

Permanent Subcommittee on Investigations

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CC:
SUBJECT: RE: BES and PEs

Top Achievements in '05:

1. Protected our market share in the CDO corporate cash-flow sector (CLOs, CBOs [there was only one but we rated it] and SME CLOs). To my knowledge we missed only one CLO from BofA and that CLO was unratable by us because of it's bizarre structure.

2. Managed the group to minimize turnover. The only senior analysts who left in '05 were Kathy Lu and Phil Mack, both of whom were about to receive very negative PE's. I considered putting this as my #1 accomplishment. In fact, I believe it should quite possibly be the #1 achievement for all four MDs for 2005. It seems to me that one of the greatest challenges for a Derivatives MD at Moody's is simply to create a working atmosphere that will encourage talented people to stay despite the fact that we pay 1/3 to 1/2 market rate. We do this by creating a workplace where (i) the analysts know that they are valued, (ii) they have real input into the work product, (iii) they have the time to function as at least quasi-spouses and quasi-parents, (iv) they receive public and private praise for their accomplishments and (v) backstabbing and incivility are not tolerated. In short, the MDs worked hard to compensate the staff with intangible, non-cash emoluments.

3. Brought a minimum of cohesion to the lawyers in the group (i.e. more or less herded cats). This last year was the first year where we had regular lawyers' lunches. The lawyers actually showed up to the lunches which is something they did not do in previous years (we often included William Ma and Marlow in London, btw). The lawyers thoroughly hashed out difficult legal issues that face the group without ripping one another to shreds--also something not accomplished in prior years. To some this may seem a minor achievement. Believe me, it wasn't.

4. Managed CLO deal flow successfully. I view this as related but different from goal # 1. The number of CLOs that we rated increased by approximately 61% last year. The number of amendments that we had to process and committee increased more than that, though I do not have hard numbers. At the end of the year, when the deal flow was reaching its crescendo, we lost three experienced CLO analysts (Elena, Stephanie, Phil). Despite these formidable challenges, we managed to get all the deals rated with no loss of market share, minimal turnover and almost no complaining from clients.

We also managed to quell a near uprising from the leading bankers in the SME CLO market (Wachovia and Merrill) over the level of our credit estimates for their managers' collateral. We now have, as best I can tell, 100% market share in the SME CLO market and a promise from one of our major clients in that space (Fortress) to do a Moody's-only deal because of their happiness with our overall level of service to them.

We also finished and promulgated a comprehensive CLO Rating Guide and a "beta" version of the CLO Committee Template which we expect to make mandatory by 1/31.

5. Outreach to the market/Internal outreach. I spent a great deal of time making sure that I got to spend some time with the major investment banks in the CLO space. I tried to do this in a relaxed, non-deal pressured environment--lunch, dinner, drinks, chatting people up at conferences, unscheduled phone calls, etc. I also co-chaired the IMN conference in New York last March where I got much more face time than either of the reps from S&P or Fitch and I spoke on two other conference panels.

Internal outreach: You told me last year that you wanted me to identify key people in our group and work with them to protect and grow our business. You also said the BES survey should get positive results.