February 7, 2008

STANDARD & POOR'S

DESCRIPTIONS OF NEW ACTIONS TO STRENGTHEN RATINGS PROCESS AND BETTER SERVE 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 are raised by issuers, investors, employees and other market participants across S&P's businesses. The Ombudsman will have oversight over the handling of all issues, with authority to escalate all unresolved matters, as necessary, to the CEO of McGraw-Hill and the Audit Committee of the Board of Directors.**

  S&P will establish an Ombudsman to whom issuers, investors, employees and other market participants can raise concerns about potential conflicts of interest and integrity of our business and compliance processes. The Ombudsman will oversee the handling of all concerns, with authority to escalate all unresolved matters, as necessary, to the CEO of McGraw-Hill and the Audit Committee of the Board of Directors. The Ombudsman will report to the President of S&P but will not be part of S&P management and his / her compensation will not be tied in any way to S&P / McGraw-Hill business results. Above and beyond S&P's current safeguards that protect the integrity of our businesses, this mechanism will provide one central point where any concerns about the objectivity or soundness of the rating and other business processes can be raised.

- **Engage an external firm to periodically conduct an independent review of S&P Ratings' compliance and governance processes for the purpose of publicly issuing an opinion that addresses whether S&P is effectively managing potential conflicts of interest and maintaining the independence of its ratings.**

  To further strengthen and reinforce the development and implementation of compliance programs, an external firm will conduct periodic reviews of the compliance function and produce a report on compliance at Standard & Poor's Rating Services. The opinion will be made public and presented to S&P's Risk Assessment Committee, McGraw-Hill corporate management, and the Audit Committee of the McGraw-Hill Board of Directors.

- **Hold periodic reviews with the Audit Committee of the McGraw-Hill Board to discuss S&P Rating's overall governance and compliance function which 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 Rating's governance and compliance processes.**

  The Audit Committee of the McGraw-Hill Board will conduct periodic reviews of S&P Ratings' compliance and governance functions. These periodic reviews by the McGraw-Hill Audit Committee will provide an additional facet of independent oversight of S&P's overall governance and compliance functions.

- **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.**

  Standard & Poor's is implementing changes to its policy development and quality governance structure to enhance the independent development of policy and the objective review of criteria, and to strengthen the quality review function. Under the new structure, there will be a Policy Governance Group which will be charged with the development and approval of all new S&P Rating's policies and procedures, and managing policy from an overall Ratings franchise perspective. These organizational changes also provide that S&P's Chief Credit Officer will oversee the criteria development and the quality review process. Criteria and quality officers previously managed within the Ratings business units will now report to the Chief Credit Officer. The Chief Credit Officer will report to the Head of Ratings, separated from the business units. In addition, S&P Ratings appointed a Chief Compliance Officer in June 2007 who is responsible for developing and implementing a compliance program. S&P's Chief Compliance Officer acts and reports independently of the Rating business

  By separating the policy, criteria and quality review functions from the business operations, S&P is placing an even greater emphasis on ratings integrity and quality and making the policy and quality review process independent from the business of ratings. Under the new structure, there will be even greater emphasis on the independent development of policies, and on oversight of quality and criteria decisions. .

- **Establish an enterprise wide *Risk Assessment Oversight Committee* that operates separately and independent of the 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.**

  S&P's newly created Risk Assessment Oversight Committee will be responsible for providing an independent oversight of risks that relate to or emerge from the rating process. The Committee will be responsible for overseeing decisions relating to S&P's approach to rating new instruments, providing new types of rating services and assessing potential changes in the environment for existing rating services in light of possible market shifts. This group, consisting of the President of Standard & Poor's and other senior S&P executives, will assess potential risks and evaluate S&P Ratings' capabilities as part of its oversight process.

  The review by the Risk Assessment Oversight Committee accomplishes two objectives: (1) it adds another layer to the decision-making process (separate and apart from S&P Ratings business leaders) of the most senior S&P-wide executives and (2) it formalizes a decision process for rating new instruments, providing new services and assessing potential changes in the environment. In their assessment, the Committee will consider potential risks to the franchise and S&P Ratings' capability, skills and resources.

- **Implement “look back” reviews to ensure the integrity of ratings, whenever an analyst leaves to work for an issuer.**

  In light of the strong demand for experienced analysts, especially in the structured finance area, ratings analysts have sometimes left S&P to work for issuers or financial advisors that advise issuers. In these cases, S&P will implement a procedure to review ratings where the departing analyst had significant involvement in the rating process.

  While the Committee process is designed to safeguard the objectivity of the rating process and prevent any single analyst from unduly influencing a rating decision, this “look back” process provides an additional mechanism for S&P to conduct targeted reviews of ratings that involved analysts who depart S&P for an issuer or advisor.

- **Institute periodic rotations for lead analysts.**

  S&P will institute a new policy whereby: (1) analysts (in corporate, financial institutions, sovereign, and public finance) are precluded from acting as primary analysts on the same entities for more than five years, and (2) primary analysts on new structured finance transactions will be assigned so that analysts are responsible for transactions managed by different arrangers.

  The policy will help to prevent long-standing professional or personal relationships from inadvertently affecting ratings.

- **Increase level of existing employee training to ensure compliance with policies.**

  As part of S&P Ratings’ Educational Policy, Ratings employees will be required to undergo additional hours of training focused on compliance programs and procedures. Additional employee training will enhance analysts’ understanding of the policy requirements and ensure that compliance is top-of-mind for Ratings employees.

Some current governance policies and practices of Standard & Poor’s:

- 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.
- Existing policies restrict analysts’ ownership of, and trading in, securities they rate and restrict information sharing by rating analysts.
- Analyst performance measurements are used to align compensation with quality and compliance

Analytics: Enhancing Quality of Ratings Analysis and Opinions

- **Improve 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.**

  S&P will strengthen the surveillance of structured securities by enhancing the data, and models utilized in surveillance and augment the size of its surveillance staff. S&P's recent acquisition of I-MAKE will be utilized to provide additional cash flow modeling and analysis on the performance of collateral pools. The Structured Finance surveillance group functions separately from the analytic team that assigns initial ratings

  Additionally, surveillance in Corporates & Governments will be supported by tools providing enhanced financial forecasting capabilities as well as anomaly detection and alerting functionality around numeric and text data as well as market prices. These additional capabilities will provide analysts with support for more timely surveillance of ratings.

  The Chief Credit Officer will regularly review the surveillance process and report to S&P's Analytical Policy Board (APB).

- **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.**

  S&P is establishing a Model Oversight Committee to focus on: reviewing model documentation for completeness and accuracy; independent implementation of models; validation of data sets, calibration procedures and model adequacy; assessment of model risk and impact of alternative modeling approaches; validation of model implementation and code updates and compilation of all quantitative models and documentation into a model library. The Committee will function as a part of the Quantitative Analytics Group, independent from the Ratings business units. This group will also be subject to periodic reviews by the Chief Credit Officer.

  This review by the independent Model Oversight Committee will help provide a dispassionate review of quality of models used by our ratings analysts.

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

  S&P Ratings currently has an Educational Policy that requires analysts to undergo a minimum of 20 hours of training each year. S&P will increase that per annum minimum. Furthermore, S&P will be partnering with an academic institution to develop an analyst certification program. The program will be tailored to reflect future needs of S&P Ratings with basic skill building for less seasoned members of the team, and expanded course offerings and specific skills and courses required for certain designated levels.

While S&P analyst are among the most dedicated and capable professionals in the market, additional training requirements and programs to keep skills current with a very dynamic market will further enhance S&P's capabilities.

- **Complement traditional credit ratings analysis by highlighting non-default risk factors that can influence the valuation and performance of rated securities and portfolios of rated securities, such as market liquidity, volatility, correlation and recovery.**

  Recent events show that some investors infer information about the price stability and liquidity of rated instruments that the rating was not intended to denote. S&P ratings don't guarantee the availability of a market to trade at a fair price. Therefore, we are examining ways that we can provide insight into non-default risks such as liquidity, volatility, valuation and recovery, while maintaining clarity about the role of credit ratings.

  While S&P intends to maintain the primary focus of its credit ratings on default risk, we will engage the marketplace in a dialogue on ways in which S&P can provide additional or complementary analytics and benchmarks to cover significant elements of creditworthiness, like recovery, as well as other elements of risk, like the liquidity or price volatility of rated instruments. S&P is well along in supplementing its corporate credit analysis with explicit recovery assessments on speculative-grade securities and loans, and will review markets needs for recovery analysis on structured securities. In addition, we are researching whether the market would benefit from the benchmarking of other risks, and how these risks could be effectively and consistently measured and assessed to support predictive analysis.

Some current analytical policies and practices of Standard & Poor's:

- 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: Providing Greater Transparency and Insight to Market Participants

- **Simplify and provide broader market access to ratings criteria, underlying models and analytical tools.**

  Better organize information about our criteria, models and policies as well as offer access to additional analytical tools. Criteria, policy and disclosure information will be consolidated and formatted for easier access on www.standardandpoors.com and referenced in our products. Broader analytical tools are being developed and will be made available for market use.

  Market participants will have greater and simplified access to our criteria, models, and analytical tools, which will lead to better transparency.

- **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.**

  Develop a standard research format for scenario or "what if" analysis, and initiate a series of reports covering structured ratings products. The analysis would cover the ratings implications of changes in the underlying assumptions upon which the ratings are based. This would provide insight into ratings tolerance to changing economic or risk circumstances for each major product type. S&P will offer tools to investors along with relevant information to allow them to develop and conduct their own stress scenarios based on their own assumptions.

  While S&P makes rating changes based on fact-based data and analysis, this will enable investors to make their own projections based on their assessment of different stress scenarios

- **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.**

  In order to enhance transparency about collateral contained in structured finance securities, S&P is exploring ways to improve portfolio disclosure guidelines for issuers as part of its criteria. We will be discussing any proposed guidelines with market participants. We will then publish a request for comment, seeking input from the market (including issuers and investors). We will look to utilize loan level data in the analysis of collateral; evaluate the strength of originators' fraud detection; and explore opportunities for third-party validation of data reliability.

  These actions will provide investors will more modeling capabilities and data sets to enhance information in this area.

- **More broadly disseminate long- and short-term rating performance data.**

  S&P currently publishes ratings default and transition studies that provide significant detail on the past ratings performance. Corporate and structured studies are published annually, with the year-end report just released earlier this week, and are updated quarterly and posted on www.standardandpoors.com. To facilitate a broader understanding and increase transparency on ratings performance, S&P will create a more user-friendly report on its ratings track record. The free, simplified version of S&P's default and transition studies will be published annually, with quarterly updates, and provide plain language explanations as to what the data signifies and how the historic track record is measured.

- **Better explain the comparability of ratings across asset classes (structured vs. corporate vs. government).**

  S&P has conducted research on the comparability of its ratings across different asset classes – with a focus on consistency in default, transition, and stability. S&P will publish these research findings, which will help clarify the ways in which our ratings are similar across asset classes (as predictors of default).

  While S&P ratings have generally performed consistently across asset classes in terms of default experience, recent events have highlighted the need for more research and discussion with the market about possible ways to provide even greater clarity.

- **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.**

  With input from the market and others, S&P will develop an indicator attached to all structured finance ratings. This will provide all market participants with a clear distinction between a structured finance rating as opposed to more traditional corporate and government ratings. An additional designation could be applied to new asset types to indicate the presence of less developed empirical evidence on asset performance.

- **Make available a Landmark Deals report which summarizes new structures and major issues, and distribute the report widely to investors, intermediaries, issuers, regulators and media.**

  The Landmark Deals report is a list of new or unusual deals (typically first of their kind) rated by Standard & Poor's global structured finance group. For each transaction, the report includes: name of deal; brief description of why it's a landmark deal; closing date; region/office; transaction amount ($); collateral type; originator; types of published articles; links to articles on RatingsDirect. Currently an internal report, S&P will now make this report public as a way to keep the market informed of new developments in the structured finance market.

  By making the Landmark Deals report available to the public, S&P can help raise awareness of the different types of structures being created and communicate its views on credit considerations attendant to such deals.

- **Enhance access to S&P's code of ethics and disclosures through a link to the regulatory affairs section of www.standardandpoors.com.**

  Provide a simple and consolidated access to Ratings Services Code of Conduct, S&P's Code of Ethics and disclosures.

- **Establish greater minimum portfolio disclosure criteria for structured securities servicers (e.g. ABCP and SIVs).**

  With the cooperation of industry participants, S&P will publish key data items about the company's portfolio of every ABCP conduit and SIV it agrees to rate. This increased disclosure will provide investors additional insight into the investments and risks of that entity and a better understanding of what assets underlie their investments.

- **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**

  Provide an early-warning indicator for investors of a potential rating action. It would provide increased transparency into our surveillance process. Investors and market participants would gain greater insight into whether an issue has been selected for review or passed our screening tests. This also allows investors to prioritize their own internal surveillance analysis.

Some current information policies and practices of Standard & Poor's:

- 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: More Effectively Educating the Marketplace about Credit Ratings and Rated Securities

- **Publish a *Credit Ratings User Manual & Investor Guidelines* to promote better understanding of the ratings process and the role of ratings in the financial markets.**

  Standard & Poor's will publish User Manual & Investor Guidelines to address such topics as: what ratings are, what they do and do not measure, how ratings are used by different parties in the capital markets, how ratings are assigned and surveilled and how to access ratings and research.

  S&P has a role to play in helping market participants to better understand what a rating is and – what it is not – and to furnish tools that will help market participants to use ratings appropriately.

  Although S&P currently makes ratings (and considerable information about ratings) available for free on its Web site, the User Manual & Investor Guidelines will help to support broader public understanding.

- **Broaden distribution of analysis and opinions via Web and other media.**

  Expand outreach to include regulators and the broad investing public through online communications, including podcasting and blogs.

- **Launch market outreach program to promote better understanding of complex securities S&P rates.**

  An enhanced communications outreach designed to help market participants better understand both the features of new types of securities and the assumptions we have made in rating them.

- **Establish an Advisory Council with membership that includes risk managers, academics and former government officials to provide guidance on addressing complex issues and set topics for market education.**

  S&P will add an additional Advisory Council with the responsibility to consider, critique, and discuss high-level credit concepts authored and advocated by S&P. A significant goal of the Council is the oversight and discussion of S&P's initiatives, education, and communications to the market and broad public regarding understanding credit ratings. The Council will address credit issues from origination, through issuance and distribution, to trading and custody, until maturity and retirement and/or default and recovery resolution of the obligation. Agenda topics cover all market practices, financial literacy, and communications concerning credit.

  While S&P has sought market input through its many client and investor interactions, this expanded initiative will put S&P in closer touch with the many views in the marketplace.

- **Work with other NRSROs to promote ratings quality through the introduction of best practices and issuer disclosure standards.**

  S&P will discuss with other NRSROs and regulatory bodies (e.g. IOSCO) code of conduct enhancements.

Some current education and outreach policies and practices of Standard & Poor's:

- 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.