, the reliability of the ratings provided by the rating agencies hired by the issuer will suffer, since rating agencies and issuers will be dissuaded from engaging in open conversations and rating agencies will be less likely to perform the appropriate level of due diligence due to the difficulties inherent in preserving such information and disseminating it to non-hired rating agencies.<sup>6</sup>

<sup>&</sup>lt;sup>5</sup> We also recommend such a requirement for publicly registered securities, as it is often even more difficult for beneficial owners of those securities to contact each other.

<sup>&</sup>lt;sup>6</sup> We understand that the requirement to share information with non-hired nationally recognized statistical rating organizations has already effectively been implemented to a large extent through the recent amendments to Rule 17g-5. However, we provide this response to the SEC's request for comment in the hopes that it will be considered to the extent any future amendments to the relevant rules are contemplated.

## The Availability of the Safe Harbors should not be Contingent upon the actual provision of Information

The SEC has requested comment as to whether the availability of the Safe Harbors should be contingent on the actual provision of public style disclosure, as opposed to basing the availability of the Safe Harbors on the existence of a contractual provision to provide such information upon request. We do not believe the Safe Harbors should be contingent upon the actual provision of information. This would place a significant burden on investors and make it difficult to price securities as a result of uncertainty regarding the availability of a Safe Harbor which would further hinder the recovery of the securitization market.

#### Conclusion

We appreciate the efforts of the SEC to improve regulation and transparency of the structured finance product market and believe that such efforts will restore investor confidence and improve the flow of capital to businesses and consumers. However, we believe the proposal to require compliance with the public disclosure regime by all participants in the private placement market that rely on the Safe Harbors would have a chilling effect on issuance for all except the largest issuers, creating significant barriers to entry. It would also hamper the innovation that has allowed finance companies to utilize securitization as an efficient funding source and would either inhibit the growth of these companies or require them to seek out alternative funding sources at a higher cost and with less transparency. In our view, the resurgence of the CDO and SIV market to the scale it reached prior to the financial crisis will be appropriately inhibited by other financial regulatory and consumer protection reforms.

We believe that structured finance product issuers should continue to be permitted to utilize the Safe Harbors without complying with public disclosure requirements provided that the investors in such securities have specific structured finance expertise and sophistication. This approach will limit harm to investors while maintaining securitization as a viable funding source for a broad array of companies across numerous industries, facilitating a return to more normalized market conditions.

Thank you for providing us with the opportunity to comment on the Proposed Rules. If you have any questions concerning these comments, or would like to discuss them further, please feel free to contact me at 212-583-7314 or sandy.szakach@ppmamerica.com.

Sincerely,

Sandy Szakach

Senior Managing Director

PPM America, Inc.

### Exhibit A

