PRESS RELEASE

SEC Announces Charges Against Standard & Poor's for Fraudulent Ratings Misconduct

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Washington D.C., Jan. 21, 2015 —

The Securities and Exchange Commission today announced a series of federal securities law violations by Standard & Poor's Ratings Services involving fraudulent misconduct in its ratings of certain commercial mortgage-backed securities (CMBS).

S&P agreed to pay more than $58 million to settle the SEC's charges, plus an additional $19 million to settle parallel cases announced today by the New York Attorney General's office ($12 million) and the Massachusetts Attorney General's office ($7 million).

"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."

The SEC issued three orders instituting settled administrative proceedings against S&P. One order, in which S&P made certain admissions, addressed S&P's practices in its conduit fusion CMBS ratings methodology. S&P's public disclosures affirmatively misrepresented that it was using one approach when it actually used a different methodology in 2011 to rate six conduit fusion CMBS transactions and issue preliminary ratings on two more transactions. As part of this settlement, S&P agreed to take a one-year timeout from rating conduit fusion CMBS.

Another SEC order found that after being frozen out of the market for rating conduit fusion CMBS in late 2011, S&P sought to re-enter that market in mid-2012 by overhauling its ratings criteria. To illustrate the relative conservatism of its new criteria, S&P published a false and misleading article purporting to show that its new credit enhancement levels could withstand Great Depression-era levels of economic stress. S&P's research relied on flawed and inappropriate assumptions and was based on data that was decades removed from the severe losses of the Great Depression. According to the SEC's order, S&P's original author of the study expressed concerns that the firm's CMBS group had turned the article into a "sales pitch" for the new criteria, and that the removal of certain information from the article could lead to him "sit[ting] in front of [the] Department of Justice or the SEC." The SEC's order further finds that S&P failed to accurately describe certain aspects of its new criteria in the formal publication setting forth their operation. Without admitting or denying the findings in the order, S&P agreed to publicly retract the false and misleading Great Depression-related study and correct the inaccurate descriptions in the publication about its criteria.

"These CMBS-related enforcement actions against S&P demonstrate that 'race to the bottom' behavior by ratings firms will not be tolerated by the SEC and other regulators. When ratings standards are compromised in pursuit of market share, a firm's disclosures cannot tell a different story," said Michael J. Osnato, Chief of the SEC Enforcement Division's Complex Financial Instruments Unit.

A third SEC order issued in this case involved internal controls failures in S&P's surveillance of residential mortgage-backed securities (RMBS) ratings. The order finds that S&P allowed breakdowns

in the way it conducted ratings surveillance of previously-rated RMBS from October 2012 to June 2014. S&P changed an important assumption in a way that made S&P's ratings less conservative, and was inconsistent with the specific assumptions set forth in S&P's published criteria describing its ratings methodology. S&P did not follow its internal policies for making changes to its surveillance criteria and instead applied ad hoc workarounds that were not fully disclosed to investors. Without admitting or denying the findings in the order, S&P agreed to extensive undertakings to enhance and improve its internal controls environment. S&P self-reported this particular misconduct to the SEC and cooperated with the investigation, enabling the Enforcement Division to resolve the case more quickly and efficiently and resulting in a reduced penalty for the firm.

The SEC's orders find that S&P violated Section 17(a)(1) of the Securities Act (fraud), Section 15E(c)(3) of the Securities Exchange Act (internal controls violations), Securities Exchange Rules 17g-2(a)(2)(iii) (books and records violations), Rule 17g-2(a)(6) (books and records violations), and 17g-2(a)(2)(iii) (failure to maintain records explaining differences between numerical model output and ratings).

In a separate order instituting a litigated administrative proceeding, the SEC Enforcement Division alleges that the former head of S&P's CMBS Group fraudulently misrepresented the manner in which the firm calculated a critical aspect of certain CMBS ratings in 2011. Barbara Duka allegedly instituted the shift to more issuer-friendly ratings criteria, and the firm failed to properly disclose the less rigorous methodology. The matter against Duka will be scheduled for a public hearing before an administrative law judge for proceedings to adjudicate the Enforcement Division's allegations and determine what, if any, remedial actions are appropriate.

The SEC's investigation was conducted by the Enforcement Division's Complex Financial Instruments Unit and led by John Smith in the Denver office, Robert Leidenheimer and Lawrence Renbaum in the Washington D.C. office, and Joshua Brodsky in the New York office with assistance from Daniel Nigro and Judy Bizu. The litigation against Duka will be led by Stephen McKenna of the Denver office. The cases were supervised by Laura Metcalfe, Reid Muoio, and Mr. Osnato. The Enforcement Division worked closely with the SEC's Office of Credit Ratings in these matters, particularly Thomas Butler, Michele Wilham, Natasha Kaden, Julia Kiel, Kenneth Godwin, and David Nicolardi.

The SEC appreciates the assistance of the New York Attorney General's office and the Massachusetts Attorney General's office.

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