

Creditors file suit on China debt

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US creditors holding Chinese government bonds are to launch a class action lawsuit against the three largest rating agencies alleging they impaired the ability of creditors to enforce collection of China's defaulted debt.

The lawsuit claims [Standard & Poor's](#), [Moody's Investors Service](#) and [Fitch](#) applied a reckless standard of care in developing the rating classifications assigned to the Chinese government's debt by maintaining an investment-grade rating that conceals China's past defaulted sovereign debt.

[Kevin O'Brien](#), president of [Sovereign Advisers](#), a private economics research firm assisting the bondholders' group, said: When you examine the criteria for development of rating classifications and compare the criteria to the rating classification assigned to China, it is clearly a phony rating and only serves the short-term interests of the agencies in maximising their profits.

The American Bondholders Foundation represents more than 5,000 creditors holding Chinese bonds issued by the Nationalist government of Chiang Kai-shek between 1912 and 1942.

When the Communists under Mao Tse Tung, pictured above, defeated the Nationalists in the civil war in 1949 they claimed the debt was the obligation of a capitalist government that no longer existed.

China paid the UK £23m in 1987 after the government reportedly refused to allow China to issue new debt in London.

The lawsuit is in the final stages of preparation before filing in federal court in October. An [S&P](#) spokesman said: While we cannot comment specifically on a complaint we have not seen, we are aware of the claims and believe them to be totally without factual or legal merit.

Fitch and Moody's did not return calls seeking comment.