

Bond Case Briefs

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Bond Insurer Sues Credit-Rating Agencies.

Bond insurer ACA Financial Guaranty Corp. sued the major credit-rating firms for allegedly falsely representing that their letter-grade ratings were free of conflicts of interest.

The lawsuit is the second fraud lawsuit filed against the firms in as many weeks and comes as the Justice Department's lawsuit against Standard & Poor's Ratings Services is gathering steam. The liquidators of two Bear Stearns Cos. hedge funds sued S&P, Moody's Investors Service and Fitch Ratings last week on nearly identical claims.

The ACA lawsuit, like the Bear Stearns case, appears to be timed to beat the statute of limitations for fraud cases in New York state, which is six years, say lawyers not involved in the case. The three major rating firms began their downgrades of hundreds of mortgage-linked securities in July 2007.

ACA sued S&P, Moody's and Fitch in New York State Supreme Court on Tuesday, seeking \$359 million in damages, according to a filing. The filing, like the Bear Stearns filing, is a four-page summons and notice, not a full-fledged complaint.

"In carrying out their fraud," the filing alleges, the rating firms "falsely represented that relevant credit ratings reflected their true current opinion regarding the credit risks" the securities presented. The rating firms "falsely represented that the ratings provided were objective, independent, and uninfluenced by any conflicts of interest," the filing alleges.

Spokesman for S&P and Fitch both said the allegations were without merit and the companies would defend themselves vigorously. A spokesman for Moody's and a lawyer representing ACA didn't immediately respond to requests for comment.

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ACA is tangled in another crisis-era lawsuit.

An ACA executive is expected to take the stand in the civil trial of former Goldman Sachs Group Inc. executive Fabrice Tourre that has captured Wall Street's attention this summer. The Securities and Exchange Commission claims Mr. Tourre lied to investors about the risk of a crisis-era deal, a charge he denies.

ACA acted as the portfolio-selection agent on that deal.

ACA's lawsuit against the credit-rating firms comes as the U.S. federal government's case against S&P is gathering momentum. A U.S. district judge ruled Tuesday that the government's fraud case against S&P could proceed, rejecting S&P's request that he throw out the entire lawsuit.