To: Representatives of the Financial Services Roundtable, GAC, Public Affairs Council, Research Council, All Staff

Fast Facts: S&P and Market Reaction

Standard & Poor's rating agency lowered the long-term rating of the U.S. government and federal agencies from AAA to AA+ with a negative outlook after the markets closed on Friday, August 5, 2011. Standard & Poor's provided the following reasons for the downgrade:

- *The fiscal consolidation plan that Congress and the Administration agreed to falls short;*
- *American policymaking has weakened at a time of ongoing fiscal and economic challenges; and*
- *Pessimism about the capacity of Congress and the Administration to reach a broader fiscal consolidation plan.*

Below are a series of statements that are in sharp contrast to the market's reaction to S&P.

President Obama. Remarks on S&P Downgrade. August 8, 2011

> "Markets will rise and fall, but this is the United States of America. No matter what some agency may say, we've always been and always will be a AAA country. For all of the challenges we face, we continue to have the best universities, some of the most productive workers, the most innovative companies, the most adventurous entrepreneurs on Earth. What sets us apart is that we've always not just had the capacity, but also the will to act — the determination to shape our future; the willingness in our democracy to work out our differences in a sensible way and to move forward, not just for this generation but for the next generation."

Treasury Secretary Timothy Geithner. August 5, 2011.

> "S&P has shown really terrible judgment and they've handled themselves very poorly… And they've shown a stunning lack of knowledge about basic U.S. fiscal budget math. And I think they drew exactly the wrong conclusion from this budget agreement."

Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency. Joint Release. August 5, 2011.

> "For risk-based capital purposes, the risk weights for Treasury securities and other securities issued or guaranteed by the U.S. government, government agencies, and government-sponsored entities will not change. The treatment of Treasury securities and other securities issued or

guaranteed by the U.S. government, government agencies, and government-sponsored entities under other federal banking agency regulations, including, for example, the Federal Reserve Board's Regulation W, will also be unaffected."

National Association of Insurance Commissioners (NAIC) President and Iowa Insurance Commissioner Susan E. Voss, August 7, 2011.

"There is no impact on insurer investments in U.S. government and government-related securities from the actions recently taken by the rating agencies. Risk-based capital and asset valuation reserves are unaffected. State insurance regulators and the NAIC will consider changes to our regulatory treatment if it becomes necessary in the future."

Information Insurance Institute President, Dr. Robert Hartwig. August 8, 2011.

"The nation's property/casualty insurers have very limited direct exposure to the U.S. government bond market and have collectively set aside hundreds of billions of dollars to pay unanticipated claims," Dr. Robert Hartwig said. "Both of these factors will enable the industry to operate effectively despite the recent downgrade of long-term U.S. bonds." Consequently, Hartwig added, "Existing policyholders, people and businesses filing claims and those seeking to purchase insurance will not experience any difficulties arising from the downgrade."

Moody's affirmed the Aaa rating last week, and released a statement about the key drivers of our confirmation of the US' Aaa rating. August 8, 2011.

"The US retains its Aaa because of the diversity and size of the US economy, a long record of solid economic growth, and the global role of the dollar and the unmatched access to financing it provides, our report explains. Last week's passage of a Budget Control Act was a positive step toward deficit reduction, but more will be required to reverse the upward trend in US debt ratios; hence, we assigned a negative outlook to the rating... "

Fitch affirmed Aaa rating last week. They have not changed their position. August 2, 2011.

Fitch Ratings says that, as it expected, agreement was reached on an increase in the United States' debt ceiling and, commensurate with its 'AAA' rating, the risk of sovereign default remains extremely low.

Treasury Acting Assistant Secretary for Economic Policy, John Bellows, Just the Facts: S&P's $2 Trillion Mistake. August 6, 2011.

"In a document provided to Treasury on Friday afternoon, Standard and Poor's (S&P) presented a judgment about the credit rating of the U.S. that was based on a $2 trillion mistake. After Treasury pointed out this error – a basic math error of significant consequence – S&P still chose to proceed with their flawed judgment by simply changing their principal rationale for their credit rating decision from an economic one to a political one....Independent of this error, there is no justifiable rationale for downgrading the debt of the United States. There are millions of investors around the globe that trade Treasury securities. They assess our creditworthiness every minute of every day, and their collective judgment is that the U.S. has the means and political will to make good on its obligations. The magnitude of this mistake – and the haste with which S&P changed its principal rationale for action when presented with this error – raise fundamental questions about the credibility and integrity of S&P's ratings action."

Steve Forbes, President and CEO, Forbes

"Well, I think in a narrow sense, it is a political move, and I think it's really - it'll sound strange for me to say it, an outrageous move."

Bill Miller, Chairman and Chief Investment Officer, Legg Mason

"The downgrading by Standard & Poor's ... was precipitous, wrong, and dangerous. At best, S&P showed a stunning ignorance and complete disregard for the potential consequences of its actions on a fragile global financial system. ... It is totally unacceptable that privately-owned, for-profit companies should have special, legally sanctioned status at the heart of the financial system to function as quasi-regulatory authorities."

Mark Feinberg, Feinberg Capital Advisors

"Our view is while the markets may react negatively to the news of the downgrade and other global overhangs the reality is the US remains one of the safest and potentially rewarding investing options."

Tom Donohue, President and CEO, U.S. Chamber

"While we don't agree with S&P's decision to downgrade America's credit rating, its action should be another powerful incentive for lawmakers to do the hard work necessary to get our fiscal house in order."

Larry Summers, Previous Director of National Economic Council

"S&P's track record has been terrible and as we've seen this weekend its arithmetic is worse. So there's nothing good to say about what they've done."

Insurance Information Institute, August 8, 2011

"Investment income is a comparatively small part of P/C insurer revenues when compared to the monies these insurers generate via premiums. Policyholder premiums paid to P/C insurers have totaled anywhere from $425 billion to $450 billion each year since 2003, with net investment gains ranging from $31 billion to $64 billion annually within this same time frame. A very small fraction of the net investment gains for P/C insurers come in the form of U.S. government bond income. And despite the downgrade all interest due will be paid by the U.S.

> government….P/C insurers would still have the assets they needed to cover all of their liabilities plus a "cushion" for unexpected claims equal to $500 billion, the rough equivalent of 12 Hurricane Katrinas, the costliest natural disaster in U.S. history."

As always, please do not hesitate to contact Abby McCloskey, Director of Research at the Financial Services Roundtable, at Abby@fsround.org, or Scott Talbott, Senior Vice President of Government Affairs, at Scott@fsround.org.