



Senate Bill Targets China's Artificial Credit Rating

Senate Measure Cites 'Artificial' Credit Rating, Failure to Disclose 'Selective Default' Following Debt Repudiation by China

Washington, D.C., May 7, 2008 -- In a victory for defaulted bondholders and in response to China's [repudiation](#) of its sovereign debt, the United States Senate welcomed the introduction last week of Senate Concurrent [Resolution](#) 78, calling for full disclosure of China's defaulted sovereign debt and recommending that China's sovereign credit rating be revised to 'Selective Default'.

Introduced on the floor of the Senate by Senator James Inhofe (R-OK), the measure targets China's attempt to conceal its defaulted government debt from investors, which enabled the Chinese government to sell sovereign bonds to investors in 2003 and 2004 without first disclosing the risk of default at the time the bonds were sold.

The Senate measure labels China's present "investment-grade" credit rating as artificial and in testimony before the Senate Banking Committee, SEC Chairman Christopher Cox acknowledged that wrongful actions by a credit rating agency may subject the agency to [revocation](#) of its SEC registration.

In China's instance, the three largest rating agencies (Standard & Poor's, Moody's and Fitch) are accused of intentionally violating their published criteria and metrics. Sovereign Advisers, a risk metrics firm assisting the defaulted creditors of the Chinese government, has performed comprehensive research on this matter and has provided the U.S. Congress and the Securities and Exchange Commission with evidence suggesting that the actions of Standard & Poor's and Moody's were intentionally designed to conceal the Chinese government's debt repudiation and establish an artificial sovereign benchmark in order to increase ratings revenue from expanded securities issuance by Chinese corporations.

Following the Senate hearing, Senator Charles Schumer (D-NY) remarked that "the agencies have refused to play by the [rules](#), even those of their own making. The SEC is in the process of exposing these conflicts."

Although the SEC investigation into the practices of the rating agencies is still underway, it remains unclear whether the SEC intends to bring disciplinary actions, including possible suspension or revocation of the registration of the three major rating agencies (Standard & Poor's, Moody's and Fitch) for publishing artificial credit ratings assigned to Chinese government bonds which conceal China's act of repudiation of its sovereign debt.

The Senate measure comes in the wake of greater emphasis on investor disclosures and transparency, following the global subprime mortgage meltdown and the enforcement failure of the SEC. Congress has also ordered the General Accounting Office to [investigate](#) the SEC Division of Enforcement.

Noting that China's repudiation and refusal to repay the debt is in violation of World Bank and IMF policies as well as both U.S. and international law, the Senate measure, together with a House concurrent resolution, is expected to ensure full disclosure of China's debt repudiation and the material risks to investors in Chinese government bonds and China's state-owned enterprises traded on NASDAQ and New York Stock Exchange.

China has a history of engaging in predatory financial practices, including discriminatory payments to preferential creditors in violation of international law. Such abuses have hurt the performance of Chinese government bonds, which are, according to a recent article in the International Herald Tribune, "the worst performing bonds in Asia." Bonds sold by Chinese corporations are also expected to have their credit ratings reduced.

China disavowed repayment of \$260 billion of its foreign sovereign debt at the end of 2006 and continues making discriminatory payments to non-U.S. creditors.

Contact

Kevin O'Brien, President

Sovereign Advisers

Telephone: (520) 327-2482

Email: kevin.obrien@sov-advisers.com

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