

## **A.G. Schneiderman Settles With Standard And Poor's Over CMBS Credit Ratings**

S&P Failed To Adhere To Its Own Published Criteria For Rating Securities

Settlement Achieved As A Result Of Joint Investigation With The SEC, Massachusetts Attorney General; Includes \$12 Million In Penalties For New York

Nearly \$80 Million Announced Today In Settlements With S&P

NEW YORK – Attorney General Eric T. Schneiderman today joined the United States Securities and Exchange Commission (“SEC”) and the office of the Massachusetts Attorney General in announcing a settlement with Standard and Poor’s Financial Services LLC (“S&P”) regarding false and misleading statements made by S&P in connection with its rating of certain Commercial Mortgage Backed Securities (“CMBS.”) From February 2011 to July 2011, S&P loosened the criteria it applied to rate eight CMBS, failed to disclose this fact to investors, and misled market participants into thinking that the ratings for their investments were based on more conservative assumptions than was actually the case.

As a result of Attorney General Schneiderman’s investigation, S&P has agreed to pay New York a penalty of \$12 million and to cease and desist from committing violations of the Martin Act and Executive Law § 63(12). Massachusetts will receive \$7 million in penalties; while the SEC will receive \$35 million in penalties as well as \$7 million in disgorgement and interest for these eight CMBS ratings. Finally, S&P has agreed to refrain from rating any new U.S. CMBS conduit/fusion transaction for a period of twelve months.

Also today, the SEC resolved two other matters related to Standard & Poors. In all, nearly \$80 million in settlement agreements were announced today between S&P and the three government entities.

“In the wake of the housing crisis and the collapse of the global economy, credit agencies like S&P promised not to contribute to another bubble by inflating the ratings on products they were paid to evaluate. Unfortunately, S&P broke that promise in 2011, lying to investors to increase their profits and market share,” said **Attorney General Schneiderman**. “Today’s joint actions are an unprecedented effort to hold a ratings agency accountable for upholding its basic responsibility—to provide rigorous and honest ratings to investors. I thank the SEC and the Massachusetts Attorney General’s office for their terrific work in this case.”

“Investors rely on credit rating agencies like Standard & Poor’s to play it straight when rating complex securities like CMBS,” said **Andrew J. Ceresney, Director of the SEC Enforcement Division**. “But Standard & Poor’s elevated its own financial interests above investors by loosening its rating criteria to

obtain business and then obscuring these changes from investors. These enforcement actions, our first-ever against a major ratings firm, reflect our commitment to aggressively policing the integrity and transparency of the credit ratings process.”

As part of the settlement, S&P admitted specific facts concerning its misrepresentations and omissions in connection with its rating of CMBS.

In the aftermath of the 2008 financial crisis, S&P represented to investors that it had tightened the standards it used to provide credit ratings, and had adopted strict analytical independence that was free from commercial considerations. Between February and July 2011, in connection with its ratings for eight “conduit/fusion” CMBS, S&P publicly told investors that its ratings were based on specified, conservative criteria for calculating the debt service coverage ratio, an important factor that relates to the protection afforded to investors. S&P was paid approximately \$7 million to rate and conduct surveillance on six of those transactions.

However, contrary to its representations, S&P departed from its published criteria and calculated the debt service coverage ratio, a key component in determining credit ratings, in a manner that was less conservative, provided less investor protection, and made its ratings more attractive to fee-paying issuers. As such, S&P misled market participants into thinking that the ratings for their investments were better and that their investments had more protection than was actually the case.

Investors depend on the credit ratings issued by credit rating agencies, including those issued by S&P, in making decisions relating to buying and holding investments such as CMBS. S&P’s statements regarding its ratings for the eight CMBS at issue were false and misled investors. If S&P had used the criteria it disclosed to investors, it would have afforded additional protection to those investors.

Attorney General Schneiderman appreciates the successful collaboration with the SEC and the Massachusetts Attorney General’s office on this matter, which has produced an outstanding result for the investing public.

This matter was led by Chief of the Investor Protection Bureau Chad Johnson, Senior Enforcement Counsel for Economic Justice Steven Glassman, and Assistant Attorneys General in the Investor Protection Bureau Christine Stecura and Melissa Gable. The Division of Economic Justice is led by Executive Deputy Attorney General Karla G. Sanchez.

Groups audience:  
Investor Protection Bureau

- Español

