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## **Six Major U.S. and U.K. Banks Downgraded to Tier 2 by Standard & Poor**

Early last month, Standard & Poor's (S&P) established a new bank rating criterion and as a result of this new criterion, the firm's ratings of 15 of the world's largest financial institutions were downgraded on November 30. Seven of the impacted financial institutions are located in the U.S., four are based in the U.K. and four are centered in the Eurozone. On November 30, S&P took further action on 12 major financial institutions located in the Asia-Pacific region and downgraded five Australian banks.

Due to S&P's recent actions, the holding company short-term credit ratings for four U.S. banks (Bank of America, Citigroup, Goldman Sachs and Morgan Stanley) were downgraded from Tier 1 (A-1) to Tier 2 (A-2). Similarly, the short-term ratings for two U.K.-based firms (Lloyds and Royal Bank of Scotland) also dropped to A-2 from A-1. When combined with Moody's recent actions, Bank of America and Citigroup are now rated Tier 2 by both agencies. The remaining four financial institutions (Goldman Sachs, Morgan Stanley, Lloyds and Royal Bank of Scotland) have split ratings of A-2 from S&P and P-1 from Moody's.

SEC's Rule 2a-7 stipulates that a money market fund may invest up to 3% of its assets in securities rated Tier 2, with a maximum final maturity of 45 days. Additionally, each Tier 2-rated security is limited to 0.5% of the total portfolio.

Please note that the banking subsidiaries of the above-mentioned financial institutions continue to be rated A-1, which means that debt issued by the subsidiaries will continue to be rated Tier 1, although the parent company debt will be downgraded to Tier 2. In addition, repurchase agreements backed by U.S. government collateral carry the government's Tier 1 ratings, not those of the securities dealers. However, major rating agencies may impose counterparty ratings restrictions when they rate money market funds.

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