

SUPPORTING STATEMENT
For the Paperwork Reduction Act
Information Collection Submission
“Rule 17g-2”

A. Justification

1. Necessity of 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” and 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.

Rule 17g-2 contains recordkeeping and disclosure requirements. The collections of information obligations imposed by the rule are mandatory. The requirements of Rule 17g-2 apply only to credit rating agencies registered with the Commission as NRSROs, and registration is voluntary.

The Rating Agency Act amended Section 17(a)(1) of the Securities Exchange Act of 1934 (“Exchange Act”) to add NRSROs to the list of entities required to make and keep such records, and make and disseminate such reports, as the Commission prescribes by rule as necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the Exchange Act.² The inclusion of NRSROs on the list also provides the Commission with authority under Section 17(b)(1) of the Exchange Act to examine all the records of an NRSRO.³

Rule 17g-2, “Records to be made and retained by nationally recognized statistical rating organizations,” implements the Commission’s recordkeeping rulemaking authority under Section 17(a) of the Exchange Act.⁴ The rule requires an NRSRO to make and retain certain records relating to its business and to retain certain other business records, if such records are made. The rule also prescribes the time periods and manner in which all these records must be retained.

The requirements of Rule 17g-2 are designed to ensure that an NRSRO makes and retains records that assist the Commission in monitoring, through its examination authority, whether an NRSRO continues to meet the requirements for registration as an NRSRO and whether the NRSRO is complying with applicable laws and regulations.

¹ Pub. L. No. 109-291.

² See Section 5 of the Act and 15 U.S.C 78q(a)(1).

³ See 15 U.S.C 78q(b)(1).

⁴ 15 U.S.C 78q.

2. Purpose and Use of the Information Collection

The collections of information in Rule 17g-2 are designed to allow the Commission to determine whether an NRSRO continues to meet the requirements for registration and is complying with applicable laws and regulations. In particular, the collections of information in Rule 17g-2 will assist the Commission in effectively monitoring, through its examination function, whether an NRSRO is conducting its activities in accordance with Section 15E of the Exchange Act,⁵ and applicable Exchange Act rules under the Rating Agency Act.

3. Consideration Given to Information Technology

The records that Rule 17g-2 require NRSROs to make and retain could be made and retained electronically. NRSROs are not prevented by Rule 17g-2 from using computers or other mechanical devices to generate the records required under the rule.

In addition, Rule 17g-2 also requires an NRSRO to make public, in XBRL format, the ratings action information required under paragraph (a)(8) for a random sample of 10% of the issuer paid credit ratings for each ratings class for which it has issued 500 or more issuer-paid credit ratings.⁶

4. Duplication

No duplication is apparent.

5. Effect on Small Entities

Small entities that choose to register as NRSROs may be affected by Rule 17g-2 because all credit rating agencies, regardless of size, that are registered as NRSROs will be required to make and retain records in accordance with Rule 17g-2.

6. Consequences of Not Conducting Collection

Up to date records are essential for the Commission to monitor whether an NRSRO continues to meet the requirements for registration as an NRSRO. If an NRSRO did not make these records, or if it made these records less frequently, the goals of the Rating Agency Act--including enhancing the information used by investors to make investment decisions--will be diminished.

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

There are no special circumstances. This collection is consistent with 5 CFR 1320.5(d)(2).

⁵ 15 U.S.C. 78o-7.

⁶ Rule 17g-2(d).

8. Consultations Outside the Agency

The required Federal Register notice with a 60-day comment period soliciting comments on this collection of information was published. No public comments were received.

9. Payment or Gift

There was no payment or gift to respondents.

10. Confidentiality

Rule 17g-2(d) will require certain information required to be made and retained by an NRSRO to be made publicly available. The rest of the information required to be made and maintained under the amendments will 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

Questions of a sensitive nature are not asked.

12. Burden of Information Collection

The number of respondents that will be subject to Rule 17g-2 will depend, in part, on the number of entities that will meet the statutory requirements for eligibility for registration. Further, registration is voluntary, and, consequently, the number of respondents will also depend on the number of entities that will choose to register with the Commission. The Commission estimates that approximately one credit rating agency will register with the Commission as an NRSRO under section 15E of the Exchange Act during the collection period (approximately 0.33 applicants per year) based upon its discussions with potential NRSRO applicants. There are currently nine NRSROs registered with the Commission. Based on staff experience, the Commission believes that there will likely be at least one additional credit rating agency that successfully registers as an NRSRO during the collection period. Therefore, the Commission estimates that there are ten NRSROs that will be impacted by this information collection.

The Commission estimates that the average one-time burden of implementing a recordkeeping system to comply with Rule 17g-2 each year is approximately 300 hours. Additionally, the Commission estimates that an NRSRO will spend an average of 279

hours per year to make and retain records under Rule 17g-2, for a total annual hour burden under Rule 17g-2 of 2,790 hours.⁷

In addition, Rule 17g-2 requires an NRSRO to make publicly available, on its website in XBRL format, ratings action histories for a random sample of 10% of its outstanding issuer-paid credit ratings in each class of credit rating for which it is registered and has determined 500 or more issuer-paid credit ratings.⁸ Based on information furnished on Form NRSRO, seven of the ten currently registered NRSROs issue 500 or more issuer-paid credit ratings in at least one of the classes of credit ratings for which they are registered. The Commission believes that even as the number of registered NRSROs expands, this number will remain relatively constant, as new entrants are likely to predominantly determine subscriber-paid credit ratings, at least in the near future. In addition, the Commission believes that each of the NRSROs affected by this new requirement already has, or will have, an Internet website. The amendment, as adopted, specifies that in making the required information available on its website, an NRSRO will use the List of XBRL Tags for NRSROs as specified on the Commission's website, thus eliminating the need for an NRSRO to develop its own taxonomy and tags and significantly reducing the amount of time required to comply with the amendment.

Therefore, based on staff experience, the Commission estimates that, on average, an NRSRO subject to the requirement will spend approximately 30 hours to publicly disclose the required information in an XBRL format and, thereafter, 10 hours per year to update this information.⁹ Accordingly, the total aggregate one-time burden to the industry to make the history of rating actions publicly available in an XBRL format will be 30 hours, and the total aggregate annual burden hours will be 70 hours.¹⁰

Rule 17g-2 also requires that an NRSRO that uses a third-party record custodian furnish the Commission with an undertaking from the custodian. Based on staff experience, the Commission estimates that approximately five NRSROs will file this undertaking on a one-time basis. The Commission estimates, based on staff experience, that it will take an NRSRO approximately 10 hours to complete an undertaking prior to furnishing it to the Commission.¹¹ Therefore, the Commission estimates that the total one-time hour burden for this undertaking will be 50 hours.¹²

⁷ 279 hours x 10 respondents = 2,790 hours.

⁸ See amendment to Rule 17g-2(d).

⁹ The Commission also bases this estimate on the current one-time and annual burden hours for an NRSRO to publicly disclose its Form NRSRO. No alternatives to these estimates as proposed were suggested by commenters. See June 5, 2007 Adopting Release, 72 FR at 33609.

¹⁰ 10 hours x 7 NRSROs = 70 hours.

¹¹ The estimated 10 hours includes drafting, legal review, and receiving corporate authorization to file the undertaking with the Commission.

¹² 10 hours x 5 NRSROs = 50 hours. This estimate is the same as the previous hours estimate to use a third-party record custodian.

The Commission therefore estimates that the burden associated with Rule 17g-2 is 380 hours ($300 + 30 + 50 = 380$) on a one-time basis and 2,860 hours ($2,790 + 70 = 2,860$) on an annual basis.

13. Costs to Respondents

The Commission estimates that an NRSRO may need to purchase recordkeeping system software to establish a recordkeeping system in conformance with Rule 17g-2. The Commission estimates that the cost of the software would vary based on the size and complexity of the NRSRO. Also, the Commission estimates that some NRSROs would not need such software because they already have adequate recordkeeping systems or, given their small size, such software would not be necessary. Based on these estimates, the Commission estimated that the average on-time cost for recordkeeping software across all NRSROs would be approximately \$1,000 per firm. The Commission believes that the requirement to publicly disclose certain ratings action histories in an XBRL format will result in a cost of \$800 per firm per year. Therefore, the Commission believes that the cost to the industry discussed above will increase by \$5,600,¹³ for a total one-time cost to the industry for Rule 17g-2 of \$1000 and an annual cost of \$5,600.

14. Costs to Federal Government

There would be no additional costs to the Federal Government.

15. Changes in Burden

The reduction in the annual time burden of 9,013 hours is due to the number of respondents decreasing from 30 to 10 NRSROs and the expectation of significantly fewer new NRSRO applicants during this collection period. The Commission had assumed there would be 30 NRSROs when the rule was adopted. This number was based on the belief that 30 companies would register as NRSROs with the Commission. We have revised the estimate to reflect the current number of 10 NRSROs.

16. Information Collection Planned for Statistical Purposes

Not applicable. The information collection is not used for statistical purposes.

17. Display of OMB Approval Date

The Commission is not seeking approval to not display the expiration date for OMB approval.

18. Exceptions to Certification for Paperwork Reduction Act Submissions

This collection complies with the requirements in 5 CFR 1320.9.

¹³ \$800 x 7 = \$5,600.

B. Collection of Information Employing Statistical Methods

This collection does not involve statistical methods.