UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 10050 / March 7, 2016

SECURITIES EXCHANGE ACT OF 1934
Release No. 77312 / March 7, 2016

ADMINISTRATIVE PROCEEDING
File No. 3-17155

In the Matter of **FRANCIS PARISI,** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933 AND SECTION 15E OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 ("Securities Act") and Section 15E of the Securities Exchange Act of 1934 ("Exchange Act") against Francis Parisi ("Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Section 8A of the Securities Act of 1933 and Section 15E of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that

Summary

1. These proceedings involve misconduct by Francis Parisi, while he was employed by Standard & Poor's Ratings Services ("S&P") in 2012, relating to an article researched and drafted by Parisi that S&P published to support its then-new criteria for rating conduit/fusion Commercial Mortgage Backed Securities ("CF CMBS").

2. In connection with its release of the 2012 CMBS Criteria, in June 2012 S&P published an article describing an internal study Parisi performed purportedly showing average commercial mortgage loan pool losses of about 20% under Great Depression levels of economic stress. The article was flawed, in part because it relied on significant assumptions that were not adequately disclosed in the article and thereby contained false and misleading statements. The article was nonetheless published in June 2012 as additional support for the target credit enhancement ("CE") level of 20% in the 2012 CMBS Criteria. Parisi was the chief author of the article.

Respondent

3. Francis Parisi, age 61, was employed for approximately 29 years by S&P. During the course of his career, he drafted and revised S&P's criteria for rating CMBS and residential mortgage backed securities ("RMBS"), and served as the Chief Credit Officer for Global Structured Finance until 2012. In early 2012, Parisi was named Senior Criteria Officer for Validation and Statistical Methods. He was one of a dozen people who voted on the Analytical Policy Board, S&P's most senior criteria-making body. While at S&P, Parisi received a master's degree in statistics, and a Ph.D. He resides in Hicksville, New York.

Other Relevant Entity

4. S&P is a Nationally Recognized Statistical Rating Organization headquartered in New York City. Standard & Poor's Ratings Services is comprised of a separately identifiable business unit within Standard & Poor's Financial Services LLC, a Delaware limited liability company wholly owned by the McGraw Hill Financial ("MHFI"), and the credit ratings business housed within certain other wholly owned subsidiaries of, or businesses continuing to operate as divisions of, MHFI.

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[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Background

5. A CF CMBS is a type of mortgage-backed security backed by a pool of commercial real estate loans. Commercial properties that secure loans in CF CMBS pools are broadly divided into five categories: retail, office, multifamily, lodging, and industrial. CF CMBS are typically structured as multiple "tranches," or bonds, which have differing risk/return profiles. The bonds at the top of the capital structure generally receive priority in payment of principal and interest, while the bonds at the bottom experience losses first after the underlying loans incur losses. Because of these differences, the bonds at the bottom of the capital structure generally receive the highest rate of return, while the bonds at the top receive the lowest rate of return. The bonds at the bottom of the structure thus provide a cushion against loss to the bonds at the top of the structure. This cushion is a key element of the CE applicable to each bond in a CF CMBS transaction.

6. Following negative market reaction to its CMBS ratings in 2011, S&P lost significant market share for rating new issuance CF CMBS. S&P sought to re-enter the market in 2012 by publishing new ratings criteria. The prior criteria had been described as being calibrated to produce a AAA credit enhancement level ("AAA CE") of 19% for an "archetypical pool" of mortgage loans described in that criteria. The 2012 CMBS Criteria were described as having a "target" AAA CE of approximately 20% for a "typical well-diversified conduit-fusion CMBS transaction."

Facts

7. On June 4, 2012, as part of the development of new CF CMBS Criteria, S&P published an article entitled "Request For Comment: Rating Methodology And Assumptions for U.S. And Canadian CMBS." That publication outlined the parameters of S&P's proposed new CMBS ratings criteria and invited feedback and questions from market participants.

8. With respect to the CE to be provided to CF CMBS under the new Criteria, the article stated in relevant part: "For a typical conduit/fusion transaction, the application of the proposed criteria supports 'AAA' CE level around 20% . . . . This level was supported by multiple factors, including [S&P's] analysis of commercial real estate bond defaults and losses during the Great Depression . . . ."

9. The reference to analysis of Great Depression data corresponded, in part, to an internal study undertaken by the Respondent, which S&P thereafter decided to publish in an article to support the 2012 CMBS Criteria. On June 28, 2012, S&P published an article entitled "Estimating U.S. Commercial Mortgage Loan Losses Using Data From The Great Depression" (the "Great Depression Article"). Parisi conducted all of the statistical analysis upon which the article rested. Additionally, although he received editorial comments from other S&P employees responsible for creating the new CMBS criteria, Parisi was the article's chief author.

10. Parisi's study, and the Great Depression Article, relied on data gathered by the staff of the Federal Reserve Bank of New York in preparing a February 2012 report analyzing

commercial bond performance during the Great Depression era (the "Fed Data"). The Great Depression Article supported the 20% target AAA CE in the proposed new CMBS criteria. Specifically, the Great Depression Article concluded that S&P's analysis of Great Depression loss and default information "suggest[s] an average loss of about 20% in periods of extreme economic conditions."

11. S&P's focus on the Great Depression, which is commonly understood to have begun in 1929 and to have continued for years thereafter, was consistent with existing S&P ratings practices and methodology. In 2009, S&P published "Understanding Standard & Poor's Ratings Definitions," in which it stated that AAA-rated bonds "should be able to withstand an extreme level of stress and still meet [their] financial obligations." A historical example of such a scenario is the Great Depression in the U.S. The Great Depression Article reinforced the selection of the Great Depression as the "benchmark" for testing the sufficiency of the proposed 20% CE level: "We [S&P] often use the U.S. Great Depression as a benchmark period for determining the appropriate CE level for 'AAA' ratings."

12. Parisi did not prepare the Great Depression Article in accordance with a reasonable standard of care. It suggested "about 20%" losses in periods of "extreme economic conditions" without adequately disclosing certain significant assumptions and methodological choices, some of which are outlined in the following paragraphs.

13. Parisi included in his analysis commercial mortgages originated between 1900 and 1935. Many of those loans were completely or nearly paid off prior to the onset of the Great Depression, and thus were unaffected by the Great Depression's extreme economic stress. The inclusion of those loans resulted in much lower loss figures than would have resulted had Parisi selected loans that actually were exposed to the Great Depression's extreme economic stress. Parisi was negligent in failing to exclude from his analysis loans that were not exposed to the Great Depression's "extreme economic stress."

14. The data Parisi used computed losses on a discounted basis, thus resulting in lower losses as compared to losses computed without discounting. Parisi was aware that the data he used discounted losses. Discounting loss estimates is contrary to industry standards. Parisi failed either to remove or adequately to disclose the discounting. His failure understated the level of losses to be expected in conditions of "extreme economic stress" such as the Great Depression. Parisi was negligent in failing either to reverse the discounting or adequately to disclose it.

15. Parisi also excluded from his analysis all commercial mortgages that defaulted and took longer than three years to resolve. This exclusion removed from his analysis many of the loans that suffered most from the Great Depression. The exclusion of these loans also affected the results discussed in the Great Depression Article concerning estimated losses. Parisi was negligent in excluding from his study the loans that lost most from the Great Depression.

16. Although the Article states that Parisi's study enabled him to "make inferences relevant to the today's CMBS market," Parisi's analysis failed to model a key aspect of today's

CMBS; specifically, today's CMBS are collateralized by loans that were originated within a few months of each other. Parisi's study, on the other hand, blended loans made over a 30-year time period, thus failing to model the impact "extreme economic stress" would have on today's CMBS. Parisi's failure to model this key aspect of today's CMBS was negligent.

17. The impact of the assumptions and methodology incorporated in the Great Depression Article was inadequately disclosed when it was published on June 28, 2012. As a result, Parisi should have known that the Article was false and misleading. The Great Depression Article was expressly referenced in the final 2012 CMBS Criteria, published on September 5, 2012, which were considered by investors in the offer and sale of securities rated by S&P.

18. Parisi's notes during the course of his study reflected concerns over his ability to furnish robust and unbiased research to support S&P's proposed CE level of 20%. His initial determination was that the CE calibration for the 2012 Criteria "may be understating the potential losses in a 'AAA' scenario."

19. For example, on April 16, 2012, after computing loss estimates that ranged above 50%, Parisi wrote in his handwritten notes "Criteria Committee has considered an anchor of 20% for 'AAA'—not sure of justification." After completing the analytical work he conducted without others' input, Parisi estimated losses of approximately 29.5%. He also concluded that the 20% AAA CE benchmark "may be understating the potential losses in a 'AAA scenario.'" His contemporaneous handwritten notes asked "How do we reconcile the [underlying] data and my analysis with the 20% Benchmark?"

20. After discussions with S&P employees responsible for rating new issuance transactions under the new Criteria, and the CMBS Criteria Officer, Parisi modified his analysis relating to time to resolution, removing from his analysis mortgages that took longer than three years to resolve, even though he lacked a sufficient basis for the assumption that modern mortgage loans experiencing the extreme economic stress of the Great Depression could reasonably be expected to resolve within three years. Parisi thus excluded some of the worst-performing loans from the Fed Data, which helped him reach new results that supported the 20% AAA CE anchor point.

21. As a result of the conduct in failing to disclose the material facts described above, Parisi willfully violated Section 17(a)(2) of the Securities Act, which prohibits fraudulent conduct in the offer and sale of securities.[2]

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[2] The use of the word "willful" does not reflect a finding that the actor intended to violate the law or knew that he was doing so. A willful violation of the securities laws means merely "'that the person charged with the duty knows what he is doing.'" *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)).

IV.

In view of the foregoing, the Commission deems it appropriate, for the protection of investors and in the public interest, to impose the sanctions agreed to in Respondent Parisi's Offer.

Accordingly, pursuant to Section 8A of the Securities Act and Section 15E of the Exchange Act, it is hereby ORDERED that:

A. Respondent Parisi cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act.

B. Respondent Parisi be, and hereby is barred from association with any nationally recognized statistical rating organization.

C. Any reapplication for association by the Respondent will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against the Respondent, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

D. Respondent Parisi shall, within 10 days of the entry of this Order, pay a civil money penalty in the amount of $25,000.00 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717.

Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Francis Parisi as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Michael J. Osnato, Division of Enforcement, Securities and Exchange Commission, 200 Vesey Street, Suite 4000, New York, New York 10281.

E. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, he shall not argue that he is entitled to, nor shall he benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that he shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

V.

It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. §523, the findings in this Order are true and admitted by Respondent, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondent under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondent of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. §523(a)(19).

By the Commission.

Brent J. Fields
Secretary