THE WALL STREET JOURNAL.

http://www.wsj.com/articles/s-p-to-pay-1-5-billion-to-resolve-crisis-era-litigation-1422968960

MARKETS

S&P to Pay $1.5 Billion to Resolve Crisis-Era Litigation

Ratings Firm Reaches Settlements With Justice Department, States, Calpers

Acting Assistant Attorney General Stuart Delery, right, speaks about the settlement Tuesday with Attorney General Eric Holder. *PHOTO: ASSOCIATED PRESS*

By **TIMOTHY W. MARTIN** And **ANDREW GROSSMAN**

Updated Feb. 3, 2015 8:25 p.m. ET

WASHINGTON—The Justice Department detailed efforts by Standard & Poor's Ratings Services to relax standards to win business, shedding fresh light on the firm's crisis-era behavior just as the two parties marked the end of a multiyear battle.

S&P on Tuesday agreed to pay $1.5 billion to resolve litigation alleging it knowingly issued rosy grades of risky mortgage bonds before the crisis. As part of the deal, the government backed off demands that S&P admit to violating laws, reducing the firm's exposure to future lawsuits.

Yet the Justice Department also said it believes S&P breached its duty to investors and laid out several examples in a statement of facts signed by both parties.

In one such instance, S&P in 2007 decided not to downgrade a large number of mortgage bonds even though an internal group had recommended the action. The head of that internal group "regularly complained" to colleagues that "she was prevented by S&P executives from downgrading subprime" mortgage bonds "because of concern that S&P's rating business would be negatively affected," according to the statement.

S&P also set out to alter its ratings model for grading complex, risky securities in 2004 with the explicit goal of issuing grades that were "2-3 notch improvements" and would "improve S&P's market share," the statement said.

"Put simply, the department brought this case because S&P committed fraud," said Stuart Delery, the Justice Department's associate attorney general and the government's top negotiator, at a news conference Tuesday.

The comments represented the parting shots of a high-profile saga in which the government produced 290 million documents in response to discovery requested by S&P—more than in any other case in Justice Department history, Mr. Delery said.

The ratings firm—a unit of McGraw Hill Financial Inc. —will pay $687.5 million to the Justice Department, and 19 states and the District of Columbia will share a similar amount. The company reached a separate $125 million deal with the California Public Employees' Retirement System, or Calpers.

After hitting an impasse during the first half of 2014, S&P and the Justice Department resumed active talks last fall and hashed out a final pact over two days in mid-January.

Much of the fighting related to S&P's allegation that the Justice Department sued in retaliation for the agency's downgrade of U.S. government debt in 2011. S&P agreed to retract that charge as part of the deal. Attorney General Eric Holder said the retraction was important to him and the Justice Department.

"The

RELATED

- Two New Faces Helped Seal Deal (http://www.wsj.com/articles/mcgraw-hill-turned-to-problem-solver-to-settle-government-lawsuit-1422995833)
- How Much Can S&P Write Off at Tax Time? (http://blogs.wsj.com/moneybeat/2015/02/03/how-much-of-its-record-settlement-will-sp-write-off-at-tax-time/)
- Holder on Crisis Cases: 'We've Been Aggressive' (http://blogs.wsj.com/washwire/2015/02/03/eric-holder-speaks-about-eric-holder/)
- How Justice, S&P Came to Terms (http://www.wsj.com/articles/s-p-pact-hinged-on-trade-offs-with-justice-1422915828?tesla=y)
- S&P Near Settlement (http://www.wsj.com/articles/s-p-justice-department-states-close-to-1-37-billion-settlement-1422460397) (Jan. 28)
- S&P Weighs Restarting Talks on Suit (http://www.wsj.com/articles/s-p-ratings-shifts-its-stance-on-a-crisis-related-suit-1405467753) (July 15)
- S&P: U.S. Suing to Avenge Ratings Drop (http://www.wsj.com/articles/SB10001424127887324202304579053142604688438) (Sept. 3, 2013)
- U.S. Sues S&P Over Ratings (http://www.wsj.com/articles/SB10001424127887324445904578284064003795142) (Feb. 5, 2013)
- S&P Strips U.S. of Top Credit Rating (http://www.wsj.com/articles/SB10001424053111903366504576491421339802788) (Aug. 7, 2011)

notion that somehow or other this was a suit brought in retaliation for a credit downgrade is utter nonsense," Mr. Holder said Tuesday.

McGraw Hill said in a statement that the settlement "contains no findings of violations of law," and that it decided to resolve it because a settlement was in the company's best interests. At the time the company dropped the allegation, its lawyers still were gathering evidence, according to people familiar with the matter.

"You expected the banks to do something slippery, but the credit agencies were supposed to be ones that we looked to," said Mississippi Attorney General Jim Hood, whose office was involved in the talks.

S&P's penalty of $1.5 billion represents about 30% of annual revenue at McGraw Hill and is 10 times bigger than the previously largest one in the credit-rating industry. Nonetheless, McGraw Hill shares rose 4.1% to $93.98 Tuesday.

Through the end of the third quarter, McGraw Hill had about $1.9 billion in cash balances, said Peter P. Appert, an analyst with Piper Jaffray, in a note to investors. "The company has ample financial resources to cover these charges."

Investors rely on ratings from S&P, Moody's Investors Service and Fitch Ratings when deciding whether to buy bonds. Collectively, they issue about 95% of ratings globally.

That dynamic makes punishing S&P a tough task, said Philip Hilder, a Houston-based lawyer and a former federal prosecutor. “You can’t come down too terribly hard on S&P without wounding the financial system,” Mr. Hilder said.

Among the day’s big winners was Calpers, the nation’s largest pension fund by assets. Calpers received $125 million in a settlement of its own lawsuit against S&P.

It also took in a further $176 million as part of the payout to California Attorney General Kamala Harris, who sued S&P over losses suffered by the state’s public pension funds.

“This money belongs to our members,” said Anne Stausboll, chief executive of Calpers.

McGraw Hill said the settlements will be reflected in its fourth-quarter results to be released Feb. 12, and it will provide more details about their financial impact at that time.

Write to Timothy W. Martin at timothy.martin@wsj.com and Andrew Grossman at andrew.grossman@wsj.com