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CMSA Opposes SEC Proposed Rule on Ratings Differentiation

Trade Group Urges the Adoption of New Transparency Supported by Investors

New York, NY – July 21, 2008 – The Commercial Mortgage Securities Association (CMSA) filed comments today to the U.S. Securities & Exchange Commission (SEC) on a proposed rulemaking that would require credit rating agencies to differentiate their ratings for structured finance products from other debt vehicles. The SEC issued the broad set of proposed rules to address perceived deficiencies in the residential securitized market, but the rulemaking also would apply to all structured finance products, including commercial mortgage-backed securities (CMBS). CMSA is strongly opposed to ratings differentiation, but instead supports new and targeted information about individual ratings and the methodology used.

“Public confidence in the financial markets and investor insight on credit risk would be better served by additional disclosures rather than a separate rating scheme,” said Christopher Hoeffel, President of CMSA and Managing Director of JP Morgan Chase. “CMSA welcomes expanded transparency in the ratings process and has provided a set of specific recommendations that would benefit the investor community the ratings are intended to serve. These recommendations build on, rather than replace, information that is currently being provided.”

CMSA cautioned that requiring separate symbology for structured finance would create investor confusion, market uncertainty and a host of implementation issues, including statewide statutory and federal agency regulatory revisions that are currently tied to the existing ratings symbols. Such changes would be very disruptive for market participants and undermine liquidity in the CMBS markets in both the short and long term. Investors would be forced to revise their investment policies, to develop new analytical and monitoring infrastructure, and to determine whether they need to have a specific investment allocation for each asset class. This also would add significant cost and further erode liquidity.

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“The introduction of a separate rating structure for structured finance products would create significant confusion for the investors,” Dottie Cunningham, CEO of CMSA, commented in explaining CMSA’s transparency recommendations. “Investors have been very clear that imposing a new set of rating symbols across a broad range of structured finance does nothing to enhance the understanding of the very different risk profiles and underwriting mechanics for each individual asset class.”

CMSA also expressed concern over provisions in the rulemaking that would require information that was used in a credit rating agency’s decision to be made publicly available. This provision will result in the disclosure of confidential and proprietary borrower information, such as property rent rolls, borrower net worth, detailed tenant sales information, etc.

“CMSA can identify no public policy benefit to mandating such public disclosure and we urge the SEC to ensure that no such disclosure of confidential and proprietary information is mandated by its final rules,” Cunningham said.

CMSA is generally supportive of the proposed new conflict-of-interest and reporting requirements and the comments on those rules generally are limited to requests for clarification

CMSA [comment letter](#) attached.

ABOUT CMSA

Commercial Mortgage Securities Association (CMSA) is a trade association dedicated to promoting the ongoing strength, liquidity and viability of commercial real estate capital market finance worldwide.

With commercial mortgage backed securities (CMBS) currently valued in excess of \$900 billion, the commercial real estate capital market finance industry is a responsible, healthy and vital contributor to the overall economy.

CMSA's diverse membership represents the full range of market participants including investment banks and commercial banks, rating agencies, insurance companies, service providers and investors at all levels of risk.

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CMSA provides a forum for continuous and timely dialogue among its members through programs that offer meaningful opportunities to address issues. CMSA acts as a voice of the marketplace encouraging the development of consensus positions and advocating before government agencies and legislators on vital concerns facing the industry. CMSA supports professional growth through a wide variety of educational and research efforts.

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