The Washington Times

CREDIT RATINGS INTEGRITY

By Vickie Tillman **April 18, 2008**

The current credit crunch has focused considerable attention on ratings firms and their role in the global capital markets. One issue that has been particularly scrutinized is the independence and integrity of credit ratings and the way in which ratings firms manage potential conflicts of interest.

Standard & Poor's recognizes that the issuer-pays model we have been using for the past 30 years may raise potential conflicts of interest. What is important is how we continue to manage such potential conflicts. In this regard, ratings firms are not unique. Potential conflicts of interest are common in the world of business, which is why companies in virtually every industry have stringent policies in place to manage them.

For example, The Washington Post sells ads to the very same people and businesses the paper reports on, much in the same way that S&P is paid by the issuers whose credit instruments we rate. And just like the Post and other reputable news outlets, which keep a strict "church and state" separation between their editorial and business operations to make certain that advertising dollars do not affect the editorial independence and integrity of the paper, S&P has rigorous policies in place to support the independence and integrity of our ratings.

These include: separating the analytical and commercial sides of our business; having all ratings assigned by committees; structuring our analysts' compensation so it is not dependent upon fees related to the ratings they assign; and prohibiting our analysts from owning, or trading in any securities they rate.

In addition, our ratings criteria are publicly available and consistently applied. Our ratings, and the analysis that goes into them, can be accessed at www.standardandpoors.com by anyone at any time. Our business model enables this broad distribution of — and access to — our data, and the very openness of our process acts as a rigorous check against any potential conflict.

Recently we announced additional steps to further support our independence, including: establishing an Office of the Ombudsman to address concerns relating to conflicts of interest and other issues raised by investors, issuers, employees or others in the financial community; engaging an external firm to conduct periodic, independent reviews 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; instituting periodic rotations for lead analysts; and implementing "look-back" reviews to ensure the integrity of ratings whenever an analyst leaves S&P's employ to work for an issuer.

We also have taken several actions designed to strengthen our analytics, better educate investors and improve transparency.

For example, going forward we will be complementing our ratings by highlighting non-default risk factors, such as liquidity, volatility, correlation, and recovery. These factors can influence the valuation and performance of rated securities, as well as portfolios comprising these securities. In addition, we are adding new surveillance capabilities that will enable S&P to better monitor the performance of collateral pools over time.

We also are stepping up our efforts to educate investors and other market participants to promote a better understanding of what ratings are and how they should be used. A rating is an independent opinion on the creditworthiness of a security — the likelihood that investors will receive their payments of principal and interest on time. A rating never constitutes a recommendation to buy, sell or hold. It is also not a guarantee of performance; even AAA-rated securities can default. It should be noted, however, that in the 30 years S&P has been rating residential mortgage-backed securities (RMBS), the percentage of defaults on our AAA-rated U.S. RMBS transactions is four one-hundredths of one percent (i.e., four out of every 10,000).

Finally, we are taking actions to provide greater transparency into our ratings processes and assumptions. Through such steps as developing an identifier to indicate that the rating is on a securitization, including "what if" scenario analysis in rating reports and enhancing transparency of the underlying collateral of a mortgage-backed security, S&P will make it easier for investors to understand the assumptions we make in determining a rating and to decide for themselves if a security matches their risk tolerance and investment objectives.

We have made significant progress in implementing these recently announced actions, and we look forward to continuing to engage with market participants and policymakers as we implement our enhancements and consider additional measures.

At Standard & Poor's, we bring a crucial independent and unbiased voice to the markets, a voice that is especially important during times of volatility, stress and uncertainty. Our ratings opinions are designed to bring transparency to the market to help facilitate access to capital in both developed and emerging markets around the world. This is precisely why we continually work to strengthen our governance and analytics, and to provide greater transparency and clarity about our ratings process and assumptions.

Market participants benefit from the types of value-added information that ratings firms provide. This information creates a level playing field and a common basis for analyzing risk. We have learned a great deal from recent challenges, and we will continue to work to build greater confidence in our ratings and to support the effective functioning of the financial markets.

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