

**SUPPORTING STATEMENT**  
**for the Paperwork Reduction Act Information Collection Submission**  
**“Rule 17g-5”**

**A. JUSTIFICATION**

**1. Necessity of Information Collection**

The Credit Rating Agency Reform Act of 2006<sup>1</sup> (“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.

In 2009, the Commission adopted amendments to Rule 17g-5.<sup>2</sup> Rule 17g-5, as amended, imposes additional requirements on NRSROs in order to address concerns about the integrity of their credit rating procedures and methodologies in light of the role they played in determining credit ratings for securities collateralized by or linked to subprime residential mortgages.<sup>3</sup>

Rule 17g-5, as amended, requires NRSROs to disclose and manage certain conflicts of interest. The collection of information obligation imposed by Rule 17g-5 is mandatory for credit rating agencies that are applying to register or are registered with the Commission as NRSROs. Registration with the Commission as an NRSRO is voluntary.

The Rating Agency Act added a new Section 15E, “Registration of Nationally Recognized Statistical Rating Organizations,”<sup>4</sup> to the Securities Exchange Act of 1934 (“Exchange Act”). Exchange Act Section 15E(h)(2) provides the Commission with authority to prohibit, or require the management and disclosure of, any potential conflict of interest relating to the issuance of credit ratings by an NRSRO.<sup>5</sup> Rule 17g-5, as amended, requires the disclosure and establishment of procedures to manage an additional conflict of interest.<sup>6</sup>

Specifically, Rule 17g-5, as amended, prohibits an NRSRO from issuing a rating for a structured product unless information about the transaction and the assets underlying the rated security are disclosed to certain persons.<sup>7</sup>

**2. Purpose and Use of the Information Collection**

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<sup>1</sup> Pub. L. No. 109-291.

<sup>2</sup> Exchange Act Release No. 61050 (November 23, 2009), 74 FR 63832 (December 4, 2009).

<sup>3</sup> Id.

<sup>4</sup> 15 U.S.C. 78o-7.

<sup>5</sup> 15 U.S.C. 78o-7(h)(2).

<sup>6</sup> See 17 CFR 240.17g-5.

<sup>7</sup> See id.

The collection of information included in Rule 17g-5 is necessary for Commission oversight of registered NRSROs. Specifically, this collection of information aids the Commission by addressing potential practices that could impair the objectivity and the quality of a credit rating.

**3. Consideration Given to Information Technology**

Rule 17g-5 allows NRSROs to disclose certain information in an electronic format. The Commission believes that improvements in telecommunications and data processing technology may reduce any burdens associated with Rule 17g-5.

**4. Duplication**

No duplication is apparent.

**5. Effect on Small Entities**

Small entities may be affected by the Rule because all NRSROs, regardless of size, are subject to the additional conflict of interest regulations in the amendments to Rule 17g-5.

**6. Consequences of Not Conducting Collection**

If this information were not collected as frequently, the Commission would be unable to ascertain, on an ongoing basis, whether a credit rating agency registered as an NRSRO “fails to maintain adequate financial and managerial resources to consistently produce credit ratings with integrity.”<sup>8</sup>

**7. Inconsistencies with Guidelines in 5 CFR 1320.5(d)(2)**

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

**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**

No payment or gift is provided to respondents.

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<sup>8</sup> 15 U.S.C. 15E(d).

## **10. Confidentiality**

No assurance of confidentiality is provided.

## **11. Sensitive Questions**

Not applicable; no information of a sensitive nature is required.

## **12. Burden of Information Collection**

Under Rule 17g-5, an NRSRO is prohibited from issuing a credit rating for a structured finance product unless certain information about the transaction and the assets underlying the structured finance product are disclosed. The Commission believes that this information would likely be disclosed by NRSROs. The Commission estimates that it will take approximately 300 hours to develop a system, as well as the policies and procedures, for the disclosures required by Rule 17g-5. Initially, the Commission estimated that there would be 30 NRSROs, resulting in a total one-time hour burden of 9,000.<sup>9</sup> The Commission has adjusted the estimate to 10 NRSROs, resulting in a total one-time hour burden of 3,000.<sup>10</sup>

Disclosures are also required on a transaction by transaction basis. The Commission estimates that the total number of structured finance ratings issued by all NRSROs in a given year would be 14,880 and that it would take 1 hour per transaction to make the information publicly available. Therefore, the Commission estimates that the total aggregate annual hour burden to the industry would be 14,880 hours.<sup>11</sup>

Rule 17g-5 also requires arrangers to disclose certain information. The Commission believes that there are approximately 200 arrangers subject to the rule. The Commission estimates that it would take approximately 300 hours to develop a system, as well as the policies and procedures, for the disclosures required by Rule 17g-5. This would result in a total one-time hour burden of 60,000 hours for 200 respondents.<sup>12</sup>

Disclosures are also required for arrangers on a transaction by transaction basis. The Commission estimates that each respondent would arrange approximately 20 new transactions per year and that it would take 1 hour per transaction to make the information publicly available. Therefore, the Commission estimates that it would take a respondent approximately 20 hours<sup>13</sup> to disclose this information under Rule 17g-5 for a total aggregate annual hour burden of 4,000 hours.<sup>14</sup>

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<sup>9</sup> 300 hours x 30 NRSROs = 9,000 hours.

<sup>10</sup> 300 hours x 10 NRSROs = 3,000 hours.

<sup>11</sup> 14,880 ratings x 1 hour = 14,880 hours.

<sup>12</sup> 300 hours x 200 arrangers = 60,000 hours.

<sup>13</sup> 20 transactions x 1 hour = 20 hours.

<sup>14</sup> 200 respondents x 20 hours = 4,000 hours.

Rule 17g-5 also requires disclosure of information by arrangers on an ongoing basis that is used by an NRSRO to undertake credit rating surveillance on the structured finance product. The Commission estimates that this disclosure would be required with respect to approximately 125 transactions per month, and that it would take each respondent approximately 0.5 hours per transaction to disclose the information. Therefore, the Commission estimates that it would take each respondent approximately 750 hours<sup>15</sup> on an annual basis to disclose such information, for a total aggregate annual burden of 150,000 hours.<sup>16</sup>

Finally, Rule 17g-5 requires NRSROs to submit an annual certification to the Commission. The Commission estimates that it would take each NRSRO approximately 2 hours to complete the certification. Initially, the Commission estimated that there would be 30 NRSROs subject to Rule 17g-5, resulting in a total aggregate annual burden of 60 hours.<sup>17</sup> The Commission has adjusted the estimate to 10 NRSROs subject to Rule 17g-5, resulting in a total aggregate annual hour burden of 20 hours.<sup>18</sup>

The Commission therefore estimates that the burden associated with Rule 17g-5 is 63,000 hours on a one-time basis ( $3,000 + 60,000 = 63,000$ ) and 168,900 hours on an annual basis ( $14,880 + 150,000 + 4,000 + 20 = 168,900$ ). The overall decrease in the burden associated with Rule 17g-5 (from 69,000 to 63,000 hours on a one-time basis and from 168,940 to 168,900 hours on an annual basis) is due to the Commission's revised estimate of 10 NRSROs instead of 30 NRSROs being subject to the requirements of Rule 17g-5.

### **13. Costs to Respondents**

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

### **14. Costs to Federal Government**

There would be no additional costs to the Federal Government.

### **15. Changes in Burden**

As indicated above, the Commission's estimate has changed from 69,000 hours to 63,000 hours on a one-time basis and from 168,940 hours to 168,900 hours on an annual basis. The decrease in burden is due to the Commission's revised estimate of 10 NRSROs instead of 30 NRSROs being subject to Rule 17g-5.

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<sup>15</sup> 125 transactions x 30 minutes x 12 months = 45,000 minutes/60 minutes = 750 hours.

<sup>16</sup> 750 hours x 200 respondents = 150,000 hours.

<sup>17</sup> 30 NRSROs x 2 hours = 60,000 hours.

<sup>18</sup> 10 NRSROs x 2 hours = 20 hours.

**16. Information Collection Planned for Statistical Purposes**

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

**17. Approval to Display OMB Expiration Date**

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

**18. Exceptions to Certification**

This collection complies with the requirements in 5 CFR 1320.9.

**B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS**

This collection does not employ statistical methods.