

STANDARD & POOR'S

Progress Update

S&P's steps to further manage potential conflicts of interest, strengthen the ratings process, and better serve the markets

Governance: Ensuring Integrity of the Ratings Process

Establish an *Office of the Ombudsman* that will address concerns related to potential conflicts of interest and analytical and governance processes that may be raised by issuers, investors, employees and other market participants across S&P's businesses. The Ombudsman will have oversight of the handling of all issues, with authority to escalate any unresolved matters, as necessary, to the CEO of The McGraw-Hill Companies and the Audit Committee of the Board of Directors.

- We have begun a search for candidates and will appoint an Ombudsman by year-end.

Engage an external firm to periodically conduct an independent review of S&P Ratings' compliance and governance processes and issue a public opinion that addresses whether S&P is effectively managing potential conflicts of interest and maintaining the independence of our ratings.

- We are finalizing and implementing relevant policies and are in the process of identifying a firm to conduct the independent review. We anticipate engaging a firm for this review by the end of next year.

Hold periodic reviews with the Audit Committee of the McGraw-Hill Board to discuss S&P Rating's overall governance and compliance functions. The reviews will include: (1) key business measures of ratings quality and compliance effectiveness, (2) the concerns and resolution of issues addressed by the Office of the Ombudsman, and (3) results of the independent reviews, by an external firm, of S&P Ratings' overall governance and compliance processes.

- Review meetings have begun. Meetings will be held three times a year with the McGraw-Hill Audit Committee and once a year with the full Board. Additional meetings or follow-up will be scheduled as requested or necessary.

Formalize functions with responsibility for policy governance, compliance, criteria management and quality assurance of the ratings and make them separate and independent from the ratings business units.

- We have established an independent Policy Governance Group (PGG) with the mandate to develop and approve all new Ratings' policies and procedures. This group is also responsible for the maintenance of policies that are clear, measurable and maintain our standards of quality. PGG membership includes representation from legal and compliance teams as well as the Analytical Policy Board.
- We continue building out our compliance department with additional staff and resources to implement risk-based monitoring of key policies that manage potential conflicts of interests, and enhance compliance training.

- We have reorganized the criteria and quality review functions, increased staffing dedicated to these functions, and have made them independent from the ratings business units. Guidelines for the activities and reporting of the criteria quality review function and process were enhanced. Training has been initiated on new criteria review processes.

Establish an enterprise-wide *Risk Assessment Oversight Committee* that operates separately and independently of the ratings business. The Committee will assess all risks that could impact the ratings process. This committee will also assess the feasibility of rating new types of securities.

- Established the Standard & Poor's Enterprise Risk Oversight Committee ("SPEROC"). SPEROC has the responsibility to provide critical risk assessment of business strategies and plans, employ appropriate assessment and monitoring of existing and emerging risks, and evaluate risk policies and controls. Regularly scheduled meetings have begun.

Implement "look back" reviews to ensure the integrity of prior ratings, whenever an analyst leaves to work for an issuer.

- We have developed a framework for look back review procedures. The reviews are expected to begin by mid-year 2008.

Institute periodic rotations for lead analysts.

- We have commenced a rotation program for our analysts. Additionally, the Structured Finance practice will be limiting lead analysts' exposure to specific arrangers, and potentially issuers, based on a number of factors that may include: (i) a maximum time period for lead analysts who handle a given arranger or issuer relationship, (ii) a maximum number of ratings assignments per period involving the same arranger or issuer, or (iii) a maximum number of consecutive ratings assignments involving the same arranger or issuer.

Increase the level of existing employee training to ensure compliance with policies.

- We've improved access to key Ratings' policies and Codes of Conduct by adding an icon to analysts' desktops.
- We are enhancing our global compliance training, which is scheduled for completion in Q3 2008.
- We are developing new modules that enhance our on-line training courses and reinforce key policies for analysts. The new modules will be available to analysts in Q3 2008.

Analytics: Enhancing Quality of Ratings Analysis and Opinions

Improve the surveillance process through: (a) additional resources and ongoing separation of new rating and rating surveillance functions in Structured Finance (b) strengthen surveillance in Corporates & Governments through the expanded use of search and market based tools and through oversight of surveillance separate from the business, and (c) regular adding of surveillance tools to make the surveillance process more timely and effective

- In Structured Finance Ratings, we:
 - Have increased our RMBS Surveillance staff
 - Are integrating RMBS loan specific data into our credit and cash flow models
 - Are incorporating new capabilities gained as part of acquisition of iMake, a leading global provider of structured cash flow models and data.

- For Corporate & Government Ratings, we:
 - Have developed a market pricing monitor to alert analyst to credits trading outside our expected range
 - Have deployed text-based search tools for U.S. corporate issuers' filings.
- We continue to identify and evaluate additional methods of improving surveillance and will update the market as they are implemented.

Establish a *Model Oversight Committee* within the Quantitative Analytics Group, which will be separate from and independent of the business unit, to assess and validate the quality of data and models used in our analytical processes.

- We have hired a Senior Director of Model Quality and have staffed and established the group.

Increase annual analyst training requirements, enhance training programs and establish an analyst certification program.

- We have developed an enhanced training curriculum and increased our annual analyst training requirements by 25%.
- We are evaluating third-party firms to establish an independent credit analyst certification program. We expect development of this program to begin by year-end 2008.

Complement traditional credit ratings analysis by highlighting non-default risk factors such as liquidity, volatility, correlation and recovery, that can influence the valuation and performance of rated securities and portfolios of these securities.

- We have identified a list of non-default risk factors and will begin market validation in Q2 2008. We have requested feedback from market participants by mid-year and will commence research coverage by year-end 2008.

Information: Providing Greater Transparency and Insight to Market Participants

Simplify and provide broader market access to ratings criteria, underlying models and analytical tools.

- We are improving users' ability to search our free public website for S&P criteria documents. This enhancement will be available by mid-year 2008.

Include "what if" scenario analysis in rating reports to explain key rating assumptions and the potential impact of positive or negative events on the rating.

- We are developing a framework for including "what if" scenario analysis in all of our initial ratings reports. We anticipate including this information in all CMBS, CLO, U.S. RMBS, and U.S. Auto Loan reports by year-end.
- We have already included this analysis in the following reports:
 - The Potential Effect Of Rate Freezes On S&P-Rated U.S. First-Lien Subprime RMBS
 - Ford Credit Auto Owner Trust 2008-A

- Reviewing The Impact Of Rate Freezes On Rated U.S. First-Lien Subprime RMBS Under Two Scenarios
- U.S. Credit Card ABS Is Expected To Withstand Higher Losses in a Recession

Improve the quality and integrity of information by working with market participants to improve disclosure of information on collateral underlying structured securities. In addition, implement procedures to collect more information about the processes used by issuers and originators to assess the accuracy and integrity of their data and their fraud detection measures so that we can better understand their data quality capabilities.

- On transactions closing after May 1, 2008, we are requesting updated loan level performance data from issuers on a monthly basis, consistent with data customarily sent to Trustees and third party data vendors in the U.S. RMBS market.
- We are in the process of revamping criteria for assigning overall mortgage originator rankings based on operational process and procedures. New criteria will be established by mid-year 2008.
- We are evaluating various fraud tools and detection policies used by originators for improved data integrity and will be incorporating these evaluations in the criteria to be established by mid-year 2008.
- We continue to identify other actions and will notify the market as they are implemented.

More broadly disseminate long- and short-term rating performance data.

- We have broadened distribution of this data to regulators, legislators and other market participants.
 - For example, we have produced a multimedia videocast, discussing the key highlights of S&P's most recent annual corporate default and transition study. The videocast and study were distributed free of charge on March 31 to roughly 30,000 institutional investors and other market participants.

Better explain the comparability of ratings across asset classes/issuer types (structured vs. corporate vs. government).

- Our goal is to continue to provide credit ratings that are reasonably comparable measures of creditworthiness across all major sectors and their sub-sectors. S&P uses the same rating scale across the structured finance, corporate and government sectors, including public finance to express our rating opinions. We will continue to publish data and articles on the subject of ratings comparability.

Make available a Landmark Deal Report which summarizes new structures and major issues, and distribute the report widely to investors, intermediaries, issuers, regulators and media.

- We will begin publishing Landmark Deal Reports in Q3 2008.

Enhance access to S&P's code of ethics and disclosures through a link to the Global Regulatory Affairs section of www.standardandpoors.com.

- We are designing a new link on our website to more easily access important regulatory information. The link should be available by mid-year 2008.

Establish greater minimum portfolio disclosure criteria for structured securities servicers (e.g. ABCP and SIVS).

- By mid-year 2008, we will publish new, key data items about the portfolio of every ABCP conduit and SIV we agree to rate. This increased disclosure will provide investors additional insight into the investments and risks of these entities and a better understanding of what assets underlie their investments. This will include asset metrics such as sector concentrations, key ratings dependencies such as credit support and liquidity providers, and liability metrics with regard to outstanding liabilities of the issuer.

Develop an early warning indicator to investors that a key credit quality attribute (e.g. delinquencies; losses) of an issue or issuer differs from our expectations and has or may trigger a full review by S&P surveillance.

- We have introduced new early warning indicators.
 - We are publishing Synthetic Rating Over-Collateralization (SROC) monthly for all synthetic collateralized debt obligations. SROC is a key indicator of potential rating change.
 - We have launched the Ratings Review Triggers product for European RMBS.
- We will continue to look for additional methods of improving transparency and update the market on our actions.

Develop an identifier to the ratings of securitizations that will highlight to the market that: (a) the rating is on a securitization, and (b) the rating is on a new type of rating structure or securitization.

- We have developed a proposal for the identification of securitized ratings. We will publish a request for comment by mid-year asking for feedback. An update on next steps will be provided by Q3 2008.

EDUCATION: More Effectively Educating the Marketplace about Credit Ratings and Rated Securities

Publish a *Credit Ratings User Manual and Investor Guidelines* to promote better understanding of the ratings process and the role of ratings in the financial markets.

- S&P plans to distribute on its website a Ratings User Manual and Investor Guidelines in Q3 2008.

Broaden distribution of analysis and opinions via web and other media.

- We have broadened distribution of this data to include regulators, legislators and other market participants.
 - For example, we have produced a multimedia videocast, discussing the key highlights of S&P's most recent annual corporate default and transition study. The videocast and study were distributed free of charge on March 31 to roughly 30,000 institutional investors and other market participants.
 - We are improving users' ability to search for our criteria on our website. We are on schedule to release this enhancement by mid-year 2008.

- Released new RMBS Product Distribution Platform (available via <https://www.sp.sfproducttools.com/sfdist/>), which includes all of S&P's publicly available Residential Mortgage Backed Securities models
- Launched update of CDO Interface (available via <https://www.sp.cdointerface.com/CdoOnlineWeb/login.htm>), which provides greater transparency through increased reporting functionality and improved access to European and Asia/Pacific deal research
- We will continue to look for additional methods of broadening the distribution of our analysis and opinions and update the market on our actions.

Launch market outreach program to promote better understanding of complex securities S&P rates.

- We have recently begun meeting with Chief Investment Officers at top investment firms to discuss ways in which we can provide greater transparency on the complex securities we rate.
- In addition, S&P has recently expanded the production and distribution of its free podcasts and videocasts to provide broader market access to the perspectives of S&P's analytical staff.
- We will continue to look for additional methods to promote a better understanding of the complex securities we rate.

Establish an Advisory Council with membership that includes risk managers, academics and former government officials to provide guidance on addressing complex issues and establish topics for market education.

- We are identifying and recruiting members for an Advisory Council. We will begin meetings by year-end 2008.

Work with other NRSROs to promote ratings quality through the introduction of industry best practices and issuer disclosure standards.

- Standard & Poor's is part of a working group, together with other SEC-registered NRSROs who choose to participate. This group is responding to matters of regulatory concern, as appropriate, and implementing industry-wide proposals to help restore confidence in the credit rating industry.
- S&P is also working with the American Securitization Forum and other trade groups and industry organizations to establish best practices for disclosure in securitizations.