

S&P Is Monitoring Possible 12b-1 Reforms For Impact On Rated Securitizations

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NEW YORK (Standard & Poor's) July 6, 2010--Standard & Poor's Ratings Services is monitoring regulatory discussions surrounding the guidelines that govern how mutual funds charge 12b-1 fees to investors. 12b-1 fees are deferred fees charged by mutual funds to cover certain administrative, marketing, and sales expenses. The SEC has stepped up its discussions on the topic lately, and possible reforms could have an impact on the ratings Standard & Poor's assigns to securitized 12b-1 fee trusts.

Tranches in 12b-1 fee trusts generally cannot achieve ratings at the 'AAA' level under Standard & Poor's current criteria due to the risks we believe are posed by potential changes in the regulatory framework for mutual funds. Periodic regulatory discussions over the past several years have reinforced these considerations. Most recently, SEC chairman Mary Shapiro commented "We need to critically rethink how 12b-1 fees are used and whether they remain appropriate," as reported in the July 6, 2010, issue of The Wall Street Journal.

It's currently uncertain whether regulatory change will occur and in what form. Therefore, the potential effect of any such regulatory change on the outstanding ratings is unknown.

The outstanding rated 12b-1 fee trusts are backed by fees on static pools of mutual fund shares. The performance of the trusts does not depend on the issuance of new shares under the 12b-1 regulation. Therefore, unless regulation alters fees paid by outstanding shares, it's unlikely that the transactions, or their current ratings, would be affected solely as a result of the regulation. Additionally, these transactions typically mature after eight years, as that is the maximum period mutual funds can collect 12b-1 fees. Depending on the timing of any possible new regulations, the outstanding transactions may have time to repay their notes before regulatory changes take effect.

Standard & Poor's will continue to monitor developments in this area. As more information about regulatory changes becomes known, we will take appropriate rating actions as they are warranted. We will also continue to monitor the performance of this asset class and provide market updates as needed.

Related Criteria And Research

- **"Mutual Fund Fee Securitizations And Underlying Fund Net Asset Values,"** published June 16, 2009.
- **"Rating Mutual Fund Fee-Backed Securities,"** published March 30, 2000.

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