STANDARD & POOR'S

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Research Update:

Customer Asset Protection Co. Outlook Revised To Negative; 'A+' Ratings Affirmed

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Rationale

On March 26, 2008, Standard & Poor's Ratings Services revised its outlook on Customer Asset Protection Co. (CAPCO) to negative from stable. At the same time, Standard & Poor's affirmed its 'A+' counterparty credit and financial strength ratings on CAPCO.

Standard & Poor's assigns a negative outlook when we believe the probability of a downgrade within the next two years is at least 30%. The revised outlook reflects the challenging environment for broker/dealers and their parents. Deterioration in their credit quality and risk-management capabilities could affect CAPCO's financial strength. In the past couple of months, Standard & Poor's has revised the outlook on several of CAPCO's members' parents to negative. Also, the ratings on a couple of members are on CreditWatch with negative implications, which means there's the potential for a more imminent downgrade. The capital of CAPCO's members and--in some cases--their parents is an important resource for mitigating CAPCO's potential payments for its excess SIPC (Securities Investors Protection Corp.) coverage.

Standard & Poor's believes CAPCO has the ability to satisfy its policyholder obligations following an extreme event, such as a broker/dealer insolvency coupled with a misappropriation of 20 basis points of aggregate client assets. A broker's loss of capital or lack of liquidity would hurt CAPCO's performance under these tests because a broker/dealer's capital (and sometimes even that of its parents) is a resource to pay claims. Excess SIPC claims are very rare, and the probability of one occurring at a major broker/dealer is extremely rare.

The ratings on CAPCO are based on the company's strong claims-paying ability, niche competitive position serving many of the leading broker/dealers in the U.S. and U.K., high liquidity, low investment risk, and an underwriting standard intended to result in an expected zero loss ratio. Offsetting factors include the company's modest scope of operations, short operating history (since December 2003), and reliance on highly rated reinsurers for remotely possible, extremely large losses.

CAPCO provides excess SIPC coverage for its members, which are broker/dealers. Broker/dealers are regulated entities where customer assets are required to be segregated from the firm's assets and may not be used in the ongoing business of the firm or affected by a broker/dealer's own trading losses or own subprime-related losses. For an excess SIPC claim to occur, all of the following must happen: a broker/dealer must be deemed insolvent; client assets must be found to be missing, lost or stolen; and customer property, SIPC advances, fidelity bond proceeds, if any, and distributions from the general estate of the member, if any, to customers are insufficient to satisfy customer account obligations. Neither SIPC nor excess SIPC cover a decline in the market value of a client's investments.

CAPCO has an adequate competitive position. Standard & Poor's does not view CAPCO's competitive position as a key ratings factor provided CAPCO is able to maintain a relatively stable membership base that is large enough to make the captive a cost-effective solution for its members. Three members have withdrawn or will withdraw from CAPCO in the past three years. These departures were because of events that affected a member, such as a merger or acquisition, and do not signal a lack of CAPCO's viability.

The company's investment portfolio is invested almost entirely in U.S. Treasuries with maturities of three years or less. As a result, the risk of material loss to capital because of investment performance is low, and the liquidity of the portfolio is very high.

Outlook

Standard & Poor's will lower the ratings on CAPCO if we conclude that deterioration in the financial strength of CAPCO's members has had a significant negative impact on CAPCO's ability to satisfy its potential obligations to its policyholders. Alternately, we would revise the outlook back to stable if we conclude that the financial strength and risk-management capabilities of CAPCO's members have stabilized and improved and that CAPCO's claims-paying ability has not weakened materially.

The ratings and outlook on CAPCO will not necessarily move in tandem with those on its members. However, the ratings on the members are an important factor in the CAPCO rating. A significant loss of members could lead to an adverse rating action because the departures could threaten CAPCO's ability to offer excess SIPC coverage cost-effectively. We expect that CAPCO will maintain its narrow focus and earn a stable and modest return each year, with a zero loss ratio.

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Customer Asset Protection Co.		
Counterparty Credit Rating		
Local Currency	A+/Negative/--	A+/Stable/--
Financial Strength Rating		
Local Currency	A+/Negative/--	A+/Stable/--

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search.