# Moody's Analyst Breaks Silence: "Ratings Agency Rotten To Core With Conflicts"

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Here are key highlights from Harrington's story

A former senior analyst at Moody's has gone public with his story of how one of the country's most important rating agencies is corrupted to the core.

The analyst, William J. Harrington, worked for Moody's for 11 years, from 1999 until his resignation last year.

From 2006 to 2010, Harrington was a Senior Vice President in the derivative products group, which was responsible for producing many of the disastrous ratings Moody's issued during the housing bubble.

Harrington has made his story public in the form of a 78-page "comment" to the SEC's proposed rules about rating agency reform, which he submitted to the agency on August 8th. The comment is a scathing indictment of Moody's processes, conflicts of interests, and management, and it will likely make Harrington a star witness at any future litigation or hearings on this topic.

The primary conflict of interest at Moody's is well known: The company is paid by the same "issuers" (banks and companies) whose securities it is supposed to objectively rate. This conflict pervades every aspect of Moody's operations, Harrington says. It incentivizes everyone at the company, including analysts, to give Moody's clients the ratings they want, lest the clients fire Moody's and take their business to other ratings agencies.

Moody's analysts whose conclusions prevent Moody's clients from getting what they want, Harrington says, are viewed as "impeding deals" and, thus, harming Moody's business. These analysts are often transferred, disciplined, "harassed," or fired.

In short, Harrington describes a culture of conflict that is so pervasive that it often renders Moody's ratings useless at best and harmful at worst.

Harrington believes the SEC's proposed rules will make the integrity of Moody's ratings worse, not better. He also believes that Moody's recent attempts to reform itself are nothing more than a pretty-looking PR campaign.

We've included highlights of Harrington's story below. Here are some key points:

* Moody's ratings often do not reflect its analysts' private conclusions. Instead, rating

committees privately conclude that certain securities deserve certain ratings–but then vote with management to give the securities the higher ratings that issuer clients want.

* Moody’s management and “compliance” officers do everything possible to make issuer clients happy–and they view analysts who do not do the same as “troublesome.” Management employs a variety of tactics to transform these troublesome analysts into “pliant corporate citizens” who have Moody’s best interests at heart.

* Moody’s product managers participate in–and vote on–ratings decisions. These product managers are the same people who are directly responsible for keeping clients happy and growing Moody’s business.

* At least one senior executive lied under oath at the hearings into rating agency conduct. Another executive, who Harrington says exemplified management’s emphasis on giving issuers what they wanted, skipped the hearings altogether.

Harrington’s story at times reads like score-settling: The constant conflicts and pressures at Moody’s clearly grated on him, especially as it became ever clearer that his only incentive not to “cave” to an issuer’s every demand was his own self-respect.

But Harrington’s story also makes clear just how imperative it is that the ratings-agency problem be addressed and fixed. The current system, in which the government blesses organizations as deeply conflicted as Moody’s with the power to determine sanctioned bond ratings is untenable. And the SEC’s proposed rule changes won’t fix a thing.

Harrington’s story is startling, both in its allegations and specificity. (He names many Moody’s executives and describes many instances that regulators and plaintiffs will probably want to take a closer look at.)

Given this, we expected Moody’s might want to say it has full confidence in its processes or denounce Harrington as a disgruntled ex-employee or something. Instead, Moody’s did not return multiple calls seeking comment.

My name is William J. Harrington. I was employed by Moody’s Investors Services (“Moody’s) as an analyst in the Derivatives Group from June 1999 until my resignation in July 2010. In 2006, I was promoted to Senior Vice President, the highest title that one could attain while performing purely analytical tasks. I am extremely proud of my work at Moody’s, which I memorialized in detailed committee memos, in Moody’s methodologies and in other Moody’s publications. A summary of my responsibilities at Moody’s and at prior employers and a list of my publications are included in an appendix to this Comment.

During my 11-year tenure at Moody’s, I was a lead analyst for many Derivative Product Companies (“DPCs”), for a collateralized swap program and for several Credit Derivative Product Companies (“CDPCs”). From 2006 onward, I was Team Co-Leader for these types of counterparty vehicles, collectively known as Structured Finance Operating Companies (“SFOCs”).

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