Politics, Financial Fraud and the "Big Three" Credit Ratings Agencies

By Timothy Alexander Guzman
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China and Russia to Launch Credit Rating Agency that will Challenge U.S. Financial System

The "Big Three"Credit rating Agencies Moody's, Standard & Poor's and Fitch Ratings are a powerful monopoly and a very influential actor in the World of finance. Since 1975, these same rating agencies gained power with assistance from the U.S. government, with the Securities and Exchange Commission (SEC) at the forefront and private firms who together wrote the rules so that these credit agencies can have a greater role in the financial markets for investment opportunities such as pension funds for example, that can only invest in an "investment grade" securities provided by the "Big Three." The risk of investing in securities is therefore determined by the debt issuer whether a corporation, a bank-created entity, sovereign nation such as Russia or China will "most-likely" fail to make interest payments on the debt in a timely fashion. The credit rating are characterized by letter grades, from the highest and safest grade AAA with lower grades moving to double and then single letters (AA, A, then BBB, etc..) and so forth are granted by the "Big Three" which can impose economic implications for potential investors and global markets. After rating agencies realized that they had a significant impact on the market value in regards to their credit ratings even if bad ratings were given to the issuers. The "Big Three" has substantial impact on the power these rating agencies hold today which does determine the market value.

To prevent new companies that are not approved by the U.S. government from offering similar credit rating services, new terms were created by the partnership between the U.S. government and private firms called *"recognized rating manuals"* that would only protect the *"Big Three"* against non-approved companies that promised *"investment grade"*ratings for a price. The SEC created the *Nationally Recognized Statistical Rating Organizations (NRSRO)*, designating the *"Big Three"* as it's first and only approved entity granted by the U.S. government who endorsed their business practices. This was the start of the credit rating monopoly pushed by the U.S. government and special interests from competition from private firms not approved by the U.S. government itself. It created an environment that prevented any form of competition because debt is rated by the U.S. government standards which mandates credit ratings by NRSRO. *"Federal bank regulators in 1936 started requiring banks to hold reserves in securities of a certain rating. State insurance regulators followed suit for insurers"* the Chicago Tribune reported in 2011 the following on how the*"Big Three"* gained its power:

> So the government essentially outsourced a difficult and expensive task: evaluating investment risk. "What the government effectively did was to

> deputize the credit rating agencies," said Jeffrey Manns, a professor at George Washington University law school who is an expert in credit rating agencies. The Securities and Exchange Commision in 1975 anointed the approved agencies by name and gave them an important-sounding moniker, "Nationally Recognized Statistical Rating Organizations"

The role of Credit rating agencies were supposed to provide investors with an in depth-analysis of potential risks associated with *"debt securities"* that can range from government and corporate bonds, certificates of deposit (CDs), preferred stock and municipal bonds. They can also include collateralized securities, such as collateralized debt obligations (CDOs) and mortgage-backed securities. However, corruption is at an all time high according to a former analyst named William J. Harrington who worked for Moody's for 11 years as *Business Insider* reported in 2011:

> Harrington has made his story public in the form of a 78-page "comment" to the SEC's proposed rules about rating agency reform, which he submitted to the agency on August 8th. The comment is a scathing indictment of Moody's processes, conflicts of interests, and management, and it will likely make Harrington a star witness at any future litigation or hearings on this topic

This is a major setback for Moody's. Harrington can be considered a whistleblower. But can more people come forward exposing the deceitful practices of the "Big Three"? According to Harrington:

> Moody's analysts whose conclusions prevent Moody's clients from getting what they want, Harrington says, is viewed as "impeding deals" and, thus, harming Moody's business. These analysts are often transferred, disciplined, "harassed," or fired

The most persuasive argument made against the "Big Three" is Matt Taibbi's report published by Rolling Stone Magazine in 2013 titled *'The Last Mystery of the Financial Crisis'* exposes how deeply involved in the 2008 financial crisis:

> Thanks to a mountain of evidence gathered for a pair of major lawsuits by the San Diego-based law firm Robbins Geller Rudman & Dowd, documents that for the most part have never been seen by the general public, we now know that the nation's two top ratings companies, Moody's and S&P, have for many years been shameless tools for the banks, willing to give just about anything a high rating in exchange for cash.
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> In incriminating e-mail after incriminating e-mail, executives and analysts from these companies are caught admitting their entire business model is crooked.
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> "Lord help our f*****g scam . . . this has to be the stupidest place I have worked at," writes one Standard & Poor's executive. "As you know, I had difficulties explaining 'HOW' we got to those numbers since there is no science behind it," confesses a high-ranking S&P analyst. "If we are just going to make it up in order to rate deals, then quants [quantitative analysts] are of precious little value," complains another senior S&P man. "Let's hope we are all wealthy and retired by the time this house of card[s] falters," ruminates one more.
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> Ratings agencies are the glue that ostensibly holds the entire financial industry together. These gigantic companies – also known as Nationally Recognized

> Statistical Rating Organizations, or NRSROs – have teams of examiners who analyze companies, cities, towns, countries, mortgage borrowers, anybody or anything that takes on debt or creates an investment vehicle

Politically Motivated? Downgrading Putin or Russia's Sovereign Credit Rating?

Cold War 2.0 is in full force as Russian President Vladimir Putin is demonized by the Western media. The *"Big Three"*is in line with Washington's foreign policies. Russia's sovereign credit rating was recently reduced to *"Junk"* status by the S&P and was downgraded to Baa3 by Moody's Investor Service and the Fitch group recently. RT News reported that "Russia's Finance minister Anton Siluanov said S & P's move was *"overly pessimistic, and did not take into account the strengths of the Russian economy."* Was it politically motivated? Of course. They represent 95% of the credits rating market according to a Deutsche Welle analyst in 2011 who said that *"The three major rating agencies hold a collective market share of roughly 95 percent. Their special status has been cemented by law – at first only in the US, but then in Europe as well."* Russia Today (RT news) published *'Moody's downgrades Russia to just above junk level'* when Moody's recently downgraded Russia to a Baa3 so it should have been no surprise:

> Moody's international ratings agency has downgraded Russia's sovereign credit rating to Baa3, which is just one notch above the non-investment grade. It follows similar moves from Fitch and Standard & Poor's
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> Moody's decision was based on the "sharp decline of oil prices" and "Russia's national currency" with can be an obstacle to growth it said. RT news also quoted what Moody's had stated following its decision:
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> Although the rating agency expects Russia's current account to stay in surplus due to import compression and continued capital flight, the ongoing repayment of external debt by the corporate, banking and public sectors and the outflow of direct investment will likely increase the speed of erosion of official foreign reserve," Moody's said.
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> Moody's also placed Russia on a review for additional downgrade amid risks of a further decline in oil prices, during which the agency will assess Russia's "foreign currency reserves cushion" in a situation when the "international market access is restricted for Russian borrowers due to sanctions"

In 2011, RT news also reported that *"In 2008, US credit agencies failed to forecast the problem, ranking Lehman as a secure investment just one week before its historic bankruptcy"* Joe Wiesenthal formally of Business Insider who now works for Bloomberg news spoke to RT and said *"very little has changed with their business model," said Joe Weisenthal, deputy editor with Business Insider. "Probably the only thing that has really changed is that there is really much more skepticism towards them."* Chinese and Russian experts are already declaring that an alternative credit agency will compete with the *"Big Three"* as an international relations expert named Victor Gao told RT:

> Traditionally credit rating is mostly done by Western credit rating agencies. They sometimes may not fully understand the dynamics of the economics of any particular company or the sovereign borrower," he said, adding that the agency won't pursue a goal of replacing traditional Western credit rating agencies like S&P and Moody's.

> "It will give the whole world another perspective of how risks are analyzed and how credit rating should be done," he said. Acccording to RT, the new agency will be based in Hong Kong to balance the "Big Three" because as many analysts agree do not provide accurate economic information:
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> Many securities and bonds in the US that had triple-A ratings in 2008 and were considered 'safe', turned out to be a bubble, revealed by the subprime mortgage crisis.
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> "When the issue of creating an agency alternative to the 'Big Three' [Standard & Poor's, Moody's, and Fitch Group] was raised, we in fact offered [a] project that was ready to be launched and was supported by the governments of Russia and China," Ovchinnikov said

This is an interesting moment in financial history. It is a turning point for the credit rating industry which has been dominated by the U.S.

The "Big Three's" Role in the Collapse of Lehman Brothers

The 2008 financial crises was due to Lehman Brothers, a historic Wall Street institution wh was borrowing large amounts of money to invest or gain *"leverage"* in the mortgage-backed security industry. The main problem was that Lehman Brothers had a significant portion of investments in housing-related assets vulnerable to a financial downturn. Lehman Brothers profited when the economy was stable, but it also meant that any decline in the value of assets would wipe-out the total book value of equity. The subprime mortgage crisis eventually caught up with Lehman Brothers when they lost an unprecedented amount of money because they held positions in subprime mortgage loans and other low-rated mortgage backed securities and by securitizing the underlying existing mortgages. It resulted in the loss of more than 8 million jobs, it eliminated more than $16 trillion in household wealth and more than 12 million homeowners were left *"underwater"* owing more on their mortgages than their homes were actually worth. USAToday, a daily newspaper published statements made by the Financial Crisis Inquiry Commission in 2011:

> We conclude the failures of credit-rating agencies were essential cogs in the wheel of financial destruction," according to the report submitted by the Financial Crisis Inquiry Commission in January 2011. "The three credit-rating agencies were key enablers of the financial meltdown. The mortgage-related securities at the heart of the crisis could not have been marketed and sold without their seal of approval

USA Today also criticized the *"Big Three"* following the 2008 financial crises:

> The big three credit-rating agencies — Standard & Poor's, Moody's Investors Service and Fitch Ratings — are still trying to repair their reputations as being a level-headed, sharp-penciled bunch following the collapse of Lehman. These agencies are roundly criticized for not only failing to warn investors of the dangers of investing in many of the mortgage-backed securities at the epicenter of the financial crisis, but benefiting by not pointing out deficiencies

Connecticut Attorney General Richard Blumenthal who *"sees little value in credit ratings"* and that *"raters shouldn't be getting money from federal financial rescue efforts."* According to Bloomberg News. Blumenthal continued *"It rewards the very* *incompetence of Standard & Poors, Moody's and Fitch that helped cause our current financial crisis," he says. "It enables those specific credit rating agencies to profit from their own self-enriching malfeasance"*

The European Union and the Downgrade of Portugal

Although the European Union is on the verge of collapse because of their unified currency that is creating a financial disaster for most people who are faced with austerity measures have criticized the *"Big Three."* Reuters' reported what former President Jose Manuel Barroso of the European Commission said in regards to Moody's decision to downgrade Portugal although it took steps to regain financial control:

> European Commission President Jose Manuel Barroso said Moody's decision to lower Portugal by four notches and maintain a negative outlook was fuelling speculation in financial markets. Europe was looking at getting away from its reliance on the mainly U.S.-based ratings companies and weighing possibilities for legal redress, he added. [ID : nLDE7650RE]
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> His view was seconded by Germany's finance minister, Wolfgang Schaeuble, who said Portugal's downgrade was totally unjustified in present circumstances, when the country was taking steps to put its finances in order. "Yesterday's decisions by one rating agency do not provide more clarity. They rather add another speculative element to the situation," Barroso told reporters, adding that the agencies were not immune to "mistakes and exaggerations".
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> "It seems strange that there is not a single rating agency coming from Europe. It shows there may be some bias in the markets when it comes to the evaluation of the specific issues of Europe," he said, stating publicly a view that many senior EU officials have pushed privately for some time

Although the European Union project which has reckless economic and political policies is on the road to collapse especially with latest developments with the Greek elections with the Syriza party winning the majority of votes now leads the way by declaring that it will break away from the European Union. The *"Big Three"* is still criticized for its corruption, lack of competence which are heavily influenced by Washington, multi-national corporations and Banking industry. Russia and China will launch its joint credit rating agency that will rival the *"Big Three"* and the Wall Street cartel is fearful. Their dominance in the financial World is quickly losing its grip. Perhaps, other nations or regions in the world would develop their own credit agencies that would provide a more accurate reading on *"Investment Grade"* financial instruments. Peter Schiff of Euro Pacific Capital summarized how the S&P maintained a relationship with Washington and Wall Street in an article titled *'You Can't Believe the S&P'* based on the U.S. AAA rating at the time:

> The bottom line is that the AAA rating on U.S. sovereign debt is pure politics. S&P simply does not have the integrity to honestly rate U.S. debt. It has too cozy a relationship with the U.S. government and Wall Street to threaten the status quo. In fact, given the culpability of the rating agencies in the financial crisis, it may well be a quid pro quo that as long as the U.S.' AAA rating is maintained, the rating agencies will continue to enjoy their government sanctioned monopolies, and that no criminal or civil charges will be filed related to inappropriately rated mortgage-backed securities.
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> Remember S&P had investment grade, AAA, ratings on countless mortgage-

> backed securities right up until the moment the paper became worthless. Amazingly, the rating agencies somehow maintained their status, and their ability to move markets, after the dust settled

The Washington-Wall Street alliance has an influential hand in the *"Big Three"* which the Russian downgrade proved. China and Russia is leading the way by creating their own joint credit rating agency especially after the 2008 financial crisis which created a panic in World markets. What nation on earth would not want to create a competent, non-political, non-bias credit rating agency that will better serve their financial interests intead of the "Big Three"? The World knows that the U.S. financial system is quickly heading towards collapse with a debt load of $18 trillion and counting. China and Russia's new credit rating agency should consider giving the U.S. sovereign credit rating a *"new category"*, perhaps a "C" for Corruption or a "D" for Debt. Either one would be an accurate grade long over due.

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Articles by: **Timothy Alexander Guzman**

About the author:

Timothy Alexander Guzman is an independent researcher and writer with a focus on political, economic, media and historical spheres. He has been published in Global Research, The Progressive Mind, European Union Examiner, News Beacon Ireland, WhatReallyHappened.com, EIN News and a number of other alternative news sites. He is a graduate of Hunter College in New York City.