1Supporting Statement for the
Reporting Requirements Associated with Part 201.3 of Regulation A
(Reg A; OMB No. to be obtained) (Docket No. R-1371)

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to implement the Reporting Requirements Associated with Part 201.3 of Regulation A (Reg A; OMB No. to be obtained). The Paperwork Reduction Act (PRA) classifies reporting, recordkeeping, or disclosure requirements of a regulation as an information collection.[1]

On October 8, 2009, the Federal Reserve published a proposed rulemaking in the *Federal Register* (74 FR 51806) for public comment on a proposal to amend Regulation A. The amendments to Regulation A would require nationally recognized statistical rating organizations (NRSROs) to provide information to the Federal Reserve to determine credit rating agencies' eligibility to have their ratings accepted in the Term Asset-Backed Securities Loan Facility (TALF). The Federal Reserve's total annual burden under Part 201.3 of Regulation A is estimated to be 20 hours for the 10 institutions that are subject to the rule. There are no required reporting forms associated with Part 201.3 of Regulation A.

Background and Justification

The term NRSRO was originally adopted by the U.S. Securities and Exchange Commission (SEC) in 1975 for use in determining capital charges for broker-dealers on different grades of debt securities. The concept of ratings by NRSROs has been incorporated into a range of state and federal legislation and regulations. The Credit Rating Agency Reform Act of 2006 sets out a statutory definition of NRSRO and provides the SEC with the authority to implement registration and oversight rules with respect to registered credit rating agencies.

The Federal Reserve System, like other participants in the financial markets, is an active user of NRSRO credit ratings. Credit ratings are used to support the efforts of several System programs, including discount window lending and recent specialized System liquidity and securities lending programs in response to the financial crisis. TALF is a funding facility to help market participants meet the credit needs of households and businesses by supporting the issuance of new asset-backed securities (ABS) collateralized by loans of various types to consumers and businesses of all sizes. The Board has determined the terms and conditions for TALF borrowing and eligible collateral, including minimum credit ratings and the set of credit rating agencies whose ratings may be accepted for purposes of TALF by the Federal Reserve Bank of New York (FRB NY). When TALF was established, the Board and the FRB NY accepted credit ratings from three NRSROs (Standard & Poor's, Moody's Investors Service, and

[1] 44 U.S.C. § 3501 et seq.

Fitch Ratings). The Board recognized that market participants relied upon the ratings of these three NRSROs, generally to the exclusion of those with less experience rating ABS.

Since the establishment of TALF, the Federal Reserve has been conducting a broader review of its approach to using rating agencies encompassing the ratings of securities of all types accepted as collateral at all of the Federal Reserve's recently established credit facilities as well as collateral accepted to secure regular discount window loans. In May 2009, the Board announced an extension of eligible TALF collateral to include certain high-quality newly issued and legacy commercial mortgage-backed securities (CMBS). The Board and FRB NY conducted a review of the five NRSROs who expressed interest in having their ratings accepted for CMBS pledged to the TALF. The review concluded that the ratings of these five NRSROs were of sufficient quality. As a result, the Board amended the terms of the TALF to provide that TALF-eligible CMBS must have a triple-A long-term rating from at least two of those five NRSROs, and not have a lower rating from any of the other five NRSROs.

The proposed rule is another step in the Federal Reserve's process of reviewing the appropriate use of NRSROs in its credit facilities for TALF ABS other than CMBS and would leverage off the SEC's existing NRSRO registration process.

Description of Information Collection[2]

An NRSRO that desired for its credit ratings to be accepted for TALF would have to supply its methodology for rating the relevant TALF asset sector and document how it has the relevant experience issuing ratings in the TALF asset sector. Most NRSROs should have this information readily available in the normal and customary course of business. Also, if requested by the FRB NY, an NRSRO may be requested to provide information on its continued eligibility under the rule. Such information, however, would be in connection with the eligibility criteria in the rule and should be readily available in the normal course of business

Time Schedule for Information Collection

This information collection contains a one-time reporting requirement for a benefit. Subsequent changes would be on-occasion.

Legal Status

The Board's Legal Division has determined that the Federal Reserve Act authorizes the Board to require the report (12 USC 248(j)). If an institution considers the information to be trade secrets and/or privileged such information could be withheld from the public under the authority of the Freedom of Information Act (FOIA), 5 U.S.C. 552(b)(4). Additionally, to the extent that such information may be contained in an examination report such information maybe also be withheld from the public, 5 U.S.C. 552 (b)(8).

[2] 12 CFR 201.3(e)(1)(ii) and (iii)

Consultation Outside the Agency and Discussion of Public Comment

All of the Federal Reserve's rulemaking activities are subject to the notice and comment requirements of the Administrative Procedure Act. On October 8, 2009, the Federal Reserve published the proposed rule in the *Federal Register* (74 FR 51806) requesting public comment for 60 days on the proposed information collection. The comment period for this notice expired on November 9, 2009. The Federal Reserve did not receive any comments on the information collection. On December 9, 2009, the Federal Reserve published a final notice in the *Federal Register* (74 FR 65014). The information collection will be implemented as proposed.

Estimate of Respondent Burden

The total annual burden for the recordkeeping requirement associate with Parts 201.3 of Regulation A is 20 hours, as shown in the table below. The Federal Reserve estimates that it will take each respondent 2 hours to provide information to the FRB NY. This burden represents less than 1 percent of the total Federal Reserve System paperwork burden.

The Federal Reserve believes that little burden is associated with the requirements for reporting because the measures involved in the program are consistent with usual and customary business practices. In addition, the entities subject to the rule already must implement procedures to comply with the requirements under the SEC regulations.

	Number of respondents	*Estimated annual frequency*	*Estimated response time*	*Estimated annual burden hours*
Reg A	10	1	2 hours	20

The current annual cost to the public of these reports is estimated to be $1,233.[3]

Sensitive Questions

[3] Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rate (30% Administrative or Junior Analyst @ $25, 45% Managerial or Technical @ $55, 15% Senior Management @ $100, and 10% Legal Counsel @ $144). Hourly rate estimates for each occupational group are averages using data from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2007, http://www.bls.gov/news.release/ocwage.nr0.htm Occupations are defined using the BLS Occupational Classification System, http://www.bls.gov/soc/

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Estimate of Cost to the Federal Reserve System

The cost to the Federal Reserve System is negligible.