



---

## Issue Brief: NRSROs' Fictitious China Sovereign Credit Ratings

Referencing:

American Bondholders Foundation and the U.S. Foreign Bondholders Protective Council

**Defaulted Debt** The government of China (PRC) remains in default on the Chinese government's full faith and credit sovereign debt. The debt is the repayment obligation of the PRC (under the successor government doctrine of international law), which refuses to repay American citizens. The refusal to repay the debt is a deliberate action of the PRC government.

**PRC Actions** The PRC engages in the following actions:

- i) Repudiation of the debt;
- ii) Discriminatory settlement with citizens of Great Britain;
- iii) Maintains a posture of selective default regarding the debt;
- iv) Exclusionary and preferential payments to certain creditors; and
- v) Rejection of the successor government doctrine of international law.

**NRSRO Actions** The three primary NRSROs, collectively controlling 95% of the industry, publish and distribute false "investment grade" sovereign credit ratings assigned to the government of China, and which are provably false in comparison to the actions of the government of the People's Republic of China. The artificial ratings enable the Chinese government to evade repayment of U.S. bondholders' claims. By assigning artificial ratings to China, the NRSROs violate their own rating methodologies, as shown below:

- i) Intentionally (in the face of constructive notice) violate their published metrics, e.g., evaluation of the debtor's willingness to repay debt (see Exhibit A); and
- ii) Intentionally (in the face of constructive notice) violate their published criteria, e.g., definitions of prevailing ratings vs. truthful rating of "selective default" (see Exhibit B).

**Motivation** The three primary NRSROs obtain revenue from rating corporations and sovereigns that issue debt. By maintaining an artificial "investment grade" sovereign rating for China, which conceals China's defaulted debt, the rating agencies reduce the costs for Chinese corporations to engage in international financing, thereby setting the stage for windfall ratings profits (see Exhibit C).

**Injury** The wrongful actions of the NRSROs conceal both the Chinese government's defaulted sovereign debt as well as the actions of the government of the PRC with respect to its treatment of its creditors, and enable the Chinese government to evade repayment of its defaulted sovereign debt.

**Public Danger** The wrongful actions of the three primary NRSROs, evidenced through the publication of credit ratings which are neither credible nor accurate, represent the application of a reckless standard of care and pose the risk of propagation of yet another credit market contagion.

**Information** <http://www.globalsecuritieswatch.org/congress-resource.html>

- Exhibit A**            **Published Metrics** (e.g., evaluation of a debtor's willingness to pay)  
[http://www.globalsecuritieswatch.org/S&P\\_Sovereign\\_Ratings\\_Methodology](http://www.globalsecuritieswatch.org/S&P_Sovereign_Ratings_Methodology)
- Exhibit B**            **Published Criteria** (e.g., definitions of credit rating classifications)  
[http://globalsecuritieswatch.org/Sovereign\\_Ratings\\_Definitions\\_and\\_Criteria](http://globalsecuritieswatch.org/Sovereign_Ratings_Definitions_and_Criteria)
- Exhibit C**            **Moody's Promotion** (soliciting Chinese corporations to issue debt utilizing  
China's "investment grade" sovereign credit rating)  
<http://globalsecuritieswatch.org/Moody's-Promotion.pdf>