

**SUPPORTING STATEMENT**  
**for the Paperwork Reduction Act Revised Information Collection Submission**  
**“Rule 17g-1: Application for Registration as a nationally**  
**recognized statistical rating organization”**

**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 2007, the Commission adopted rules to implement specific provisions of the Rating Agency Act, as well as other registration, recordkeeping, financial reporting and oversight rules.<sup>2</sup>

Title IX, Subtitle C of the Dodd-Frank Act,<sup>3</sup> “Improvements to the Regulation of Credit Rating Agencies,” among other things, establishes new self-executing requirements applicable to NRSROs, requires certain studies,<sup>4</sup> and requires that the Commission adopt rules applicable to NRSROs in a number of areas.<sup>5</sup> The NRSRO provisions in the Dodd-Frank Act augment the Rating Agency Act, which established a registration and oversight program for NRSROs through self-executing provisions added to the Exchange Act and implementing rules adopted by the Commission under the Exchange Act as amended by the Rating Agency Act.<sup>6</sup> Title IX, Subtitle C of the Dodd-Frank Act also provides that the Commission shall prescribe the format of a certification that providers of third-party due diligence services would need to provide to each NRSRO producing a credit rating for an asset-backed security to which the due diligence services relate.<sup>7</sup> Finally, Title IX, Subtitle C of the Dodd-Frank Act establishes a new requirement for issuers and underwriters of asset-backed securities to make publicly available the findings and conclusions of any third-party due diligence report obtained by the issuer or underwriter.<sup>8</sup>

Rule 17g-1 and Form NRSRO contain recordkeeping and disclosure requirements. The collection of information obligation imposed by Rule 17g-1 and Form NRSRO is mandatory. Rule 17g-1 and Form NRSRO, however, apply only to credit rating agencies that are applying to register or are registered with the Commission as NRSROs, and registration is voluntary.

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

<sup>2</sup> Exchange Act Release No. 55857 (June 5, 2007), 72 FR 33564 (June 18, 2007).

<sup>3</sup> Pub. L. No. 111-203, 124 Stat. 1376, H.R. 4173 (July 21, 2010).

<sup>4</sup> See Pub. L. No. 111-203 §§ 939, 939D - 939F.

<sup>5</sup> See Pub. L. No. 111-203 §§ 931-939H; see also Pub. L. No. 111-203 § 943.

<sup>6</sup> See Pub. L. No. 109-291 (2006).

<sup>7</sup> See Pub. L. No. 111-203 § 932(a)(8) adding new paragraph (s)(4)(C) to Section 15E of the Exchange Act. 15 U.S.C. 78o-7(s)(4)(C).

<sup>8</sup> See Pub. L. No. 111-203 § 932(a)(8) adding new paragraph (s)(4)(A) to Section 15E of the Exchange Act. 15 U.S.C. 78o-7(s)(4)(A).

Rule 17g-1 requires a credit rating agency to furnish an initial application on Form NRSRO.<sup>9</sup> The rule also provides that if information on the application becomes materially inaccurate before the Commission has granted or denied the application, the credit rating agency must promptly notify the Commission and amend the application with accurate and complete information by submitting an amended initial application on Form NRSRO. Rule 17g-1 also provides that a credit rating agency could withdraw its application before the Commission takes final action on it by furnishing the Commission with a written notice of withdrawal executed by a duly authorized person. Once the application has been approved, Section 15E(b)(1) of the Exchange Act requires an NRSRO to promptly amend the application if any information or document provided as part of the application becomes materially inaccurate.<sup>10</sup> Rule 17g-1 provides that an NRSRO is required to furnish the amendment to the Commission on Form NRSRO.

A credit rating agency may apply to be registered for fewer than all five categories of credit ratings described in Section 3(a)(62)(B) of the Exchange Act.<sup>11</sup> Rule 17g-1 provides that an NRSRO registered for fewer than the five categories may apply to be registered with respect to an additional category by furnishing an amended Form NRSRO and indicating where appropriate on the Form the additional category for which it is applying to be registered.

Section 15E(b)(2) of the Exchange Act requires an NRSRO to furnish the Commission with an amendment to its registration not later than 90 days after the end of each calendar year in a form prescribed by Commission rule (the “annual certification”).<sup>12</sup> This section further provides that the amendment must (1) certify that the information and documents provided in the application for registration (except the QIB certifications) continue to be accurate and (2) list any material change to the information and documents that occurred during the previous calendar year. Rule 17g-1 implements these statutory provisions by requiring an NRSRO to furnish the annual certification on Form NRSRO.

Finally, Section 15E(e)(1) of the Exchange Act provides that an NRSRO may withdraw from registration, subject to terms and conditions the Commission may establish as necessary in the public interest or for the protection of investors, by furnishing the Commission with a written notice of withdrawal.<sup>13</sup> Rule 17g-1 provides that an NRSRO must furnish the Commission with a withdrawal of registration on Form NRSRO.

#### *Change in number of respondents*

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<sup>9</sup> This provision was implemented under the Commission’s authority in Section 15E(a)(1)(A) of the Exchange Act to prescribe the form of the application (15 U.S.C. 78o-7(a)(1)(A)); see also Release No. 34-55857 (June 5, 2007), 72 FR 33564 (June 18, 2007).

<sup>10</sup> 15 U.S.C. 78o-7(b)(1).

<sup>11</sup> Section 15E(a)(1)(B)(vii) of the Exchange Act (15 U.S.C. 78o-7(a)(1)(B)(vii)) provides that a credit rating agency must submit information with its application regarding the categories of credit ratings described in Section 3(a)(62)(B) of the Exchange Act (15 U.S.C. 78c(a)(62)(B)) for which it “intends to apply for registration.”

<sup>12</sup> 15 U.S.C. 78o-7(b)(2).

<sup>13</sup> 15 U.S.C. 78o-7(e)(1).

The proposed amendments to Rule 17g-1 and the instructions for Exhibit 1 of Form NRSRO require the Commission to update the burden estimate for the instant collection. The Commission is taking this opportunity to update the PRA burden estimates to reflect what the Commission believes is a more accurate estimate of the number of credit rating agencies that have registered as NRSROs: 10 NRSROs. The reason for this change is explained fully in A.12 below.

#### Proposed Amendments to Rule 17g-1

The Commission is proposing to amend Rule 17g-1. First, to implement rulemaking specified in Section 15E(q)(2)(D) of the Exchange Act, the Commission is proposing to amend paragraph (i) of Rule 17g-1, which requires an NRSRO to make its current Form NRSRO and information and documents submitted in Exhibits 1 through 9 publicly available on its Internet website or through another comparable, readily accessible means within 10 business days of being granted an initial registration or a registration in an additional class of credit ratings, and within 10 business days of furnishing a Form NRSRO to update information on the Form, to provide the annual certification, and to withdraw a registration. The Commission's proposed amendment would require an NRSRO to make Form NRSRO and Exhibits 1 through 9 freely available on an easily accessible portion of its corporate Internet website. The proposed amendment to paragraph (i) also would remove the option for an NRSRO to make its Form NRSRO publicly available "through another comparable, readily accessible means" as an alternative to website disclosure. In addition, the Commission is proposing amending paragraph (i) to provide that Exhibit 1 of Form NRSRO (the performance measurement statistics) be made freely available in writing when requested.

Second, the Commission is proposing to amend paragraphs (e), (f), and (g) of Rule 17g-1 to require NRSROs to use the Commission's EDGAR system to electronically file Form NRSRO and Exhibits 1 through 9 with the Commission in the format required by the EDGAR Filer Manual, as defined in Rule 11 of Regulation S-T.

#### Proposed Amendments to Instructions for Exhibit 1 to Form NRSRO

The Commission is proposing to amend the instructions for Exhibit 1 to Form NRSRO. The proposed amendments would be designed to implement rulemaking specified in Section 15E(q) of the Exchange Act. In particular, the amendments would confine the disclosures in the Exhibit to transition and default rates and certain limited supplemental information. Moreover, the enhancements would standardize the production and presentation of the transition and default rates. Specifically, the amendments would require the transition and default rates in Exhibit 1 to be produced using a "single cohort approach." Under this approach, an applicant and NRSRO, on an annual basis, would be required to compute how the credit ratings assigned to obligors, securities, and money market instruments in a particular class or subclass of credit rating outstanding on the date 1, 3, and 10 years prior to the most recent calendar year-end performed during respective 1, 3, and 10 year time periods.

The proposed new instructions would be divided into paragraphs (1), (2), (3), and (4). The proposed new paragraphs would contain specific instructions with respect to, among other

things, how required information should be presented in the Exhibit (including the order of presentation) and how transition and default rates should be produced using a single cohort approach. As with all information that must be submitted in Form NRSRO and its Exhibits, applicants and NRSROs would be subject to these new requirements.

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

### *Rule 17g-1 in general*

Rule 17g-1, Form NRSRO, and the Instructions for Form NRSRO create a registration program for NRSROs. The collections of information in the rules are designed to allow the Commission to determine whether an entity should be registered as an NRSRO. Further, they 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 and Exchange Act rules.

These rules also are designed to assist users of credit ratings by requiring the disclosure of information with respect to an NRSRO that could be used to compare the credit ratings quality of different NRSROs. The information may include: methods for determining credit ratings; organizational structure; policies for managing material, non-public information; information regarding conflicts of interest; policies for managing conflicts of interest; credit analyst experience; and management experience. As noted in the Senate Report accompanying the Act, the information that NRSROs will have to make public “will facilitate informed decisions by giving investors the opportunity to compare ratings quality of different firms.”<sup>14</sup>

### *Proposed Amendments to Rule 17g-1*

The proposed amendments to paragraph (i) of Rule 17g-1 that would require an NRSRO to make Form NRSRO and Exhibits 1 through 9 freely available on an easily accessible portion of its corporate Internet website, and in writing when requested, and file the Form through the EDGAR system, are designed to make this information more readily accessible to investors and other users of credit ratings. As the Commission stated when adopting Form NRSRO, the Form will provide users of credit ratings with information that will assist them in comparing NRSROs and understanding how a given NRSRO conducts its business activities. In addition, the filing of the Form NRSROs on the EDGAR system would allow Commission examiners to more easily retrieve the submissions of a specific NRSRO to prepare for an examination. Furthermore, having the Forms filed and stored through the EDGAR system (i.e., in a centralized location), would assist the Commission from a records management perspective by establishing a more automated storage process and creating efficiencies in terms of reducing the volume of paper filings that must be manually processed and stored.

### *Proposed Amendments to Instructions for Exhibit 1 to Form NRSRO*

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<sup>14</sup> See Report of the Senate Committee on Banking, Housing, and Urban Affairs to Accompany S. 3850, Credit Rating Agency Reform Act of 2006, S. Report No. 109-326, 109<sup>th</sup> Cong., 2d Sess. (Sept. 6, 2006).

As the Commission stated when adopting Form NRSRO, the information provided in Exhibit 1 is an important indicator of the performance of an NRSRO in terms of its ability to assess the creditworthiness of issuers and obligors and, consequently, will be useful to users of credit ratings in evaluating an NRSRO.<sup>15</sup> In addition, Commission staff would use the enhanced performance statistics provided in an applicant's initial application for registration and in an NRSRO's Form NRSRO to, among other things, assess whether the applicant or NRSRO has adequate financial and managerial resources to consistently produce credit ratings with integrity. For example, statistics indicating the applicant or NRSRO is performing poorly in determining credit ratings could be an indication the applicant or NRSRO fails to maintain adequate financial and managerial resources to consistently produce credit ratings with integrity in a particular class or subclass of credit ratings. Finally, the disclosure of the enhanced performance statistics in an applicant's initial application would allow the Commission staff to verify that the applicant, if granted registration, would publicly disclose the information in accordance with the proposed amendments to the Instructions for Exhibit 1.

### **3. Consideration Given to Information Technology**

Form NRSRO is designed to be downloadable from the Commission Web site, and information could be entered on the Form and stored electronically. The Form, however, is submitted in paper format.

The Commission's proposed amendment to Rule 17g-1 would require an NRSRO to make Form NRSRO and Exhibits 1 through 9 freely available on an easily accessible portion of its corporate Internet website (and in writing when requested), and require NRSROs to use the Commission's EDGAR system to electronically file Form NRSRO and Exhibits 1 through 9 in the format required by the EDGAR Filer Manual. Thus, these proposals make use of technology to facilitate access to and maintain information. With respect to the proposal to enhance performance statistics, the new instruction paragraphs would contain specific instructions with respect to, among other things, how required information should be presented in the Exhibit (including the order of presentation) and how transition and default rates should be produced using a single cohort approach. The SEC anticipates that information technology can be used to produce these enhanced performance statistics.

### **4. Duplication**

The SEC has not identified any duplication with respect to the information required by Rule 17g-1 and Form NRSRO. Further, to the extent that the proposed rule amendments to Exhibit 1 of Form NRSRO would confine the disclosures in the Exhibit to transition and default rates and certain limited supplemental information, and standardize the production and presentation of transition and default rates, the SEC anticipates that this proposal would

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<sup>15</sup> See Oversight of Credit Rating Agencies Registered as Nationally Recognized Statistical Rating Organizations, 72 FR at 33574 (June 18, 2007); see also Amendments to Rules for Nationally Recognized Statistical Rating Organizations, 74 FR at 6474 (February 9, 2009) ("The amendments to the instructions to Exhibit 1 to Form NRSRO will require NRSROs to provide more detailed performance statistics and, thereby, make it easier for users of credit ratings to compare the performance of the NRSROs.").

eliminate overlapping and potentially unnecessary rating disclosure, and thus reduce duplication.

## **5. Effect on Small Entities**

The Commission solicited comment on whether small entities would be affected by the proposed rule. The Commission staff preliminarily that there could be three NRSROs that are considered small entities.

## **6. Consequences of Not Conducting Collection**

If the Commission does not adopt the proposal, it could be in violation of Section 15E(q)(2)(d) of the Exchange Act, which requires that the Commission's rules under that subsection require disclosures that are published and made freely available by the NRSRO on an easily accessible portion of its website and in writing when requested. The proposed amendments are also designed to implement rulemaking specified in Section 15E(q) of the Exchange Act

## **7. Inconsistencies with Guidelines in 5 CFR 1320.8(d)**

The Commission has reviewed its collection responsibilities and does not believe there are any inconsistencies with the guidelines set forth in 5 CFR 1320.8(d).

## **8. Consultations Outside the Agency**

The Commission has issued a release soliciting comment on the new "collection of information" requirements and associated paperwork burdens. A copy of the release is attached. Comments on Commission releases are generally received from registrants, investors, and other market participants. In addition, the Commission and staff participate in ongoing dialogue with representatives of various market participants through public conferences, meetings and informal exchanges. Any comments received on this proposed rulemaking will be posted on the Commission's public website, and made available through <http://www.sec.gov/rules/proposed.shtml>. The Commission will consider all comments received prior to publishing the final rule, and will explain in any adopting release how the final rule responds to such comments, in accordance with 5 C.F.R. 1320.11(f).

## **9. Payment or Gift**

The Commission did not provide any payment or gift to respondents in connection with the proposed rulemaking.

## **10. Confidentiality**

The confidentiality of the information submitted to the Commission in the reports required under the proposed rule will be protected only to the extent permitted by FOIA.

## **11. Sensitive Questions**

The Commission's proposal should not result in the Commission receiving sensitive information. To the extent that the Commission receives information that is sensitive to an NRSRO, the Commission will protect the confidentiality of such information to the extent permitted by FOIA.

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

The burden associated with Rule 17g-1 and Form NRSRO are reporting burdens.

### *Change in the number of respondents:*

In adopting the first rules under the Rating Agency Act, the Commission estimated that approximately 30 credit rating agencies ultimately would be registered as NRSROs.<sup>16</sup> There are currently nine NRSROs registered with the Commission.<sup>17</sup> 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 would be impacted by this information collection. Because the Commission is changing the number of respondents from 30 to 10, the Commission is also adjusting the other burden estimates to reflect 10 instead of 30 NRSROs.

The Commission estimates that the average time necessary to complete the initial Form NRSRO, and compile the various attachments, will be approximately 300 hours per applicant. This estimate is based on staff experience with the current NRSRO no-action letter process.<sup>18</sup> The Commission therefore estimates that the total one-time reporting burden to the industry as a result of this requirement will be approximately 3,000 hours.<sup>19</sup>

As noted, Rule 17g-1 requires a credit rating agency to provide the Commission with a written notice if it intends to withdraw its application prior to final Commission action. Based on staff experience, the Commission estimates that one credit rating agency per year will withdraw a Form NRSRO prior to final Commission action on the application and, consequently, will furnish a notice of its intent to withdraw the application. Based on the Commission's current estimates for a broker-dealer to file a notice with the Commission under Rule 17a-11, the Commission estimates the average reporting burden to an NRSRO to furnish the notice of withdrawal will be one hour.<sup>20</sup> Thus, the Commission estimates that the aggregate ongoing

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<sup>16</sup> See Oversight of Credit Rating Agencies Registered as Nationally Recognized Statistical Rating Organizations, 72 FR at 33607 (June 18, 2007).

<sup>17</sup> A.M. Best Company, Inc., DBRS Ltd., Egan-Jones Rating Company, Fitch, Inc., Japan Credit Rating Agency, Ltd., Kroll Bond Rating Agency, Inc. (formerly LACE Financial Corp.); Moody's Investors Service, Inc., Realpoint LLC, and Standard & Poor's Ratings Services.

<sup>18</sup> As a comparison, the Commission notes that Form ADV, the registration form for investment advisers, is estimated to take approximately 22.25 hours to complete. See Investment Advisor Act of 1940 Release No. 2266 (July 20, 2004). The Commission estimates that the hour burden under Rule 17g-1 will be greater, given the substantially larger amount of information that will be required in Form NRSRO.

<sup>19</sup> 300 hours x 10 entities = 3,000 hours.

<sup>20</sup> See Exchange Act Release No. 49830 (June 8, 2004), at note 89; see also 17 CFR 240.17a-11.

reporting burden to the industry of providing a notice of withdrawal prior to final Commission action will be one hour per year.<sup>21</sup>

Rule 17g-1 also provides that an NRSRO registered for fewer than the five categories of credit ratings listed in Section 3(a)(62)(B) of the Exchange Act could apply to be registered for an additional category by furnishing an amendment on Form NRSRO.<sup>22</sup> The Commission estimates that it will take an NRSRO substantially less time to update the Form NRSRO for this purpose than to prepare the initial application. For example, much of the information on the Form and many of the exhibits will still be current and not have to be updated. Based on the Commission's estimate of the reporting burden to complete a Form ADV, the Commission estimates that filing an amended Form NRSRO for this purpose will take an average of approximately 25 hours.<sup>23</sup>

The Commission further estimates based on staff experience that approximately five of the ten credit rating agencies expected to register with the Commission will apply to register for additional categories of credit ratings within the first year. The Commission believes that almost all NRSROs will initially apply to register for the first three categories of credit ratings identified in the definition of NRSRO: (1) financial institutions, brokers, or dealers; (2) insurance companies; and (3) corporate issuers.<sup>24</sup> The Commission believes these are the most common types of credit ratings issued, particularly since some credit rating agencies limit their credit ratings to domestic companies. The Commission believes that, after these three categories, the next largest category of credit ratings for which most NRSROs will register will be credit ratings with respect to issuers of government securities, municipal securities, and foreign government securities.<sup>25</sup> These types of credit ratings require expertise beyond that required for the first three categories of credit ratings. Finally, the Commission believes the category of credit ratings for which the least number of NRSROs will register will be credit ratings of issuers of asset-backed securities (as that term defined in 17 CFR 229.1101(c)).<sup>26</sup> This assumption is based on the fact that determining a credit rating for an asset-backed security takes specialized expertise beyond that required for determining credit ratings of corporate issuers and obligors. For example, it requires analysis of complex legal structures.

For these reasons, the Commission anticipates that a number of NRSROs may register for less than all five categories of credit ratings. Moreover, some of these NRSROs, in time, may develop their businesses to include issuing credit ratings for a category for which they are not initially registered. Based on staff experience, the Commission estimates that approximately five of the estimated 10 NRSROs will apply to add another category of credit ratings to their registration within the first year. Therefore, given the 25 hour average reporting burden estimate, the total aggregate one-time reporting burden to the industry for filing the amended Form NRSROs to change the scope of registration will be approximately 125 hours.<sup>27</sup>

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<sup>21</sup> 1 hour x 1 entity = 1 hour.

<sup>22</sup> See Rule 17g-1(e).

<sup>23</sup> As noted above, the Commission's burden estimate for Form ADV is approximately 22.25 hours to complete. See Investment Advisor Act of 1940 Release No. 2266 (July 20, 2004).

<sup>24</sup> Section 3(a)(62)(B)(i)-(iii) of the Exchange Act (15 U.S.C. 78c(a)(62)(B)(i)-(iii)).

<sup>25</sup> Section 3(a)(62)(B)(v) of the Exchange Act (15 U.S.C. 78c(a)(62)(B)(v)).

<sup>26</sup> Section 3(a)(62)(B)(iv) of the Exchange Act (15 U.S.C. 78c(a)(62)(B)(iv)).

<sup>27</sup> 25 hours x 5 NRSROs = 125 hours.



Section 15E(b)(1) of the Exchange Act requires an NRSRO to promptly amend its application for registration if any information or document provided in the application becomes materially inaccurate. Rule 17g-1 requires an NRSRO to comply with this statutory requirement by furnishing the amendment on Form NRSRO. Based on staff experience, the Commission estimates that an NRSRO will file two amendments of its Form NRSRO per year on average. Furthermore, for the reasons discussed above, the Commission estimates that it will take an average of approximately 25 hours to prepare and furnish an amendment on Form NRSRO.<sup>28</sup> Therefore, the Commission estimates that the total aggregate ongoing reporting burden to the industry to update Form NRSRO will be approximately 500 hours each year.<sup>29</sup>

Section 15E(b)(2) of the Exchange Act requires an NRSRO to furnish an annual certification.<sup>30</sup> Rule 17g-1 requires an NRSRO to furnish the annual certification on Form NRSRO.<sup>31</sup> The Commission estimates that the annual certification, generally, will take less time than an amendment to Form NRSRO because it will be done on a regular basis (yearly) and, therefore, become routine over time. Consequently, the Commission estimates that the reporting burden will be similar to that for broker-dealers filing the quarterly reports required under Rules 17h-1T and 17h-2T, which is approximately 10 hours per year for each respondent.<sup>32</sup> Therefore, the Commission estimates it will take an NRSRO approximately 10 hours to complete the annual certification, for a total aggregate ongoing hour reporting burden to the industry of 100 hours.<sup>33</sup>

Rule 17g-1 requires an NRSRO to furnish the Commission with a withdrawal of registration on Form NRSRO.<sup>34</sup> Based on staff experience, the Commission estimates that one NRSRO per year will withdraw its registration. Further, the instructions to Form NRSRO provide that only the items on the Form need be completed in the case of a withdrawal; an NRSRO will not need to update or attach any of the information required in the Exhibits. Based on current estimates for a broker-dealer to file a notice under Rule 17a-11, the Commission estimates the average reporting burden to an NRSRO to furnish the notice of withdrawal will be one hour.<sup>35</sup> Thus, the Commission estimates that the aggregate ongoing reporting burden to the industry of providing a notice of withdrawal prior to final Commission action will be one hour per year.<sup>36</sup>

Section 15E(a)(3) of the Exchange Act requires an NRSRO to make the information and documents submitted in its application publicly available on its Web site or through another comparable readily accessible means.<sup>37</sup> Rule 17g-1 requires that this be done within 10 business days of the granting of an NRSRO's registration or the furnishing of an amendment or an annual

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<sup>28</sup> This estimate also is based on the estimates for the collection of information on Rule 17i-2 of the Exchange Act. See 17 CFR 240.17i-2.

<sup>29</sup> 25 hours per amendment x 2 amendments x 10 NRSROs = 500 hours.

<sup>30</sup> 15 U.S.C. 78o-7(b)(2).

<sup>31</sup> See Rule 17g-1(g).

<sup>32</sup> See 17 CFR 240.17h-1T and 2T.

<sup>33</sup> 10 hours x 10 NRSROs = 100 hours.

<sup>34</sup> See paragraph (g) of Rule 17g-1.

<sup>35</sup> See Exchange Act Release No. 49830 (June 8, 2004); see also 17 CFR 240.17a-11.

<sup>36</sup> 1 hour x 1 entity = 1 hour.

<sup>37</sup> 15 U.S.C. 78o-7(a)(3).

certification.<sup>38</sup> The Commission assumes that each NRSRO already will have a Web site and will choose to use its Web site to comply with Section 15E(a)(3). Therefore, based on staff experience, the Commission estimates that, on average, an NRSRO will spend 30 hours to disclose the information in its initial application on its Web site and, thereafter, 10 hours per year to disclose updated information. Accordingly, the total aggregate one-time third party disclosure burden to the industry to make Form NRSRO publicly available will be 300 hours<sup>39</sup> and the total aggregate ongoing third party disclosure burden in subsequent years will be 100 hours.<sup>40</sup>

The Commission estimates that the average time necessary for an applicant or NRSRO to gather the information on a one-time basis in order to complete the additional reporting disclosures required by the amendments to Exhibit 2 to Form NRSRO will be 100 hours per NRSRO, which will be a one-time hour reporting burden to the industry of 1,000 hours.<sup>41</sup>

Based on staff experience, the Commission estimates that the average time necessary for an applicant or NRSRO to gather the information for the first time in order to complete the additional disclosures that would be required by the proposed amendments to Exhibit 6 to Form NRSRO would be 25 hours per NRSRO, which would be a one-time hour burden to the industry of 250 hours.<sup>42</sup> In addition, the Commission estimates that the additional disclosures proposed to be contained in Instructions to Exhibit 6 to Form NRSRO, the ongoing hour burden for each NRSRO to complete the annual certification would increase 2 hours per year, from 10 to 12 hours, for a total aggregate ongoing hour reporting burden of 120 hours, resulting in an increase to the estimated ongoing hour burden for Rule 17g-1 and Form NRSRO of 20 hours.<sup>43</sup>

The Commission therefore estimates that the total one-time burden as a result of Rule 17g-1 and Form NRSRO will be 4,675 hours ( $3,000 + 125 + 300 + 1,000 + 250 = 4,675$ ).<sup>44</sup> The Commission also estimates that the total ongoing burden will be 722 hours ( $1 + 500 + 100 + 1 + 100 + 120 = 822$ ).

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<sup>38</sup> See Rule 17g-1(f).

<sup>39</sup> 30 hours x 10 NRSROs.

<sup>40</sup> 10 hours x 10 NRSROs.

<sup>41</sup> 100 hours x 10 NRSROs = 1,000 hours. See *supra* note 3.

<sup>42</sup> 10 NRSROs x 25 hours = 250 hours. The Commission also notes that the currently approved PRA collection for Rule 17g-1 and Form NRSRO includes an estimate that an outside counsel would spend approximately 40 hours assisting a credit rating agency in the process of completing and furnishing a Form NRSRO to the Commission. June 2007 Adopting Release, 72 FR at 33608. The Commission believes that any outside counsel review of the amendments to Exhibit 6 to Form NRSRO would de minimis and therefore the current estimate remains accurate.

<sup>43</sup> 12 hours x 10 NRSROs = 120 hours. The Commission also based this estimate, in part, on the time it would take an NRSRO to furnish a withdrawal of registration on Form NRSRO of 1 hour. June 2007 Proposing Release, 72 FR at 33608-33609. However, because the NRSRO would have to update information for calculations with respect to its revenues, the Commission believes it would take an NRSRO longer than 1 hour. Therefore, the Commission preliminarily believes that it would take an NRSRO approximately 2 hours each year to update the proposed information.

<sup>44</sup> For the purposes of the PRA submission, this one-time cost will be amortized over the three year approval period prior to the expiration and renewal of this collection of information.

Proposed Amendments to Rule 17g-1

The Commission proposes amending paragraph (i) of Rule 17g-1 to require that an NRSRO make Form NRSRO and Exhibits 1 through 9 freely available on an easily accessible portion of its corporate Internet website. The proposed amendment would remove the option for an NRSRO to make the Form publicly available “through another comparable, readily accessible means” as an alternative to Internet website disclosure. The Commission preliminarily estimates that there would be a minimal one-time hour reporting burden attributable to requiring that an NRSRO make Form NRSRO and Exhibits 1 through 9 freely available on an easily accessible portion of its corporate Internet website and removing the option for an NRSRO to make its Form NRSRO and Exhibits 1 through 9 available through another comparable, readily accessible means. Currently, all NRSROs make Form NRSRO and Exhibits 1 through 9 available on their corporate Internet websites.<sup>45</sup> However, as noted earlier, the Commission preliminarily believes that a Form NRSRO and Exhibits 1 through 9 would be “easily accessible” if they could be accessed through a clearly and prominently labeled hyperlink on the home page of the NRSRO’s corporate Internet website. All NRSROs would need to make changes to their corporate Internet websites to place clearly and prominently labeled hyperlinks on the websites to Form NRSRO and Exhibits 1 through 9. Based on staff experience, the Commission estimates that re-configuring a corporate Internet website for this purpose would take an average of approximately 5 hours. For these reasons, the Commission estimates that the proposed requirement would result in an average one-time hour third party disclosure burden to each NRSRO of approximately 5 hours, resulting in an average one-time industry-wide hour burden of approximately 50 hours.<sup>46</sup> The Commission estimates that NRSROs would prepare these responses internally using their own corporate Internet website administrators. The Commission preliminarily does not believe the proposed requirement would result in an increase in the industry-wide ongoing hour burden attributable to Rule 17g-1 and Form NRSRO.

The Commission also is proposing to amend paragraph (i) of Rule 17g-1 to require that Exhibit 1 be made freely available in writing when requested. This would implement rulemaking mandated in Section 15E(q)(2)(D) of the Exchange Act. With respect to making Exhibit 1 freely available in writing, the Commission notes that, under the proposed amendments to paragraph (i) of Rule 17g-1, Form NRSRO and Exhibits 1 through 9 would need to be made freely available on an easily accessible portion of the NRSRO’s corporate Internet website. Moreover, as noted above, NRSROs currently comply with paragraph (i) of Rule 17g-1 by making their Form NRSROs and Exhibits 1 through 9 available on their corporate Internet websites. Consequently, an individual with access to the Internet and a printer can (and would be able to) obtain Exhibit 1 immediately through the Internet and could print the Exhibit if the individual wanted to have it in paper form. Therefore, the Commission estimates that the instances in which an individual would request an NRSRO to provide a written copy of Exhibit 1 would be rare. For example, the individual would need to wait for the request to be processed by the NRSRO and the Exhibit to arrive by mail as opposed to accessing it immediately via the Internet. Nonetheless, the Commission estimates that some individuals may request an NRSRO to provide Exhibit 1 in writing.

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<sup>45</sup> See, e.g., Annual Report on Nationally Recognized Statistical Rating Organizations. Commission (Jan. 2011), pp. 18-19.f

<sup>46</sup> 10 NRSROs x 5 hours = 50 hours.

The Commission preliminarily estimates that the proposed requirement would result in a one-time reporting burden to each NRSRO as they would need to establish procedures and protocols for receiving and processing these requests. Based on staff experience, the Commission estimates that each NRSRO would spend an average of approximately 48 hours establishing such procedures and protocols, resulting in an average industry-wide one-time third party burden of approximately 480 hours.<sup>47</sup>

In terms of ongoing hour burden, the Commission notes it is difficult to quantify the number of requests an NRSRO would receive each year. However, the Commission preliminarily estimates each NRSRO would an average receive of approximately 200 requests per year and would spend an average of 20 minutes processing each request. The estimate of 200 requests is intended to serve as a “placeholder” for PRA purposes and the Commission will revise this estimate based on information provided by NRSROs and other commenters. For these reasons, the Commission estimates that the average ongoing reporting burden to each NRSRO would be approximately 67 hours,<sup>48</sup> resulting in a total industry-wide ongoing third party disclosure burden of approximately 670 hours.<sup>49</sup> The Commission estimates that NRSROs would prepare these responses internally.

The Commission also is proposing to amend paragraphs (e), (f), and (g) of Rule 17g-1 to require that an NRSRO use the Commission’s EDGAR system to electronically submit Form NRSRO and Exhibits 1 through 9 with the Commission pursuant to these paragraphs in the format required by the EDGAR Filer Manual, as defined in Rule 11 of Regulation S-T.<sup>50</sup> NRSROs currently submit these documents to the Commission in paper form.

The Commission preliminarily estimates that each NRSRO would spend an average of approximately 5 hours (reporting burden) becoming familiar with the EDGAR filing system and completing and submitting Form ID, which is necessary to access the system. The Commission preliminarily estimates that the one-time reporting burden for each NRSRO to complete Form ID would be 15 minutes. The Commission is proposing that the Rule 17g-3 ongoing report also be submitted using the EDGAR system.<sup>51</sup> The Commission’s preliminary estimate of 5 hours to become familiar with the EDGAR system would include developing an understanding of how to use the system for both submitting Form NRSROs and submitting the Rule 17g-3 ongoing reports. The Commission is allocating this one-time hour burden and corresponding cost to Rule 17g-1. However, because the hour burden of 15 minutes for Form ID is addressed in a separate PRA analysis, the Commission estimates that each NRSRO would spend an average of 4.75 hours becoming familiar with how to use the EDGAR system, resulting in an industry-wide one-time reporting burden of approximately 47.5 hours.<sup>52</sup>

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<sup>47</sup> 10 NRSROs x 48 hours = 480 hours.

<sup>48</sup> 200 requests x 20 minutes per request = 67 hours per year.

<sup>49</sup> 10 NRSROs x 67 hours per year = 670 hours per year.

<sup>50</sup> See proposed amendments to paragraphs (e), (f), and (g) of Rule 17g-1.

<sup>51</sup> See proposed amendments to Regulation S-T and Rule 17g-3.

<sup>52</sup> 10 NRSROs x 4.75 hours = 47.5 hours.

The Commission does not believe changing the method of submitting Form NRSRO and Exhibits 1 through 9 from a paper submission to an electronic submission would increase the current ongoing hour burden for Rule 17g-1. For example, the Commission does not believe the amount of time it currently takes an NRSRO to gather these materials and send them to the Commission's headquarters by mail, messenger, or hand-delivery by a representative of the NRSRO would take less time than submitting them electronically through the EDGAR system.

For the foregoing reasons, the Commission estimates that the total industry-wide one-time hour burden resulting from the proposed amendments to Rule 17g-1 would be approximately 577.5 hours<sup>53</sup> and the total industry-wide ongoing burden would be approximately 670 hours.

#### Proposed Amendments to Form NRSRO Instructions

The Commission is proposing to amend the instructions for Exhibit 1 to Form NRSRO.<sup>54</sup> The amendments would confine the disclosures in the Exhibit to transition and default rates and certain limited supplemental information.<sup>55</sup> Moreover, the amendments would standardize the production and presentation of the transition and default statistics. As discussed below, the Commission preliminarily estimates that these proposals would result in additional one-time and ongoing reporting burdens for NRSROs.

The Commission notes that an NRSRO currently is required to provide transition and default rates in Exhibit 1 for each class of credit rating for which it is registered and for 1, 3, and 10-year periods. The Commission preliminarily estimates that an NRSRO would use the internal information technology systems and expertise and other resources it currently devotes to processing the information necessary to monitor credit ratings and calculate transition and default statistics in order to program a system to comply with the proposed amendments to the Instructions for Exhibit 1. At the same time, the Commission notes that, under the proposed amendments, NRSROs would be required to adhere to specific requirements that may not be the same as their current methods for calculating and presenting transition and default rates. Consequently, the Commission preliminarily estimates that the proposed amendments requiring standardized Transition/Default Matrices would result in a one-time hour burden to program existing systems to create the Transition/Default Matrices that would be required under the proposed amendments and an increase in the ongoing hour burden to comply with the proposed instructions to Exhibit 1.

As noted above, the size and complexity of the NRSROs varies greatly. The magnitude of this variance is reflected in the number of credit ratings each NRSRO has outstanding. For example, two NRSROs have over 1,000,000 credit ratings outstanding in the classes of credit ratings for which they are registered; others have fewer than 1,000 such ratings.<sup>56</sup> The hour burden associated with calculating and presenting these performance statistics would depend in large part on the number of obligors, securities, and money market instruments assigned credit

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<sup>53</sup> 480 hours + 50 + 47.5 hours = 577.5 hours.

<sup>54</sup> See Instruction H to Form NRSRO (as it relates to Exhibit 1).

<sup>55</sup> See proposed amendments to the instructions for Exhibit 1 to Form NRSRO (17 CFR 249b.300).

<sup>56</sup> Id.

ratings by the NRSRO.<sup>57</sup> Consequently, the one-time and ongoing burdens per NRSRO would vary widely.

In order to account for this variance, the Commission preliminarily believes that the one-time and ongoing hour burden estimates should be based on the number of credit ratings outstanding. Based on the annual certifications submitted by the NRSROs for the 2009 calendar year-end, there were approximately 2,905,824 credit ratings outstanding across all 10 NRSROs.<sup>58</sup> The Commission preliminarily estimates that the one-time industry-wide hour reporting burden to establish systems to process the relevant information necessary to calculate the Transition/Default Matrices and make the necessary calculations would be approximately 3 seconds per outstanding credit rating, which would result in a one-time industry-wide hour reporting burden of approximately 2,420 hours.<sup>59</sup> Moreover, because of the wide variance in the number of credit ratings outstanding among the NRSROs, the Commission preliminarily estimates that this one-time hour burden of 2,420 hours would be allocated to the 10 NRSROs based on the number of credit ratings each has outstanding (although larger NRSROs may realize economies of scale). For example, the two largest NRSROs had just over 1,000,000 credit ratings outstanding, the next largest had approximately 500,000 credit ratings outstanding, and the remaining 7 NRSROs had amounts ranging from 42,930 credit ratings outstanding to 982 credit ratings outstanding.

The Commission preliminarily believes that the ongoing reporting burden to comply with the proposed amendments to the Instructions for Exhibit 1 would be less than the one-time reporting burden since the NRSROs would have established systems to process the necessary information to produce the required Transition/Default Matrices. Consequently, the Commission preliminarily estimates that the ongoing reporting burden to each NRSRO to calculate the Transition/Default Matrices would be approximately 1.5 seconds per outstanding credit rating, resulting in an industry-wide ongoing reporting burden of approximately 1,210 hours.<sup>60</sup> Moreover, although larger NRSROs may realize economies of scale, the Commission preliminarily estimates that the industry-wide ongoing hour burden of 1,210 hours would be allocated to each NRSRO based on the number of credit ratings the firm had outstanding.

For the foregoing reasons, the Commission estimates that the total industry-wide one-time reporting burden resulting from the proposed amendments to the instructions for Exhibit 1

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<sup>57</sup> For example, the applicant or NRSRO, in producing a Transition/Default Matrix, would need to determine a start-date cohort consisting of the obligors, securities, and money market instruments in the applicable class or subclass of credit ratings that were assigned a credit rating that was outstanding as of the start date for the applicable period (*i.e.*, the date 1, 3, or 10 years prior to the most recently ended calendar year). The applicant or NRSRO also would need to group the obligors, securities, and money market instruments in the start-date cohort based on the credit rating assigned to them as of the start date and determine the outcome for each such obligor, security, and money market instrument in the group during, or as of the end of, the relevant period. This exercise would be more time-consuming for an NRSRO that has over 1,000,000 credit ratings outstanding than for an NRSRO that has fewer than 10,000 credit ratings outstanding (2 NRSROs have over 1,000,000 credit ratings outstanding and 5 NRSROs have fewer than 10,000 credit ratings outstanding).

<sup>58</sup> *Id.*

<sup>59</sup> 2,905,824 credit ratings x 3 seconds = 2,421.52 hours (rounded to 2,420 hours).

<sup>60</sup> 2,905,824 credit ratings x 1.5 seconds = 1,210.76 hours (rounded to 1,210 hours).

to Form NRSRO would be approximately 2,420 hours and the total industry-wide ongoing reporting burden would be approximately 1,210 hours.

Therefore, prior to giving effect to the amendments to paragraph (i) of Rule 17g-1 and the instructions to Exhibit 1 of Form NRSRO, but after giving effect to the downward revision in the estimated number of NRSROs from 30 to 10, the revised total one-time burden for Rule 17g-1 and Form NRSRO is 4,675 hours (3,000 + 125 + 300 + 1,000 + 250), and the revised total ongoing burden is 722 hours (1 + 500 + 100 + 1 + 100 + 20). After giving effect to the amendments to paragraph (i) of Rule 17g-1 and the instructions to Exhibit 1 to Form NRSRO, the revised total one-time burden for Rule 17g-1 and Form NRSRO is 7,672.5 hours (4,675 + 577.5 + 2,420) and the revised ongoing burden is 2,602 hours (722 + 670 + 1,210).

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

The Commission anticipates that an NRSRO likely will engage outside counsel to assist it in the process of completing and submitting a Form NRSRO. The amount of time an outside attorney will spend on this work will depend on the size and complexity of the NRSRO. The Commission estimates that, on average, an outside counsel will spend approximately 40 hours assisting an NRSRO in preparing its application for registration, for a one-time aggregate burden to the industry of 400 hours. The Commission further estimates that this work will be split between a partner and an associate, with an associate performing a majority of the work. The Commission estimates that the average hourly cost for an outside counsel will be approximately \$400 per hour. The Commission therefore estimates that the average one-time cost to an NRSRO will be \$16,000<sup>61</sup> and the one-time cost to the industry will be \$160,000.<sup>62</sup> (For the purposes of the PRA submission, this one-time cost will be amortized over the three year approval period prior to the expiration and renewal of this collection of information  $\$160,000/3 = \$53,333$ .)

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

Rule 17g-1 sets forth a number of events that would trigger the filing of a new or updated Form NRSRO. Thus, cost to the Federal Government will be variable depending upon factors including but not limited to the number of credit rating agencies that determine to register as NRSROs and the number of updates that NRSROs file with the Commission. At a minimum, the Commission estimates that 10 current NRSROs will each file an annual certification on Form NRSRO and that one staff attorney will spend approximately two hours reviewing each annual certification, or 20 hours total. The Commission estimates the hourly cost of a staff attorney at \$65 per hour, which amounts to \$1,300, but for purposes of this PRA submission, this internal staff labor is not included as a cost to the federal government, so this cost is \$0.

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

The amendments to paragraph (i) of Rule 17g-1 and the instructions to Exhibit 1 of Form NRSRO would result in a one-time increase of 2,597.5 hours, and an ongoing increase of 1,880 hours. As described more fully in paragraph 12, there are two reasons for the change in burden:

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<sup>61</sup> \$400 per hour x 40 hours = \$16,000.

<sup>62</sup> \$16,000 x 10 NRSROs = \$160,000.

(1) the SEC's adjustment of the estimated number of NRSROs from 30 to 10; and (2) proposed rule amendments to Rule 17g-1 and the Instructions to Form NRSRO.

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

The Commission does not anticipate any complex analytical techniques to be used in connection with the proposed rule.

**17. OMB Expiration Date Display Approval**

We request authorization to omit the expiration date on the electronic version of the form, although the OMB control number will be displayed. Including the expiration date on the electronic version of the form will result in increased costs, because the need to make changes to the form may not follow the application's scheduled version release dates.

**18. Exceptions to Certification for Paperwork Reduction Act Submissions**

Not applicable because no exceptions to certification are contained in the proposed rule.

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

This collection does not involve statistical methods or analyze the information for the agency.