

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

This submission is being made pursuant to the Paperwork Reduction Act of 1995, 44 U.S.C. Section 3501 et seq. (“PRA”).

A. JUSTIFICATION

1. Necessity of Information Collection

The Credit Rating Agency Reform Act of 2006¹ (“Rating Agency Act”), enacted on September 29, 2006, defined the term “nationally recognized statistical rating organization,” or “NRSRO” and provided authority for the Securities and Exchange Commission (“Commission”) to implement registration, recordkeeping, financial reporting, and oversight rules with respect to credit rating agencies registered with the Commission as NRSROs. The Rating Agency Act added a new Section 15E² to the Securities Exchange Act of 1934 (“Exchange Act”).

Section 15E(h)(1) of the Exchange Act requires an NRSRO to establish, maintain, and enforce written policies and procedures reasonably designed, taking into consideration the nature of the business of the NRSRO and affiliated persons and affiliated companies, to address and manage any conflicts of interest that can arise from such business.³ Section 15E(h)(2) of the Exchange Act 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.⁴ The Commission adopted, and subsequently amended, Rule 17g-5⁵ pursuant, in part, to section 15E(h)(2) of the Exchange Act.⁶

Rule 17g-5 requires the disclosure of and establishment of procedures to manage certain NRSRO conflicts of interest, prohibits certain other NRSRO conflicts of interest, and contains requirements regarding the disclosure of information in the case of the conflict of interest of an NRSRO issuing or maintaining a credit rating on an asset-backed security that was paid for by the issuer, sponsor, or underwriter of the security.

¹ Pub. L. No. 109-291.

² 15 U.S.C. 78o-7.

³ 15 U.S.C. 78o-7(h)(1).

⁴ 15 U.S.C. 78o-7(h)(2).

⁵ 17 CFR 240.17g-5. The OMB Control Number for Rule 17g-5 is 3235-0649.

⁶ See Oversight of Credit Rating Agencies Registered as Nationally Recognized Statistical Rating Organizations, Exchange Act Release No. 55857 (June 5, 2007), 72 FR 33564, 33595-33599 (June 18, 2007); Amendments to Rules for Nationally Recognized Statistical Rating Organizations, Exchange Act Release No. 59342 (Feb. 2, 2009) 74 FR 6456, 6465-6469 (Feb. 9, 2009); Amendments to Rules for Nationally Recognized Statistical Rating Organizations, Exchange Act Release No. 61050 (Nov. 23, 2009), 74 FR 63832, 63842-63850 (Dec. 4, 2009).

Title IX, Subtitle C of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”),⁷ “Improvements to the Regulation of Credit Rating Agencies,” among other things, establishes new self-executing requirements applicable to NRSROs, requires certain studies,⁸ and requires that the Commission adopt rules applicable to NRSROs in a number of areas.⁹

Section 932(a)(4) of the Dodd-Frank Act added paragraph (3) to section 15E(h) of the Exchange Act.¹⁰ Section 15E(h)(3)(A) of the Exchange Act provides that the Commission shall issue rules to prevent the sales and marketing considerations of an NRSRO from influencing the production of credit ratings by the NRSRO.¹¹ Section 15E(h)(3)(B)(i) of the Exchange Act requires that the Commission’s rules shall provide for exceptions for small NRSROs with respect to which the Commission determines that the separation of the production of credit ratings and sales and marketing activities is not appropriate.¹² Section 15E(h)(3)(B)(ii) of the Exchange Act requires that the Commission’s rules shall provide for the suspension or revocation of the registration of an NRSRO if the Commission finds, on the record, after notice and opportunity for a hearing, that: (1) the NRSRO has committed a violation of a rule issued under section 15E(h) of the Exchange Act; and (2) the violation affected a rating.¹³ On May 18, 2011, the Commission proposed for comment amendments to existing rules, including Rule 17g-5, and new rules in accordance with Title IX, Subtitle C of the Dodd-Frank Act and to enhance oversight of NRSROs.¹⁴ On August 27, 2014, the Commission adopted amendments to Rule 17g-5, in part to implement sections 15E(h)(3)(A), 15E(h)(3)(B)(i), and 15E(h)(3)(B)(ii) of the Exchange Act.¹⁵ The Adopting Release, unlike the Proposing Release, does contain estimates of the PRA burdens associated with Rule 17g-5.¹⁶

⁷ Pub. L. No. 111-203, 124 Stat. 1376, H.R. 4173 (July 21, 2010).

⁸ See Pub. L. No. 111-203, 939, 939D - 939F.

⁹ See Pub. L. No. 111-203, 931-939H; see also Pub. L. No. 111-203 § 943.

¹⁰ See Pub. L. No. 111-203, 932(a)(4); 15 U.S.C. 78o-7(h)(3).

¹¹ 15 U.S.C. 78o-7(h)(3)(A).

¹² 15 U.S.C. 78o-7(h)(3)(B)(i).

¹³ 15 U.S.C. 78o-7(h)(3)(B)(ii).

¹⁴ See Nationally Recognized Statistical Rating Organizations, Exchange Act Release No. 64514 (May 18, 2011), 76 FR 33420 (June 8, 2011) (“Proposing Release”).

¹⁵ See Nationally Recognized Statistical Rating Organizations, Exchange Act Release No. 72936 (Aug. 27, 2014), 79 FR 55077 (Sep. 15, 2014) (“Adopting Release”)

¹⁶ In the Proposing Release, the Commission indicated that the proposed amendments to Rule 17g-5 “do not contain a collection of information requirement within the meaning of the PRA.” See Proposing Release, 76 FR at 33490. Since that time, the Commission has carefully re-considered the operation of these rules and has determined that these amendments would in fact supplement and modify the existing collection of information contained in Rule 17g-5. Accordingly, the Commission included PRA estimates in the Adopting Release. Because of this revised approach, this supporting statement includes PRA burdens that have not previously been reviewed by the Office of Management and Budget (“OMB”). Because a PRA submission was not made to OMB following publication of the Proposing Release, the Commission is requesting approval of the revised collection of information for a six-month period under the emergency review process. Approval of this request would be consistent with the effective date of the

The final rules amend the collection of information included in Rule 17g-5 in three ways. First, the Commission added paragraph (a)(3)(iii)(E) to Rule 17g-5 to require an NRSRO to obtain a representation from the issuer, sponsor, or underwriter of an asset-backed security that the issuer, sponsor, or underwriter will post on the website referred to in paragraph (a)(3)(iii) of Rule 17g-5 (“Rule 17g-5 website”), promptly after receipt, any executed Form ABS Due Diligence-15E delivered by a person employed to provide third-party due diligence services with respect to the security or money market instrument. This disclosure requirement involves a collection of information within the meaning of the PRA. This requirement was not included in the Commission’s May 18, 2011 proposal, but was included in the final rule in response to comment received from the public on the proposal. The requirement is designed to provide for the prompt posting of Form ABS Due Diligence-15E to the Rule 17g-5 website so that other NRSROs can have access to it contemporaneously with an NRSRO that knew the third party was performing due diligence and requested that the form be delivered upon completion of the services.

Second, the Commission added paragraph (c)(8) to Rule 17g-5 to prohibit an NRSRO from issuing or maintaining a credit rating where a person within the NRSRO who participates in determining or monitoring the credit rating, or developing or approving procedures or methodologies used for determining the credit rating, including qualitative and quantitative models, also: (1) participates in sales or marketing of a product or service of the NRSRO or a product or service of an affiliate of the NRSRO; or (2) is influenced by sales or marketing considerations. For the reasons noted above, a burden estimate of the collection of information associated with new paragraph (c)(8) of Rule 17g-5 was not included in the Proposing Release.¹⁷ However, the Commission included an estimated PRA burden for paragraph (c)(8) in the Adopting Release, and such estimate has been incorporated into Section 12 below.

Third, the Commission added paragraph (f) to Rule 17g-5, which provides that upon written application by an NRSRO the Commission may exempt, either unconditionally or on specified terms and conditions, the NRSRO from paragraph (c)(8) of Rule 17g-5 if the Commission finds that due to the small size of the NRSRO it is not appropriate to require the separation of the production of credit ratings from sales and marketing activities and the exemption is in the public interest. For the reasons noted above, a burden estimate of the collection of information associated with new paragraph (f) of Rule 17g-5 was not included in the Proposing Release.¹⁸ However, the Commission included an estimated PRA burden for paragraph (f) in the Adopting Release, and such estimate has been incorporated into Section 12 below.

amended rules while providing sufficient time for the Commission to request approval of an extension of this collection of information for a full three-year period using the standard review process, including publication in the Federal Register of all applicable requests for public comment.

¹⁷ See note 17, supra.

¹⁸ See note 17, supra.

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.

2. Purpose and Use of the Information Collection

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.

The collection required under the amendment adding paragraph (a)(3)(iii)(E) to Rule 17g-5 will be used by the providers of third-party due diligence services to meet their statutory obligation to deliver Form ABS Due Diligence-15E to any NRSRO that produces a credit rating to which the services relate. Furthermore, disclosing these certifications on the Rule 17g-5 websites will make them available to NRSROs that may not otherwise be aware that third-party due diligence services are being employed with respect to an Exchange Act-ABS because, for example, they are not hired to rate the Exchange Act-ABS.

The amendment adding paragraph (c)(8) to Rule 17g-5 will require an NRSRO to update its policies and procedures for addressing and managing conflicts of interest to account for this new absolutely prohibited conflict of interest. The updated policies and procedures will be used by the NRSRO to address this conflict and comply with Rule 17g-5. Furthermore, Exhibit 7 to Form NRSRO requires an applicant for registration as an NRSRO or an NRSRO to provide a copy in the exhibit of the written policies and procedures an applicant or NRSRO must establish, maintain, and enforce to address and manage conflicts of interest pursuant to section 15E(h) of the Exchange Act. This disclosure by an NRSRO can be reviewed by investors and other users of credit ratings to evaluate the NRSRO's policies and procedures (including those addressing the new absolutely prohibited conflict) and to compare them with the policies and procedures of other NRSROs.

The amendment adding paragraph (f) to Rule 17g-5 to provide a means for an NRSRO to seek an exemption from the Commission because of its small size from the provision establishing the new absolutely prohibited conflict will be used by NRSROs to seek conditional or unconditional exemptions from the new requirement.

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 requirements in the amendments to Rule 17g-5. However, paragraph (f) of Rule 17g-5 provides that upon written application by an NRSRO the Commission may exempt, either conditionally or unconditionally, the NRSRO from paragraph (c)(8) of Rule 17g-5 if the Commission finds that due to the small size of the NRSRO it is not appropriate to require the separation within the NRSRO of the production of credit ratings from sales and marketing activities and such exemption is in the public interest.

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.”¹⁹

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 Commission requested comment on the PRA analysis in the proposing release.²⁰ The Commission stated in the Proposing Release that it believed that it was reasonable to base some of its burden estimates on the approximate number of NRSRO credit ratings outstanding or the number of credit analysts employed by NRSROs, based on the most recent annual certifications submitted to the Commission by the NRSROs.²¹ An NRSRO objected to this method of estimating the burden attributable to the proposal, stating that “to properly evaluate the actual burden of the rules, particularly as they relate to the seven NRSROs that must compete with the largest three NRSROs, the burden analysis must take into account not only the number of ratings or analysts in isolation, but also must include the amount of legal and compliance resources necessary to implement systemic and simultaneous changes” and that “the investments will not be diminished relative to financial resources because an NRSRO may have fewer analysts or credit ratings issued.”²² Similarly, another NRSRO stated that “the burden on smaller rating agencies may be even more severe than the Commission’s numbers suggest” and that “[w]hile some aspects of the proposals (such as disclosures and updates) scale in a linear fashion with the number of published ratings, other costs (such as the development of new disclosure templates and implementing new systems) are fixed” and that these “fixed costs have a disproportionate impact on smaller firms.”²³ However, the Commission did not base its burden estimates for the

¹⁹ 15 U.S.C. 15E(d).

²⁰ See Proposing Release, 76 FR at 33490-33511.

²¹ See Proposing Release, 76 FR at 33500.

²² See A.M. Best Letter.

²³ See DBRS Letter.

proposed amendments to Rule 17g-5 on the number of NRSRO credit ratings outstanding or the number of credit analysts employed by NRSROs.

9. Payment or Gift

No payment or gift is provided to respondents.

10. Confidentiality

No assurance of confidentiality is provided.

11. Sensitive Questions

Not applicable; no information of a sensitive nature is required. The information collection does not collect any Personally Identifiable Information (PII).

12. Burden of Information Collection

Analysis of Burden of the Rule Before Current Amendments

When the Commission adopted Rule 17g-5 in June 2007, the rule consisted of paragraphs (a)(1) and (a)(2), providing that an NRSRO cannot have a conflict of interest unless it is disclosed and the NRSRO has written policies and procedures to address and manage the conflict in accordance with section 15E(h) of the Exchange Act; paragraphs (b)(1) through (b)(9), listing conflicts of interest that must be disclosed and managed; paragraphs (c)(1) through (c)(4), listing conflicts of interest that are absolutely prohibited; and paragraph (d), defining “person within” an NRSRO.²⁴ The Commission did not estimate a PRA burden for the rule.²⁵ The Commission amended Rule 17g-5 in February 2009 to add new prohibited conflicts of interest in paragraphs (c)(5) through (c)(7) of Rule 17g-5.²⁶ The Commission did not estimate a PRA burden for the amendments.²⁷

The Commission amended Rule 17g-5 in November 2009 to add new paragraphs (a)(3), (b)(9) and (e).²⁸ The amendment adding paragraph (b)(9) added a conflict of interest for NRSROs to disclose and manage: issuing or maintaining a credit rating for a security or money market instrument issued by an asset pool or as part of an asset-backed securities transaction that was paid for by the issuer, sponsor, or underwriter (“arranger”) of the security or money market instrument. Under paragraph (a)(3) of 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

²⁴ See Nationally Recognized Statistical Rating Organizations, 72 FR at 33622-23.

²⁵ See Nationally Recognized Statistical Rating Organizations, 72 FR at 33605.

²⁶ See Amendments to Rules for Nationally Recognized Statistical Rating Organizations, 74 FR at 6483.

²⁷ See Amendments to Rules for Nationally Recognized Statistical Rating Organizations, 74 FR at 6469.

²⁸ Amendments to Rules for Nationally Recognized Statistical Rating Organizations, 74 FR at 63864-65.

assets underlying the structured finance product are disclosed or arranged to be disclosed by the NRSRO. Specifically, the amendments require an NRSRO that is hired by arrangers to perform credit ratings for structured finance products to disclose to other NRSROs the deals for which it is in the process of determining such credit ratings and to obtain written representations from arrangers that the arrangers will provide the same information given to the hired NRSRO to other NRSROs. An NRSRO rating such products will need to disclose to other NRSROs the following information on a password protected Internet website: a list of each such security or money market instrument for which it is currently in the process of determining an initial credit rating in chronological order and identifying the type of security or money market instrument, the name of the issuer, the date the rating process was initiated, and the Internet website address where the issuer, sponsor, or underwriter of the security or money market instrument represents that the information described in paragraphs (a)(3)(iii)(C) and (D) of Rule 17g-5 as amended can be accessed. Under paragraph (e) of Rule 17g-5, an NRSRO that wishes to access information on another NRSRO's Internet website or on an arranger's Internet website pursuant to Rule 17g-5(a)(3) is required to provide the Commission with an annual certification.

Regarding paragraph (a)(3) of Rule 17g-5, the Commission previously estimated 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 required information publicly available, for a total annual burden of 14,880 hours. The Commission arrived at the 14,880 estimate as follows: the Commission estimated that there were approximately 4,000 new structured finance deals per year, and that, based on the number of outstanding structured finance ratings of all NRSROs, that the three largest NRSROs account for 97% of the market for structured finance ratings. Therefore, the Commission estimated that each of the three largest NRSROs would rate approximately 3,880 structured finance products per year,²⁹ that there would be approximately 30 NRSROs, and that the remaining 27 NRSROs would each rate approximately 120 structured finance products per year.³⁰

In the Adopting Release, the Commission estimated that the three largest NRSROs account for 90% of the structured finance market and that there were approximately 715 offerings of asset-backed securities in calendar year 2013.³¹ Therefore, the Commission estimates that the total number of structured finance ratings issued by all 10 NRSROs in a given year is approximately 2,436.³² The Commission therefore estimates that the corresponding annual disclosure burden for NRSROs is approximately 2,436 hours industry-wide.³³

Paragraph (a)(3) of Rule 17g-5 also requires arrangers to disclose certain information. The Commission previously estimated 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

²⁹ 4,000 x .97 = 3,880.

³⁰ .03 x 4,000 = 120. 3,880 x 3 = 11,640. 120 x 27 = 3,240. 11,640 + 3,240 = 14,880

³¹ See Adopting Release, 79 FR at 55234.

³² 715 x .9 = 643.5, rounded to 644. 644 x 3 = 1,932. 715 x .1 = 71.5, rounded to 72. 72 x 7 = 504. 1,932 + 504 = 2,436.

³³ 2,436 transactions x 1 hour = 2,436 hours.

would result in a total one-time disclosure hour burden of 60,000 hours for 200 respondents.³⁴ In the Adopting Release, the Commission estimated that there are approximately 336 issuers, sponsors, or underwriters of asset-backed securities. Therefore, the one-time burden for the additional 136 respondents is approximately 40,800 hours.³⁵ The Commission therefore estimates that, over a three-year period, the total industry-wide one-time burden would be approximately 13,600 hours per year when annualized over three years.³⁶ Thus, the total annual disclosure burden for each arranger would be approximately 100 hours.³⁷

Disclosures are also required for arrangers on a transaction by transaction basis. The Commission previously estimated 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 estimated that it would take a respondent approximately 20 hours³⁸ to disclose this information under Rule 17g-5 for a total aggregate annual hour burden of 4,000 hours.³⁹ In the Adopting Release, the Commission estimated that there are approximately 336 issuers, sponsors, or underwriters of asset-backed securities, for a total annual disclosure burden of approximately 6,720 hours.⁴⁰

Paragraph (a)(3) of 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 previously estimated 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 estimated that it would take each respondent approximately 750 hours⁴¹ on an annual basis to disclose such information, for a total aggregate annual disclosure burden of 150,000 hours.⁴² In the Adopting Release, the Commission estimated that there are approximately 336 issuers, sponsors, or underwriters of asset-backed securities, for a total annual disclosure burden of approximately 252,000 hours.⁴³

Regarding paragraph (e) of Rule 17g-5, the Commission estimated that it would take each NRSRO approximately 2 hours to complete the certification, resulting in a total industry-wide annual reporting burden for 10 NRSROs of 20 hours.⁴⁴

The Commission did not estimate a burden for paragraph (b)(9) of Rule 17g-5.

Burden Analysis of Current Amendments

³⁴ 300 hours x 200 arrangers = 60,000 hours.

³⁵ 136 x 300 = 40,800.

³⁶ 40,800 / 3 = 13,600.

³⁷ 13,600 hours / 136 arrangers = 100 hours.

³⁸ 20 transactions x 1 hour = 20 hours.

³⁹ 200 respondents x 20 hours = 4,000 hours.

⁴⁰ 336 respondents x 20 hours = 6,720 hours.

⁴¹ 125 transactions x 30 minutes x 12 months = 45,000 minutes/60 minutes = 750 hours.

⁴² 750 hours x 200 respondents = 150,000 hours.

⁴³ 750 hours x 336 respondents = 252,000 hours.

⁴⁴ 10 NRSROs x 2 hours = 20 hours.

New paragraph (a)(3)(iii)(E) of Rule 17g-5 may require NRSROs to redraft the agreement templates they use with respect to obtaining representations from issuers, sponsors, or underwriters as required under Rule 17g-5.⁴⁵ Based on staff experience, the Commission estimates that an NRSRO will spend approximately two hours on a one-time basis to redraft these templates with respect to each issuer, sponsor, or underwriter, for a total industry-wide one-time disclosure burden of approximately 6,720 hours.⁴⁶ The Commission therefore estimates that the total one-time disclosure burden to redraft the templates would be approximately 2,240 hours per year when annualized over three years.⁴⁷ Thus, the total annual disclosure burden for each NRSRO would be approximately 224 hours.⁴⁸

In addition, based on the Commission's estimate that there will be 715 offerings of Exchange Act-ABS per year,⁴⁹ the Commission estimates that issuers, sponsors, and underwriters will need to post approximately 715 Forms ABS Due Diligence-15E on Rule 17g-5 websites per year (in addition to the information that is already posted to the websites). Based on staff experience, the Commission estimates that it will take the issuer, sponsor, or underwriter approximately ten minutes to upload each form and post it to the website, for a total industry-wide annual disclosure burden of approximately 119 hours.⁵⁰

As a consequence of the new absolute prohibition in paragraph (c)(8) of Rule 17g-5, the Commission believes that an NRSRO will need to update the written policies and procedures to address and manage conflicts of interest the NRSRO must establish, maintain, and enforce under section 15E(h) of the Exchange Act and Rule 17g-5. Based on Commission staff experience, the Commission estimates that updating the conflicts of interest policies and procedures would take an NRSRO an average of approximately 100 hours, for an industry-wide one-time reporting burden of approximately 1,000 hours.⁵¹ In addition, Exhibit 7 to Form NRSRO requires an NRSRO to provide a copy of the written policies and procedures in the exhibit. Paragraph (e) of Rule 17g-1 requires an NRSRO to promptly file with the Commission an update of its registration on Form NRSRO when information on the form is materially inaccurate. The update of registration must be filed electronically on the Commission's EDGAR system. The Commission estimates, based on staff experience, that it would take an NRSRO an average of approximately twenty-five hours on a one-time basis to prepare and file the update of registration to account for the update of the NRSRO's written policies and procedures to address and manage conflicts of interest, for an industry-wide one-time reporting burden of approximately 250 hours and a total industry-wide one-time reporting burden of approximately 1,250 hours to update the NRSRO's conflicts of interest policies and procedures and to prepare and file an update of

⁴⁵ See Adopting Release 79 FR at 55239.

⁴⁶ 336 issuers, sponsors, and underwriters x 2 hours = 672 hours; 672 hours x 10 NRSROs = 6,720 hours.

⁴⁷ 6,720 / 3 = 2,240.

⁴⁸ 2,240 hours / 10 NRSROs = 224 hours.

⁴⁹ See Adopting Release 79 FR at 55239.

⁵⁰ 715 Forms ABS Due Diligence-15E per year x 10 minutes = 119.17 hours, rounded to 119 hours.

⁵¹ 100 hours x 10 NRSROs = 1,000 hours.

registration to account for the update of the NRSRO's written policies and procedures.⁵² The Commission therefore estimates that the total one-time reporting burden to update the conflicts of interest policies and procedures and to prepare and file an update of registration to account for the update of the NRSRO's written policies and procedures would be 1,250 hours, or approximately 417 hours per year when annualized over three years.⁵³ Thus, the total annualized reporting burden for each NRSRO would be approximately 42 hours.⁵⁴

Based on staff experience, the Commission believes that an NRSRO utilizing new paragraph (f) of Rule 17g-5 to apply for an exemption from the prohibited conflict under paragraph (c)(8) would likely engage outside counsel to assist in drafting an exemption request, that counsel would spend an average of approximately fifty hours for a cost of approximately \$20,000 to assist in drafting the request, and that the NRSRO would likely spend an average of approximately 150 hours to draft and submit the application to the Commission.⁵⁵ If all 10 NRSROs apply for an exemption, the one-time industry-wide reporting burden for NRSROs would be approximately \$200,000 and 1,500 hours, or approximately \$67,000 and 500 hours per year when annualized over 3 years.⁵⁶ Thus, the annualized reporting burden for each NRSRO would be \$6,700 and 50 hours.

13. Costs to Respondents

The Commission believes that there would be no additional 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

The changes in burden are due to updated estimates and the burdens associated with the new rules and amendments to existing rules.

The industry-wide change in burden resulting from updated estimates is approximately: a decrease of 12,444 hours in the annual disclosure burden for NRSROs;⁵⁷ an increase in the annualized one-time disclosure burden for arrangers of structured finance products of 13,600 hours; an increase in the annual disclosure burden for arrangers of structured finance products of

⁵² 10 NRSROs x 25 hours = 250 hours; 1,000 hours + 250 hours = 1,250 hours. See also Oversight of Credit Rating Agencies Registered as Nationally Recognized Statistical Rating Organizations, 72 FR at 33614 (providing a PRA estimate of twenty-five hours for an NRSRO to prepare and furnish an update of its registration).

⁵³ 1,250 / 3 = 416.67, rounded to 417.

⁵⁴ 417 hours / 10 NRSROs = 41.7 hours, rounded to 42 hours.

⁵⁵ 50 hours x \$400 per hour for outside counsel = \$20,000.

⁵⁶ \$20,000 x 10 = \$200,000; 150 x 10 = 1,500. \$200,000 / 3 = \$66,667, rounded to \$67,000; 1,500 / 3 = 500.

⁵⁷ 14,880 – 2,436 = 12,444.

2,720 hours;⁵⁸ and an increase in the annual disclosure burden for arrangers of structured finance products of 102,000 hours.⁵⁹

The industry-wide increase in burden resulting from the new rules and amendments to existing rules is approximately: an annualized one-time disclosure burden for NRSROs of 2,240 hours; an annual disclosure burden for arrangers of structured finance products of 119 hours; an annualized one-time reporting burden for NRSROs of 417 hours; and an annualized one-time reporting burden for NRSROs of \$67,000 and 500 hours.

16. Information Collection Planned for Statistical Purposes

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

17. Approval to Omit OMB Expiration Date

The Commission is not seeking approval to omit the OMB 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.

⁵⁸ $6,720 - 4,000 = 2,720.$

⁵⁹ $252,000 - 150,000 = 102,000.$