

Testimony

of

Mark Froeba
PF2 Securities Evaluations, Inc.

New York, New York

before
The Financial Crisis Inquiry Commission

The New School Arnhold Hall
New York, New York
June 2, 2010

The opinions and views expressed in this document are those of Mark Froeba, who is appearing before the Commission on his own behalf and as a private citizen, and are not intended to represent the views or opinions of any organization.

Mr. Chairman, Mr. Vice-Chairmen and Members of the Commission:

My name is Mark Froeba. I am a lawyer. I live and work here in New York City.

Let me give you a brief summary of my background. I am a 1990 graduate of the Harvard Law School *cum laude*. In 1997, I left the tax group at Skadden, Arps in New York, where I had been working in part on structured finance securities, to join the Derivatives (CDO) Group at Moody's. I worked at Moody's for just over ten years, all of that time in the CDO Group. I left Moody's in 2007 as a Senior Vice President. At that time, I was Team Leader of the CLO team, co-chair of most CLO rating committees and jointly responsible for evaluating all new CLO rating guidelines. I am happy to say that the majority of CLOs have exhibited a high level of stability throughout this crisis. Today, I am currently engaged with a New York-based firm, PF2 Securities Evaluations, Inc., which consults on CDO securities.

You have asked me to describe the following:

- the changes, if any, I observed in the culture, practices, or employee incentives at Moody's during my tenure there;
- the changes, if any, I observed in the focus and mission of Moody's Derivatives Group;
- the quality of Moody's ratings of CDOs and CLOs and the integrity of the ratings process of CDOs and CLOs leading up to the financial crisis;
- the effects of pressure, if any, applied by issuers and banks regarding ratings; and
- whether there were any pressure and incentives from management to rate structured products, including any pressure to build or maintain market share.

My answer to these questions falls into three parts. First, I will describe, in general, the "cultural revolution" that Moody's senior management imposed at Moody's and compelling evidence of its impact. Second, I will describe the techniques Moody's senior management used to implement this revolution and why they were successful. Finally, I will describe a particularly egregious example of how the revolution corrupted the process of rating analysis.

The Cultural Revolution

The story of Moody's role in the financial crisis does not begin in the years immediately preceding the financial crisis, viz., in 2006 or 2007. It begins sometime in the year 2000. This was the year that Dun & Bradstreet Corporation and Moody's Corporation became separate independent publicly-traded companies, and, I might add, that Moody's senior managers were first able to begin receiving compensation in the form of stock options and other stock compensation, interests directly in Moody's Corporation. Before that, Moody's had been a very profitable but somewhat neglected subsidiary of Dunn & Bradstreet.

Until this time, Moody's had an extremely conservative analytical culture. Moody's analysts were proud to work for what they believed was by far the best of the rating agencies. They viewed Moody's competitors as a very distant second in quality and ratings integrity. Moody's was a place that outsiders loved to hate (as the title of one article at the time put it). Everyone understood that for any new product that was unusual or complex, the Moody's rating was the one to get and that without it, it would be difficult or even impossible to market the new product. In short, the Moody's of that time had the stature (and maybe even the power) to stop something like the sub-prime bubble had it arisen then.

Unfortunately, by the time the bubble arrived, Moody's had deliberately abandoned its stature and surrendered this power. Moody's simply gave up its analytical distinctiveness. How did it happen?

Under the guise of making Moody's more business friendly, making it more responsive to clients — e.g., making sure that analysts would return telephone calls etc., — Moody's senior managers set in motion a radical change in Moody's analytical culture that not only changed the rating process but also profoundly affected Moody's ratings.

I think I can best summarize the change by contrasting what I perceived an analyst would fear most when I started at Moody's with what I knew they would fear most by the time I left ten years later.

When I joined Moody's in late 1997, an analyst's worst fear was that he would contribute to the assignment of a rating that was wrong, damage Moody's reputation for getting the answer right and lose his job as a result.

When I left Moody's, an analyst's worst fear was that he would do something that would allow him to be singled out for jeopardizing Moody's market share, for impairing Moody's revenue or for damaging Moody's relationships with its clients and lose his job as a result.

In both cases, there was certainly the fear of job loss. But in the former case it was theoretical and rare — you did not really know of anyone who had been fired for getting the answer wrong but it provoked a healthy anxiety that you had better be careful not to miss anything. Moody's decades-old reputation for accuracy and integrity was in your hands. In the latter case, the fear was real, not rare and not at all healthy. You began to hear of analysts, even whole groups of analysts, at Moody's who had lost their jobs because they were doing their jobs, identifying risks and describing them accurately.

The best example of this was described in a *Wall Street Journal* article about Moody's Managing Director (MD), Brian Clarkson, published in April of 2008. As that article reports, Brian Clarkson quadrupled Moody's market share in the residential mortgage back securities (RMBS) group by simply firing (or transferring) nearly all the analysts in the group and replacing them with analysts willing to apply a new rating methodology. This process, or at least the threat of this process, became the model for Moody's new culture. As I am quoted saying about this new model in the *Wall Street Journal* article, "There was never an explicit

directive to subordinate rating quality to market share. There was, rather, a palpable erosion of institutional support for any rating analysis that threatened market share.”

Thus, Moody’s senior managers never set out to make sure that Moody’s rating answers were always wrong. Instead, they put in place a new culture that would not tolerate for long any answer that hurt Moody’s bottom line. Such an answer became, almost by definition, the wrong answer, whatever its analytical merit. As long as market share and revenue were at issue, Moody’s best answer could never be much better than its competitors’ worst answers. But arriving at an accurate answer was never objectionable, so long as that answer did not threaten market share and revenue. For this reason, there are some structured finance securities where Moody’s ratings continue to be accurate and of high quality. This is not evidence of rating integrity; it is simply evidence that, for these types of securities, Moody’s was not exposed to rating competition. Wherever Moody’s encountered material market share pressure (rating competition), we can expect to see that its ratings become indistinguishable from the ratings of its competitors.

My testimony today merely describes my own experiences and observations. However, evidence to prove this claim about what happened at Moody’s should not be difficult to produce. All that is necessary is to track Moody’s market share and revenue over time for any particular structured finance security and compare it to changes in Moody’s rating methodology for that security. What I think you will find is that Moody’s responded to the onset of market share and revenue pressures by initiating major methodological changes, changes not otherwise warranted by the availability of new data or some other substantive trigger.

And even if this Commission does not have the time or resources to gather market share evidence, I encourage the Commission to consider evidence of complaints from Moody's own analysts that an inappropriate attention to revenue and market share was interfering with the rating process.

You will find this evidence in the results of Moody's Business Effectiveness Survey (BES), a periodic survey that allowed Moody's associates (as Moody's calls its employees) to criticize superiors anonymously. If you can closely examine these survey results, I believe they will confirm the change in attitude I describe.

The BES results were apparently so disturbing in one survey, that Brian Clarkson visited various structured finance group meetings, including a meeting of the Derivatives Group, (1) to report that junior analysts had complained in the BES that accurate rating analysis was more and more being subordinated to considerations of market share and revenue in the rating process and (2) to reassure everyone that this was not at all the case.

Of course, at this meeting, Brian seemed merely to pay lip service to a principle that his other words and actions contradicted. He did not describe any effort by Moody's to uncover the cause of these complaints. Moreover, he did not describe anything Moody's had done to eliminate those causes. Together, this had the effect of reinforcing the very view that he was supposed to be there to correct: that market share considerations really were much more important than getting the answer right. In the end, neither he nor anyone in Moody's management did anything to unwind the many changes that provoked those BES survey results. What were those changes? What were the techniques they used to accomplish the culture change?

Intimidating Analysts; Encouraging Bankers

There were two ways that Moody's senior management imposed the new culture on Moody's analysts. First, they "reeducated" Moody's rating analysts — primarily structured finance analysts — that cooperation with the new culture would be rewarded and opposition punished. Essentially, they used intimidation to create a docile population of analysts afraid to upset investment bankers and ready to cooperate to the maximum extent possible. Second, they emboldened investment bankers, gave them confidence that they could stand up to Moody's analysts and gave them reason to believe that Moody's management would, where necessary, support the bankers against its own analysts.

Intimidating Analysts.

Moody's campaign of intimidation included all the run-of-the-mill techniques you might find at any company. Cooperative analysts got good reviews, promotions, higher pay, bigger bonuses, better grants of stock options and restricted stock. Uncooperative analysts got poor performance evaluations, no promotions, no raises (or effective pay cuts), smaller bonuses and fewer grants of stock options and restricted stock.

But Moody's primary tool for implementing the culture change was a person not a technique, Brian Clarkson. In this task, Brian was especially adept at threats of employment termination. As my former colleague at Moody's, Richard Michalek testified before the Senate Permanent Subcommittee on Investigations about Brian:

[Any] discussion of his management style included the words "**fear and intimidation.**" That description was periodically reinforced by the terminations of one or another of his managing director reports who had in some way failed to fulfill the express or implied expectations. The effect was only the more chilling when he was heard to say "it's not personal, its only business."

I think I can say, with only a little exaggeration, that I have heard Brian conjugate the verb “to fire” in moods and tenses most grammarians do not even know exist. In my ten years at Moody’s, I do not think I had three consecutive encounters with Brian in which he did not threaten to fire someone, describe someone he had fired or identify someone he should have fired. However, several anecdotes are memorable.

Brian was notorious within Moody’s for a joke he told that would not have been funny even if it had been a joke: that his only regret in firing 20-some people from Moody’s RMBS Group was that one of them got a job before he could fire him. I am sure that few of us who heard him believed he had any regrets.

Brian even threatened to fire people before he had hired them. When I interviewed with Moody’s in September of 1997, he spent almost half of our meeting telling me about people he had fired and why.

MDs were not spared from his termination threats. William May, a lawyer in the Derivatives Group, told me that almost immediately after Brian promoted him to MD, he was summoned to Brian’s office for a meeting in which Brian spent most of the meeting threatening to fire him. Bill claimed that Brian was threatening to fire him if Bill should ever get a Moody’s rating wrong. He would eventually connect the dots as to what he thought Brian really meant. Bill would announce ominously — sometimes even at CLO Rating Committees — that Moody’s had 100% market share in CLOs and that if he lost the business of a single CLO, he would be fired.

At one point, there was even a rumor in the Derivatives Group that Brian made one of the Group MDs prove he had the character to be a manager, by firing one or two people for cause. Even if it was only a rumor, it was certainly something widely accepted as true within the Group.

One more anecdote about threats of termination is interesting. It happened at a meeting I had with Brian shortly after he took over the Derivatives Group. He had allowed a rumor to circulate that he was considering firing all the lawyers in the Group and he was meeting with them one by one to assess them and their role in the Group. At our meeting, Brian explained to me his reason for firing all those RMBS analysts: they were turning down work, he said, without consulting their MDs.

I mention this explanation because it was patently clear that Brian did not expect me to believe it. I concluded that Brian was telling me that he fired all those people on a pretext and that he would be quite happy to do it again (to the lawyers in the Derivatives Group). You may wonder how Brian knew I would recognize that this was a pretext? Any Moody's analyst would have. Brian was saying that he fired those people because they failed to do something they would never have dreamed they were expected to do. It was like faulting a nurse for not asking her supervisor whether she should use a thermometer each time she takes a patient's temperature.

Before I leave the topic of threats of termination as a tool to implement the culture change at Moody's, it is important to point out that Brian was not a rogue manager running amok while Moody's Board and CEO/President were deceived about his conduct. They recognized in Brian the character of someone who could do uncomfortable things with ease and they exploited his character to advance their agenda. They were the ones who put Brian in charge of the RMBS Group and we can be quite confident he was not put there to improve morale! This is why it is important not to think about Brian separately from the people who were using him to implement the culture change at Moody's, first John Rutherford Jr. and then Ray McDaniel.

One collateral consequence of the cultural change was an inevitable and sometimes deliberate change in the quality of managers and analysts at Moody's, at least in the structured

finance area. At a rating agency, independence of mind among managers and analysts is a very valuable thing if you are looking for the right answer, and a very inconvenient thing if you are looking for the answer to enhance revenue and profit.

For this reason, strong academic credentials and the independence of mind that comes with them, came to be valued less in promotion decisions than they had once been. At first, all the MDs in the Derivatives Group on the quantitative side had very distinguished academic credentials: one had a PhD in Economics from Stanford; another, a PhD in Mathematics from MIT; a third, a PhD in Statistics from Wharton; one other did not have a PhD but had both an MBA and an MS in Statistics. Later MDs did not have such distinguished credentials.

For example, into the midst of all these academic credentials, Brian promoted a new MD, Yuri Yoshizawa, who had earned no graduate degree at all. Her only academic qualification is an undergraduate degree with a major emphasis in International Relations. Of course, many regard Yuri to be a capable person with undeniable skills.

Nevertheless, the marked contrast between her academic qualifications and those of her colleagues at least invites the inference that her selection was intended to keep the scope of the analytical work she directed within new and much more limited boundaries. It cannot be the case, with such a limited academic background, that Yuri was expected to interact as an equal with bankers who themselves had much stronger and more relevant academic backgrounds.

Was Moody's deliberately trying to put itself at a profitable disadvantage with this type of promotion? Perhaps not. But it should not be overlooked that Yuri was the Moody's MD in charge of the team that assigned the worst ratings in all of Moody's once distinguished history, Synthetic CDOs of ABS.

Even if Yuri was not promoted for her academic credentials or analytical abilities, she clearly has skills that Moody's values. Since the time when she presided over the team that assigned those ratings, she has been promoted twice more by Moody's and now heads Moody's worldwide CDO business. She recently testified under oath before the Senate Permanent Subcommittee on Investigations that she could not remember retaliating against an analyst on a deal in response to an investment banker's complaints. In particular, news accounts quote her as saying "I do not remember an instance where I took somebody off because the bank complained about their performance."

On this point, even though I am older than her, my memory is better. While still at Moody's, I was disturbed to learn of a case in which Yuri responded to a banker's aggressive complaints about an analyst by replacing and then firing the analyst. Both the original analyst on the transaction and the replacement analyst described the facts of the case to me separately. The replacement analyst told me that when he examined closely the work of the banker and the original analyst, he concluded that the banker's complaints were unjustified, that the banker's model was wrong (or at least very imprecise) and that the original analyst's work had been accurate all along.

It is possible, at least in theory, that Yuri cannot remember this case. However, I am sure that most of the people who watched her have this memory lapse at the hearing — including all of her subordinates at Moody's — must doubt that she testified truthfully under oath before a Committee of the US Senate. Whether those doubts are fair or unfair, it is inconceivable to me that anyone in the Derivatives Group would have ever had similar doubts about testimony from any of the Moody's MDs who ran the Group before it came under Brian's control, Daniel Curry, Jeremy Gluck, Eileen Murphy or Isaac Efrat.

Encouraging Bankers.

Even while much of Brian's energies were deployed making Moody's analytical personnel more "docile," he saved plenty of energy to improve Moody's relationships with investment banks. Immediately after he was given control of the Derivatives Group by John Rutherford Jr., Brian Clarkson and Noel Kirnon, (another Moody's MD subordinate to Brian who headed the Derivatives Group), met with all the major investment banks who worked with the Derivatives Group. At one point, Brian described to me some of what was discussed at these meetings. He and Noel invited the banks to identify "problem" Moody's managers and analysts, ie, to complain about Moody's personnel. And complain they did. It is important to note that no one seems to have been fired directly as a result of this feedback.

The primary purpose of these bizarre meetings seems to have been to send a signal to the investment banks that they had a friend in Brian, that his was a shoulder they could cry on, that he was someone who would not let Moody's analysts bully defenseless bankers.

These meetings were the beginning of a series of innovations in the Derivatives Group that had the effect of emboldening investment bankers. They came to understand that Moody's would cooperate with them whenever they complained about a particular analyst. As Richard Michalek recently confirmed in testimony before the Senate Permanent Subcommittee on Investigations, Moody's began to allow bankers to request that particular analysts be prohibited from working on any of the bank's deals. More important, the banks learned that Moody's would allow them to ask that all of the bank's deals be assigned to the same particularly "flexible" analyst or team of analysts. Finally, they learned well that they could go over the heads of analysts (even of Rating Committees despite Moody's policies to the contrary) if they

should ever really need to do so by appealing directly to Moody's managers and senior managers.

The most extreme example of this type of interference that I experienced happened as late as the summer of 2007. Along with two colleagues, I received an invitation to a meeting with Gus Harris in his office. The three of us were working on a CLO amendment which required the action and approval of a Rating Committee. Two of us were on the Committee. The third was a very senior analyst working on the amendment itself. The CLO's manager — a well-known hedge fund — wanted to amend the CLO indenture to increase significantly the CLO's ability to buy land loans, initially limited to 5% of the portfolio. Land loans are investments in undeveloped commercial real estate and, because they do not typically generate cash flow, are problem assets for CLOs. We were very troubled by the proposal and were working hard to prevent the increase or at least limit its size. It is important to note, by the way, that at the time of this meeting Gus Harris was no longer even part of the Derivatives Group. When the three of us arrived in his office for the meeting he called, he announced the reason for the meeting. A senior banker working on the indenture amendment had called Gus to complain. According to the banker, we were asking for something that he thought would "raise a red flag for investors and the other rating agencies" with respect to the land loan amendment. Gus wanted to discuss with us whether we really needed what the banker thought we were asking for.

I think it would be fair to say that the three of us were shocked. The meeting we were having appeared to subvert Moody's express Rating Committee policy. Instead of discussing the substance of the banker's concerns, we confronted Gus about the propriety of the meeting. I asked "What is this? A rating committee? You have not been part of the Committee for this amendment so far. Under what theory are you entitled to try to join it? Are you even still part of

the Derivatives Group?” Gus vigorously defended what he was doing in calling the meeting and raising the banker’s concerns.

Fortunately, in this case, I can confirm that the banker’s effort to go over the heads of the Rating Committee ultimately did no harm. However, it illustrates perfectly the fact that bankers had been taught to believe that they could and should try to go over the heads of analysts whenever they felt they were encountering difficulties getting the result they wanted. It was a relatively routine part of the way Moody’s did business. And we cannot be confident that every other time it happened, it came to so innocuous an end.

Finally, there were at least three other techniques that were used to strengthen the hand of the investment banks. One was to increase significantly the hiring of junior analysts fresh from college who needed work visas to remain in the US. Recent college graduates are already a pretty docile population of workers. This docility is exponentially increased in those for whom the loss of a job means the risk of deportation.

Another technique was to starve a busy group of resources. The RMBS Group was notoriously understaffed, underpaid and overworked. The Derivatives Group was better but not by much. By forcing analysts to work on many more transactions than they could comfortably handle, they were effectively prohibited from delving too deeply into any one of the transactions. The quality of their analysis — and the likelihood that analysts would spot tough issues — dropped precipitously.

A third technique was to force Moody’s MDs to justify each transaction Moody’s had not been asked to rate. Moody’s MDs began to receive regular messages describing such deals and requiring a response with a detailed explanation of why Moody’s had not been on the transaction. Of course, the effect of this was to increase substantially the effectiveness of banker

threats to take away a deal from Moody's. Those who have read Eric Kolchinsky's testimony before the Senate Permanent Subcommittee on Investigations may remember his report that he received such an e-mail from Yuri Yoshizawa seeking an explanation about a very slight drop in Moody's CDO of RMBS market share in the fall of 2007, right in the midst of the subprime meltdown.

In summary, by bullying Moody's analysts into docility and by encouraging bankers into bold defiance, Brian was the tool through which Moody's ratings were made to be no better than its competitors' worst ratings.

A Case Study in Getting the Ratings Wrong.

Perhaps the worst thing I saw in my time at Moody's happened not with respect to ABS CDOs but with respect to Moody's rating methodology for European CLOs. These are CLOs backed primarily by European loans and are both structured and rated in Europe.

By way of background, all the assets of a CLO must have some type of rating. Because most European loans do not have a public rating from Moody's, in Europe there needs to be an approach to assigning one. For a long time, Moody's Europe had allowed European managers to use a model, a quantitative tool, to produce these ratings. Eventually, Moody's Europe decided that this was not accurate enough. They compelled all European CLO managers to switch to a new, more accurate approach to obtaining ratings to loans that did not have a public rating. This approach is the assignment of a "credit estimate."

Credit estimates are not assigned by a model but rather by Moody's analysts who prepare abbreviated credit opinions for each credit submitted using the same techniques used to assign a full rating. Thus, credit estimates are like ratings but are the product of a truncated process. They are not made public and may only be used by the manager who submits the credit for the

credit estimate. (Moody's charges a separate fee to each CDO for each credit estimate. Thus, if ten CDOs request the same credit estimate, Moody's will earn the full credit estimate fee ten times.)

Once European CLO Managers began to submit European loans for these credit estimates, the Moody's team rating European CLOs began to observe a troubling pattern. All the loans were coming back with ratings lower, in many cases much lower, than expected. As a result, the pool-level default probability of Moody's-rated European CLOs was becoming materially worse than it had been when managers were able to use the model. Because the European CLO rating business was (and is) much more competitive than the US CLO rating business, the immediate result appears to have been that Moody's market share began to drop.

It was at this time that Moody's European CLO team appears to have "cooked" up a solution to the problem. The European CLO team decided that it would unilaterally upgrade each of these credit estimates by simply changing the chart in each CLO indenture that translates the letter rating of the credit estimate into a number. This chart, most commonly called Moody's Rating Factor Table in CLO indentures is based upon decades of Moody's default analysis and is not meant to be changed. In this sense, it is rather like the Periodic Table in chemistry.

In the US, we found out about this change from an investment banker who wanted to get the benefit of the better table in her US deal. We dismissed her claim that there was a "new" table and called London to confirm. To our surprise, we found out that there was a new table. We would spend the next eighteen months trying to figure out a way to "fix" the problem of this revised table.

Finally, in the late summer of 2007, both the US and European CLO teams reached an agreement to fix the problem and reintroduce the correct table into European CLOs. The planned change was even announced to European CLO Managers.

During that fall, there were regular teleconferences between Moody's New York CLO team and the Moody's European CLO team. As part of the broader quantitative analysis that was going on for these meetings, ten CLOs were selected for testing. Among other things, all ten CLOs were tested to determine what impact the "new" Rating Factor Table had on Moody's European CLO ratings.

At one meeting in late November of 2007 attended by both Yuri Yoshizawa and Bill May, the results of these runs were revealed. Using the new Rating Factor Table caused Moody's European CLO ratings to be one and a half to two notches too high in most cases.

Thus, every rating on every CLO using the "new" table could be characterized as wrong by one to two notches. At the end of this meeting, the last one that I would attend, we seemed to be reversing our earlier agreement and concluding that the "new" table would continue to be used. I was shocked. I asked Bill May at that time, "Does this mean that we're not changing the table?" He replied (with these or very similar words), "Moody's has a business to run."

It would appear that he, Yuri and, to the best of my knowledge, Katherine Frey, the Moody's MD in London who had charge of European CLOs, had come to a separate agreement not to make the change. Before the meeting that day, no one in the US had had so clear an idea of the rating impact of the "new" table. After that meeting, I could see no way that Moody's could continue using the table without exposing itself to grave liabilities. I was "downsized" a few weeks later.

In the summer of 2008, I was invited to speak to Moody's external counsel about this matter. I met with them late one afternoon and spent perhaps two hours explaining the technical problem with the "new" table and why I believed it potentially exposed Moody's to very substantial legal liability. I remember explaining to them my view that most lawsuits against the Rating Agencies have serious causation problems that this case would not have. I have no idea whether the law firm took any steps to protect Moody's shareholders from this liability nor whether the "new" table is still in use.

It has taken many words to give you a very cursory understanding of the issue in this example. It was important to describe it in at least summary fashion for two reasons. First, this example shows the extent to which market share issues had totally corrupted the way Moody's analysts and managers conducted rating analysis. Second, it shows how difficult it is to recognize serious wrong-doing on the part of a rating agency, given the highly technical work that they do. Malfeasance may be buried under so many layers and layers of complexity that only a small number of experts would ever notice and understand it. Another good example of this is the CDPO "scandal." Many of you may have heard of what seems to have been malfeasance at Moody's concerning the ratings Moody's assigned to instruments called CPDOs. I mention them here only to note that some senior Moody's MDs, in particular Noel Kirnon in the US, were forced to leave Moody's because they allowed factors unrelated to ratings to enter into the ratings process. Whatever wrongdoing Moody's acknowledged in the CPDO case, the most important thing to remember is that the story surfaced only because the Financial Times obtained a copy of an internal Moody's memorandum that made the wrongdoing impossible to deny. In most cases, there will be no such memorandum, and we should reasonably assume that

wrongdoing will be lost in the detail. Please keep that in mind when people suggest to you that the acts of explicit wrong-doing have been relatively rare.

*

*

*

In conclusion, I have tried to show that Moody's managers deliberately engineered a change to its culture intended to ensure that rating analysis never jeopardized market share and revenue. They accomplished this both by rewarding those who collaborated and punishing those who resisted. In addition to intimidating analysts who did not embrace the new values, they also emboldened bankers to resist Moody's analysts if doing so was good for Moody's business. Finally, I have tried to provide you with an example of the extent to which the new culture corrupted the rating process. The adjusted European CLO Rating Factor Table appears to have been adopted for the sole purpose of preserving Moody's European CLO market share despite the fact that it might have resulted in Moody's assigning ratings that were wrong by as much as one and a half to two notches. As I indicated to Moody's outside counsel in the summer of 2008, every single investor in a Moody's rated European CLO may have a claim against Moody's for damages associated with the fact that their CLO investments were not priced correctly.