Bond Rating Agencies Moody’s and S&P are advised – “Don’t be mess’n” with Italy.

Tom Verso (August 09, 2011)

For years many have talked about the biases of Bond Rating Agencies like Moody’s and S&P and the negative affects they have on investors, financial institutions and nations. While the U.S. congress is considering holding hearings (i.e. talking) next week, last week Italian prosecutors (south of Rome) got tired of the talking and acted. They raided the agencies' offices in Milan, confiscated their documents and are proceeding with a full scale legal investigation.

The role of international credit rating agencies such as Moody’s and Standard & Poor’s in causing the great post WW II recession has been noted by various business news publications since the onset of the crash and failing recovery. However, beyond talking about these agencies' ability to affect national and international financial markets at will, little has been done to rein in their market power – until they started “mess’n” with Italy.

Back on September 25, 2008, the international financial publication Bloomberg carried an article by Elliot Smith who wrote:

“In August 2004, Moody's Corp. unveiled a new credit-rating model that Wall Street banks used to sow the seeds of their own demise. The formula allowed securities firms to sell more top-rated, subprime mortgage-backed bonds than ever before.

A week later Standard & Poor’s, under the **threat of losing market** share to Moody’s, also changed their “credit-rating model”. Thus **demonstrating that ratings agencies do not use ‘objective’ market criteria to arrive at “credit-ratings”**. Their **only** concern is their own profits and not the investors who rely on their ratings to make decisions - **Caveat emptor**. In short,

“The world's two largest bond-analysis providers repeatedly eased their standards as they pursued profits from structured investment pools sold by their clients, according to company documents, e-mails and interviews with more than 50 Wall Street professionals.”

Since then there has been a lot of journalistic “ink” spilt and political talk about the seeming **untoward practices** of these agencies. But, for all the talk there has been no significant action until last Thursday (August 4, 2011) when **southern-Italian prosecutors launched an investigation** into the criteria these agencies used to down grade Italian securities.

Huffington Report carried a Reuters reported from Milan:

“Italian prosecutors have seized documents at the offices of rating agencies Moody's and Standard & Poor's in a probe over suspected "anomalous" fluctuations in Italian share prices, a prosecutor said on Thursday.

The measure is aimed at "verifying whether these agencies respect regulations as they carry out their work," Carlo Maria Capistro, who heads the prosecutors' office in the **southern town of Trani** which is leading the probe, told Reuters.

The Trani prosecutors have opened two probes -- one for each rating agency -- after a complaint by two consumer groups over the impact of their reports about Italy on Milan stock prices...the probe was aimed at finding out whether the market's sharp drop was due to a precise scheme by hedge funds and other unidentified players that could be linked to the negative comments about Italian public finances by the rating agencies."

It remains to be seen if these investigations are serious or just political profiling. However, it is a well document fact that when **Italian prosecutor** (especially those **south of Rome**) are serious, they are tenacious **pit bulls** that can and have brought down Italian governments.

http://www.bloomberg.com/apps/news?pid=newsarchive&sid=ax3vfya_Vtdo

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