

Moody's AAA Ratings: What Impacts on the Financial Crisis?

Misleading Investors on Financial Trends

By [Global Research](#)

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Moody's - one of the big 3 credit rating agencies with an official government endorsement - helped cause the financial crisis by [keeping the ratings of failing companies artificially high](#).

Moody's shareholders are now suing in federal court, saying that Moody's misrepresented the fact that its ratings are impartial. Once it became clear that Moody's was gaming its ratings, its share price plunged - 75% since February 2007.

As Jonathan Weil [notes](#):

The plaintiffs in the suit, led by a Teamsters union pension fund, cited newspaper articles chronicling occasions when Moody's changed its rating in response to a customer's complaint to keep the client's business, replaced analysts seen as too cautious, or reassigned others after complaints by bankers....

In one instance, reported last year by the Financial Times, when Moody's employees found a computer error had caused some debt ratings to be inflated, the company responded by changing the methodology it used rather than cutting the ratings.

In an October 2007 presentation to Moody's directors, released last year by congressional investigators, Moody's Chief Executive Officer Raymond McDaniel said adding more safeguards "does NOT solve the problem" of erosions in ratings integrity, and that "a certain complacency about ratings quality is inevitable."

In response to the shareholder lawsuit, Moody's argued that its claims to independence and ratings integrity were just "puffery" - legalese for innocent exaggeration:

"Generalizations regarding integrity, independence and risk management amount to no more than puffery," Moody's said in court papers. As such, alleged "misstatements of this nature are insufficient to sustain a claim under the securities laws."

But the judge is having none of it:

Taken together, U.S. District Judge Shirley Wohl Kram wrote in her order, the facts as alleged by the plaintiffs “believe defendants’ claims of independence and ratings integrity.” Similarly, she wrote, “the revelations that it altered ratings at the request of issuers called into question Moody’s claim that it ‘maintains independence in its relationship with issuers and other interested entities.’”

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For media inquiries: publications@globalresearch.ca