



Moody's Investors Service Announces Actions After Review of European CPDO Ratings Process

Company Takes Action to Strengthen Policies and Procedures, and Begins Disciplinary Proceedings after Identifying Violations of Moody's Code of Professional Conduct

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NEW YORK--(BUSINESS WIRE)--

Moody's Investors Service, the credit rating agency unit of Moody's Corporation (NYSE: MCO), today announced that, following a comprehensive review of its ratings process for European constant-proportion debt obligations (CPDO), it has initiated employee disciplinary proceedings and accelerated measures to strengthen its rating and monitoring processes.

Moody's found, based on an investigation conducted by the law firm Sullivan & Cromwell, that its personnel did not make changes to the methodology for rating European CPDOs to mask any model error. Moody's, however, has concluded that members of a European CPDO monitoring committee engaged in conduct contrary to Moody's Code of Professional Conduct. Specifically, some committee members considered factors inappropriate to the rating process when reviewing CPDO ratings following the discovery of the model error. According to Moody's Code of Professional Conduct, a committee may consider only credit factors relevant to the credit assessment and may not consider the potential impact on Moody's, or on an issuer, an investor or other market participant.

"I am deeply disappointed by the conduct that occurred in this incident," said Moody's Chairman and CEO, Raymond McDaniel. "The integrity of our rating process is core to Moody's values and is essential to the market. If an error occurs, it is crucial that rating committees consider possible rating changes and disclosures in an appropriate manner. In this instance, monitoring committee members considered issues not relevant to the rating process in reaching their conclusions. In response, we are taking immediate and appropriate action to address the lapse in our rating process and to ensure that a similar event does not occur again."

CPDOs Affected

The ratings involved 11 CPDOs with an aggregate value of slightly less than US \$1 billion. Testing of the CPDO model's output, after correction for the error and without consideration of qualitative factors, indicated that an initial rating of Aaa would have been in the Aa range. During 2008, Moody's withdrew ratings on four of the 11 CPDO securities due to the repurchase or restructuring of the notes, or at the request of the issuer and investors. Moody's has also taken various ratings actions on the seven remaining transactions due to extraordinary market conditions, including spreads far outside of historical experience. Today, those securities are rated between Ba1 and B1.

Measures Enhancing Integrity of Rating and Monitoring Processes

As part of its broader ratings quality and disclosure initiatives and in response to this incident, Moody's has introduced or enhanced its actions in five broad areas.

1. Disciplinary proceedings: Moody's has initiated disciplinary proceedings against certain employees who were involved in the CPDO monitoring process and its supervision. The company is proceeding with the disciplinary process in accordance with the relevant legal requirements of the countries in which the employees reside. Penalties could include termination of employment.
2. Existing CPDO ratings: To confirm the integrity of existing CPDO ratings, the company has conducted a review of all outstanding static CPDOs, including the seven affected by the model error. (See Moody's press release, "Moody's Takes Rating Actions on 13 Series of Static CPDO Notes.") Moody's is also reviewing ratings of certain other structured finance securities in which employees subject to the disciplinary process participated substantively. To date, the review effort has found no indications that the rating process for those securities violated Moody's Code.
3. Review of analytical models and methodologies: Moody's is taking additional steps to enhance the independence of model verification and methodology review. Verification of several models is already complete and no errors have been found. Moody's also has instituted new procedures to clarify the steps taken if a model error is discovered, including specifying that a model error impacting outstanding ratings must be disclosed.

4. Monitoring of structured finance ratings: As previously announced, Moody's has enhanced resources devoted to an independent surveillance of its structured finance ratings. This effort will be fully implemented by the end of 2008 and will unify leadership and accountability for monitoring. In addition, Moody's is changing the composition of monitoring committees to include more independent analysts and further increase independence of the monitoring process from the initial rating committee.

5. Global compliance: Moody's also is continuing its build-out of the global compliance function to improve training and bolster monitoring of adherence to policies. This will supplement the existing training related to the Moody's Code of Conduct required of all Moody's analysts.

About Moody's Investors Service

Moody's Investors Service is a leading provider of credit ratings, research, and risk analysis. Moody's commitment and expertise contributes to transparent and integrated financial markets. The firm's ratings and analysis track debt covering more than 100 sovereign nations, 11,000 corporate issuers, 26,000 public finance issuers, and 110,000 structured finance obligations. Moody's also publishes credit opinions, research and commentary, serving more than 8,700 customer accounts around the globe. Moody's Investors Service is a subsidiary of Moody's Corporation (NYSE: MCO), which reported revenue of \$2.3 billion in 2007, employs approximately 3,600 people worldwide and maintains a presence in 29 countries. Additional information about the company is available at www.moody's.com.

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