

SUPPORTING STATEMENT

A. Justification

1. Need For Information Collection

The Credit Rating Agency Reform Act of 2006¹ (“Rating Agency Act”), enacted on September 29, 2006, defines the term “nationally recognized statistical rating organization,” or “NRSRO,” provides authority for the Securities and Exchange Commission (“Commission”) to implement registration, recordkeeping, financial reporting, and oversight rules with respect to registered credit rating agencies, and directs the Commission to issue implementing rules no later than 270 days after its enactment.

The rules proposed under the Rating Agency Act contain recordkeeping and disclosure requirements. The collection of information obligations imposed by the proposed rules would be mandatory. The proposed rules, however, would apply only to credit rating agencies that are applying to register or are registered with the Commission as NRSROs, and registration is voluntary.

The Rating Agency Act added a new Section 15E, “Registration of Nationally Recognized Statistical Rating Organizations,”² to the Securities Exchange Act of 1934 (“Exchange Act”). Exchange Act Section 15E(i)(1)³ directs the Commission to issue rules prohibiting any act or practice by an NRSRO relating to the issue of credit ratings that the Commission determines is unfair, abusive, or coercive, including certain acts and practices set forth in paragraphs (i)(1)(A)-(C) of Section 15E.⁴ Proposed Rule 17g-6 would prohibit the acts and practices identified in Section 15E(i), and would also prohibit one additional practice--refusing to issue a credit rating or withdrawing a credit rating with respect to an asset pool or an asset-backed or mortgage-backed security. Proposed Rule 17g-6 would provide, however, that this additional practice would not be prohibited if the NRSRO has rated less than 85% of the market value of the assets underlying the asset pool or securities. If an NRSRO relies on this exception, proposed Rule 17g-6(b) would require that the NRSRO document in writing the reason for refusing to issue the credit rating or withdrawing the credit rating.

2. Purpose of, and Consequences of Not Requiring, the Information Collection

The purpose of the collection of information is to provide the Commission with information concerning the reason that an NRSRO has refused to issue a credit rating or

¹ Pub. L. No. 109-291.

² 15 U.S.C. 78o-7.

³ 15 U.S.C. 78o-7(i)(1).

⁴ 15 U.S.C. 78o-7(i)(1)(A)-(C).

has withdrawn a credit rating with respect to an asset pool or an asset-backed or mortgage-backed security.

3. Role of Improved Information Technology and Obstacles to Reducing Burden

The written documentation that proposed Rule 17g-6 would require could be made and retained electronically. The Commission believes that improvements in telecommunications and data processing technology may reduce any burdens associated with proposed Rule 17g-6. NRSROs are not prevented by proposed Rule 17g-6 from using computers or other mechanical devices to generate the record required under the proposed Rule.

4. Efforts To Identify Duplication

No duplication is apparent.

5. Effects on Small Entities

Small entities may be affected by the proposed rule because all NRSROs, regardless of size, would be required to document in writing the reason for refusing to issue or withdrawing a credit rating.

6. Consequences of Less Frequent Collection

If this information were not collected as frequently, the Commission would be unable to ascertain, on an ongoing basis, whether an NRSRO had valid reasons for refusing to issue or withdrawing a credit rating.

7. Inconsistencies With Guidelines In 5 CFR 1320.5(d)(2)

The collection of information would not be inconsistent with 5 CFR 1320.5(d)(2).

8. Consultations Outside the Agency

All Commission rule proposals are published in the Federal Register for public comment. The comment period for the release that discusses proposed Rule 17g-6⁵ is 30 days. This comment period will afford the public an opportunity to respond to the proposal.

9. Payment or Gift to Respondents

Not applicable.

⁵ Release No. 34-55231 (Feb. 2, 2007), 72 FR 6378 (Feb. 9, 2007).

10. Assurance of Confidentiality

The record that an NRSRO would be required to make under proposed Rule 17g-6 would be available only to the examination staff of the Commission. Subject to the provisions of the Freedom of Information Act, 5 U.S.C. 552 (“FOIA”) and the Commission’s rules under FOIA (17 CFR 200.80(b)(4)(iii)), the Commission generally does not publish or make available information contained in reports, summaries, analyses, letters, or memoranda arising out of, in anticipation of, or in connection with an examination or inspection of the books and records of any person or any other investigation.

11. Sensitive Questions

Not applicable. Questions of a sensitive nature are not asked.

12. Estimate of Respondent Reporting Burden

The number of respondents that would be subject to the proposed rule would depend, in part, on the number of entities that would meet the statutory requirements for eligibility for registration. Further, registration is voluntary, and, consequently, the number of respondents would also depend on the number of entities that would choose to register with the Commission. The Commission estimates that approximately 30 credit rating agencies would register with the Commission as NRSROs under section 15E of the Exchange Act.

Based on staff experience and on the current one-hour estimate for a broker-dealer to file notices under Exchange Act Rule 17a-11,⁶ the Commission estimates that each NRSRO would need to document approximately five refusals to issue a credit rating or withdrawal of a credit rating per year and it that would take approximately two hours to create the record. The Commission believes that it would take longer to explain the applicability of the safe harbor than to explain the reasons for the notices required under Rule 17a-11. The Commission therefore estimates that the total annual hour burden for proposed Rule 17g-6 would be 300 hours per year.⁷

13. Estimate of Total Annualized Cost Burden

The Commission believes that there would be no additional reporting costs associated with the proposed rule, other than the costs described in Item 12 above.

14. Estimate of Cost to Federal Government

There would be no additional costs to the Federal Government.

⁶ 17 CFR 240.17a-11.

⁷ (2 hours x 5) x 30 NRSROs = 300 hours.

15. Explanation of Changes in Burden

Not applicable. Proposed Rule 17g-6 would be a new rule.

16. Information Collection Planned for Statistical Purposes

Not applicable. There is no intention to publish the information for any purpose.

17. Explanation as to Why Expiration Date Will Not Be Displayed

Not applicable.

18. Exceptions to Certification

Not applicable.

B. Collection of Information Employing Statistical Methods

The collection of information does not employ statistical methods, nor would the implementation of such methods reduce the burden or improve the accuracy of results.