

TABLE OF CONTENTS

I. Summary	1
II. Background	2
A. The Examinations	2
B. Current Regulatory Requirements and Proposed New Rules and Rule Amendments With Respect to Credit Rating Agencies.....	4
III. The Ratings Process	6
A. The Creation of RMBS and CDOs	6
B. Determining Credit Ratings for RMBS and CDOs.....	7
IV. The Staff’s Examinations: Summary of Factual Findings, Observations and Recommendations	10
A. There was a Substantial Increase in the Number and in the Complexity of RMBS and CDO Deals Since 2002, and Some Rating Agencies Appeared to Struggle with the Growth.....	10
B. Significant Aspects of the Ratings Process Were Not Always Disclosed.....	13
C. Policies and Procedures for Rating RMBS and CDOs Can be Better Documented	16
D. Rating Agencies are Implementing New Practices with Respect to the Information Provided to Them.....	17
E. Rating Agencies Did Not Always Document Significant Steps in the Ratings Process -- Including the Rationale for Deviations From Their Models and for Rating Committee Actions and Decisions -- and They Did Not Always Document Significant Participants in the Ratings Process	19
F. The Surveillance Processes Used by the Rating Agencies Appear to Have Been Less Robust Than Their Initial Ratings Processes	21
G. Issues Were Identified in the Management of Conflicts of Interest and Improvements Can be Made	23
1. The “Issuer Pays” Conflict.....	23
2. Analysts’ Compensation	27
3. Securities Transactions by Employees of Credit Rating Agencies.....	28
H. Internal Audit Processes	29
V. Observations by the Office of Economic Analysis	31
A. Conflicts of Interest.....	31
B. Factual Summary of the Ratings Process for RMBS.....	33
1. Risk Variables	34
2. Use of Historical Data.....	35
3. Surveillance of Ratings	35
C. Factual Summary of the Ratings Process for CDOs.....	36
VI. Conclusion	37

