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February 1, 2008

Honorable Richard Blumenthal
Attorney General for the State of Connecticut
Office of the Attorney General
55 Elm Street
Hartford, Connecticut 06106

Re: **Wrongful Actions of the Credit Rating Agencies**:

1. SEC Enforcement Failure; Distortion of True Credit Risk; and Propagation of Credit Market Contagion:
   a) Actions Evidencing the Application of a Reckless Standard of Care;
   b) Intentional Misapplication of Published Metrics and Criteria;
   c) Intentional Violations of the Investment Advisers Act; and
   d) Intentional Violations of SEC Published NRSRO Standards.
2. Compelling Need for Enforcement Action.
3. No "Implied Immunity" Defense Available to the NRSROs.

Dear Mr. Blumenthal:

We are informed that the Office of the Attorney General for the State of Connecticut is presently conducting an investigation into whether the three primary credit rating agencies may be operating in violation of Connecticut's antitrust laws. We desire to bring to your attention certain information which we believe to be directly relevant to your investigation.

We have conducted an extensive, independent investigation into the business practices of the three primary NRSROs with respect to China's contrived sovereign credit rating and the deceitful actions of the international credit rating agencies, involving the intentional and self-serving misapplication of published metrics (e.g., willingness to pay) and published criteria (e.g., definitions of rating classifications) by the three largest credit rating agencies in the instance of China (a debtor presently in default on $260 billion of full faith and credit sovereign obligations and which continues to engage in exclusionary, preferential and discriminatory payments to creditors). Based on the results of our research, we believe that an enforcement action is warranted. Accordingly, we have presented our findings to the Chairman of the U.S. Senate Finance Committee and the Chairman of the U.S. Securities and Exchange Commission.

In our view, any claim that the Credit Rating Agency Reform Act of 2006 (P.L. 109-291) established a regulatory regime for the NRSROs is demonstrably false. The stated purpose of the act is to "increase competition" within the industry. We further believe this stated purpose to be disingenuous, as we observe the credit rating industry to comprise an entrenched oligopoly with the "Big Three" firms controlling 95% of the market. Easing the entry of would-be competitors into the industry is not likely to harm the existing market share enjoyed by S&P, Moody's and Fitch. During the course of our investigation, we spoke with Mr. Sean Egan, co-founder of Egan-Jones Ratings Company, who described the credit ratings industry as "an absolutely closed-shop industry". We would recommend Mr. Egan as an industry insider who may offer value as an expert witness.

The internal memorandum prepared by the SEC staff (July 29, 2005, copy enclosed, wherein the SEC disclaims any regulatory mandate over the credit rating agencies) deprives the credit rating agencies of an implied immunity defense as respects an antitrust enforcement action, and the 2006 Act clearly does not establish a regulatory regime for the agencies.

It would also appear that S&P and Moody's are paying lobbyists $2 million per year to oppose any legislation which would impose supervision over the agencies' practices:

http://www.egan-jones.com/publicdocs/welling_egad_egan.pdf

This circumstance acts to imbue greater importance to initiatives pursued by the various states. We therefore strongly encourage that consideration be accorded a multi-state enforcement action targeting the wrongful and abusive practices of the "Big Three" credit rating agencies. Thank you for allowing us the opportunity to present the enclosed materials to your kind attention.

Sincerely,

Kevin O'Brien
KO:jwc

Enclosures

Addenda

[Excerpt of letter to Mr. Jim Cramer at CNBC]

Re: Injustice for Individual Americans as Wall Street Cashes In.

Dear Jim,

Thank you for your frank and honest exposé regarding the fiction propagated by the international credit rating agencies (CNBC's "Squawk Box")!

As the enclosed materials reveal, phony credit ratings assigned to the bond insurers are far from the only example of self-serving fiction perpetrated by the rating agencies in their unmitigated pursuit of windfall profits. I refer to the assignment of knowingly and demonstrably false sovereign credit ratings to the Chinese government by the "big three" rating agencies (S&P, Moody's and Fitch):

1. China owes American bondholders $260 billion which it refuses to repay, although it repaid British bondholders (see 1, below).

2. Even though China has over $1 trillion in reserves and receives over $40 billion in interest payments from U.S. taxpayers each year, the Chinese government avoids repaying their bonds because the credit rating agencies give China a phony "investment grade" credit rating which conceals the fact of default (see 2, below).

3. The credit rating agencies refuse to acknowledge China's defaulted sovereign debt so that they can generate substantial ratings revenue from Chinese corporations which sell bonds in reliance upon China's phony sovereign credit rating (see 3, below).

4. The SEC refuses to regulate the credit rating agencies (see 4, below).

5. Some Members of Congress are doing what they can to bring justice on the matter for Americans (see 5, below).

6. President Bush and ex-Goldman Sachs Treasury Secretary Hank Paulson ignore their pleas and are thus complicit in the fraud (see 6, below).

7. A lawsuit against the Chinese government seeking repayment of its full faith and credit sovereign debt was dismissed by a federal judge who was subsequently exposed as a stakeholder in a law firm representing the Chinese government (see 7, below).

8. The actions of the Chinese government in tandem with the credit rating agencies represents an unprecedented global financial swindle (see 8, below).

References

1. SEC Complaint: http://www.globalsecuritieswatch.org/Amended_SEC_Complaint.pdf
2. Legislative Brief: http://www.globalsecuritieswatch.org/Legislative_Brief.pdf
3. Forbes Article *China's Unfair Advantage*:
http://www.globalsecuritieswatch.org/press.html
4. *World News* Article: http://www.globalsecuritieswatch.org/world-news.pdf
5. *Congress Acts to Halt the Selling-Out of America*:
http://www.globalsecuritieswatch.org/press_release_06/07/07.pdf
6. Washington Times Editorial (note: their title, not mine!):
http://www.globalsecuritieswatch.org/Washington_Times_Editorial.pdf
7. Judicial Watch:
http://www.globalsecuritieswatch.org/Judicial_Watch_Letter_(with_Attachments).pdf
8. Letter to Sen. Chris Dodd:
http://globalsecuritieswatch.org/Chris_Dodd_Letter_Final.pdf

See also: http://globalsecuritieswatch.org/SenatePolicyBrief.pdf

Thank you for your kind attention to this injustice.

CFO.com

Connecticut Goes after Ratings Agencies

The state's Attorney General has launched an antitrust investigation of S&P, Moody's, and Fitch.

Alan Rappeport, CFO.com | US
October 26, 2007

The Attorney General of the State of Connecticut , Richard Blumenthal, has issued subpoenas to credit-rating agencies Standard & Poor's, Moody's, and Fitch as part of an antitrust investigation into the industry, he confirmed Friday in a statement.

"The debt rating industry is a highly concentrated market controlled by a handful of companies," said Blumenthal.

The legal move became public knowledge in a filing by the McGraw-Hill Cos., owner of S&P, which noted that it was responding to a subpoena alleging that the agency violated the Connecticut Antitrust Act.

The subpoenas come as rating agencies have faced intense scrutiny for their role in the recent subprime-mortgage crisis; for having a monopoly in the market for ratings; and for issuing ratings that could potentially benefit their businesses, under the protection of free speech. As fallout from defaulting subprime mortgages has spread, some have accused the rating agencies of inflating the grades they apply to debt. The Securities and Exchange Commission is investigating whether ratings firms face pressure from Wall Street to give mortgage bonds high ratings.

"Without a good credit rating, many loans cannot be made," said Blumenthal. "My investigation seeks to determine whether credit-rating agencies may be exploiting their dominant positions to unfairly raise prices or exclude competitors."

According to the release, the Connecticut Attorney General will investigate "unsolicited" ratings — when an agency rates an issuer's debt against its wishes and then demands a payment. He will also look into "notching," when agencies allegedly threaten to downgrade an issuer unless they receive a contract to rate the issuer's entire debt pool. Finally, he will probe exclusive contracts that offer issuers discounts, thus hindering competition.

Lack of competition has been a key criticism of rating agencies: Standard & Poor's, Moody's, and Fitch represent about 80 percent of the market. Last May the SEC voted to adopt rules to implement the Credit Rating Agency Reform Act of 2006, giving it greater oversight of the agencies and welcoming fresh competitors into the market.

A spokesman for McGraw-Hill did not return calls for comment on Friday. Anthony Mirenda of Moody's would not discuss any specific inquiries, but said the agency is "assisting" with several government requests. Fitch spokesman James Jockle told CFO.com: "We have been contacted by the state Attorney General as well as other regulatory authorities and we are cooperating with all of the investigations." Chris Hoffman, a policy and communications adviser in the Connecticut Attorney General's office, would not release a copy of the subpoena, which was filed on October 10.

Meanwhile, some call the investigation unfair. "I think it's a witch hunt," says Ed Atorina, an analyst at Benchmark Co. "They can't blame anybody, so they are blaming the rating agencies." Atorina said he expects other states might follow with their own investigations.

The ratings agencies have fielded criticism not just from investors, but from academia and a variety of regulators. In a 2006 paper, James Partnoy, a law professor at the University of San Diego, wrote: "Credit ratings continue to present an unusual paradox: Rating changes are important, yet they possess little informational value." But the agencies present themselves purely as information providers and have become hugely profitable by doing so.

In its October "Financial Stability Report," the Bank of England noted that rating agencies can be useful, but they have room to improve. It suggested that the agencies clarify the definitions of their ratings and become more transparent with their methodologies. Further, a single measurement system used by all of the agencies would avoid the confusion and misinterpretation responsible for recent turmoil in the financial markets. Finally, the FSR suggested that rating agencies broaden their analysis from just credit risk and give better estimates of the probability for defaults.

"Without this evolution, there might be a case for public-sector intervention to specify higher common standards for assessment and disclosure," the FSR said.

With the action by Connecticut's Attorney General, such intervention is picking up pace in the United States. Already under so much pressure, rating agencies may soon be due for an upgrade of their own.

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