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## **SEC weighs action against Standard & Poor's**

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By Editor Test     *Wed, Sep 28, 2011*

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*The SEC enforcement staff sent S&P a Wells notice, which gives companies the chance to make the case why charges are unwarranted.*

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Less than two months after Standard & Poor's downgraded U.S. debt, the staff of the Securities and Exchange Commission says it is considering recommending civil legal action against the Standard & Poor's debt ratings agency over its rating of a 2007 collateralized debt offering.

Collateralized debt obligations, or CDOs, are securities tied to multiple underlying mortgage loans. The CDO generally gains value if borrowers repay. But if borrowers default, CDO investors lose money. Soured CDOs have been blamed for making the 2008 financial crisis worse. Ratings agencies have been accused of being lax in rating CDOs.

The SEC staff said it may recommend that the commission seek civil money penalties, disgorgement of fees or other actions.

S&P has been under fire for its recent downgrade of United States debt, as well as several bad calls it made leading up to the financial crisis and economic meltdown that began in 2008. The unit's president stepped down last month.

McGraw-Hill Cos., which owns S&P, said Monday that it received a Wells notice from the SEC's staff on Thursday.

In issuing Wells notices, the SEC enforcement staff gives companies the chance to make the case why charges are unwarranted. That means a formal decision by SEC commissioners to file charges may not occur.

S&P said it has been cooperating with the commission and plans to continue cooperating on the matter.

The news comes two weeks after McGraw-Hill announced that it plans to split up into two public companies with one focused on education and the other centered on markets, featuring the Standard & Poor's unit. The decision had been expected, as investors have pushed the New York company to boost the company's stock price, which has dropped by more than 40% since 2006.

McGraw-Hill Education will be the new company focused on education services and digital learning, while McGraw-Hill Markets will retain S&P and J.D. Power and Associates, a market research company. It also includes S&P, Capital IQ, a provider of data, research, benchmarks and analytics and Platts, a provider of information and indices in energy, petrochemicals and metals.

James H. McGraw founded McGraw-Hill in 1888 when he purchased the company's first publication, *The American Journal of Railway Appliances*. Since then, the company has provided technical and trade

publications, as well as information and analysis on global markets.