



Securities Industry Association

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Michael A. Macchiaroli
Associate Director
Division of Market Regulation
Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549

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DIVISION OF MARKET REGULATION

Dear Mr. Macchiaroli:

This is to follow up on an item that we promised you at our meeting on November 15 1999. You had requested a clarification of how we could demonstrate that a particular asset backed security trades at spreads against U.S. Treasuries that are consistent with spreads for similar types of securities. Based on a review by JP Morgan (attached) it appears that AAA rated asset-backed securities have yields comparable with AA rated corporate bonds, with both trading within 40 to 120 basis points above the yield of five-year U.S. Treasuries. Consequently, we believe that AAA rated asset-backed securities that trade within 5 to 10 basis points of AA rated corporate bonds satisfy the third condition of the Commission's August 6, 1999 no-action letter regarding the net capital treatment of single-rated investment grade asset-backed debt securities (the "No-Action Letter").

We also wanted to confirm, based on our meeting, that under the No Action Letter these securities would be included in the portfolio concentration charge for high yield and private placement securities and would be triggered if the total market value of all these securities exceeded 40 per cent of tentative net capital. This would replace all other portfolio concentration charges.

Finally, we wanted to let you know that as you requested, we are in the process of crafting a new draft of our no-action request on aged fails to address controls over the review of aged fails.

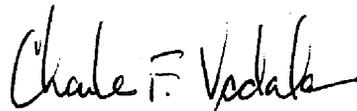
Once again, we appreciated the opportunity to meet with you last month. We also thought that our meeting with you and Annette Nazareth last July was very productive and we would very much like to follow up on Ms. Nazareth's suggestion of another meeting early in 2000. I understand from George Kramer that you asked for receipt of this follow-up on our November 15 meeting before scheduling a second meeting with Ms. Nazareth. I would be grateful if you could contact me with some dates in February or

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March of 2000 when such a meeting might be possible. We would be happy to have the meeting in either New York or Washington, whichever is more convenient for you.

If you have any questions or if we can be of further assistance, please do not hesitate to call me at 212-762-6567, or George Kramer at 202/296-9410.

Very truly yours,



Charles F. Vadala
Chairman, SIA Capital Committee

attachment

Cc: Thomas McGowan (w. attachment)

As you can see below, the ABS team has provided some excellent info about AAA rated ABS securities and how they compare to AA rated corporates. Historically, AAA ABS & AA corporates have traded anywhere from 40 Bps to 120 BPS above the 5 year on the run USTR.

In short, a AAA rated ABS should have yields comparable to the AA corporates.

How can we determine if a AAA rated ABS security has these yields:

1. Determine the yield on the ABS Cusip under discussion
2. Determine the yield on the 5 year on the run USTR
In the WSJ there is a "Bond Market Data Bank" section. This lists the current on the run securities. We would need the 5 year security. (At this time it is the 11/15/04 5.875% security which has a yield of 6.126)
3. Determine the yield on the average 5 year AA corporate security.
This is a little gray. The JPM desk used an internal analysis.
A suggestion would be.....In the WSJ there is a "Yield Comparisons" schedule (this is based on Merrill Lynch Bond Indexes.) There is a Corporate "1-10YR High Quality" item. As of 12/1 the yield was 6.90.
4. Determine the spread between the USTR and the AA corporate bond.
In my example, the difference between the AA corporate and the 5 year USTR is .774 (6.9 - 6.126). This 77 BPS seems to fall into the current range on the chart below.
5. Determine the spread between the USTR and the AAA ABS security.
6. Compare the spreads determined in Step 4 and Step 5 and determine if they are substantially consistent.

What would constitute "substantially consistent with spreads for dually rated securities in one of the two highest rating categories." Perhaps + or - 5 BPS????

Here's the data we discussed. It shows that AAA fixed-rate credit card ABS trades close to AA corporates. (The actual data points are in the attached spreadsheet).

*Spread in basis points
over 5yr tsy*

