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MEMORANDUM FOR THE RECORD

Event: Meeting with Moody's Investor Services

Type of event: Briefing

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Special Access Issues: NA

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Team Number: 8

Location:

Participants - Non-Commission: Moody's Investors Service: Ted Collins, MD P&C Insurance and Reinsurance; Daniel B. Rubock, VP/Senior Analyst Structured Finance, Commercial Mortgage Finance; Robert Kurtter, SVP State and High Profile Ratings Public Finance Group; Renee Boicourt, MD, Infrastructure, State/High Profile Ratings, Public Finance Group; David L. Fanger; SVP, Banking and Finance; New York Safety Council: William G. Raisch

Participants - Commission: Emily Walker, Ellie Hartz

The purpose of this meeting at Moody's Investor Services was to discuss the results of the November 9, 2003 hearing – the conclusion that there is a need for National Standards for Emergency Preparedness and Continuity of Business – and whether Moody's would share this view and consider including this element in their evaluation criterion for corporate ratings.

The meeting began by introducing each participant. Emily Walker explained the Commission, the New York team, her role in examining what happened in the private sector on Sept. 11, lessons learned and how this translated into the hearing and its conclusions. She stated that the general view from the lessons we had learned to date is that while the private sector in NYC has enhanced its preparedness since 9-11, there was no uniform standard of preparedness and no uniform way to judge the improvements made. Each company appears to have done whatever they deemed appropriate, however they deemed doing it and there was still a large pocket of companies (not directly involved in 9-11) which had not made significant changes. She explained to the group that the purpose of enlisting Moody's support on this topic was to ask them whether or not they felt that the judgment of a corporations' preparedness had any place in Moody's evaluation

Each member of the Moody's team introduced themselves. They each had participated in calls on their topic post 9-11 and they provided us with the Reports related to these calls and other reports that they produced on the financial market and corporation conditions following Sept. 11, 2001 (see background).

David Fanger, who is a former Federal Reserve employee, who is now a Managing Director in the financial and Banking practice, said that they had many teleconferences which discussed their views on the financial markets, role of the Fed, the economy and industry by industry. He commented that he was in charge of reviewing the steps that the Federal Reserve made and he felt that they were quite positive and aided in the smooth functioning of the markets following the disaster.

Ted Collins, the head of the Property and Casualty and Reinsurance division said that his role was to assess the impact on companies we cover and follow-up on the Terrorism Risk Insurance Act issues.

Dan Rubock is an analyst who rates commercial mortgages. He said that there were a fair number of downgrades of these notes following 9-11 because the back-up to the mortgages was real property, some of which was high profile. Insurance is the substitute for the collateral and given the issue immediately after 9-11 of whether or not there would be terrorism insurance, the question mark left often the need for downgrades. He said that TRIA had a positive effect for high profile assets and the rating of debt that underlies the buildings.

Robert Kurtter gave a perspective from the Government side. His ratings of agencies including the City of New York and the Port Authority were not negative. FEMA and federal aid were deemed to have been able to make these entities whole again and therefore they were not downgraded. In the event, the Port Authority re-entered the markets on the wake of 9-11.

Renee Boicourt, MD of the same municipal unit said that utilities and transportation were very heavily affected by 9-11. Also airports and airlines as well as bonds that were securing high profile projects. But given the back-stop of FEMA, investors were insulated from the risks. There is no investor losses related to natural disasters in the pubic sector. FEMA and insurance cover it. Projects get rebuilt quickly. This doesn't replace loss revenue, but it allows for cash to rebuild. The infusion of money from FEMA and insurance stimulates the economy. While in NYC this didn't exactly happen that way, she pointed out that Wall Street was not doing well before 9-11. She also commented on the need to diversify and not have all of your ducks on one basket. She said the more concentrated an asset, the more monoline, the better chance emergency preparedness plays a role in setting the price.

The discussion moved to the insurance sector and from an insurance perspective what different decisions underwriters made. It was said that underwriters have their own standards and use them when agreeing on a baseline. Underwriters look at different perspectives.

Commission offered the analogy to Sarbanes Oxley (SOX) and ticking the box for emergency preparedness and whether that would help. The general Moody's view was that such a box would be debated since there are other things people may support creating a box for. However, they felt that if such a box were incorporated, most companies have a structure for fulfilling Sarbanes Oxley so they could use the same person. Moody's' felt that as long as they have standards to follow, this could be useful. There was discussion that SOX also encouraged businesses to rise up to fill the gaps for the increased activity (e.g. accounting and law firms). Moody's felt SOX would be very hard to amend because so many other groups with their boxes wanted to get in.

The group discussed that changing ones' security procedures is really a cost-benefit issue for the corporation. If a company reviews its' risks and decide they are minimal and even if they are not, they decide to cover them with insurance, the CEO does not need to change policies. Emily said that she believed that good corporate governance and good operating procedures would be convincing to a CEO to change some of the security issues currently in place in many places. Renee suggested that in fact this would presume that if companies had not practiced safety and security in the workplace pre-9-11, the market would have already reflected this. By suggesting that the market had not accounted for this post-9-11 would assume that the market is inefficient around this issue and needed to be corrected by developing standards. She felt that there is enough diversification in the lines of businesses and geography as well as insurance coverage, that such a cost-benefit analysis would not suggest that changing policies was warranted. Emily said she could understand this from a financial rating perspective, but did not feel that the cost of putting emergency preparedness and COB procedures in place would necessarily be that high and would go a long way toward protecting the corporations' future, brand and shareholder value. She did say, however, that the thought that insurance would protect you so there was nothing you needed to do have not been in her analysis.

Renee said that if there were a need for back-up, a new Sunguard would have emerged. This is the company that supposedly was back-up for many of the 9-11 back-up firms but when the event occurred did not have space for all of its clients at one point in time.

Moody's staff, upon being asked directly if it would consider standards on emergency preparedness in its evaluation criteria, said that Moody's probably would entertain this, but probably only for monoline businesses without much business or geographic diversity. They did pay attention to Y2K criteria for their evaluations, even though there was no standard and until Y2K happened, no way to know if companies had done what they said they had done. They used the Y2K rating factors for 2-3 years. They felt that "standards" could be helpful in places where TRIA was not applicable and if diversification did not solve all the gaps. They also discussed the fact that TRIA does not cover bio and chemical terrorism or domestically sponsored terrorism.

We discussed the event that TRIA is not renewed and the gaping holes that might produce in terrorism insurance and the need for preparedness in those cases. However, the Commission stated that while terrorism was the cause of discussing this issue, the approach was more "all hazards" which included sound practices for a number of hazards that could befall a company. Moody's staff reiterated that ratings are not guarantees, but the view that investors will be repaid their investments. It is not predicting whether or not something may happen. The probability that an investor is repaid is based on different weights of various factors depending on the situation. They implied that preparedness could be a factor, but the general conclusion of the meeting was that this would be unlikely given insurance coverage.

The Moody's team volunteered Ted Collins to participate in the upcoming panel and workshops on standards with ANSI and Bill Raisch.

Background:

Various Moody's reports post 9-11 submitted electronically