November 27, 2002

Mr. Clifford L. Alexander Jr.
Chairman

Mr. John Rutherfund Jr.
President, Chief Executive Officer and Director
Moody's Corporation
99 Church Street
New York, New York 10007

Dear Mr. Alexander and Mr. Rutherfund:

It has recently come to the attention of the American Bondholders Foundation that Moody's Investors Service is contemplating an upgrade of the sovereign credit rating of the People's Republic of China. We wish to express our concerns regarding this possibility, and request clarification of the rationale for such a move.

The American Bondholders Foundation (the "ABF") is a domestic corporation representing the consolidated claims of United States citizens who hold 18,261 full faith and credit sovereign bonds issued by the Chinese Government and on which China continues to evade payment in flagrant contravention of established principles of international law.[1] Most prominent among the series of bonds placed into trust for collection through the ABF are those comprising the Chinese Government Five Per Cent Reorganization Gold Loan of 1913, which series was due to mature in 1960. The redemption value of the bonds placed into trust by affiliated bondholders who are represented in the ABF collection action has been determined by a recognized bond valuation specialist in accordance with the debt covenants specified in the Loan Agreement.

The ABF and its legal advisers are aggressively pursuing a collection action through the venue of the United States Congress on claims arising from these defaulted full faith and credit obligations. Many members of Congress have signed a letter to the President requesting executive action on behalf of U.S. bondholders, including a set-off on U.S. payments to the People's Republic of China to compensate U.S. bondholders for their claims.

[1] Please refer to Stites and Harbison, P.L.L.C. Memorandum addressed to "Members of the United States Congress" (February 22, 2002), copy attached. Note that the quantity of bonds represented in the ABF collection action is exclusive of similar bonds owned by unaffiliated parties in both the U.S. and other countries, including bonds acquired by the United States Government Office of Foreign Asset Management through the Trading with the Enemy Act and presently held by the "public-at-large".

The ABF has been informed by members of Congress that televised public hearings on this matter will be conducted by the United States Congress during the first session of the new Congress in 2003 along with the introduction of a House Resolution censuring the People's Republic of China for its conduct regarding evasion of payment of full faith and credit obligations.

According to representatives of the U.S. Department of State, the People's Republic of China explicitly repudiated all bond claims originating prior to its 1949 assumption of the Government of China.[2] Since the assumption and payment of any valid outstanding obligations of a pre-existing government by a recognized successor government is a basic tenant of international law, the refusal of the People's Republic of China to abide by this established convention violates accepted principles of international trade and commerce and demonstrates its unwillingness to comply with commonly accepted standards of conduct.[3] Such an attitude, manifested as a form of institutionalized behavior, is inconsistent with increased recognition of the quality of the PRC's international obligations. The Sovereign Immunity Act does not convey perfect protection to all participants in defaulted sovereign debt financings. The People's Republic of China explicitly acknowledged its responsibility for payment of pre-1949 Chinese sovereign bonds pursuant to a 1987 agreement with Great Britain, thereby establishing a precedent for collection by United States bondholders.[4] Despite the agreement with Great Britain, the People's Republic of China continues to attempt to evade payment to U.S. citizens for the identical series of full faith and credit sovereign bonds.

Recent events involving instrumentalities of the Chinese Government serve to further illustrate the character of the Government of the People's Republic of China with respect to honoring payment obligations. The spate of serial defaults by numerous state owned enterprises ("SOEs") and the apparently deliberate defaults by various Chinese international trust and investment companies reveals the appearance of a serial pattern of orchestrated issuance and subsequent defaults, which may be construed as intentional and selective in nature, and represents a recurring theme, or "pattern" on the part of the government.

---

2 Aide Memoire issued by the Chinese Ministry of Foreign Affairs, included as pages81-82 of the American Society of International Law, International Legal Materials, 221.L.M75 (1983), wherein the People's Republic of China declared "The Chinese Government recognizes no external debts incurred by the defunct Chinese Governments and has no obligation to repay them ...".

3 For example, the recent United Nations Security Council resolution on weapons inspections in Iraq stipulated that a subsequent government in Iraq following a regime change would remain liable for predecessor national debt obligations.

4 The 1987 agreement with Great Britain referenced herein provided a collection mechanism for the claims of British citizens who were holders of these full faith and credit obligations and did not provide recourse for American citizens to collect payment.

The behavior of the government of the People's Republic of China as described above is not indicative of an investment grade sovereign. Rather, such behavior is suggestive of the conduct of parties which have been deemed criminal enterprises in the United States and against whom both civil and criminal actions have been successfully brought pursuant to the Racketeer Influenced Corrupt Organizations Act ("RICO").

The ABF and its legal advisers believe that any debt issues sold in the United States, either publicly or on a private placement basis, which were issued by either the government of the People's Republic of China or any instrumentalities thereof subsequent to the date of default or repudiation of the series of bonds presently held in trust for collection may represent a criminal violation of the Johnson Debt Default Act (the "Act").[5] Culpability for any such violations of the Act may apply to any seller of such securities in the United States.

In light of the foregoing, as well as the deteriorating financial condition of the country's four largest lending institutions, the apparent decision of Moody's Investors Service to consider an upgrade of the sovereign credit rating of the People's Republic of China defies comprehension.[6] A rating upgrade on the sovereign debt of the People's Republic of China would ignore the conduct of the Chinese Government in failing to honor its outstanding full faith and credit obligations (i.e., the willingness to pay valid obligations as opposed to mere ability to pay) and would serve to reward the "bad actor" conduct of this government for its discriminatory mistreatment of American bondholders.[7] A rating upgrade under these circumstances would constitute a dangerously misleading signal to the global financial markets.

Indeed, it would appear that the PRC rating increase application now before you presents an ideal opportunity for Moody's to reaffirm long established principles of law and finance as well as current accounting and disclosure standards. Moreover, as the curing of prior defaults is a normal pre-condition to new publicly-funded debt by domestic U.S. corporations, we would expect Moody's to display no less tolerance to foreign issuers, sovereign or commercial.

---

5 U.S.C. Citation (CFR).

6 Industrial and Commercial Bank of China, Bank of China, China Construction Bank, and the Agricultural Bank of China Refer to "An Achilles Heel for Beijing: Mounting Bad Debt". Wall Street Journal (November 18, 2002). The article describes the estimated $500 billion of non-performing debt in the state banking system which when aggregated with the Government's welfare and pension obligations, far exceed China's $1.1 trillion annual gross domestic product. Indeed, the distinguished Brookings Institute recently stated that "the only thing standing between China and a financial crisis is a triggering event".

7 Resolving the claims of British bondholders, yet disregarding the similar claims of U.S. bondholders.

Such a position by Moody's is a natural extension of the generally accepted current U.S. national standard that the degree of rigor exercised in assessing the adequacy of issuer disclosures and off-balance sheet financing (compare, for example, the insufficiency of Hong Kong standards when measured against U.S. standards) must be increased rather than relaxed. Such a position would be consistent with the important role of Moody's as an independent evaluator upon which the public-at-large may depend in confidence.

We await your response to the concerns expressed herein.

Sincerely,

Jonna Bianco, President
American Bondholders Foundation

cc: Members of the United States Congress

Mr. James T. Areddy, Staff Reporter
Wall Street Journal

Ms. Betty Liu, Staff Reporter
Financial Times

Barron's

Institutional Investor

Institutional Shareholder Services

Enclosure: Legal memorandums (set of two) issued by Stites and Harbison, P.L.L.C. affirming validity of United States citizens' claims against the People's Republic of China for non-payment of outstanding full faith and credit sovereign obligations of the Chinese Government.