

STANDARD & POOR'S

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.
- 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 its ratings.
- 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.
- 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.
- 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.
- Implement "look back" reviews to ensure the integrity of prior ratings, whenever an analyst leaves to work for an issuer.
- Institute periodic rotations for lead analysts.
- Increase the level of existing employee training to ensure compliance with policies.

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
- 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.

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

Information: Providing Greater Transparency and Insight to Market Participants

- Simplify and provide broader market access to ratings criteria, underlying models and analytical tools.
- 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.
- 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.
- More broadly disseminate long- and short-term rating performance data.
- Better explain the comparability of ratings across asset classes/issuer types (structured vs. corporate vs. government).
- 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.
- Enhance access to S&P’s code of ethics and disclosures through a link to the Global Regulatory Affairs section of www.standardandpoors.com.
- Establish greater minimum portfolio disclosure criteria for structured securities servicers (e.g. ABCP and SIVS).
- 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.
- 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.

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.
- Broaden distribution of analysis and opinions via web and other media.
- Launch market outreach program to promote better understanding of complex securities S&P rates.
- 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.
- Work with other NRSROs to promote ratings quality through the introduction of industry best practices and issuer disclosure standards.

S&P's current policies and practices

Governance: Independence and Quality of Ratings

- Ratings decisions are always made by committees.
- Personnel who are involved in commercial activities may not vote on a rating committee.
- Analysts' compensation is not linked to number of ratings an analyst is involved in, nor is it linked to the revenues or profits attributable to an analyst's ratings work.
- Existing policies prohibit analysts from providing consulting or advisory services or participating in structuring transactions.
- Separate group determines appropriateness of rating new structures; periodically declines to rate securities that do not meet S&P Ratings' criteria.
- Existing policies restrict analysts' ownership of, and trading in, securities they rate and restrict information sharing by rating analysts.
- A Policy Governance Group exists that develops policies and ratings guidelines designed to preserve and enhance the integrity of S&P's ratings process.
- Analyst performance measurements are used to align compensation with quality and compliance
- A strong compliance function has been instituted in the S&P Ratings organization.

Analytics and Surveillance

- Ratings focus exclusively on creditworthiness/probability of default.
- Responsibility for surveillance of residential mortgage-backed securities (RMBS) and collateralized debt obligation (CDO) ratings lies with a separate group from the initial ratings.

Information: Transparency and Consistency

- Ratings track record updated and made publicly available, published annually with 30+ years of historic performance for Structured, Corporate and Government ratings.
- Structured finance models and underlying data are made available to investors and issuers.

Education and Outreach

- Rating criteria available on www.standardandpoors.com
- Public input and comment solicited for all new criteria and models.
- Research and rating actions released through the media.