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INTERNATIONAL ASSOCIATION OF CREDIT PORTFOLIO MANAGERS

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June 28, 2012

Elizabeth Sandoe, Esq.
Senior Special Counsel
Securities and Exchange Commission
100 S Street, N.E.
Washington, D.C. 20549

Re: Release No. 34-65355; File No. S7-38-11

Dear Ms. Sandoe:

We very much appreciate the time you and your colleagues spent with us on April 25, giving us an opportunity to discuss our concerns regarding the treatment of synthetic securitizations in the Securities and Exchange Commission's (the "*Commission*") proposed Rule 127B ("*Proposed Rule 127B*") concerning material conflicts of interest in connection with securitizations. The International Association of Credit Portfolio Managers ("*IACPM*") addressed these concerns in our comment letter, dated February 6, 2012 (the "*Comment Letter*").[1] We are submitting this supplement to the Comment Letter in response to observations made and questions posed by the staff during the meeting.

I. Proposed Exclusion

As discussed during the April 25 meeting and reflected in the Comment Letter, our key concern is that Example 3B appears to preclude banks, insurance companies and other lenders (together with their affiliates, "*Lenders*") that engage in the business of extending credit to corporate customers from using synthetic securitizations to manage their risk exposures.[2] We proposed that a synthetic securitization satisfying the conditions we identified in Part II.A. of the Comment Letter (at pages 5-6) not be precluded by Rule 127B in its final form.

The staff raised several concerns with our proposal, including imprecision as to when the Lender might in fact have a short position and whether the Lender will have fully underwritten the exposures to the underlying

1 Capitalized terms used herein and not otherwise defined but that are defined in the Comment Letter are used herein with the meanings assigned to them in the Comment Letter.

2 References in the Comment Letter and this supplemental letter to "*synthetic securitizations*" encompass only this type of transaction, which our members often refer to as "*balance sheet synthetic securitizations*".

reference entities or, instead, might be engaging in purchases and sales of corporate loans that are more akin to a trading activity than a banking activity. We agree that the Lender should not be in a "naked short" position at any relevant time, including when the ABS issuer (customarily an SPE) as credit protection provider is required to make payment under its CDS to the Lender as credit protection buyer, and that only exposures that are banking book exposures (or the equivalent for non-bank lenders) that have been underwritten by the Lender in accordance with its customary underwriting standards should be included in the synthetic securitizations. Accordingly, we urge the Commission to consider as appropriate conditions for synthetic transactions that are permitted by the final version of Rule 127B the following conditions:

(a) The reference entities are corporate obligors (both financial and non-financial) and do not include individuals, and the reference obligations do not include (directly or indirectly) residential mortgages, other consumer loans or interests in securitizations.

(b) The Lender's exposures to reference entities that are taken into account for purposes of determining that the Lender does not have a net short credit exposure at relevant dates (addressed in clauses (c) and (d), below) are loans[3] that are held by the Lender as part of its banking book, not its trading book, and that were underwritten by the Lender applying its customary loan approval criteria and through its customary loan approval process.

(c) Both at the time the Lender and the ABS issuer enter into the CDS and at the time of each credit event entitling the Lender to a credit protection payment under the CDS, the Lender will not have a net short credit exposure in its banking book (or, put the other way, will have a neutral or net long credit exposure) to the relevant reference entity, in each case after giving effect to the CDS with the ABS issuer. If the Lender has entered into more than one synthetic securitization referencing one or more of the same reference entities or reference obligations, this standard will be applied on an aggregated basis taking into account all of the Lender's banking book exposures and all of its synthetic securitizations.

(d) At the time of each credit event entitling the Lender to payment from the ABS issuer, the Lender will either own the reference obligation of the related reference entity identified in the CDS or will own loan obligation of the reference entity that rank pari passu with those reference obligations (in each case in its banking book).

(e) The Lender may replace a reference entity and/or a reference obligation covered by the CDS (i) only in the event and to the extent that the Lender's net credit exposure with respect to the reference entity and/or reference obligation shall have decreased due to prepayment, repayment, termination or reduction of the Lender's loans and commitments to the reference entity and, in any event, (ii) only in accordance eligibility criteria established at the outset of the transaction with the

[3] When we refer to "*loans*" and "*loan obligations*", we mean both funded loans and the amount of a Lender's commitments to extend credit that are not unconditionally cancellable.

concurrence of the ABS issuer as counterparty and set forth in the relevant transaction documents.

(f) In connection with each synthetic securitization, the Lender shall retain an interest in the underlying reference obligations that, where applicable, complies with the requirements of Sections 619 and 941 of Dodd-Frank and the rules and regulations thereunder as well as European Union requirements.

Although we understand the staff's observation at the April 25 meeting that the sophistication of the investors and disclosure as to the sponsor's or an underwriter's (or its subsidiary's or affiliate's) hedging activities may not directly bear on whether a material conflict of interest exists, we expect the following additional criteria would be observed by Lenders undertaking synthetic securitizations:

(a) Each investor in the ABS issuer, at the time of its investment, is (i) either an institutional "accredited investor" within the meaning of Regulation D under the Securities Act or a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act and (ii) a "qualified purchaser" as defined in Section 2(a)(51) of the Investment Company Act.

(b) Prominent disclosure is made to the offerees of the ABS issuer's securities (in the offering document, if one is prepared, or in a certificate or letter delivered to each offeree) that a subsidiary or affiliate of the sponsor or underwriter of the transaction is seeking to hedge potential losses resulting from a decline in value of the reference obligations identified in the CDS entered into by the ABS issuer as credit protection seller.

II. Size of the Market

At the April 25 meeting, the staff asked for any information we could provide concerning the size of the market for synthetic securitizations. We are not aware of any public data source that addresses the question. We conducted a survey addressed to IACPM members with a view to gathering information concerning their experience with synthetic securitizations. Thirty-five members responded. The survey results include the following:

- 21 of the respondents currently have outstanding synthetic securitizations and 14 do not;

- the outstanding securitizations for those 21 institutions involve more than 132 transactions having an aggregate notional amount of approximately $183 billion;

- the reference exposures are loans to large investment grade corporate borrowers, loans to middle market/SME borrowers, loans to non-investment grade large corporate borowers, and a small amount of counterparty risk on derivatives;[4]

- 20 of the 35 respondents to the survey responded “definitely yes” or “very likely” to the question whether the firm is likely to execute synthetic securitizations during the next three years.

A copy of survey result is attached as Annex 1.

III. Clarification

At the April 25 meeting, the staff asked for clarification concerning management arrangements applicable to the synthetic securitizations that we urge be permitted by the final version of Rule 127B. We thought it may be helpful if we summarized our response.

The ABS issuers that act as credit protection providers under CDSs in these transactions are not “managed pools”. Instead, the reference entities and reference obligations are identified and agreed to at the outset of the transaction (as are eligibility criteria for replacement reference entities and reference obligations under the limited circumstances described below) and specified in the relevant CDS and other transaction documents. This is, of course, quite different from funded CDO transactions, many of which are actively managed. The Lender in the synthetic securitizations we are focused on does, of course, service and manage the underlying loans that are on its books and that are or correspond to the reference obligations in the CDS, following its normal loan servicing and management standards.

* * *

Again, the IACPM appreciates the opportunity to expand on our comments in the Comment Letter. Please feel free to contact the undersigned at (646) 289-5434 with any questions.

Sincerely,

Som-lok Leung
Executive Director
The International Association of Credit Portfolio Managers

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4 We do not propose that exposures to counterparties on derivatives be included in the types of transactions that are excluded from the final version of Rule 127B, as reflected in the discussion above.

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-- Annex 1 --

Assessment of Synthetic Bank Balance Sheet Securitization volume at IACPM bank member firms (May 2012)

Synthetic bank balance sheet securitizations are defined as synthetic securitizations which are done to hedge risk or manage regulatory capital for a bank's portfolio of customer credit risk. Typically, these are loans (especially illiquid ones such as emerging market or SME), but sometimes other types of credit risk such as counterparty/CVA.

1. Does your firm currently have synthetic bank balance sheet securitization deals outstanding?		
Yes	21	60%
No	14	40%
Don't know	0	0%
Total	**35**	**100%**

2. Within the firms that currently have synthetic bank balance sheet securitization deals outstanding …

Total number of deals currently outstanding	**More than 132 deals**
Total current approximate notional deal value	**$ 183 billion notional value**

3. What asset types do you securitize in these transactions? (Please check all that apply.)		
Investment grade large corporate loans	16	76%
SME/ middle market loans	14	67%
Non-investment grade large corporate loans	9	43%
Counterparty/ CVA risk	5	24%

Comments
Non Agency portfolio Bonds (some of these are in reference to historic trades)
Project Finance
Residential Mortgages

4. Excluding outstanding deals, has your firm executed these transactions (that have since matured) in the last 10 years?		
Yes	25	71%
No	9	26%
Don't know	1	3%
Total	**35**	**100%**

5. Within the firms that executed these transactions (that have since matured) in the last 10 years …

Total number of deals executed in the last ten years (but now matured and not currently outstanding)	**More than 168 deals**
Total approximate notional deal value over the last 10 years	**$ 411 billion notional value**

6. Looking ahead to the next three years, how likely is your firm to execute these transactions?		
Definitely yes	11	31%
Very likely	9	26%
Maybe	9	26%
Very unlikely	4	11%
Definitely no	0	0%
Don't know	2	6%
Total	**35**	**100%**

7. Within firms that will definitely, very likely, or maybe executed these transactions over the next three years ...

Total approximate number of deals per year over the next three years	**More than 58 deals**
Total approximate notional deal value (yearly average over the next three years)	**$ 75 billion notional value**