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U.S. SECURITIES AND EXCHANGE COMMISSION

ROUNDTABLE TO EXAMINE OVERSIGHT OF CREDIT RATING AGENCIES

APRIL 15, 2009

Standard & Poor's Ratings Services ("S&P"), a registered nationally recognized statistical ratings organization ("NRSRO"), welcomes the opportunity to participate in the SEC's April 15, 2009 "Roundtable to Examine Oversight of Credit Rating Agencies". These are unprecedented times in the capital markets and confidence has been shaken by recent events. At S&P, our top priority is helping to restore investor confidence. We have undertaken a number of new initiatives in our ratings and are continuing to think of ways we can enhance our ratings process. We are also listening to investors, issuers, commentators, policy-makers, regulators and others for new ideas and approaches. We believe all of these entities need to play an active role in strengthening our markets. We are dedicated to doing our part.

This statement addresses four broad topics:

- The value of ratings to the markets, both over the years and on a going-forward basis, and the need to restore investor confidence in light of recent events;
- Steps we have been taking to increase market confidence in light of the serious dislocation in the capital markets and the challenges it poses for the American and global economies;
- The role of regulation in bringing confidence back in ratings, including the importance of broad solutions, globally consistent regulation, the preservation of analytical independence and an appropriate framework for ratings accountability; and
- Rating agency business models. Every business model has positive and negative aspects and some may work better for certain investors than others. In our judgment, the focus of regulation in this area should be on recognizing the benefits and costs of different models and working to ensure that potential conflicts are effectively disclosed and managed so that market participants can decide which rating firms and business models are appropriate for their needs.

The Value of Ratings and The Need To Restore Investor Confidence

While the performance of ratings on structured finance securities issued in the 2005-2007 period has been disappointing, it is important to recognize that this performance is not the norm, and that ratings have long played an important role across the full spectrum of the capital markets. S&P's ratings provide independent assessments as to the creditworthiness of securities and issuers. Importantly, ratings are an assessment of the relative likelihood of a default, and even 'AAA' ratings experience defaults, albeit at low levels historically. Investors use ratings, along with other tools, to help them differentiate credit risk among securities in a particular sector, across sectors, or around the world.

S&P's ratings are the product of an analytical organization spanning the globe and bringing to its analysis decades of experience. They also carry with them a strong overall track-record of performance over the years and across a variety of asset classes. That track record is publicly available in the default and transition studies published on our Web site, www.sandp.com. For example, over roughly the last 30 years, the average 10-year default rate for S&P's corporate investment grade ratings has been approximately 2.6%, with speculative grade debt defaulting on average approximately 23.9 percent of the time over that same period. The default rates for our structured finance ratings are similar: 2.6% and 21.3% for investment grade and speculative grade issues, respectively. In short, S&P's ratings have long provided meaningful insight to investors as they seek to differentiate credit risk.

That is not to diminish the recent disappointing performance of housing-related securities or the challenges that lie ahead. Action is clearly warranted. Having said that, we firmly believe that independent and high-quality credit analysis is no less valuable to the market now than it has been over the decades. Indeed, it is perhaps more valuable now given the significant shifts taking place in the markets. We believe ratings can and should continue to serve the need for independent, timely, and quality analysis in the future as they have in the past.

Market confidence is critical to the ability of ratings and rating agencies to perform those functions. That confidence has been shaken recently, and it needs to be restored. This will require both meaningful private initiatives and appropriate government action, such as the rules recently adopted by the SEC and its exercise of its oversight authority. It is imperative that all market participants take stock of what has happened and take whatever steps they can to promote market confidence. The focus of the remainder of this statement is on steps we have taken to further that goal, ways in which we think regulation is important, and our commitment to looking for, and listening to, new ideas to assist in the effort.

S&P's Initiatives To Enhance the Ratings Process and Promote Confidence

At S&P, we have been actively applying lessons from the current crisis to adopt a number of measures aimed at restoring investor confidence. These measures promote the core principles that guide our work, including transparency, governance, analytical quality, and responding to the needs of investors. Each of these is addressed further below with examples of recently implemented initiatives.

By “transparency” we mean doing things out in the open so they can be better understood and scrutinized. Transparency extends to both the way a rating firm operates (its policies, procedures, methodologies, etc.) and how it arrives at its analysis on particular ratings. Unlike some other rating firms, S&P has long made all of its public ratings available to the market free of charge in real time. We also regularly publish our criteria, methodologies, codes of conduct, and default and transition studies. We believe the value of our ratings is enhanced when the broad markets know how we arrived at our ratings and how they have performed over time. We are constantly looking at ways in which we can be more transparent. Some recent initiatives include providing weekly updates to the public regarding default and transition activity for structured finance securities backed by residential mortgages and publishing a “Guide to Credit Ratings Essentials” that provides important information about ratings and their role in the markets. Similarly, since August 2008 we have also regularly published a “Landmark Deal” report which summarizes new structures and major issues we are seeing as part of our work. More broadly, we have increased the amount of information we publish about the assumptions and stress tests we use in arriving at ratings in a variety of sectors.

By “governance”, we mean oversight of the ratings process through a system of checks and balances. S&P is committed to the integrity of our ratings process and to following the policies and procedures we have in place. We have been very active in this area and have taken a number of steps to ensure the integrity of our processes and to promote confidence in that integrity. For example, we have:

- Established criteria and quality assurance functions. These groups now report into the Chief Credit Officer and Chief Quality Officer, respectively, separate from the analytic groups within Ratings.

- Made a significant investment in our compliance functions. New personnel and resources have been added, including the appointment of a Chief Compliance Officer for all of Standard & Poor’s.

- Established an Office of the Ombudsman. The Ombudsman addresses concerns related to potential conflicts of interest and analytical and governance processes that are raised by issuers, investors, employees and other market participants across S&P’s businesses. The Ombudsman has oversight over the handling of all issues, with authority to escalate all unresolved matters, as necessary, to the CEO of McGraw-Hill and the Audit Committee of the Board of Directors.

- Implemented “look back” reviews to ensure the integrity of ratings, whenever an analyst leaves to work for an issuer.

- Instituted a rotation system for analysts.

- Established an enterprise-wide independent Risk Assessment Oversight Committee. The Committee will assess all risks that could impact the integrity and quality of the ratings process. This Committee will also assess the feasibility of rating new types of securities.

By “analytical quality” we mean the quality of the ratings analysis we do. Recent events have led us to institute a series of measures to build on and enhance our long tradition of analytical excellence through enhancements in our methodologies as well as the capabilities of our analysts. These include:

- Enacting a number of analytical enhancements. For example, in connection with our ratings on US Residential Mortgage-Backed Securities ("RMBS"), we have:

    - Enhanced criteria for mortgage originator and underwriting reviews that explicitly factor our view of the quality of mortgage originators' underwriting processes and guidelines, as well as their performance, into our ratings analysis of US RMBS.

    - Incorporating the results of third-party due diligence reviews into our ratings analysis of US RMBS. The criteria addresses the processes used to perform due diligence as well as certain loan-level results from that process.

    - Enhanced criteria with respect to the representations and warranties provided by mortgage loan originators and sellers concerning the mortgage loans backing the US RMBS that we rate, including representations concerning the accuracy of the information provided to S&P in the ratings process.

- Adopting criteria that expressly incorporate considerations of ratings stability into our analysis. Ratings stability refers to the speed at which the credit quality of certain securities can deteriorate as opposed to solely the question of their likelihood of ultimate default. Specifically, under our new criteria, if our analysis suggests that the credit quality of a particular security may experience rapid and significant deterioration, we will rate it lower than another security we see as having the same likelihood of ultimate default but higher stability.

- Increasing our analyst training programs, including implementing a certification program for ratings analysts and committee members.

- Creating a separate Model Validation Group to independently analyze and validate all models used in the ratings process, whether developed by S&P or provided by issuers.

- Implementing 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.

Last, but by no means least, by "responding to the needs of investors" we mean actively soliciting the views of investors and other users of ratings as to how we can increase the value of our ratings. While investor outreach has a long history at S&P, we have been expanding our efforts in this area recently. For example, we have issued a number of "Requests For Comment" to the market on a variety of ratings-related topics. Feedback from investors and others have led to a number of meaningful measures, including the criteria related to ratings stability discussed above. Likewise, in response to investor calls for more information about what may happen to rated securities under different market conditions, we are publishing "what if" scenarios, which address the potential credit consequences of a variety of conditions.

Investor feedback has led us not to make certain changes as well. For example, in 2008 we put out a Request For Comment on the potential for adopting an identifier on structured securities. The overwhelming majority of commentary we received from the market did not support the use of such an identifier. Accordingly, we have not, at this time, adopted a separate identifier for structured securities. We are, however, incorporating into our analysis certain non-default factors, some of which (for example, ratings stability) may apply more broadly in the structured finance area than elsewhere.

The process of investor interaction is ongoing. Just last month we published a Request For Comment on a series of potential changes to our criteria for rating CDOs backed by corporate debt. We expect to review in detail the comments we receive from the market and use those comments to inform our analytical criteria in this important area going forward.

The Role of Regulation In Restoring Market Confidence

In addition to the need for private sector action, we believe strongly that regulation can and should have an important role in restoring market confidence in ratings. Recently, some have called for increased regulation of rating agencies in light of the poor performance of structured finance securities issued between the middle of 2005 and the middle of 2007, the years in which "subprime" lending reached its peak. While it is important to keep in mind that virtually all of these structured finance ratings were issued prior to the establishment of the current regulatory framework under The Credit Rating Agency Reform Act of 2006 ("CRARA"), S&P shares the view that further regulation, appropriately crafted, can serve the goal of restoring and maintaining investor confidence.

As discussed in this section, appropriate regulatory oversight can provide a level of comfort to investors that policies are being disclosed and enforced and that there is consistency and integrity in the ratings process. Regulations regarding the use of ratings can also promote appropriate use of ratings, increase investor choice and guard against "ratings shopping" by issuers.

<u>Regulatory Oversight</u>

We have given much thought to potential regulatory measures and have been actively expressing our views. Last month, we published an article entitled "Toward a Global Regulatory Framework for Credit Ratings" that lays out how a regulatory framework for ratings that recognizes their place in the broader markets might work. A copy of the article is available publicly at: http://www2.standardandpoors.com/spf/pdf/media/GlobalRegReport.pdf. The article addresses a number of specific proposals that could play a role in a global regulatory framework. Three of the more critical areas — the value of having "end-to-end" regulatory solutions with respect to the ratings process, the importance of international consistency, and the need to maintain analytical independence — are addressed in more detail below. A fourth area, accountability, is discussed later in this statement.

First, from our perspective any regulatory approach regarding ratings should include "end-to-end" solutions. In other words, regulation should cover all aspects of the capital markets that, taken together, contribute in a systemic way to their functioning. In structured finance, this would include not just ratings, but appropriate regulation related to the origination and pooling of assets, the structuring and underwriting of securities, the management of collateral held by a structured vehicle, and the marketing of securities. An "end-to-end" focus is important in avoiding the unintended consequences that too often result from a piecemeal approach. With respect to ratings, an appropriate regulatory framework should cover not just rating firms, but also those entities that can play a role in promoting the quality of ratings and their appropriate use. For example, an important factor in ratings quality is the reliability and accuracy of information available to be analyzed. That information is not generated by rating firms, but by others — *i.e.*, corporations, mortgage originators, underwriters, and others. Still others, such as professional audit firms in the corporate world and third-party due diligence firms in connection with certain structured finance securities, are responsible for reviewing that information and verifying it. In our view, these entities and the roles they perform should be a part of any regulatory approach for all market participants.

Second, we also believe international consistency is critical to an appropriate regulatory framework. Ratings are issued and used globally. This reflects one of their many benefits — their ability to provide a common language for credit analyzing risk. However, it also underscores the importance of a consistent approach to the regulation of ratings around the world. A rating produced under one set of regulations may not mean the same thing or address the same risks as one produced under another if those regulations are not compatible. Inconsistent ratings regulation could actually promote uncertainty in the markets, at a time when it can be least afforded. To that end, we believe the G20's recent comments about the need for international consistency, and the model code of conduct published by the International Organization of Securities Commissions ("IOSCO') as a possible blueprint in that regard, are constructive.

Third, as noted, we believe analytical independence is a fundamental principle. At its core, a rating is an analytical determination. It results from a group of experienced professionals analyzing a set of facts and forming a judgment as to what might happen in the future. For the markets to have confidence in those ratings, they must be made independently. That means, of course, that they must be free of undue commercial considerations — and S&P is fully committed to that principle — but it also means that they must truly reflect the substantive views of the analysts making them, not the dictates of a regulator, legislator, or other external authority. Indeed, the key value of ratings is their independence from undue influence. Analytical independence is also critical in furthering analytical innovation based on experience. Accordingly, we would be extremely concerned about regulatory measures that could lead analysts to make judgments not based upon their own independent views, but rather out of a desire to avoid subsequent second-guessing by regulators or others.

The Use of Ratings in Regulations

Some have also asked whether ratings should be used in regulations and investment guidelines. S&P has not advocated for inclusion of its ratings in any regulation or guideline. However, we do believe that if legislators and regulators choose to incorporate ratings in their rules as benchmarks to measure creditworthiness, then the use of additional benchmarks may also be warranted. Ratings address creditworthiness. While important, creditworthiness is only one of many factors an investor may consider in making decisions. Other factors, such as market price, volatility and liquidity, can play significant roles.

Ratings do not speak to the suitability of rated securities for investors. This is a key point. We believe the use of ratings in regulation can be beneficial, but ratings should not be used as a proxy for investment suitability. Any use of them should instead be tailored to their limited, yet still important, nature. Other benchmarks should be employed to address additional factors. For example, there may be additional appropriate benchmarks for market participants to choose from – whether in regulations, investment guidelines, or private agreements – that would protect against "credit cliffs" (*i.e.*, situations in which a deterioration in credit quality can occur quickly and without forewarning) or that speak to market price volatility.

Ratings Shopping

Another potentially productive area for regulation concerns "ratings shopping." Ratings shopping can occur when issuers "shop" around to different rating firms in search of the highest rating for their debt, even if that rating may not truly reflect the credit risk of that debt. Ratings shopping is a serious concern for S&P and for the markets more broadly as it can lead to a deterioration in investor confidence in ratings. Regulation regarding how investors use ratings and/or providing for increased disclosure by issuers about their interactions with ratings firms could help mitigate this issue.

Competitive Choice

Regulatory action can also increase investor choice and thereby competition. This was a primary goal of the CRARA. We believe that goal has been significantly advanced in the short time since the CRARA became effective in the second half of 2007. Indeed, the number of NRSROs has grown to ten, double what it was at the time the CRARA was enacted. Moreover, NRSROs are now required to disclose detailed performance data about their ratings, which facilitates comparisons and promotes more informed decisions. Going forward, we expect the number of NRSROs to continue to grow under the CRARA, providing still more options for investors.

Ratings Accountability

We also believe in accountability. A workable accountability framework is important because it provides investors with comfort that rating firms are following their policies and that the ratings process has integrity. Currently, NRSROs are accountable to investors and the public in three principal ways.

- First, they are accountable through the regulatory process. Not only can the SEC censure them and revoke their NRSRO standing, but NRSROs can also be fined for violations of the securities laws.

- Second, NRSROs, like other market participants, are also accountable through private litigation if they violate the securities laws.

- Lastly, and critically, NRSROs are accountable to the market for the performance of their ratings through their reputations. The markets will not long use the ratings of an NRSRO with a reputation for compromised independence and analytics.

Some have recently called for increased NRSRO accountability. In connection with our commitment to restoring investor confidence, S&P would be interested in evaluating any specific proposals on that issue, including proposals that may include consideration of ratings performance. However, we believe accountability measures must take into account the nature of ratings and the importance of preserving analytical independence. Ratings are forward-looking assessments that speak primarily to the relative likelihood of a future default. Some percentage of rated instruments and entities, even some that are highly rated, will inevitably default. That does not mean the ratings were inappropriate. Yet the temptation exists — particularly for investors who held defaulted securities — to conclude automatically that the rating agency did something "wrong" in such circumstances. Accountability standards that allowed for second-guessing of judgments made in good faith could have the unintended consequences of compromising the independence of those judgments (to prevent against fear of later criticism) and hindering analytical innovation, both of which would be harmful to the markets as a whole. Accordingly, we strongly believe that any accountability measures should focus on an NRSRO's adherence to its policies and procedures, not on second-guessing ratings judgments through regulatory action or private litigation. That is why S&P believes the appropriate approach to accountability is through a regulatory process designed to promote the adoption and application of such policies and procedures.

Business Models and Ratings Integrity

The question of how rating firms get compensated has also received a significant amount of recent attention. Primarily this attention relates to three business models: the "issuer pays" model employed by the majority of NRSROs, the "subscriber pays" model used by the remainder, and a possible "government utility" model where a rating organization would be paid and/or administered by the government, possibly by charging fees to investors. We believe each of these models has strengths and weaknesses with respect to the qualities market participants are looking for from ratings:

1. **Transparency —** whereby all public ratings, as well as the methodologies and assumptions used in arriving at them, are available to all investors, large and small, without charge and at the same time;

2. **Independence** — ratings that are free from conflicts of interest because rating firms are independent of issuers, investors and governments. This independence should be achieved through regulatory oversight of policies, processes and procedures and robust competition;

3. **Quality —** ratings that are based on sound, consistently applied methodologies that take account of real world trends and avoid undue reliance on any particular approach;

4. **Coverage —** broad and consistent coverage of a wide range of securities from entities across multiple geographies and of varying sizes; and

5. **Scrutiny —** on-going analysis so that a rated security is surveilled over time and upgraded or downgraded, as appropriate in a timely manner.

With these factors in mind, the costs and benefits we see in each business model are summarized below.

On transparency, the issuer-pays and the government utility model are likely to provide the most transparency. Ratings access under a subscriber-pays model is necessarily limited to paying subscribers, and exclusive use of this model is likely to result in a significant decline in the overall volume of information available to the marketplace. Furthermore, if a subscriber-pays rating firm decided to downgrade a company and only made that information available to its paying clients, potentially market-moving information would not be readily available to other investors, thereby increasing information asymmetry and market inefficiency.

On independence, the potential for conflicts of interest becomes a concern in any business model where money changes hands. We have often heard that it may be in the interest of issuers to achieve high ratings in order to reduce the cost of borrowing capital, but it is similarly in the interest of investors (who constitute most subscribers) that high quality securities have lower initial ratings because they yield higher returns. In the subscriber-pays model, it is possible to envision a small number of large investors representing enough of a "bloc" to attempt to put significant pressure on the ratings process. In a government utility model, to what extent would governments – as issuer, investor, and overall governor and regulator of the economy – possess their own interest in ratings decisions? Would governments, for example, have a natural interest in protecting or growing issuer companies with an important role in the national economy? And in the case of sovereign ratings, what would it take to convince any market participant of the objectivity of a government that found itself in the untenable position of effectively rating itself?

Theoretically, the quality of ratings can be similar across alternative business models. For a government utility model, the question is would all national governments make similar commitments to invest the resources and time required to rate trillions of dollars worth of debt?

With respect to scope of coverage, to date firms using the subscriber-pays model have often focused on established entities or sectors – placing unique barriers in the way of new entrants seeking financing in the capital markets. In a subscriber-pays model the incentive is to provide a rating when a paying customer demands it. What happens to the coverage of that credit when the customer no longer requests the rating? As investor appetite shifts from country to country, the changing needs of the limited subscriber base may not match the overriding goal of the marketplace for consistent information across asset classes, geography and time.

Although the goal of the government utility would be to provide maximum coverage, there is the question of whether, for example, non-U.S. issuers would accept a U.S. government sponsored rating, or whether a public utility in one country would have any mandate to rate securities in another country. In addition, if global coverage and consistency could not be achieved via a government-sponsored vehicle, the goal of using ratings as a common credit tool on a global scale would be defeated. If different governments were to analyze the same issue or issuer differently, the markets could lose clarity and consistency as to the relevance of a given rating on a global basis.

The issuer-pays model facilitates the highest level of coverage. In the case of S&P, our ratings cover the overwhelming majority of debt obligations and preferred stock publicly issued and traded in the United States, and we have issued ratings on debt securities in more than 100 countries. The issuer-pays model also allows new entrants to the capital markets with which investors may not be familiar to obtain a rating in connection with efforts to raise capital – resulting in more ratings on more securities to the benefit of the market as a whole. And it enables S&P to publish a large volume of non-rating related analysis on a wide range of subjects to the marketplace at no charge.

On-going surveillance and market scrutiny provides an important check on rating firms regardless of their business model. In a subscriber-pays model, market scrutiny is limited to paying clients. This limits the broader market's ability to compare ratings or assess a firm's long-term performance against its competitors, an important quality driver. Similarly, exclusive use of the subscriber-pays model could limit competition if subscribers faced with a cost burden choose to subscribe to only one rating firm. Presumably, the government utility model would be subject to the same type and degree of scrutiny that rating firms using the issuer-pays model receive today and will continue to receive under regulations enacted in the future.

We at S&P are committed to meeting the investor needs outlined above, including in the critical areas of independence and quality. The evidence underscores the primacy of our commitment. As noted earlier, our overall track record over the many years we have been issuing ratings has been consistently strong. Similarly, S&P has a history of refusing to countenance "ratings shopping". S&P has refused to rate whole categories of transactions — including in the structured finance area — when those transactions did not meet our analytical criteria. S&P also maintains rigorous policies and procedures around the integrity of our analytical processes through a number of checks and balances. For example, S&P's professionals are not now, and have never been, compensated based upon the amount of revenue we receive from the issuers or issues they rate. Nor do rating analysts negotiate fees. As noted earlier, we have also recently instituted periodic rotations for rating analysts as well as "look back" procedures when rating analysts leave our firm to work for an issuer. We have a quality control group separate from our analytical ratings teams and, most importantly, ratings decisions are made by committees. Taken together, we believe these measures provide robust safeguards against the potential conflict of interest inherent in our business model.

In short, there are strengths and weaknesses in each model. We believe the key is not to choose one model over the others, but rather for regulators to provide oversight of rating firms using these different models and allow market participants to choose the firms that best serve their particular needs. The market is large and diverse with different investors having distinct needs.

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As stated earlier, our number one priority at S&P is doing what we can to help restore investor confidence in ratings and the markets more broadly. We continue to look at our processes, learn from recent developments, and listen to investors as part of our ongoing efforts to promote transparency, independence, quality and other core principles of our ratings approach. We continue to work on ways to strengthen accountability and transparency and to incorporate further the voice of the investor into our processes. We thank you for the opportunity to participate in the April 15th Roundtable and look forward to a productive discussion. We would also appreciate the opportunity to submit additional comments after the Roundtable to address issues raised during the event, as appropriate.