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The Lehman Brothers bankruptcy has taught us a lot about what happens when a major player in the financial markets is allowed to fail. Some of the lessons concern the resolution of derivatives contracts. Henry Barkhausen describes what happened to 930,000-odd derivatives contracts outstanding when Lehman filed and the most significant legal issues that arose. The financial crisis has also taught us a lot about the complexities of collateralized debt obligations (CDOs). Eric Adams describes how the subprime crisis led to the collapse of the CDO market with widespread rating downgrades, liquidations of CDOs, and litigation over cash-flow allocations after events of default. He describes the issues that arise in "interpleader suit" litigation, opportunities for investors when CDOs are liquidated, and factors that investors and others need to consider when analyzing CDO indentures.

Government support has been vital in keeping the market for structured securities alive over the past year, and we are now seeing a debate over how long that support will be sustained. Jim Croke and Sharad Samy update us on the programs undertaken by the U.S. and U.K. governments to help bolster the commercial paper markets and prospects for sufficient improvement in those markets to justify gradual withdrawal of such support. Basel II has been annoyingly complex right from the start and subject to criticism for its heavy reliance on credit ratings, particularly as the financial crisis has unfolded. Miles Bake, Kevin Hawken, Carol Hitselberger, Robert Hugi, and Jason Kravitt provide a clear update on amendments to Basel II in response to the financial crisis, noting a continuing trend of regulators tightening capital requirements, particularly for structured finance.

While there has been strong political support from some quarters for mortgage modifications to help prevent foreclosures and provide life support to the housing market, those modifications have not been altogether helpful to investors in residential mortgage-backed securities (RMBS). Laurie Goodman, Roger Ashworth, Brian Landy, and Ke Yin explain how recent large-scale modification efforts and foreclosure moratoriums are wreaking havoc on investors' cash flows in private-label securitizations. They see relatively few successful modifications under the Home Affordable Modification Program (HAMP), massive housing liquidations over the next few years, and further government actions such as principal forgiveness to rescue troubled borrowers.

The difficulty of valuating MBS and complex CDOs comprised of MBS has been a major issue since the beginning of the financial crisis. We have seen various efforts to acquire the underlying residential mortgage data to make such valuations more accurate—although

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even valuations based on the most granular loan data are always subject to continuing uncertainty over the economy, employment, and mortgage default rates. Rod Jensen and Jonathan Reifler examine new types of automated valuation models to determine the actual current value of securitized properties.

Martin Hansen and Ebru Demir point to the concern with assessing and validating how well structured finance credit ratings perform over time, pointing to commonly used techniques such default or impairment studies, ratings transition analysis, and the calculation of accuracy ratios. They show how the state of the art can be improved through consideration of the relationships between credit enhancements at origination and realized collateral performance, noting that higher enhancement levels are generally associated with riskier collateral pools and that the strength of the relationship between enhancement levels and collateral performance varies across structured finance asset classes and across the ratings scale. Then Mahesh Kotecha, Sharon Ryan, and Roy Weinberger point to what they see as continuing conflicts of interest in the current system in which issuers pay for credit ratings. They recommend an alternative compensation scheme funded by transaction charges on new issues and secondary-market trades.

To conclude the issue, we shift to infrastructure finance. Rajeev Sawant notes that infrastructure bonds offer investors the benefit of low correlation with equities and low volatility. However, they also show low returns, largely because bondholders have less ability to protect against creeping expropriation than syndicated commercial bank lenders do.

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