



GRAVITAS

The Advantage of Innovative Thinking

GRAVITAS Capital Advisors, Inc.



University of the West Indies Lecture Series:

Corporate Policies & Market Confidence

Presenter:
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GRAVITAS Capital
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Focus on Rating Agencies

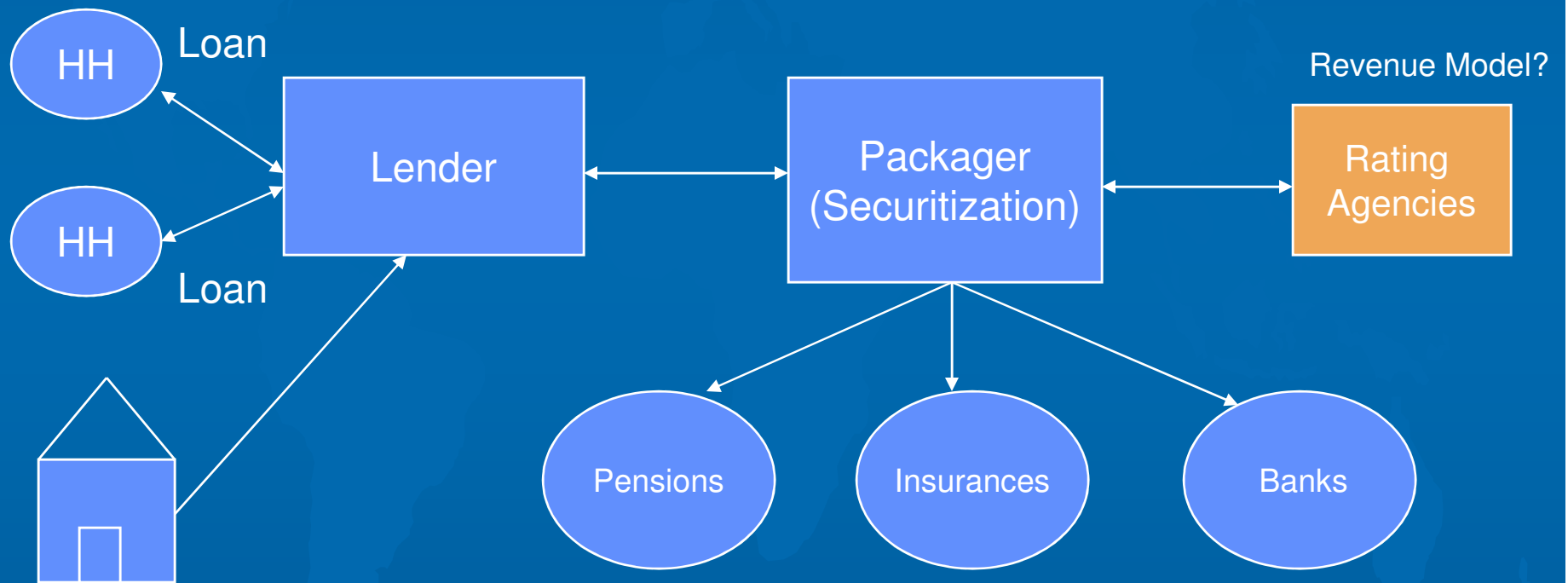
- ◆ There is no more relied upon private agency in the financial markets.
 - Enjoy significant credibility
 - Enjoy “Freedom of Speech” immunity
 - Corporate policies are known to be conservative.
- ◆ So what went wrong?

CNBC: House of Cards

(rating agency clip)

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The US Mortgage Market



The Revenue Model Challenge

- ◆ Rating agencies are public companies – listed. Is this the right incentive given their role as public arbiter of creditworthiness?
- ◆ The board is driven by which master?
 - Quarterly earnings and stock price? (pay?)
 - Corporate objectivity? (public interest?)
 - Competitive pressures? (market share?)
- ◆ What is the right Revenue Model for Rating Co.?
(socratic)

Corporate Policies

- ◆ As a result Rating Agencies decide to “go after cash in the streets”
 - Agents sell ratings to Wall Street
 - Agents assure ratings to investors they know are bad
 - Rating firms get paid huge profits
 - Rating firms stocks rise
- ◆ The fall out is devastating.

Corporate Policy Implications

- ◆ The decision to “go after cash” had significant implications:
 - Erosion of industry freedom
 - Erosion of public trust
- ◆ New regulations seek to strip immunity and raise accountability
- ◆ Market Confidence is shattered.

How should Board have acted?

- ◆ In US corporations Corporate Focus is handed down from the top.
- ◆ As a board member of Moody's what would you have done? Why?
- ◆ How would you have shielded Company from influence?
- ◆ What kinds of policies would have mattered?

What about the Independent Audit Committee?

- ◆ Is there a Governance issue at play here?
- ◆ What kind of governance structure makes sense for Rating Agencies given public reliance.
- ◆ Can they be private and still fulfill public good?
- ◆ How? Revenue Model? Liability exposure?

Takeaways

- ◆ Corporate policies have significant implications on market confidence.
 - Poorly anchored policies can lead to erosion in confidence.
 - Erosion can lead to loss of market share.
 - Erosion in confidence can lead to tougher regulations and prosecution.

- ◆ “Governance – Public Interest” tensions remain.