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DEBT RATERS ALSO SCAM, CLAIMS RIVAL

By JESSICA SOMMAR

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Scandals spurred by conflicts of interest among Wall Street stock analysts may spread to include the big three credit-rating agencies if an upstart rival has its way.

So far, the reputations of top debt raters Standard & Poor's, Moody's Investors Service and Fitch Ratings have escaped the scandals that rocked Wall Street's best brokerages this year. But Weiss Ratings, an independent ratings provider, believes its big brothers are guilty as well.

"Right now, [regulators] are negotiating with the investment banks to reach a settlement that will punish them for their bad behavior at the same time the [Securities and Exchange Commission] is blessing and rewarding the credit-rating agencies for essentially the same type of behavior," said Martin Weiss, chairman and founder of Weiss Ratings.

Weiss and other independent raters have been in a struggle to break the power that Moody's, S&P and Fitch hold with their status as nationally recognized statistical rating organizations. They are the only NRSROs approved by the SEC.

Weiss filed a letter with the SEC yesterday. It said, among other things, that the Big Three debt raters get the bulk of their revenues from the companies they cover and that S&P and Fitch allow a rated company to censor an initial rating that is unfavorable. Weiss wants these alleged conflicts disclosed to the public.

"No single issuer fee or group of fees is important enough to risk jeopardizing the agency's reputation and future," sniffed Mimi Barker, spokesperson for S&P.

Analysts agree. "Eighty to 90 percent of these companies' revenues come from the companies they cover," admitted Jonathan Schrader, stock analyst at independent researchers Morningstar. "But the companies don't pressure the rating agencies because they have nowhere else to go to get their bonds rated. That's how [credit raters] maintain their independence, despite the fact that the lion's share of the revenue comes from the companies themselves."

The SEC has been conducting an investigation into the business of the credit-rating agencies in response to provisions in the Sarbanes-Oxley Act.

The SEC is due to report with recommendations before Congress by Jan. 26.

The SEC declined to comment. Moody's did not return calls for comment.

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