

STATE OF MAINE
KENNEBEC, SS

SUPERIOR COURT
CIVIL ACTION
DOCKET NO. CV-13-

STATE OF MAINE

Plaintiff,

v.

THE MCGRAW-HILL COMPANIES, INC. and
STANDARD & POOR'S FINANCIAL
SERVICES LLC

Defendants,

COMPLAINT

I. INTRODUCTION

COMES NOW, the Honorable Janet T. Mills, Attorney General for the State of Maine on behalf of the State of Maine, and files this Complaint against Defendants The McGraw-Hill Companies, Inc. and Standard & Poor's Financial Services, LLC, seeking redress from The McGraw-Hill Companies, Inc.; Standard & Poor's Financial Services, LLC and its business unit Standard & Poor's Ratings Services (hereinafter referenced collectively as "S&P"); for their unfair and deceptive business practices of misrepresenting as independent, objective and competent, their ratings services for structured finance securities, in violation of the Maine Unfair Trade Practices Act, 5 M.R.S. § 207.

The Attorney General seeks injunctive relief, other equitable relief, civil penalties and its attorney's fees pursuant to 5 M.R.S. § 209 for Defendants' practices of (1) misrepresenting their business model and services as objective and independent, and (2) misrepresenting their competence to rate certain structured finance securities. The Attorney General disclaims any

federal remedies and does not assert herein any claim for relief or seek any remedy arising out of a federal statute, federal regulation or provision of federal common law.

II. PARTIES

1. Plaintiff State of Maine, represented by Janet T. Mills, Attorney General of the State of Maine, brings this action pursuant to 5 M.R.S.A. § 191, the Maine Unfair Trade Practices Act, 5 M.R.S. § 205-A et. Seq. ("UTPA") and the powers vested in her by common law.

2. Defendant McGraw-Hill Companies, Inc. ("McGraw-Hill") is a New York corporation with its principal place of business at 1221 Avenue of the Americas, New York, NY 10020. McGraw-Hill is registered with the Maine Secretary of State to conduct business within the State of Maine.

3. Standard & Poor's Financial Services, LLC, (hereinafter "S&P") is a Delaware limited liability company and a wholly owned subsidiary of defendant McGraw-Hill with a principal place of business at 55 Water Street, New York, NY 10041. Within S&P is the business unit Standard & Poor's Ratings Services, which operates as a credit rating agency that assigns credit ratings on a broad range of securities, including structured finance securities, issued in domestic and international financial markets. S&P is the successor entity to a unit that previously operated within an unincorporated division of McGraw-Hill. S&P regularly transacts business in the State of Maine and derives substantial revenue from its business within the State of Maine.

III. BACKGROUND

4. The acts complained of in the Complaint began in 2001 and continued through 2011.

5. S&P rated structured finance products beginning in 2001.
6. One way to create a structured finance product is through an Asset-Backed Security ("ABS"). An ABS is a financial product that derives its value from a stream of revenue produced by a pool of underlying assets. While the assets in an ABS can be comprised of any number of loans or receivables, commercial and residential mortgages are the most common form of collateral used for ABS.
7. Structured finance securities that utilize residential mortgages as the sole form of collateral are called Residential Mortgage Backed Securities ("RMBs").
8. Collateralized Debt Obligations ("CDOs") are similar to RMBs in some ways but are more complex because they typically are comprised of RMBs from multiple different mortgage pools. For example a single CDO could contain securities from hundreds of different RMBs mortgage pools, as well as other types of assets.
9. When a CDOs underlying assets include other CDOs, the new CDO is deemed a "squared" or "cubed" CDO.
10. Information about the risk associated with the underlying collateral of squared or cubed CDOs is impossible for any investor to assess.
11. All ABSs are divided into tiers called tranches which represent different levels of risk.
12. Each tranche receives a credit rating that reflects its level of risk.
13. The revenue stream created by the payment of the underlying loans represents the revenue paid to investors and the investors in the "senior" tranches (those with the least risk) are paid first.

14. Investors with the least senior tranches bear the greatest risk of not being paid at all because any loss of revenue –from for example, unpaid mortgage payments-is absorbed by the junior tranches first.

15. The loan level data underlying structured finance securities is not readily available to the general public.

16. Structured finance securities are complex because they rely on a large asset pool that is subdivided into tranches, and in the case of CDOs do not contain a fixed pool of assets.

17. Because structured finance securities are opaque and complex, investors rely on the credit ratings assigned to them by credit rating agencies, such as S&P as a way to assess their risk.

18. While individual investors in Maine and elsewhere are generally not “qualified investors” for purposes of purchasing RMBs or CDOs directly, these structured finance products comprise part of many mutual fund and pension fund portfolios for Maine residents, retirees and workers.

19. SEC regulations require many pension and retirement funds to purchase only those securities with an “investment grade” rating.

20. S&P uses a scale that rates securities from “AAA” through “D,” with each level down indicating a decrease in creditworthiness and an increase in investment risk.

21. Securities rated at BBB or above qualify for the label “investment grade.”

IV. S&P'S REPRESENTATIONS OF INDEPENDENCE AND OBJECTIVITY

22. S&P is one of the largest CRAs with a reputation for independence and objectivity.

23. Objectivity and independence are material to the services S&P provides.

24. S&P advertises its independence and objectivity as hallmark traits of its business.

25. S&P has stated that it is independent, objective and reliable, or words to that effect, in every S&P annual report since at least 2003.

26. S&P codified its vows of independence, objectivity and integrity in its Code of Conduct, which states, among other things, that S&P's mission is "...to provide high-quality, objective, independent, and rigorous analytical information to the marketplace."

27. The S&P Code also assures consumers, shareholders, investors and regulators that S&P "endeavors to conduct the rating and surveillance processes in a manner that is transparent and credible and that also maintains the integrity and independences of such processes in order to avoid any compromise by conflicts of interest, abuse of confidential information, or other undue influences."

28. S&P's website emphasizes the company's integrity through independence, assuring consumers that S&P is known as an independent provider of credit ratings.

29. S&P also issues press releases to accompany the issuance of new ratings or the change of ratings.

30. In its press releases, available on Bloomberg, on S&P's websites and in other places accessible to the public, S&P represents itself as a provider of independent credit ratings, indices, risk evaluation, investment research and data.

31. S&P's representations about its independence, objectivity and integrity are material to financial market participants

32. Consumers whose retirement funds are invested in structured securities such as RMBs and CDOs rely on S&P's promises of independence and objectivity.

33. Without S&P's promises of independence and objectivity the ratings themselves would be useless.

V. THE ISSUER PAYS MODEL AND RATINGS SHOPPING COMPROMISED S&P'S INDEPENDENCE, OBJECTIVITY AND COMPETENCE

34. In filings with the SEC, their own annual reports and websites, publicly available codes of conduct, and press releases, Defendants continuously represented that their services were based on a business model that maintained independence, objectivity and competence. These representations were misleading because Defendants allowed the Issuer Pays model to compromise their independence and integrity.

35. Under the issuer pays model, issuers of securities pay CRAs to rate the investments.

36. S&P operated with an inherent conflict of interest because the revenues it earned came from the companies, usually banks, whose securities it rated.

37. S&P did not disclose its conflict of interest in rating RMBs and CDOs to the public.

38. In contrast to their publicly advertised independence and objectivity, the issuer's ratings shopping and volume of business had a major impact on the Defendants' rating process.

39. Despite Defendants knowledge that it had a conflict, S&P's public filings, Codes of Conduct and other promises stated the opposite.

40. S&P knew its analytical models could not assess the most complex securities with accuracy and yet it continued to rate these products. For example, ratings for CDOs often are not based on the actual pool of loans, but rather on agreed-upon limits for each type of potential asset that could be in the pool. This makes rating such products more speculative because the analyst can make, at best, an educated guess about what the actual composition of the loan pool

collateral he or she is rating will be. Nevertheless, S&P provided CDOs with ratings as high as the ratings they gave to financially sound corporations and routinely rated CDOs AAA.

41. By assigning credit ratings to these extremely complex financial securities, S&P focused on the issuing banks and profits instead of adhering to its public assurances of independence, objectivity and competence.

42. S&P issued investment grade ratings that made RMBs and CDOs seem like safe investments when in fact the risks were unknown, unknowable or quite high.

COUNT I

(Violation of the Maine Unfair Trade Practices Act—Misrepresentations)

43. Plaintiff realleges and incorporates herein by reference the preceding paragraphs of this Complaint.

44. At all times relevant to the Complaint, S&P was engaged in trade or commerce by providing credit ratings to asset backed securities that were used within the State of Maine.

45. By engaging in the acts and practices alleged herein, S&P made or caused to be made to Maine consumers, directly or indirectly, representations which are material and likely to mislead, in violation of 5 M.R.S. § 207.

46. S & P's misleading and deceptive statements include, but are not limited to, the following:

- A. S&P misrepresented that its business models were independent, objective and free of influence from those paying for the ratings;
- B. S&P misrepresented that it operated its business in conformance with its codes of conduct ;and
- C. S&P misrepresented its competence to provide expert analysis of some structured finance products.

47. Defendants' acts as alleged in this count are deceptive in violation of 5 M.R.S. § 207 and are intentional.

COUNT II
(Violation of the Maine Unfair Trade Practices Act—Omissions)

48. Plaintiff realleges and incorporates herein by reference the preceding paragraphs of this Complaint.

49. S&P misled Maine consumers, directly or indirectly, by failing to disclose that it had a conflict of interest when rating RMBs and CDOs that affected the rating given.

50. Defendants' acts as alleged in this count are deceptive in violation of 5 M.R.S. § 207 and are intentional.

COUNT III
(Violation of the Maine Unfair Trade Practice Act-Unfairness)

51. Plaintiff realleges and incorporates herein by reference the preceding paragraphs of this Complaint.

52. Defendants' practice of inducing consumers to consider its ratings as an independent factor to be relied upon in making investment decisions is likely to cause substantial injury that is not reasonably avoidable by consumers and is not outweighed by countervailing benefits to consumers or competition.

53. Defendants acts as described in this Count are unfair in violation of 5 M.R.S. § 207.

RELIEF REQUESTED

WHEREFORE, Plaintiff, Attorney General Janet T. Mills on behalf of the State of Maine requests the following relief:

1. Find that S&P engaged in deceptive business practices in the course of engaging in trade or commerce as a credit rating agency within the State of Maine in violation of the Maine Unfair Trade Practices Act, by:

- A. Misrepresenting that its business models were independent, objective and free of influence from the entities for which it was providing ratings;
- B. Misrepresenting its competence to provide expert analysis of certain structured finance products; and
- C. Misrepresenting that it operated its ratings business in conformance with its Codes of Conduct.

2. Find that S&P failed to disclose material information to consumers regarding its assignment of ratings to RMB's and CDOs, including information regarding its independence and competence in assigning the ratings.

3. Find that S&P's role of assigning ratings in the scheme to market RMBs and CDOs was unfair to reasonable consumers and did not otherwise benefit consumers or benefit competition (in violation of) 5 M.R.S. § 207.

4. Pursuant to 5 M.R.S. § 209, enjoin S&P from rating securities when it has a conflict and when it is not competent to give the rating.

5. Pursuant to 5 M.R.S. § 209, order S&P to disgorge any ill-gotten gains that it obtained by virtue of its unfair and deceptive acts.


6. Pursuant to 5 M.R.S. § 209, assess a civil penalty not to exceed Ten Thousand Dollars (\$10,000) for each and every intentional violation of the Maine Unfair Trade Practices Act.

7. Pursuant to 5 M.R.S. § 209, order S&P to pay the State's attorney's fees and costs of this action.

8. Such other and further relief as the Court deems just and proper.

Dated: February 5, 2013

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MAINE ATTORNEY GENERAL



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1 SO STIPULATED.

2 Dated: February __, 2015

KEKER & VAN NEST LLP

4 By: /s/ John W. Keke
5 John W. Keke

7 Dated: February __, 2015

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9 Acting Assistant Attorney General
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13 Deputy Assistant Attorney General

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19 STANDARD & POOR'S FINANCIAL SERVICES LLC
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10. On or about June 11, 2007, the heads of S&P's RMBS and CDO Surveillance Groups sent to senior S&P executives an "RMBS & CDO Surveillance Weekly Subprime Update." With respect to RMBS Surveillance, the Executive Summary portion of this update noted that "delinquencies and losses continued to increase in the pools," "the dollar balance of loans in foreclosure and REO continues to increase," "[r]esearch to determine the current time required to liquidate the loans has been initiated," and "[w]e expect to obtain data necessary to adjust our severity assumptions and the anticipated timing of losses, both of which may negatively impact rating performance." The update also detailed the determination that certain tranches of subprime RMBS were particularly vulnerable to rating actions, noting that analysts had re-run all of S&P's 18,000 subprime RMBS ratings issued since 1996 and found that, on average, the BBB-rated and lower rated tranches of subprime RMBS had greater than 100% severe delinquencies versus available credit support.

11. On or about June 27, 2007, senior S&P managers circulated an email from an S&P senior analyst indicating that if, as expected, the 2006 vintage RMBS continued to perform worse than the 2000 vintage RMBS, "we could see losses over 25% of original balance." The head of the RMBS Surveillance Group forwarded this email to others within RMBS surveillance with the comment that if the senior analyst was correct, we "could see defaults at 'AA' and 'AAA.'"

12. On or about June 29, 2007, S&P decided to accelerate the process to revise surveillance criteria with the expectation that this would result in large-scale negative rating actions on subprime RMBS ratings. Reflecting this decision: (a) on June 29, 2007, the Managing Director in charge of the Global ABS/RMBS/New Assets Group sent an email to an executive in her group explaining: "We have shortened the dates to act . . . [A]bsent any adverse event that may require us acting sooner than that, such timings tentatively include a CW [CreditWatch] press release on Monday July 9th"; and (b) on July 1, 2007, the head of the Research and Criteria Group forwarded to the head of the CDO Group and a group of other S&P executives a spreadsheet identifying 428 subprime RMBS transactions to be reviewed, with an accompanying email stating: "We have estimated the potential losses we expect from the 2006 vintage as a basis for taking near term rating action that will truly reflect the appropriate rating levels" and noting that in the future the review would need to extend to "closed end seconds" and "Alt-A" transactions.

13. On July 10, 2007, S&P publicly announced the placement of "credit ratings on 612 classes of [RMBS] backed by U.S. Subprime collateral on CreditWatch with negative implications." In addition, S&P publicly announced changes to its new issue and surveillance criteria with respect to subprime RMBS, including toughening of loss severity and loss timing assumptions for purposes of surveillance, and increased credit enhancement requirements for new subprime transactions. Thereafter, on July 12, 2007, S&P announced large-scale downgrades of 2005 and 2006 vintage subprime RMBS ratings.

14. As referenced above, from February 7, 2007 through June 29, 2007, reports from S&P analysts indicated that negative rating actions on large numbers of subprime RMBS were anticipated. After S&P's June 29, 2007 decision to accelerate the revision of surveillance criteria for subprime RMBS, senior managers at S&P expected that this would result in large-scale

capital markets and is committed to providing ratings that are objective, independent and credible”; and (b) “It is a central tenet of [S&P] that its ratings decisions not be influenced by the fact that [S&P] receives fees from issuers. To reinforce this central tenet, commencing in 2004, [S&P] separated in a more formal manner its commercial functions from its rating analytical functions.”

Decisions Regarding CDO Evaluator Updates

4. In 2004 and 2005, S&P was in the process of updating CDO Evaluator, one of the models used by S&P to rate Collateralized Debt Obligations (“CDOs”) to arrive at what would become CDO Evaluator Version 3.0 (“E3”). The initial update efforts, throughout 2004, were directed in part by the then head of S&P’s Global CDO group, whose experience was that the risk of losing transaction revenue was a factor that affected updates of CDO Evaluator. He set as goals for the update efforts: (a) small impacts to non-investment grade (“NIG”) cash CDO deals to minimize any negative impact of the updates on this segment of S&P’s ratings business; and (b) 2-3 notch improvements for investment grade deals to improve S&P’s market share with respect to investment grade synthetic CDOs. In accordance with these goals, during the initial update efforts, he and, according to him the then Managing Director in charge of the Cash CDO group, pushed back against updates to CDO Evaluator proposed by one of S&P’s senior analysts because they believed these changes would have had a significant negative effect on S&P’s market share and ratings business. In accordance with these goals, on May 27, 2004, the then head of S&P’s Global CDO Group sent the head of S&P’s Research and Criteria Group, the Managing Director in charge of the Synthetic CDO Group, and others an email directing the CDO Group to begin testing with customers a default matrix he had developed. According to the then head of S&P’s Global CDO Group, the decision to test this default matrix was “in part based upon business decisions, considerations.” Ultimately, this default matrix was not adopted, and work on updating CDO Evaluator to arrive at what would become E3 continued.

5. S&P originally scheduled E3 for release “sometime after July 11, 2005.” In preparation for the release, S&P circulated information regarding E3 to a number of investment banks involved in the issuance of CDOs. On July 18 and 19, 2005, a Client Value Manager in S&P’s Global CDO Group sent emails summarizing the feedback on E3 that had been received from one of these investment banks as follows: S&P’s ratings generated using CDO Evaluator Version 2.4.3 had been the “best” (by comparison to Moody’s and Fitch) with respect to CDOs comprised of certain “more lowly rated” asset pools; S&P would be giving up its market advantage with respect to these CDOs by moving to E3; and S&P would not make up for this with any increase in business in “the high quality sector” because with respect to this sector “Moody’s and Fitch can do better than E3 already.” After receiving this negative feedback, in a July 20, 2005 “Global CDO Activity Report” that she sent to the Executive Managing Director in charge of S&P’s Structured Finance department, the Managing Director in charge of S&P’s Global CDO group stated that the roll out of E3 to the market had been “toned down and slowed down” “pending further measures to deal with such negative results,” and described the basis for this decision, noting in particular one investment bank’s comments that E3 would result in S&P missing “potential business opportunities.”

1 For the State of Tennessee:

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4 HERBERT H. SLATTERY III

5 Attorney General and Reporter

6 for the State of Tennessee

7 Office of the Tennessee Attorney General

8 425 5th Avenue North

9 Nashville, TN 37202

10 Dated: February 2, 2015

1 For the Commonwealth of Pennsylvania:

2 KATHLEEN G. KANE
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5 By: 

6 NEIL F. MARA

7 Chief Deputy Attorney General
8 14th Floor, Strawberry Square
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10 Dated: 2/2/15

1 For the State of New Jersey:

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12 Dated: February 2, 2015

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1 For the State of Mississippi:

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4 LISA MADIGAN

5 Attorney General State of Illinois

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9 Dated: Feb. 2, 2015

For the District of Columbia:

A handwritten signature in black ink, appearing to be 'KARL A. RACINE', written over a horizontal line.


KARL A. RACINE
Attorney General for the District of Columbia
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Dated: 2-2-15

1 For the State of Connecticut:

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4 ATTORNEY GENERAL

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6 By:


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7
8
9
10
11 Dated: 2/2/2015

For the State of California:


A handwritten signature in black ink, appearing to read 'Kamala D. Harris', with a long horizontal flourish extending to the right.

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For the State of Arizona:

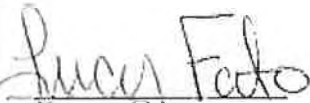
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14 ADAM SCHUMAN
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19 Dated: Feb 2, 2015
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1 **16. Miscellaneous Provisions.**

2 a. This Agreement is intended to be for the benefit of the Parties only
3 and does not create any third-party rights.

4 b. The Parties acknowledge that this Agreement is made without any
5 trial or final adjudication on the merits, and is not itself a final order of any court or
6 governmental authority.

7 c. Each Party shall bear its own legal and other costs incurred in
8 connection with this matter, including in connection with the US Case, the State Cases,
9 the investigations leading to the US Case and the State Cases, and the preparation and
10 performance of this Agreement.

11 d. Each Party and signatory to this Agreement represents that it freely
12 and voluntarily enters in to this Agreement without any degree of duress or compulsion.

13 e. Nothing in this Agreement in any way alters or affects the terms of
14 any regulations put in place by the SEC with respect to Nationally Recognized Statistical
15 Rating Organizations ("NRSROs") or Defendants' obligations under any such
16 regulations.

17 f. Nothing in this Agreement constitutes an agreement by the United
18 States or the States concerning the characterization of the Settlement Amount for the
19 purposes of the Internal Revenue laws, Title 26 of the United States Code, or similar
20 state tax codes or laws.

21 g. For the purposes of construing the Agreement, this Agreement shall
22 be deemed to have been drafted by all Parties and shall not, therefore, be construed
23 against any Party for that reason in any dispute.

24 h. This Agreement constitutes the complete agreement between the
25 Parties. This Agreement may not be amended except by written consent of all the
26 Parties.

1 respective releases granted by the United States and the States in Paragraphs 10 and 11
2 of this Agreement;

3 j. Any liability to or claims of the United States (or its agencies or any
4 other party) as to which the United States Attorney General lacks the authority to bring
5 or compromise;

6 k. Any liability to or claims of the States (or their agencies or any other
7 party) as to which the respective Attorneys General of the States, or for Missouri the
8 Missouri Commissioner of Securities, for Indiana the Securities Commissioner for
9 Indiana, and for New Jersey the Director of the New Jersey Division of Consumer
10 Affairs, lack the authority to bring or compromise;

11 l. Any liability to or claims of county, municipal, or local pension funds
12 or other county, municipal, or local government funds as investors, unless otherwise
13 explicitly released by an individual State in this Agreement;

14 m. Any liability to or claims of county or local governments or state
15 regulatory agencies having specific regulatory jurisdiction that is separate and
16 independent from the regulatory and enforcement jurisdiction of the State Attorney
17 Generals, or for Missouri the Missouri Commissioner of Securities, for Indiana the
18 Securities Commissioner for Indiana, and for New Jersey the Director of the New Jersey
19 Division of Consumer Affairs; and

20 n. Any liability based upon obligations created by this Agreement.

21 13. **Releases by Defendants.** The Released Entities fully and finally release
22 the United States and the States, and their officers, agents, employees, and servants, from
23 any claims (including attorneys' fees, costs, and expenses of every kind and however
24 denominated) that the Released Entities have asserted, could have asserted, or may assert
25 in the future against the United States and the States, and their agencies, divisions,
26 entities, officers, agents, employees, and servants, related to the conduct falling within
27 the scope of the releases granted by the United States and the States in Paragraphs 10
28

1 Conduct for the period of January 1, 2001 through December 31, 2012. The
2 Pennsylvania Attorney General executes this release in her official capacity and releases
3 only claims that the Pennsylvania Attorney General has the authority to bring and
4 release.

5 r. **Releases by the State of South Carolina.** The South Carolina
6 Attorney General fully and finally releases the Released Entities from any civil claim
7 that was or could have been brought based on: (a) the facts alleged in his Complaint
8 dated February 13, 2013, *State of South Carolina ex rel. Alan Wilson, in his official*
9 *capacity as Attorney General and as Securities Commissioner for the State of South*
10 *Carolina v. The McGraw-Hill Companies, Inc., and Standard & Poor's Financial*
11 *Services LLC*, filed in the Richland County Court of Common Pleas in the State of South
12 Carolina, Civil Action no. 2013-CP-40-00951 ("South Carolina's State Case"), for the
13 period of January 1, 2001 through February 13, 2013; or (b) the Covered Conduct for the
14 period of January 1, 2001 through December 31, 2012. The South Carolina Attorney
15 General executes this release in his official capacity and releases only claims that the
16 South Carolina Attorney General has the authority to bring and release.

17 s. **Releases by the State of Tennessee.** The Tennessee Attorney
18 General fully and finally releases the Released Entities from any civil claim that was or
19 could have been brought based on: (a) the facts alleged in his Complaint dated February
20 5, 2013, Davidson County Circuit Court case no. 13C506 ("Tennessee's State Case"),
21 for the period of January 1, 2001 through February 5, 2013; or (b) the Covered Conduct
22 for the period of January 1, 2001 through December 31, 2012. The Tennessee Attorney
23 General executes this release in his official capacity and releases only claims that the
24 Tennessee Attorney General has the authority to bring and release.

25 t. **Releases by the State of Washington.** The Washington Attorney
26 General fully and finally releases the Released Entities from any civil claim that was or
27 could have been brought based on: (a) the facts alleged in his Complaint dated February
28 5, 2013, or his Amended Complaint dated August 1, 2014, *State of Washington v. The*

1 Court case no. BCD-CV-14-49 ("Maine's State Case"), for the period of January 1, 2001
2 through February 5, 2013; or (b) the Covered Conduct for the period of January 1, 2001
3 through December 31, 2012. The Maine Attorney General executes this release in her
4 official capacity and releases only claims that the Maine Attorney General has the
5 authority to bring and release.

6 m. **Releases by the State of Mississippi.** The Mississippi Attorney
7 General fully and finally releases the Released Entities from any civil claim that was or
8 could have been brought based on: (a) the facts alleged in the Complaint dated May 10,
9 2011, the Amended Complaint dated September 8, 2011, or the Second Amended
10 Complaint dated July 2, 2014, Hinds County Chancery Court Case No. G2011-835 S/2
11 ("Mississippi's State Case"), for the period of January 1, 2000 through July 2, 2014; or
12 (b) the Covered Conduct for the period of January 1, 2001 through December 31, 2012.
13 The Mississippi Attorney General executes this release in his official capacity and
14 releases only claims that the Mississippi Attorney General has the authority to bring and
15 release.

16 n. **Releases by the State of Missouri.** The Missouri Attorney General
17 and Missouri Commissioner of Securities fully and finally release the Released Entities
18 from any civil claim that was or could have been brought based on: (a) the facts alleged
19 in the Petition dated February 5, 2013, State of Missouri ex rel Chris Koster, Attorney
20 General, ex rel The Commissioner of Securities v. The McGraw Hill Companies, Inc.
21 and Standard and Poor's Financial Services, LLC, Circuit Court of Jackson County at
22 Kansas City, Case No. 1316-cv02931 ("Missouri's State Case"), for the period of
23 January 1, 2001 through February 5, 2013; or (b) the Covered Conduct for the period of
24 January 1, 2001 through December 31, 2012. The Missouri Attorney General and
25 Commissioner of Securities execute this release in their official capacities and release
26 only claims that the Missouri Attorney General or the Commissioner of Securities have
27 the authority to bring and release.

1 2013, or in the First Amended Complaint dated August 13, 2014, Delaware Superior
2 Court Case C.A. No. N13C-02-044(RRC) (“Delaware’s State Case”), for the period of
3 January 1, 2001 through August 13, 2014; or (b) the Covered Conduct for the period of
4 January 1, 2001 through December 31, 2012. The Delaware Attorney General executes
5 this release in his official capacity and releases only claims that the Delaware Attorney
6 General has the authority to bring and release.

7 g. **Releases by the District of Columbia.** The District of Columbia
8 fully and finally releases Defendants from any civil claim that was or could have been
9 brought by the District of Columbia based on: (a) the factual allegations in the District of
10 Columbia’s Complaint, filed on February 5, 2013, in District of Columbia Superior
11 Court, Civ. No. 2013 CA 000997 B, for the period of January 1, 2001 through February
12 5, 2013; or (b) the Covered Conduct for the period of January 1, 2001 through December
13 31, 2012.

14 h. **Releases by the State of Idaho.** The Idaho Attorney General fully
15 and finally releases the Released Entities from any civil claim that was or could have
16 been brought based on: (a) the facts alleged in his February 5, 2013 Complaint or his
17 June 17, 2014 Amended Complaint filed in the Fourth Judicial District of Idaho, Ada
18 County, Case No. CV OC 1302154 (“Idaho’s Case”), for the period of January 1, 2001
19 through June 17, 2014; or (b) the Covered Conduct for the period of January 1, 2001
20 through December 31, 2012. The Idaho Attorney General executes this release in his
21 official capacity and releases only claims that the Idaho Attorney General has the
22 authority to bring and release.

23 i. **Releases by the State of Illinois.** The Illinois Attorney General fully
24 and finally releases the Released Entities from any civil claim that was or could have
25 been brought based on: (a) the facts alleged in her Complaint dated January 25, 2012,
26 filed in the Circuit Court of Cook County, Illinois, County Department, Chancery
27 Division, Case No. 12 CH 02535 (the “Illinois State Case”), for the period of January 1,
28 2001 through January 25, 2012; or (b) the Covered Conduct for the period of January 1,

1 including without limitation payment to each of the States as specified in Paragraph 6(b)
2 of this Agreement, and (except for the District of Columbia) on the entry of a stipulated
3 judgment, consent judgment, or other enforceable judgment implementing the terms of
4 this Agreement in accordance with Paragraph 9(c) of this Agreement.

5 a. **Releases by the State of Arizona.** The Arizona Attorney General
6 fully and finally releases the Released Entities from any civil claim that was or could
7 have been brought based on: (a) the facts alleged in his Complaint dated February 5,
8 2013, Maricopa County Superior Court case no. CV 2013-001188 ("Arizona's State
9 Case"), for the period of January 1, 2001 through February 5, 2013; or (b) the Covered
10 Conduct for the period of January 1, 2001 through December 31, 2012. The Arizona
11 Attorney General executes this release in his official capacity and releases only claims
12 that the Arizona Attorney General has the authority to bring and release.

13 b. **Releases by the State of Arkansas.** The State of Arkansas fully and
14 finally releases the Released Entities from any civil claim that was or could have been
15 made by the Attorney General of the State of Arkansas based on: (a) the facts alleged in
16 the Complaint filed and dated February 5, 2013, or in the Amended Complaint filed and
17 dated July 9, 2014, in Pulaski County Circuit Court as Case no. 60-CV-13-534, for the
18 period of January 1, 2001 through July 9, 2014; or (b) the Covered Conduct for the
19 period of January 1, 2001 through December 31, 2012. The Arkansas Attorney General
20 executes this release in her official capacity and releases only claims that the Arkansas
21 Attorney General has the authority to bring and release.

22 c. **Releases by the State of California.** The California Attorney
23 General fully and finally releases the Released Entities from any civil claim that was or
24 could have been brought based on: (a) the facts alleged in her Complaint dated February
25 5, 2013, San Francisco Superior Court case no. CGC-13-52849 ("California's State
26 Case"), for the period of January 1, 2001 through February 5, 2013; or (b) the Covered
27 Conduct for the period of January 1, 2001 through December 31, 2012. The California
28 Attorney General executes this release in her official capacity and releases only claims

1 b. Defendants and the District of Columbia shall sign and file in the
2 District of Columbia State Case a Joint Stipulation of Dismissal pursuant to D.C. Super.
3 Ct. R. Civ. P. 41(a)(1(ii). This Agreement may be attached as an exhibit to the Joint
4 Stipulation. Paragraph 9(c) of this Agreement shall not apply to the District of
5 Columbia. In any action by the District of Columbia alleging a violation by Defendants
6 of its Particular State Laws under Paragraph 7(a), personal jurisdiction over Defendants
7 must be established by facts independent of the existence of this Agreement.

8 c. Defendants and each of the States (other than the District of
9 Columbia) shall sign and file in each respective State Case stipulated judgments, consent
10 judgments, or similar pleadings as provided by the rules of practice in each of the States
11 to bring formal legal proceedings to a close and memorialize the terms of this
12 Agreement, including without limitation the Compliance Measures set forth in Paragraph
13 7 of this Agreement, in an enforceable judgment. This Agreement shall be attached as
14 an exhibit to any such filed papers. With respect to enforcement of any State court
15 judgment obtained pursuant to this paragraph:

16 i. Defendants and the States agree that the State court in which
17 the judgment is entered shall have exclusive jurisdiction over any claim by either the
18 Defendants or the Attorney General of the State that there has been a violation of any of
19 the terms of this Agreement, other than a claim by the Attorney General of the State that
20 Defendants have violated Paragraph 7(a) of this Agreement.

21 ii. Defendants and the States agree that if the Attorney General of
22 any State, who shall be the only person authorized to pursue a claim pursuant to this
23 Agreement or that State's State court judgment that a violation of that State's Particular
24 Laws constitutes a violation of Paragraph 7(a) of this Agreement or of such State court
25 judgment, asserts such a claim, that claim shall be pursued in the State court in which the
26 judgment is entered as an action to enforce the State court judgment; with respect to any
27 such action, Defendants and the States agree: (a) Defendants shall not remove any such
28 action to federal court; (b) Defendants reserve the right to assert any rights or defenses,

1 xi. **State of Iowa.** Iowa Consumer Fraud Act, Iowa Code section
2 714.16.

3 xii. **State of Maine.** Maine Unfair Trade Practices Act, 5 M.R.S.
4 section 205-A *et seq.*

5 xiii. **State of Mississippi.** Mississippi Consumer Protection Act,
6 Miss. Code Ann. § 75-24-1 *et seq.*

7 xiv. **State of Missouri.** Sections 407.020, RSMo, Missouri
8 Merchandising Practices Act, and 409.5-501(2), 409.5-501(3), and 409.5-502, RSMo,
9 Missouri Securities Act.

10 xv. **State of New Jersey.** New Jersey Consumer Fraud Act,
11 N.J.S.A. 56:8-1 *et seq.*; New Jersey Regulations Governing General Advertising,
12 N.J.A.C. 13:45A-9.1 *et seq.*

13 xvi. **State of North Carolina.** North Carolina Unfair and
14 Deceptive Trade Practices Act, N.C. Gen. Stat. §§ 75-1.1 *et seq.*

15 xvii. **Commonwealth of Pennsylvania.** Unfair Trade Practices and
16 Consumer Protection Law, 73 P.S. §§ 201-1 *et seq.*

17 xviii. **State of South Carolina.** South Carolina Unfair Trade
18 Practices Act, S.C. Code §§ 39-5-10 *et seq.*; South Carolina Uniform Securities Act of
19 2005, S.C. Code §§ 35-1-101 *et seq.*

20 xix. **State of Tennessee.** Tennessee Consumer Protection Act,
21 Tenn. Code Ann. § 47-18-101 *et seq.*

22 xx. **State of Washington.** Washington Consumer Protection Act,
23 RCW 19.86.

24 b. Defendants' obligation to comply with the Particular State Laws
25 specified in Paragraph 7(a) above shall have no effect on any obligations Defendants
26 may have to comply with other state laws not specified above.

27 c. For a period of five (5) years commencing on the Effective Date of
28 this Agreement, Defendants shall, upon request from any State expressing a concern

1 xix. \$25,000,000.00, and no other amount, will be paid by
2 Defendants to the State of Tennessee, Office of the Attorney General pursuant to this
3 Agreement and the terms of written payment instructions from the State of Tennessee,
4 Office of the Attorney General. Payment shall be made by electronic funds transfer
5 within thirty (30) calendar days of receiving written payment processing instructions
6 from the State of Tennessee, Office of the Attorney General. Said funds include the
7 Tennessee Attorney General's legal fees and costs of investigation and prosecution of
8 this matter. All funds will be distributed at the sole discretion of the Tennessee Attorney
9 General.

10 xx. \$21,535,714.00, and no other amount, will be paid by
11 Defendants to the State of Washington pursuant to this Agreement and the terms of
12 written payment instructions from the State of Washington, Office of the Attorney
13 General. Payment shall be made by electronic funds transfer within thirty (30) calendar
14 days of receiving written payment processing instructions from the State of Washington,
15 Office of the Attorney General. The payment to the State of Washington, Office of the
16 Attorney General, shall be distributed as follows: \$500,000 shall be retained by the
17 Attorney General for reimbursement of investigative and litigation costs in this case;
18 \$3,000,000 shall be distributed at the sole discretion of the Attorney General for cy pres
19 to remediate effects of the mortgage and financial crisis; the Attorney General shall
20 cause the remaining \$18,035,714 to be deposited into the State General Fund.

21 xxi. \$4,500,004.00, and no other amount, will be paid by
22 Defendants to the National Association of Attorneys General Financial Services and
23 Consumer Protection Enforcement, Education and Training Fund pursuant to this
24 Agreement and the terms of written payment instructions from the National Association
25 of Attorneys General. Payment shall be made by electronic funds transfer within thirty
26 (30) calendar days of receiving written payment processing instructions from the
27 President of the National Association of Attorneys General.

xiv. \$21,535,714.00, and no other amount, will be paid by Defendants to the State of Missouri pursuant to this Agreement and the terms of written payment instructions from the State of Missouri, Office of the Attorney General, to be distributed thereafter in a manner to be determined by the Missouri Attorney General and Missouri Commissioner of Securities. Payment shall be made by electronic funds transfer within thirty (30) calendar days of receiving written payment processing instructions from the State of Missouri, Office of the Attorney General.

xv. \$21,535,714.00, and no other amount, will be paid by Defendants to the State of New Jersey pursuant to this Agreement and the terms of written payment instructions from the State of New Jersey, Office of the Attorney General. Payment shall be made by electronic funds transfer within thirty (30) calendar days of receiving written payment processing instructions from the State of New Jersey, Office of the Attorney General.

xvi. \$21,535,714.00, and no other amount, will be paid by Defendants to the Plaintiff State of North Carolina ex rel. Cooper pursuant to this Agreement and the terms of written payment instructions from the North Carolina Attorney General's Office. Payment shall be made within thirty (30) calendar days of receiving written payment processing instructions from the North Carolina Attorney General's Office. \$2,153,571.00 of said payment shall be deemed a penalty under North Carolina law. \$19,382,143.00 of said payment shall be used by the North Carolina Attorney General for attorneys' fees and other costs of investigation or litigation, placed in or applied to the consumer protection fund, and for consumer protection purposes and other uses permitted by law, at the sole discretion of the Attorney General; this amount of \$19,382,143.00 is not a fine, penalty, or payment in lieu thereof.

xvii. \$21,535,714.00, and no other amount, will be paid by Defendants to the Commonwealth of Pennsylvania, Office of Attorney General pursuant to this Agreement and the terms of written payment instructions from the Commonwealth of Pennsylvania, Office of the Attorney General. Payment shall be

1 viii. \$21,535,714.00, and no other amount, will be paid by
2 Defendants to the State of Idaho pursuant to this Agreement and the terms of written
3 payment instructions from the State of Idaho, Office of the Attorney General. Payment
4 shall be made by electronic funds transfer within thirty (30) calendar days of receiving
5 written payment processing instructions from the State of Idaho, Office of the Attorney
6 General.

7 ix. \$52,500,000.00, and no other amount, will be paid by
8 Defendants to the State of Illinois pursuant to this Agreement and the terms of written
9 payment instructions from the State of Illinois, Office of the Attorney General. Payment
10 shall be made by electronic funds transfer within thirty (30) calendar days of receiving
11 written payment processing instructions from the State of Illinois, Office of the Attorney
12 General for ultimate deposit in the following funds: (a) designated state pension funds,
13 and (b) the Attorney General State Projects and Court Ordered Distribution Fund (the
14 801 fund). Any payment to the 801 fund shall be made for subsequent expenditure at the
15 sole discretion of and as authorized by the Illinois Attorney General.

16 x. \$21,535,714.00, and no other amount, will be paid by
17 Defendants to the State of Indiana pursuant to this Agreement and the terms of written
18 payment instructions from the State of Indiana, Office of the Attorney General. Payment
19 shall be made by electronic funds transfer within thirty (30) calendar days of receiving
20 written payment processing instructions from the State of Indiana, Office of the Attorney
21 General.

22 xi. \$21,535,714.00, and no other amount, will be paid by
23 Defendants to the State of Iowa pursuant to this Agreement and the terms of written
24 payment instructions from the State of Iowa, Office of the Attorney General. Payment
25 shall be made by electronic funds transfer within thirty (30) calendar days of receiving
26 written payment processing instructions from the State of Iowa, Office of the Attorney
27 General. The payment shall be used at the sole and complete discretion of the Attorney
28 General of Iowa, for any use permitted by law or this Settlement Agreement, including

1 i. \$21,535,714.00, and no other amount, will be paid by
2 Defendants to the State of Arizona pursuant to this Agreement and the terms of written
3 payment instructions from the State of Arizona, Office of the Attorney General. Said
4 payment shall, pursuant to state law, be used by the Arizona Attorney General for
5 attorneys' fees and other costs of investigation or litigation, for restitution, remediation,
6 or for other consumer protection purposes, or for other uses as permitted by governing
7 state law, within the discretion of the Attorney General. Payment shall be made by
8 electronic funds transfer within thirty (30) calendar days of receiving written payment
9 processing instructions from the State of Arizona, Office of the Attorney General.

10 ii. \$21,535,714.00, and no other amount, will be paid by
11 Defendants to the State of Arkansas pursuant to this Agreement and the terms of written
12 payment instructions from the State of Arkansas, Office of the Attorney General.
13 Payment shall be made by electronic funds transfer within thirty (30) calendar days of
14 receiving written payment processing instructions from the State of Arkansas, Office of
15 the Attorney General. The money paid by Defendants to the Arkansas Attorney General
16 shall be deposited in the Consumer Education and Enforcement Account to be used in
17 accordance with Act 763 of 2013 of the Arkansas General Assembly.

18 iii. \$210,000,000.00, and no other amount, will be paid by
19 Defendants to the State of California pursuant to this Agreement and the terms of written
20 payment instructions from the State of California, Office of the Attorney General.
21 Payment shall be made by electronic funds transfer within thirty (30) calendar days of
22 receiving written payment processing instructions from the State of California, Office of
23 the Attorney General.

24 iv. \$21,535,714.00, and no other amount, will be paid by
25 Defendants to the Colorado Department of Law pursuant to this Agreement and the
26 terms of written payment instructions from the State of Colorado, Office of the Attorney
27 General. Payment shall be made by electronic funds transfer within thirty (30) calendar
28 days of receiving written payment processing instructions from the State of Colorado,

1 3. This Agreement sets out the terms on which the Parties, to avoid the delay,
2 uncertainty, inconvenience, and expense of further litigation, have agreed to settle the
3 claims made by the United States in the US Case and by the States in the State Cases.
4 To implement this Agreement and in consideration of the mutual promises and
5 obligations set forth in this Agreement, the Parties agree and covenant as follows:

6 **Terms and Conditions**

7 4. **Definitions.** The following terms used in this Agreement shall have the
8 following meanings:

- 9 a. **"RMBS"** means Residential Mortgage Backed Securities.
- 10 b. **"CDO"** means Collateralized Debt Obligation of any type, including
11 cash flow, synthetic, and hybrid collateralized debt obligations, including Collateralized
12 Loan Obligations and Collateralized Bond Obligations, and including any of these types
13 of CDOs in which some or all of the underlying collateral was other CDOs or credit
14 default swaps that referenced other CDOs.
- 15 c. **"CDO of RMBS"** means a CDO for which any of the collateral was
16 RMBS, another CDO of RMBS, or credit default swaps that referenced either RMBS or
17 any CDO of RMBS.
- 18 d. **"CMBS"** means Commercial Mortgage Backed Securities.
- 19 e. **"SIV"** means Structured Investment Vehicles.
- 20 f. **"ABS"** means Asset Backed Securities.
- 21 g. **"Structured Finance Instruments"** means RMBS, ABS, CMBS,
22 CDOs, including without limitation CDOs of RMBS, and SIVs.
- 23 h. **"Released Entities"** means Defendants, together with any current
24 and former parent companies, direct and indirect subsidiaries and divisions, business
25 units, affiliates, and the successors and assigns of any of them.
- 26 i. **"Covered Conduct"** means: (1) all activities by the Released Entities
27 in connection with the issuance, confirmation, and surveillance of ratings for Structured
28 Finance Instruments, including modifications and adjustments to the procedures and

State	Filing Date	Court	Caption
California	2/5/2013	California Superior Court, San Francisco County	<u>People of the State of California v. The McGraw-Hill Companies, Inc., Standard & Poor's Financial Services LLC, and Does 1-100</u> , No. CGC-13-528491
Colorado	2/5/2013	District Court, City and County of Denver, State of Colorado	<u>State of Colorado ex rel. Coffman v. The McGraw-Hill Companies, Inc., and Standard & Poor's Financial Services LLC</u> , No. 2013-CV-30537
Connecticut	3/10/2010	Connecticut Superior Court, Judicial District of Hartford at Hartford	<u>Connecticut v. The McGraw-Hill Companies, Inc., and Standard & Poor's Financial Services LLC</u> , No. HHD-cv-10-6008838-S
Delaware	2/5/2013	Delaware Superior Court, New Castle County	<u>Delaware v. The McGraw-Hill Companies, Inc., and Standard & Poor's Financial Services LLC</u> , No. N 13C-02-044
District of Columbia	2/5/2013	D.C. Superior Court	<u>District of Columbia v. The McGraw-Hill Companies, Inc., and Standard & Poor's LLC</u> , Civ. No. 2013 CA 000997 B
Idaho	2/5/2013	Idaho 4 th Judicial District Court, Ada County	<u>Idaho ex rel. Wasden v. The McGraw-Hill Companies, Inc., and Standard & Poor's Financial Services LLC</u> , No. CV OC 1302154
Illinois	1/25/2012	Illinois Circuit Court, Cook County	<u>People of the State of Illinois v. The McGraw-Hill Companies, Inc., and Standard & Poor's Financial Services LLC</u> , No. 12CH02535
Indiana	6/27/2013	Marion County Superior Court	<u>Indiana ex rel. Mihalik v. McGraw Hill Financial, Inc., and Standard & Poor's Financial Services LLC</u> , No. 49D03-1306-PL-025757.
Iowa	2/5/2013	Iowa District Court, Polk County	<u>Iowa ex rel. Miller v. The McGraw-Hill Companies, Inc., and Standard & Poor's Financial Services LLC</u> , No. EQCE73545

