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Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549
Attn: Elizabeth M. Murphy, Secretary
Re: Release No. 34-65355; File Number S7-38-11

May 21, 2012

Ladies and Gentlemen,

Our firm, BlueCrest Capital Management (UK) LLP ("**BlueCrest**") manages BlueCrest Mercantile Master Fund Limited ("**BlueCrest Mercantile Fund**"), an alternative investment fund that is an active investor in bank balance sheet securitization transactions, including the category of deal that the SEC proposes to prohibit under Rule 127B, Example 3B (synthetic bank balance sheet securitizations).

As a fund manager, we support the SEC's efforts to reduce conflicts of interest in securitizations. However, we strongly believe that synthetic balance sheet securitizations should not be prohibited, and we support the arguments made by the International Association of Credit Portfolio Managers (IACPM), in their letter to you dated February 6, 2012.

The following is a summary of our key considerations in relation to these securitizations:

- *Core business.* Many bank balance sheet securitizations are conducted as hedging transactions in connection with the servicing of commercial and trade finance credits that constitute core business of the financial institution. These transactions tend to be managed as an ongoing longer term program and are not designed to be opportunistic, one-off or arbitrage by nature.

- *Key portfolio management tool.* Balance sheet synthetic securitizations have been used by most internationally active banks for more than two decades. They are a valuable tool for loan portfolio managers seeking to prudently manage risk concentrations in their core portfolios. Corporate and trade finance loans are generally difficult to transfer due to a lack of efficient trading infrastructure, complex documentation, issues surrounding borrower consent and relationship considerations. These practical concerns are particularly relevant for portfolios of a large number of loans (specifically, in trade finance).

- *Perfect no-basis hedge.* Most balance sheet securitizations are structured to replicate loss performance of particular loans originated and retained by the bank on its balance sheet. This represents a perfect no-basis hedge for a loan portfolio, which is not otherwise available in the standard credit markets. Standard credit default swaps reference only a limited number of

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(typically larger) borrowers and tend to be most liquid in five year maturity only. This significantly constrains the hedging options available to loan portfolio managers who, as a result, may be required to take on imperfect hedges with some residual basis, prepayment or maturity mismatch risk.

- *Risk Retention.* One of the critical features of bank balance sheet securitization is the significant risk retention by the originating bank of the exposures referenced in the portfolio. The bank explicitly undertakes to keep these exposures unhedged throughout the tenure of the deal. The retention portion tends to vary between 10-20%. The typical structure also precludes an originating bank from being outright short an exposure referenced in the securitized portfolio. In our view these features are critical to ensure a better alignment of interest with investors.

- *Significant Risk Transfer.* Bank balance sheet securitizations are designed to provide a significant risk transfer from bank to investor. Hence by construction, investing in these transactions can be risky and requires significant analysis. Such risks emanate from the underlying credit performance of the portfolio, as well as from soundness of bank origination practices and its credit processes. Synthetic securitizations are marketed to sophisticated investors that are capable of evaluating specific credit risks and potential conflicts of interest. Investors are typically given access to the bank's credit and portfolio management to conduct their initial due diligence as well as on a periodic basis afterwards. All transactions are also accompanied by full disclosure of the key risks and potential conflicts of interest.

Yours faithfully,

BlueCrest Capital Management (UK) LLP