RETURN DATE: AUGUST 19, 2008

STATE OF CONNECTICUT	:	SUPERIOR COURT
Plaintiff,	:	JUDICIAL DISTRICT OF HARTFORD AT HARTFORD
v.	:	
THE MCGRAW-HILL COMPANIES, INC.	:	
Defendant.	:	JULY 30, 2008

COMPLAINT

I. SUMMARY OF THE CASE

1. This lawsuit seeks redress for Standard & Poor's ("S&P") unfair, deceptive and illegal business practice of systematically and intentionally giving lower credit ratings to bonds issued by states, municipalities, and other public entities as compared to corporate and other forms of debt with similar or even worse rates of default.

2. This systematic underrating of bonds issued by states, municipalities, and other public entities has harmed these public bond issuers by forcing them to either purchase bond insurance to improve their credit rating or to pay higher interest costs on their lower rated bonds. These costs are ultimately borne by taxpayers and would be unnecessary if S&P fairly and honestly rated public bonds according to the likelihood public bond issuers would pay back their bonds on time, which is what S&P falsely represents that its ratings measure.

3. Since at least 2001, S&P's own credit studies that have repeatedly concluded that many common types of public bonds almost never default. For example, a 2001 S&P research report stated that "[m]any sectors of public finance – particularly the general obligation, appropriation … and certain vital service sectors (like utilities, water, and waste) – evidence relatively more stability and lower default risk than the corporate sector for a given

rating category . . . ." Similarly, a 2005 internal report prepared for S&P's standard setting Analytics Policy Board unequivocally stated that "U.S. public sector entities have historically exhibited substantially lower default rates than corporates, for a given rating." S&P's own conclusions were matched by similar studies done by the other two major credit rating agencies, Fitch and Moody's. S&P was fully aware of the Fitch and Moody's studies.

4. Despite S&P's repeated conclusions that it was underrating public bonds, S&P took little or no action to rate public bonds according to what S&P knew was their true credit risk, i.e., the likelihood the public bond would be paid back according to its terms. Thus, by 2008, an S&P internal report was still able to conclude that, as compared to corporate bonds, "[public finance] had markedly lower default rates at virtually every level [of rating]."

5. The State of Connecticut and many of Connecticut's cities, towns, school districts, sewer and water districts, and other public entities hire and pay S&P to provide a fair and honest opinon, that, according to S&P's own contracts, reflects S&P's "opinion of the [public bond issuer's] overall financial capacity to pay its financial obligations as they come due ..." and a "current opinion of the likelihood that the [public bond issuer] will make payments of principal and interest on a timely basis ...." Public bond issuers are entitled under the terms of their contracts with S&P to exactly that service. By intentionally underrating public bonds, S&P breached its contractual obligations and made material and intentional misrepresentations to the State of Connecticut and each of the Connecticut cities, towns, school districts and other public entities that hired S&P to provide a credit rating.

6. S&P's unfair, deceptive and illegal business practices have cost the State of Connecticut and many Connecticut cities, towns, school districts and other public entities

millions of dollars in inflated interest payments and unnecessary bond insurance premiums. All of these costs are ultimately borne by Connecticut taxpayers.

7. For example, from 2003 through 2006, the City of Hartford issued six general obligation bonds backed by the full faith and credit of the City of Hartford. Between 2004 and 2005, the City of Norwich issued two general obligation bonds backed by the full faith and credit of the City of Norwich. S&P gave each of Hartford's bonds an "A" credit rating and each of Norwich's bonds a "A+" rating. As a result of S&P's deliberate underrating of public bonds, Hartford taxpayers paid a total of $925,000 in bond insurance premiums to receive a higher "AAA" rating from S&P. Norwich taxpayers paid $63,000 for their "AAA" rating. What S&P did not tell the citizens of Hartford or Norwich, however, was that they were actually paying for a "AAA" rating from a bond insurer that S&P's own credit studies concluded was ten times more likely to default than was either Hartford or Norwich.

8. Similarly, from 2004 through 2007, the Town of Windsor issued two general obligation bonds backed by the full faith and credit of the Town Windsor – a town with a 375 year credit history. S&P gave each of Windsor's bonds a "AA" rating. As a result of S&P's deliberate underrating of public bonds, Windsor taxpayers paid a total of $43,000 in bond insurance premiums to receive the "AAA" rating from S&P. What S&P did not tell the citizens of Windsor, however, was that S&P's own credit studies concluded that Windsor's bonds already had an essentially zero probability of defaulting and thus bond insurance was unnecessary.

9. Inflated interest costs and unnecessary bond insurance premiums would not be required of the State of Connecticut and the many Connecticut cities, towns, school districts and other public entities that hire S&P, if S&P would fairly and honestly rate the credit risk of

these public entities in accordance with S&P's own conclusions and representations and communicate that fair and honest rating to bond buyers in a non-deceptive manner.

10. In pursuing these unfair, deceptive and illegal business practices, S&P violated the Connecticut Unfair Trade Practices Act. Pursuant to Conn. Gen. Stat. § 42-110m, the Connecticut Attorney General, in the name of the State of Connecticut, seeks restitution, disgorgement, and civil penalties for the injuries suffered by the State of Connecticut and all issuers of public debt in Connecticut, as well as other injunctive and equitable relief to prevent these unfair, deceptive and illegal business practices from continuing.

II. PARTIES AND JURISDICTION

11. Plaintiff State of Connecticut, represented by Richard Blumenthal, Attorney General of the State of Connecticut, brings this action in its sovereign enforcement capacity pursuant to Conn. Gen. Stat. § 42-110m at the request of Jerry Farrell, Jr., Commissioner of the Department of Consumer Protection for the State of Connecticut.

12. S&P is a division of defendant McGraw-Hill Companies, Inc. ("McGraw-Hill"), a New York corporation. McGraw-Hill has a principal business address of 1221 Avenue of the Americas, New York, NY 10020, and at least one additional place of business located at 101 Corporate Place, Rocky Hill, CT 06067. McGraw-Hill is registered with the Connecticut Secretary of State to conduct business within the State of Connecticut. S&P employs approximately 8,500 employees in 23 countries and markets.

13. S&P regularly conducts business in the State of Connecticut and derives substantial revenue from its business within the State of Connecticut. From 1998 through 2008, S&P provided over 196 ratings to at least 39 Connecticut cities and towns. S&P always rates the many public bonds issued by the State of Connecticut. In 2007, S&P took in $2.3

billion in revenue for its credit rating services. S&P rates approximately 90% of all the bonds issued by public entities in the United States.

III. THE MUNICIPAL BOND MARKET

14. The municipal bond market consists of the issuers who issue public bonds and the buyers who purchase public bonds. Issuers of public bonds are states, like Connecticut, as well as large cities, small towns, school districts, sewer districts, housing authorities, airport authorities and many other publicly chartered or public purpose entities. Buyers of public bonds are banks or other lenders that buy a bond when it is first issued, as well as many individual and institutional investors that trade or sell public bonds in the secondary bond market.

15. A public bond is simply a loan to a public entity. Public entities issue bonds to raise funds to pay for a variety of essential government functions like construction or improvement of schools, roads, sewer and water systems, airports and other public projects and financial needs. Just like other loans, the cost of paying back the principal and interest on a public bond is paid for by the public entity that issued the bond. That means states, municipalities, school districts, sewer districts and other public entities pay back the principal and interest on the bond in accordance with a schedule set out in the bond. These costs are ultimately borne by taxpayers in the form of taxes and fees.

16. Once a bond is issued, it may be held by the buyer (usually a bank or other lender) who made the original loan, or the bond may be sold into the secondary market. Both the original buyer and any subsequent buyers in the secondary market, buy and sell public bonds depending in material part on the risk that the issuer will not pay back the bond.

17. A buyer of a bond will charge a higher interest rate on the bond the more likely it is that the bond issuer will not pay back the loan. A higher interest rate compensates the buyer for the higher risk it undertakes in making a more risky loan.

18. A critical and material part of a buyer's assessment of the risk that a bond will not be paid back, and therefore the interest rate the buyer will charge the issuer for the loan, is the bond's credit rating. S&P is well aware of this fact. For example, in a Op-Ed letter to the *Los Angeles Times* in 2008, an S&P managing director represented that "[o]ur ratings ... help investors determine which bonds and issuers might meet their individual risk tolerance and investment objectives." There are many bond buyers in Connecticut, including, *inter alia*, banks, insurance companies, hedge funds and individuals.

19. The credit rating market is extremely concentrated. The three major credit rating agencies, S&P, Moody's Corporation (Moody's) and Fitch, Inc. (Fitch), together issue credit ratings on essentially 100% of the public bonds issued in the United States.

20. Failure to receive a credit rating from one or more of the three major credit rating agencies typically leads to a public bond receiving either a very high interest rate or not being bought at all. Therefore, most public bond issuers are forced to seek a credit rating from one or more of the three major credit rating agencies in order to issue their public bonds at some reasonable interest rate.

21. S&P is well aware that public bonds are extremely safe investments. An April 2004 S&P report on public bond default rates concluded that, "[t]he performance of the sector suggests that public finance issuers have largely outperformed other areas in terms of credit strength. Moreover, Standards & Poor's expects these differences to persist and will continue to be evidenced by relative ratings stability and infrequent defaults."

22. Public bonds rarely default because of the fundamental nature of governments. Governments typically have broad taxing power that ensure they can meet their bond payments. Governments are not subject to economic competition as are businesses. Governments do not go out of business and frequently are legally prohibited from filing for bankruptcy. Moreover, many cities, towns, and other public entities effectively are supported by higher levels of government that can and do provide necessary funding to prevent defaults. These facts are known to S&P and are reflected in S&P's credit studies.

23. From 1998 to 2008, the State of Connecticut issued multiple bonds totaling over $15 billion. From 1998 to 2008, at least one hundred Connecticut cities and towns issued over $8 billion in bonds to pay for the kinds of necessary government projects described above.

24. Despite never having defaulted on any bond obligation, the State of Connecticut has been rated in the "AA" range by S&P for at least the last 27 years. Most Connecticut municipalities have also been rated by S&P in the "AA" and "A" range, even though no Connecticut municipalities have defaulted on a bond obligation and would likely be rated "AAA" if judged on the same scale as corporate bonds with equal probabilities of default.

25. Approximately 50% of the buyers in the public bond markets are individual investors and consumers. In many cases, individual buyers are less sophisticated than institutional buyers like investment banks or mutual fund companies. Institutional buyers frequently have the resources to do their own credit analysis on a bond. Individual buyers frequently do not have either the resources or expertise to do their own credit analysis on a bond.

26. Individual public bond buyers rely heavily on the credit ratings provided by S&P and the other credit rating agencies when making a decision to purchase a public bond. Indeed, S&P credit rating of a public bond is a significant and material factor in any bond buyer's decision whether to buy a public bond and what price to pay for that bond. S&P is aware of public bond buyers' use and reliance on S&P's credit ratings.

IV. S&P's ROLE IN THE MUNICIPAL BOND MARKET

27. S&P represents that its credit ratings provide a fair and honest opinion of the likelihood that a public bond will be paid back according to its terms and the default risk of a given public bond. For example, S&P's own rating definitions state that "ratings are an assessment of default risk...." S&P's official description of its government rating methodology states that an S&P credit rating "primarily indicates the likelihood of default." S&P's public bond default studies state that "ratings are an assessment of [a bond's] default risk" and "ratings levels . . . are highly correlated with defaults." Stated another way, S&P's public bond default studies state that its ratings address the "[l]ikelihood of repayment: capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation."

28. S&P represents that its ratings are on the same scale and can be compared to one another even when comparing different types of bonds, such as corporate and public bonds. For example, a June 2001 S&P report issued to its customers states, under the heading "Ratings Consistency," that "Standard & Poor's approach, in both policy and practice, is intended to provide a consistent framework for risk assessment that builds reasonable ratings consistency within and across sectors ...." More recently, in a 2008 public statement, S&P's Chief Credit Officer stated the issue directly, "Standard and Poor's uses the same credit rating

scale across the structured finance, corporate, and government sectors…" and S&P's credit ratings are designed to "provide a common language for evaluating and comparing creditworthiness." Simply put, S&P represents that an "A" or similarly rated public bond has the same credit risk as an "A" or similarly rated corporate bond.

29. To provide its credit ratings, S&P charges the issuer a fee based on the size and complexity of the bond being issued. In return for the fee paid by the issuer, S&P provides the issuer with a letter grade credit rating and makes that letter grade credit rating available to the public on its website.

30. S&P represents to public bond issuers that its public bond credit ratings will be based on an analysis of facts. Before S&P issues a credit rating, it meets with a public issuer to gather information on the issuer's financial status. S&P discusses any questions it might have with employees of the issuer and allows the issuer to ask S&P analysts questions. S&P issues ratings through a credit committee that discusses the individual merits of an issuer's credit profile and reaches a consensus on an appropriate rating. S&P provides an appeals process if the issuer believes S&P's credit rating is wrong.

31. S&P's credit ratings, like the other major credit rating agencies, have long been expressed in the form of a letter grade. According to its own ratings definitions, S&P's letter grades are expressed in relative rank order, with a bond rated "AAA" represented to have the "highest rating assigned by Standard & Poor's" and meaning that "the [issuer's] capacity to meet its financial commitment on the [bond] is extremely strong." Bonds rated "AA," "A," "BBB," "BB," "B," "CCC," "CC," and "C" are represented by S&P to have progressively more risk of default or nonpayment with each succeeding reduction in grade level. Thus, when a bond receives S&P's lowest "C" rating, according to S&P, that means

the bond is "highly vulnerable to nonpayment." A bond rated "D" by Standard & Poor's "is in payment default."

32. Through its relative letter ranking system, S&P intentionally represents that bonds rated "AAA" have less chance of nonpayment than bonds rated "AA," that bonds rated "AA" have less chance of nonpayment than bonds rated "A," and so on down S&P's rating scale.

33. A public bond issuer will often obtain ratings from two or three of the different credit rating agencies. The ratings of the credit agencies generally correlate with each other, such that a bond rated "AAA" by S&P will typically carry an identical or very similar rating by Fitch and Moody's.

34. A bond's letter grade credit rating has a significant impact on the interest rate paid by the issuer to the buyer. Thus, a bond rated "AAA" by S&P generally carries a lower interest rate than the same or similar bond rated "AA" by S&P. A bond rated "AA" by S&P generally carries a lower interest rate than the same or similar bond rated "A" by S&P, and so on down S&P's letter rating scale. This means that a state, city, town, school district or other public bond issuer that issues a bond rated "A" by S&P will generally pay a higher interest rate and higher debt service costs than the same or similar bond rated "AAA" by S&P.

35. To avoid the higher cost of a higher interest rate, public issuers rated below "AAA" by S&P can improve the rating their bonds receive by purchasing insurance from one of the major bond insurance companies, such as MBIA or Ambac. In deciding whether to purchase bond insurance, states, including Connecticut, and other public issuers, including Connecticut cities and towns, rely on S&P's representation that its credit ratings are on the

same scale and therefore a public issuer's credit rating is comparable to a bond insurer's credit rating. Approximately half the public bonds issued are issued with bond insurance.

36. Bond insurers guarantee the repayment of the bond in the rare event that a state, town, or school district defaults on its bonds. Because until very recently most major bond insurers were given "AAA" credit ratings by S&P, the practical effect of purchasing bond insurance is that the insurer's "AAA" rating is extended to the public bond. Thus, if a public issuer received an "A" credit rating from S&P, that issuer might issue bonds at the interest rate corresponding to an "A" rating, or it might purchase bond insurance and thereby improve the credit rating of its bond to "AAA." This increase would allow the public issuer's bond to receive the lower interest rate associated with a "AAA" credit rating, but with the added cost of the bond insurance premium. S&P is aware of this process and the essential part its credit ratings play in the process.

37. Because of the direct effect of S&P's credit rating on the interest rate charged on public bonds, it is critical that bond insurers receive a "AAA" rating from S&P. If a bond insurer's credit rating drops below "AAA," many public bond issuers would receive little or no benefit from purchasing bond insurance because the bond insurer's credit rating would be little or no better than the issuer's own credit rating. Bond insurers' use of their credit ratings to sell their insurance helps perpetuate and elevate the importance of S&P's credit ratings in the bond market.

38. What S&P did not tell many public bond issuers or buyers, however, was that S&P knew the bond insurers' true credit risk was actually no better, and in many cases much worse, than that of many public bond issuers buying the insurance.

39. Unlike public issuers, S&P rates bond insurers, such as MBIA and Ambac, in relation to other corporations. As S&P's own studies have repeatedly confirmed, corporations default at rates substantially higher than public entities that have received the same or even lower credit ratings. Indeed, if an "A" rated Connecticut town purchased bond insurance from a "AAA" rated bond insurer, it was actually purchasing a credit rating that, according to S&P's own studies, carried a risk of default that was 10 times greater than the town's.

V. S&P INTENTIONALLY UNDERRATES PUBLIC BONDS

40. Since at least 2001, S&P has known that it underrates public bonds as compared to corporate bonds and that this policy costs public bond issuers money in the form of higher interest costs or unnecessary bond insurance costs. Despite knowing these facts, S&P continues to represent that its credit ratings are on the same scale, that public issuers have the same credit risk as similarly rated corporations, and that public bond issuers with lower credit ratings have a greater likelihood of not paying their bonds than a bond insurer or corporate bond issuer with a higher credit rating. These knowingly false representations harm public bond issuers when they buy bond insurance based on their own ratings and bond buyers who consider S&P's credit rating when deciding to purchase public bonds.

41. In June of 2001, S&P published a study commissioned by its Analytics Policy Board that reviewed public bond default rates from 1986-2000. The June 2001 report concluded that "the number of defaults and cumulative default rates are extremely low for public finance obligations rated by Standard & Poor's" and that "no defaults of 'AAA' or "AA' rated debt occurred in the 1986-2000 period." S&P attributed this stability to the fundamental nature of governments in that "governments have 'perpetual' existence" and that bankruptcy typically is not an option for governments.

42. On the same day S&P issued the foregoing default study, S&P issued another report on the comparability of S&P's ratings among various kinds of debt, or "across asset classes." Like the default study, S&P's ratings comparability report confirmed that "[m]any sectors of public finance ... evidence relatively more stability and lower default risk than the corporate sector for a given rating category...."

43. In October of 2001, an S&P employee briefed S&P's Analytics Policy Board on the implications of S&P's June studies and explained that S&P needed "to either raise [public bond] ratings or to explain ratings inconsistencies." The Analytics Policy Board set a goal of dealing with the issue by year's end, but nothing was done.

44. In December of 2002, S&P's Analytics Policy Board discussed a November 2002 Moody's study examining the default rate of some 82,000 bonds issued by some 29,000 public issuers from 1970-2000. Like S&P, the Moody's 2002 study concluded that public bonds had very low default rates. In fact, the Moody's study found that the average default rate for all Moody's rated bonds (even including those public bonds with the lowest credit ratings) was still less than "AAA" rated corporate bonds. S&P was aware of the Moody's study.

45. In June of 2003, Fitch Ratings, Inc. ("Fitch") issued a report on public bond default rates. Fitch's 2003 report found "no meaningful changes [from Fitch's 1999 default study] in the overall municipal default risk, which is still very low ..." and that the default rates for "tax-backed, water/sewer, and other 'plain vanilla' municipal bonds is almost nil." S&P was aware of both the 1999 and 2003 Fitch reports.

46. In April of 2004, March of 2005, and April of 2005, S&P updated its 2001 public bond default study. Each of these three new S&P reports concluded that "[t]he

performance of the sector suggests that public finance issuers have largely outperformed other areas in terms of credit strength. Moreover, Standards & Poor's expects these differences to persist and will continue to be evidenced by relative ratings stability and infrequent defaults."

47. In October of 2005, an internal report prepared for S&P's Analytics Policy Board unequivocally confirmed that "U.S. public sector entities have historically exhibited substantially lower default rates than corporates, for a given rating." Despite this conclusion, S&P still did not consider rating public bonds according to their true credit risk and continued to represent that its ratings were comparable across asset classes.

48. Nevertheless, while S&P does not give public bond issuers the benefit of their good credit history, S&P does give the benefit of that good credit history to Wall Street investors. Thus, when S&P rates structured securities known as Collateralized Debt Obligations ("CDO"), which are composed of a pool of many bonds aggregated together, S&P assumes that any public bonds in the CDO will default at rates close to the very low rates shown by S&P's default studies, not at the higher rates associated with S&P's publicly expressed ratings. For example, when determining what credit rating to give a CDO, S&P assumes a default rate of 0.365% for a corporate "AAA" bond. When public bonds are part of a CDO, S&P assumes "AAA" public bonds default at a rate of 0.095%. In other words, when S&P rates CDO's for Wall Street, S&P assumes public bonds default <u>four times less</u> than similarly rated corporate bonds.

49. By contrast, when S&P issued a credit rating on the public bonds issued by a small town or school district, S&P represented that its rating on a public bond was on the same rating scale as corporate bonds and thus the public bond would default at rates similar to similarly rated corporate bonds. S&P knew this representation was false.

50. In July 2006, S&P again updated its public bond default studies and again concluded that public bonds default at very low rates and that this trend would continue. Again, no effort was made by S&P to rate public bonds according to their true credit risk.

51. In March of 2007, Moody's published a report purporting to outline how much public bonds had been underrated by Moody's as compared to corporate bonds. The Moody's report provided a "map" detailing the gaping differences between public and corporate bond credit ratings. The Moody's map showed that in many cases the default rates of public bonds were equal to or less than corporate bonds rated as many as seven notches higher by Moody's.

52. Because S&P's public bond ratings are often very similar to Moody's public bond credit ratings, S&P began discussing how Moody's study would effect what S&P said about what S&P's public bond ratings were intended to mean. Wrote one of S&P's senior analysts, "[a]lthough we have said that PF [public finance] is on the global scale [the scale used for corporations], this will pressure us to have better answer than we now have."

53. On March 8, 2007, S&P's Analytics Policy Board considered publicly acknowledging for the first time that S&P's public bond ratings, like Moody's ratings, were not on the same scale as S&P's corporate bond ratings. S&P rejected the idea. Despite years of its own studies showing that public bonds defaulted at far lower rates than similarly rated corporate bonds, S&P's Analytics Policy Board could find "no compelling reason to launch a corporate equivalent rating for public finance entities."

54. Rather than acknowledge what it knew to be true, S&P instead decided to "monitor market response/interest..." to Moody's new rating product. S&P took this deliberate decision despite years of default studies and the knowledge that, as a senior S&P analyst wrote shortly before the March 8, 2007 meeting, "we have deliberately positioned our

PF [public finance] ratings as meaning the same thing as all our ratings despite the differences in performance noted in the U.S. portfolio."

55. In considering whether to publicly acknowledge that S&P rated public bonds on a different scale than corporate bonds, S&P considered, *inter alia,* (1) whether "insurers would be virtually put out of business in the muni market," (2) whether the change would harm market traders who trade on small difference in ratings, (3) how the change would effect the value of hedge fund assets, (4) whether the "value added" by financial advisors "would be significantly minimalized" because public bonds would now be largely rated "AA" or "AAA," and (5) how capital adequacy requirements for commercial banks would be effected.

56. Missing from S&P's list of issues to consider was whether or not rating public bonds in accordance with the default rates shown in S&P's own default studies would in fact provide an accurate assessment of a public issuer's ability to pay back a bond according to its terms. S&P studies had of course concluded since 2001 that such ratings would accurately reflect a public bond issuer's true credit risk.

57. In May of 2007, S&P again updated its own public bond default studies and again concluded that public bonds default at very low rates and that this trend would continue. Again, no effort was made by S&P to rate public bonds according to their true credit risk.

58. In January of 2008, S&P's Analytics Policy Board considered a draft copy of a study specifically comparing the default characteristics of public bonds, corporate bonds and structured finance bonds. According to a draft of the report dated January 27, 2008, "the most striking finding is that [public finance] had markedly lower default rates at virtually every level [of rating]." In fact, a subsequent draft of the report dated March 7, 2008, showed that the 5 year cumulative average default rate for "A" rated public bonds was 0.03 %, whereas

the default rate for "A" rated corporate bonds was 0.68 %, or more than 22 times greater than similarly rated public bonds. The S&P study found that even "AAA" rated corporate bonds defaulted at a rate of 0.30 % over the same period, or more than 10 times greater than public bonds rated at least 4 letter grades lower.

59. On February 28, 2008, the S&P Analytics Policy Board was again updated on the findings of S&P's latest study showing that S&P's public bond ratings were markedly lower as compared to S&P's corporate bond ratings. Again, the Analytics Policy Board decided not to inform the public of S&P's ratings discrepancies. Rather, S&P decided to continued to, falsely, "characterize our [public finance] ratings as being on the same scale as corporate and structured finance ratings."

60. To date, S&P has still not publicly acknowledged facts that it well knows -- that public bonds have received and continue to receive far lower S&P credit ratings as compared to corporate bonds with the same or worse rates of default.

VI. CAUSES OF ACTION

First Count: Breach of the Connecticut Unfair Trade Practices Act (Conn. Gen. Stat. § 42-110a et seq.)

1-60. Paragraphs 1 through 60 of the Complaint are hereby repeated and realleged as Paragraphs 1 through 60 of this First Count as if fully set forth herein.

61. The State of Connecticut and many of Connecticut's cities, towns, school districts, sewer and water districts, and other public entities (hereinafter "Connecticut public bond issuers") issue public bonds on a reoccurring basis.

62. S&P was hired by Connecticut public bond issuers to provide ratings on their many bonds.

63. Each time a Connecticut public bond issuer issued a public bond from July of 2002 through the present, the Connecticut public bond issuer hired S&P to provide S&P's fair and honest opinion of that Connecticut public bond issuer's "overall financial capacity to pay its financial obligations as they come due ..." and "Standard & Poor's current opinion of the likelihood that" the Connecticut public bond issuer "will make payments of principal and interest on a timely basis ...."

64. Connecticut public bond issuers did not hire S&P to change its fair and honest opinion of Connecticut public bond issuers' ability to pay back their bonds depending on how S&P's opinion might effect market traders, effect the value of hedge fund assets, put public bond insurers out of business, harm the livelihood's financial advisors, or effect the capital adequacy requirements for commercial banks.

65. Each time a Connecticut public bond issuer issued a public bond from July of 2002 through the present, the Connecticut public bond issuer paid S&P a fee to provide a credit rating.

66. Each time a Connecticut public bond issuer issued a public bond from July of 2002 through the present, S&P failed to provide the Connecticut public bond issuer with S&P's fair and honest opinion of the Connecticut public bond issuer's ability to meet its financial commitments under the bond on a timely basis and in accordance with the terms of the bond.

67. Connecticut public bond issuers had a reasonable expectation that they would receive the benefits of their agreements with S&P, including, but not limited to, S&P's fair and honest opinion of Connecticut public bond issuers' ability to meet their financial

commitments under their bonds on a timely basis and in accordance with the terms of their bonds.

68. As a result of its systematic underrating of public bonds as alleged above, S&P injured Connecticut public bond issuers' right to receive the economic benefits of their agreements with S&P, including, but not limited to, a credit rating and interest rate on their bonds commensurate with their true ability to pay back their bonds.

69. S&P acted in bad faith, with dishonest purpose, and evaded the purpose and spirit of its agreements with Connecticut public bond issuers when S&P, *inter alia*, issued credit ratings that it knew did not accurately reflect S&P's fair and honest opinion of Connecticut public bond issuers' ability to meet their financial commitments under their bonds on a timely basis and in accordance with the terms of their bonds.

70. S&P intentionally and knowingly represented to Connecticut public bond issuers that S&P's ratings were based on S&P's fair and honest opinion of Connecticut public bond issuers' ability to meet their financial commitments under their bonds on a timely basis and in accordance with the terms of their bonds.

71. S&P intentionally and knowingly represented to Connecticut public bond issuers that S&P's ratings were on the same scale and can be compared to one another even when comparing different types of bonds.

72. S&P intentionally and knowingly represented to Connecticut public bond issuers that their ability to meet their financial commitments under the bond on a timely basis and in accordance with the terms of the bond was less than bond insurers receiving higher S&P credit ratings.

73. S&P knew the foregoing material representations were false and/or S&P acted with reckless disregard for the truth in making the foregoing representations. S&P made these false representations with the intent that Connecticut public bond issuers would rely on S&P's false representations, *inter alia*, in deciding to contract with, and continue to contract with, S&P to receive a credit rating, in issuing Connecticut public bond issuers' bonds, in accepting buyer bids to purchase Connecticut public bond issuers' bonds, and in deciding to purchase bond insurance.

74. Connecticut public bond issuers reasonably interpreted and relied on S&P's foregoing material representations.

75. By all of the foregoing, Connecticut public bond issuers were damaged.

76. At all times relevant to this Complaint, S&P was engaged in the trade or commerce of providing credit ratings within the State of Connecticut.

77. By engaging in the acts and practices alleged herein, S&P made or caused to be made to Connecticut consumers, directly or indirectly, explicitly or by implication, representations which are material, reasonably interpreted, false and likely to mislead, including, but not limited to, the following:

a. that S&P's credit ratings were S&P's fair and honest opinion on a Connecticut public bond issuer's ability to meet its financial commitments under the bond on a timely basis and in accordance with the terms of the bond;

b. that S&P's public bond ratings were comparable to S&P's corporate bond ratings;

c. that S&P's public bond ratings were based on the same ratings scale as S&P's corporate bond ratings; and

d. that bond insurers rated "AAA" by S&P were a better credit risk than public bond issuers with lower S&P credit ratings.

78. By engaging in the acts and practices alleged herein, S&P made omissions to Connecticut consumers that S&P had a duty to disclose by virtue of S&P's contractual obligations to Connecticut consumers and its other representations to Connecticut consumers, including, but not limited to, the following:

a. that S&P's credit ratings were not S&P's fair and honest opinion on a public bond issuer's ability to meet its financial commitments under the bond on a timely basis and in accordance with the terms of the bond;

b. that S&P's public bond ratings were not comparable to S&P's corporate bond ratings;

c. that S&P's public bond ratings were not based on the same ratings scale as S&P's corporate bond ratings;

d. that S&P's public bond ratings were based in part on a desire to avoid ratings compression;

e. that S&P's public bond ratings were based in part on the preferences of investors and other market participants;

f. that S&P's public bond ratings were based in part on a desire to promote S&P's economic interests; and

g. that S&P allowed certain structured securities to take advantage of public bond issuers' low default rates in S&P rating models, while S&P

simultaneously denied public bond issuers the benefit of their own low default rates.

79. S&P's acts and practices regarding Connecticut consumers as alleged herein are unfair, oppressive or unscrupulous and violated the public policy of the State of Connecticut, including, but not limited to the public policy against:

a. misrepresenting the nature and extent of your services in business;

b. labeling products in a misleading and confusing manner;

c. parties breaching their contractual obligations;

d. contract parties breaching the duty of good faith and fair dealing; and

e. wasting taxpayer money.

80. S&P's acts and practices as alleged herein have been and are unethical, oppressive and unscrupulous, and cause substantial injury.

81. S&P's knew or should have known that their conduct alleged herein violated Conn. Gen. Stat. § 42-110b.

82. S&P's acts and practices as alleged herein have directly and proximately caused substantial injury to consumers within the State of Connecticut.

83. S&P's acts or practices alleged herein constitute unfair or deceptive acts or practices in violation of Conn. Gen. Stat. § 42-110b.

PRAYER FOR RELIEF

WHEREFORE, the State of Connecticut requests the following relief:

1. A finding that by the acts alleged herein, S&P engaged in unfair and deceptive acts and practices in the course of trade or commerce within the State of Connecticut in violation of the Connecticut Unfair Trade Practices Act;

2. An injunction pursuant to Conn. Gen. Stat. § 42-110m enjoining S&P from engaging in any acts that violate the Connecticut Unfair Trade Practices Act, including, but not limited to, the unfair and deceptive acts and practices alleged herein;

3. An order pursuant to Conn. Gen. Stat. § 42-110m requiring that S&P submit to an accounting to determine:

   a. the amount of improper fees and revenue paid to S&P as a result of its unfair and deceptive acts and practices as alleged herein;

   b. the amount S&P's unfair and deceptive acts and practices improperly increased borrowing costs for public bond issuers in Connecticut.

4. An order pursuant to Conn. Gen. Stat. § 42-110o directing S&P to pay a civil penalty of $5,000 for each and every willful violation of the Connecticut Unfair Trade Practices Act;

5. An order pursuant to Conn. Gen. Stat. § 42-110m directing S&P to pay restitution;

6. An order pursuant to Conn. Gen. Stat. § 42-110m directing S&P to disgorge all revenues, profits, and gains achieved in whole or in part through the unfair acts or practices complained of herein;

7. An order pursuant to Conn. Gen. Stat. § 42-110m directing S&P to pay reasonable attorneys' fees to the State;

8. Costs of suit; and

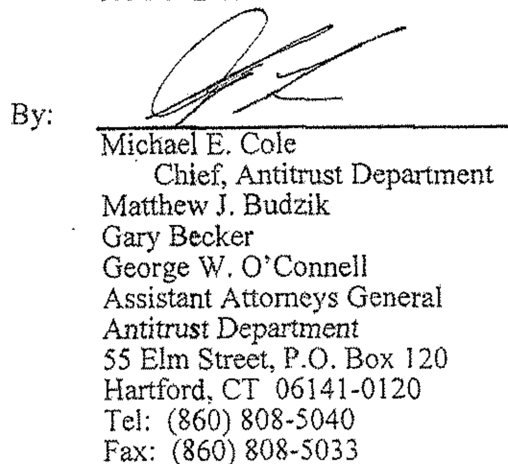
9. Such other relief as this Court deems just and equitable.

Plaintiff State of Connecticut hereby demands a trial by jury on all issues and causes of action so triable.

Dated at Hartford, Connecticut this 30th day of July, 2008.

PLAINTIFF
STATE OF CONNECTICUT

By:
RICHARD BLUMENTHAL
ATTORNEY GENERAL

By: 

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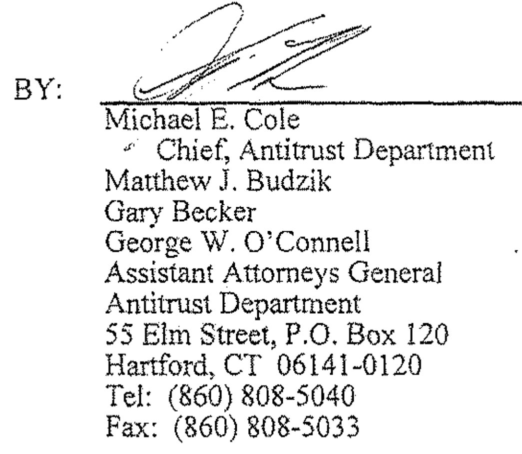
RETURN DATE: AUGUST 19, 2008

STATE OF CONNECTICUT Plaintiff, v. THE MCGRAW-HILL COMPANIES, INC. Defendant.	SUPERIOR COURT JUDICIAL DISTRICT OF HARTFORD AT HARTFORD JULY 30, 2008

AMOUNT IN DEMAND

The amount, legal interest or property in demand is $15,000.00 or more, exclusive of interest and costs.

PLAINTIFF
STATE OF CONNECTICUT



BY: ______________________

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