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S&PCORRECT: U.S. Entities And Issues Suffer Knock-On Effects Of U.S. Government's CreditWatch Negative

Ratings Quality:
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(**Editor's Note:** This article, published earlier today, incorrectly stated the number of U.S. structured finance transactions and funds affected. A corrected version follows.)

NEW YORK (Standard & Poor's) July 15, 2011--Standard & Poor's Ratings Services is in the process of putting a number of U.S-based entities with direct links to, or reliance on, the federal government on CreditWatch with negative implications after yesterday's placement of the sovereign credit ratings on the United States of America on CreditWatch negative.

Among the entities and specific debt issues suffering the downstream effect of yesterday's action are certain 'AAA' rated insurers; clearinghouses and central securities depositories; select 'AAA' rated government-related entities (GREs); debt issued by financial institutions under the Temporary Liquidity Guarantee Program (TLGP); and certain fixed-income funds, exchange-traded funds, and hedge funds, as well as local government investment pools, and unit investment trusts.

The ratings on U.S.-based 'AAA' rated state governments and nonfinancial corporate issuers are unaffected.

The action on the U.S. government's 'AAA' long-term and 'A-1+' short-term ratings reflects our view of two issues: the failure to raise the federal debt ceiling so as to ensure that the government will be able to continue to make scheduled payments on its obligations, and our view of the likelihood that Congress and the Obama Administration will agree upon a credible, medium-term fiscal consolidation plan in the foreseeable future. (See "United States Of

America 'AAA/A-1+' Ratings Placed On CreditWatch Negative On Rising Risk Of Policy Stalemate," published July 14, 2011.)

As it stands, we see at least a one-in-two likelihood that we could lower the long-term rating on the U.S. within the next three months--by one or more notches, into the 'AA' category--if we conclude that Washington hasn't reached agreement on the latter of these two issues.

In addition to placing U.S. insurance groups' long-term counterparty credit and financial strength ratings, as well as related issue ratings, on CreditWatch negative, we are doing so for the 'AA' ratings on $5.75 billion of surplus notes issued by three of the affected insurers. We factor direct and indirect sovereign risks such as economic volatility, potential currency devaluation, and investment portfolio deterioration into our financial strength ratings. As per our criteria, the sovereign local currency rating constrains our financial strength ratings on insurers.

We are also placing on CreditWatch negative the ratings of 125 FDIC-guaranteed 'AAA' rated debt obligations issued by 30 financial institutions under the TLGP, as well as eight federal leases and certain power-generation entities linked to the federal government.

Of the 206 rated funds managed in the U.S., Europe, and Bermuda, we are taking action on 73 of these because of their significant exposure to the U.S. sovereign credit ratings, either through direct or indirect investments in U.S. Treasury and U.S. government agency securities.

We are also placing the ratings on 604 U.S. structured finance transactions on CreditWatch negative. These transactions had an original issuance amount of $373.67 billion--or less than 3% of the structured finance transactions we rate globally. Most structured finance securities are supported by collateral whose credit quality is not directly linked to the sovereign rating of the U.S.

Standard & Poor's will publish articles detailing the specific entities and issues that are being placed on CreditWatch negative.