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# IN THE SPOTLIGHT

Complex Securities Through the Lens of Rating Agencies



In the wake of the 2007 financial crisis, the rating agencies came under increased scrutiny and faced dozens of legal actions from both investors and the SEC for their ratings of various complex securities.

During the ongoing COVID-19 pandemic, investors who have incurred losses in complex securities, and especially those tied to the commercial sector, are likely to be intrigued by SEC's recent action against Morningstar over adjustments in its CMBS ratings.

Vega Economics was retained to analyze rating methodologies and various other issues surrounding complex securities through the lens of the rating agencies. This brochure highlights how we can assist on cases involving any rating issues as this litigation continues to develop.

## Vega Capabilities

Risk Assessment

Loss Calculations

Rating Agencies Model

Securities & Finance

Financial Institutions



VEGA  
ECONOMICS

## Powering Analyses with Expertise

Vega provides top tier economic analysis to our clients. We have worked with numerous major financial institutions and have analyzed issues related to all aspects of complex financial products and their ratings. Vega uses advanced data analytics and carefully assesses each client's unique circumstances to identify the most robust method employable for addressing the issues in hand. Vega will be your best ally in navigating the economic issues given our deep institutional knowledge and advanced technology solutions.

### Complex Securities

We have a deep understanding of financial economics and the ability to apply advanced data techniques to tackle issues surrounding the complex securities, including corporate bonds, fixed income securities, and interest rate and credit derivatives.

### Data Analytics

We are an industry leader in conducting analyses using powerful tools from statistics, data analysis, machine learning, and other methods of data science. To facilitate the most impactful analyses with big data, one needs more than powerful computers and fancy data tools. We are better at categorizing data, identifying gaps in data, and reading data and analysis results.

### Valuation

We use sophisticated statistical and economic tools to analyze and value complex financial instruments including asset-backed securities. Our business experience and technical skills inform our approach to determine the relevant factors that contribute to value.

### Financial Institutions

We are experienced in finance, economic theory, regulatory and industry practice, and risk management. We rely on extensive statistical expertise to provide sophisticated economic models of financial markets, financial trading, risk, and damages. We have been retained to address issues arising out of financial services regulation, investigations, and litigation matters.



## Vega's Experience with Rating Related Issues

### Example Engagement: CDO Ratings

The bank plaintiff, who entered into a several hundred million dollar credit default swap with an issuer defendant on the super senior tranche of collateralized debt obligation (CDO), alleged that the CDO was built upon fraudulent credit ratings and that the issuer created and structured the CDO with knowledge that it was a toxic and unsafe investment.

Vega supported a damages expert to perform analysis to determine whether notching the collateral in the CDO, consistent with industry practice, would have affected the ratings of the CDO's super senior swap. In particular, Vega's expert tested by notching the collateral under (1) the stress scenario proposed by Moody's and (2) the S&P CDO rating model scenario.

### Example Engagement: SIV Ratings

The Vega team supported a total of three experts in a case alleging ratings agencies gave structured investment vehicles (SIVs) undeservedly high ratings. The engagement involved analyzing the agency's ratings methodology and how it was applied to the SIVs in question, as well as examining the stability of the SIVs as unique assets, which included a review of how they differed from standard depository institutions.

### Example Engagement: RMBS Ratings

In a case where the RMBS investor plaintiffs brought the suit against the originator for misrepresenting the characteristics of the underlying collateral, the Vega team was retained to analyze whether tranches of certain ratings would have had higher subordination had the characteristic allegations had been known at the time the deal was structured.

**Vega Economics**

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