

SUPPORTING STATEMENT
for the Paperwork Reduction Act Revised Information Collection Submission for
Rule 17g-1 and Form NRSO

A. JUSTIFICATION

1. Necessity of Information Collection

The Credit Rating Agency Reform Act of 2006¹ (“Rating Agency Act”), enacted on September 29, 2006, defines the term “nationally recognized statistical rating organization,” or “NRSRO,” and provides authority for the Securities and Exchange Commission (“Commission”) to implement registration, recordkeeping, financial reporting, and oversight rules with respect to credit rating agencies registered with the Commission as NRSROs. The Rating Agency Act added new Section 15E, “Registration of Nationally Recognized Statistical Rating Organizations,”² to the Securities Exchange Act of 1934 (“Exchange Act”). 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.³

The Dodd-Frank Wall Street Reform and Consumer Protection Act⁴ (“Dodd-Frank Act”) was enacted on July 21, 2010. Title IX, Subtitle C of the Dodd-Frank Act, “Improvements to the Regulation of Credit Rating Agencies,” among other things, establishes new self-executing requirements applicable to NRSROs, requires certain studies,⁵ and requires that the Commission adopt rules applicable to NRSROs, providers of due diligence services, and issuers and underwriters of asset-backed securities in a number of areas.⁶ On August 27, 2014, the Commission adopted rules and rule amendments to implement certain of these provisions, including amendments to Rule 17g-1 and the instructions for Exhibit 1 of Form NRSRO, as discussed below.⁷ The amendments to Rule 17g-1 require the Commission to update the burden estimate for the instant collection. The Commission is also allocating the one-time and annual hour burdens and corresponding costs of the requirement to submit Form NRSRO and the Rule 17g-3 annual reports to the Commission electronically on EDGAR as PDF documents solely to Rule 17g-1.

¹ Pub. L. No. 109-291 (2006).

² 15 U.S.C. 78o-7.

³ Oversight of Credit Rating Agencies Registered as Nationally Recognized Statistical Rating Organizations, Exchange Act Release No. 55857 (June 5, 2007), 72 FR 33564 (June 18, 2007).

⁴ Pub. L. No. 111-203, 124 Stat. 1376, H.R. 4173 (2010).

⁵ See Pub. L. No. 111-203 §§ 939, 939D-939F.

⁶ See Pub. L. No. 111-203 §§ 931-939H; see also Pub. L. No. 111-203 § 943.

⁷ Nationally Recognized Statistical Rating Organizations, Exchange Act Release No. 72936 (August 27, 2014).

Overview of Rule 17g-1 and Form NRSRO Prior to the Amendments

Rule 17g-1 (17 CFR 240.17g-1) and Form NRSRO (17 CFR 249b.300) contain recordkeeping and disclosure requirements.⁸ 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.

Rule 17g-1 requires a credit rating agency to furnish an initial application on Form NRSRO.⁹ The rule also provides that if the information contained in 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.¹⁰ 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.¹¹ 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”).¹² 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

⁸ The Office of Management and Budget (“OMB”) control number for Rule 17g-1 is 3235-0625.

⁹ 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 Oversight of Credit Rating Agencies Registered as Nationally Recognized Statistical Rating Organizations, 72 FR 33564 (June 18, 2007).

¹⁰ 15 U.S.C. 78o-7(b)(1).

¹¹ 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.”

¹² 15 U.S.C. 78o-7(b)(2).

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.¹³ Rule 17g-1 provides that an NRSRO must furnish the Commission with a withdrawal of registration on Form NRSRO.

Amendments to Rule 17g-1

The Commission made several amendments to Rule 17g-1.¹⁴ First, to implement the rulemaking specified in section 15E(q)(2)(D) of the Exchange Act, the Commission amended 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, to withdraw a registration. The Commission's amendment requires an NRSRO to make Form NRSRO and Exhibits 1 through 9 freely available on an easily accessible portion of its corporate Internet website. The amendment to paragraph (i) also removes 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 amended 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 amended 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 as PDF documents in the format required by the EDGAR Filer Manual, as defined in Rule 11 of Regulation S-T. NRSROs will need to file a Form ID (17 CFR 239.63) with the Commission in order to gain access to the Commission's EDGAR system to make electronic submissions to the Commission.

Amendments to Instructions for Exhibit 1 to Form NRSRO

The Commission also amended the instructions for Exhibit 1 to Form NRSRO¹⁵. The amendments were designed to implement the rulemaking specified in section 15E(q) of the Exchange Act. The amendments standardize the production and presentation of the 1-year, 3-year, and 10-year transition and default statistics that an NRSRO must disclose in the exhibit.

¹³ 15 U.S.C. 78o-7(e)(1).

¹⁴ See Nationally Recognized Statistical Rating Organizations, Exchange Act Release No. 64514 (May 18, 2011), 76 FR 33537 (June 8, 2011).

¹⁵ See id.

The performance statistics must be presented in a format specified in the instructions, which include a sample “Transition/Default Matrix.” The amendments also enhance the information to be disclosed by, for example, requiring statistics to be produced and presented for subclasses of structured finance products and for credit ratings where the obligation was paid off or the credit rating was withdrawn for reasons other than a default or the obligation was paid off.

The new instructions are divided into paragraphs (1), (2), (3), and (4). The new paragraphs 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 for registration and NRSROs are subject to these new requirements.

2. Purpose and Use of the Information Collection

Rule 17g-1 Prior to the Amendments

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 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 Rating Agency Act, the information that NRSROs are required to make public “will facilitate informed decisions by giving investors the opportunity to compare ratings quality of different firms.”¹⁶

Amendments to Rule 17g-1

The amendments to Rule 17g-1 that require an NRSRO to use the EDGAR system to file Form NRSRO and Exhibits 1 through 9 and to make the form and exhibits freely available on an easily accessible portion of the NRSRO’s corporate Internet website are designed to make the information disclosed in the form and exhibits more readily accessible to investors and other users of credit ratings. In addition, the filing of the Forms NRSRO and the exhibits on the EDGAR system will 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 will assist the Commission from a records management perspective

¹⁶ See Report of the Senate Committee on Banking, Housing, and Urban Affairs to Accompany S. 3850, Rating Agency Act, S. Report No. 109-326, 109th Cong., 2d Sess. (Sept. 6, 2006).

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.

NRSROs will need to file a Form ID with the Commission in order to gain access to the Commission's EDGAR system to file Form NRSRO (including applicable exhibits) and their annual reports with the Commission. The Commission will use the filings of this form to process NRSRO requests for access to the EDGAR system.

Amendments to Instructions for Exhibit 1 to Form NRSRO

The amendments to the instructions for Exhibit 1 to Form NRSRO that standardize the production and presentation of the 1-year, 3-year, and 10-year transition and default statistics an NRSRO must disclose in the exhibit and enhance the information disclosed about these statistics will allow users of credit ratings to evaluate the accuracy of credit ratings and compare the performance of credit ratings by different NRSROs. As the Commission stated when originally 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.¹⁷ The amendments to the instructions for Exhibit 1 to Form NRSRO are designed to make the required disclosure of an NRSRO's performance statistics more useful to those who use or might use credit ratings, including investors and creditors.

In addition, the amendments should improve the Commission's ability to carry out its oversight of NRSROs, which, in turn, will benefit investors. Improving and standardizing performance statistics provided in an applicant's initial application for registration and in an NRSRO's Form NRSRO could aid the Commission in, among other things, reviewing an applicant's or NRSRO's performance and consistency of performance, which, in turn, could aid in assessing whether the applicant or NRSRO has adequate financial and managerial resources to consistently produce credit ratings with integrity.¹⁸

3. Consideration Given to Information Technology

¹⁷ See Oversight of Credit Rating Agencies Registered as Nationally Recognized Statistical Rating Organizations, 72 FR 33574 (June 18, 2007); see also Amendments to Rules for Nationally Recognized Statistical Rating Organizations, Exchange Act Release No. 59342 (Feb. 2, 2009), 74 FR 6474 (Feb. 9, 2009) ("The amendments to the instructions for 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. In addition, these amendments will make it easier for an NRSRO to demonstrate that it has a superior ratings methodology or competence and, thereby, attract clients.").

¹⁸ 7(d)(1)(E) and (d)(2) (setting forth grounds to sanction an NRSRO, including revoking the NRSRO's See, e.g., 15 U.S.C. 78o-7(a)(2)(C) (setting forth grounds to deny an initial application); 15 U.S.C. 78o-7(a)(2)(C) (setting forth grounds to deny an initial application); see also Oversight of Credit Rating Agencies Registered as Nationally Recognized Statistical Rating Organizations, 72 FR at 33612 ("Form NRSRO requires that a credit rating agency provide information required under Section 15E(a)(1)(B) of the Exchange Act and certain additional information. The additional information will assist the Commission in making the assessment regarding financial and managerial resources required under section 15E(a)(2)(C)(2)(ii)(I) of the Exchange Act.").

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

The Commission's amendment to Rule 17g-1 requires 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 requires NRSROs to use the Commission's EDGAR system to electronically file Form NRSRO and Exhibits 1 through 9 as a PDF document in the format required by the EDGAR Filer Manual. Thus, these amendments make use of technology to facilitate access to and maintain information. With respect to the amendment to enhance performance statistics, the new instruction paragraphs 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 Commission anticipates that information technology can be used to produce these enhanced performance statistics.

4. Duplication

The Commission has not identified any duplication with respect to the information required by Rule 17g-1 and Form NRSRO. Further, to the extent that the amendments to Exhibit 1 of Form NRSRO standardize the production and presentation of transition and default rates, the Commission anticipates that these amendments will eliminate overlapping and potentially unnecessary rating disclosure, and thus reduce duplication.

5. Effect on Small Entities

Small entities are affected by Rule 17g-1 and Form NRSRO because all applicants for registration and NRSROs, regardless of size, are required to submit Form NRSRO to the Commission. The Commission solicited comment in the proposing release regarding the rule amendments' effect on small entities.¹⁹ The Commission staff believes that there are currently two NRSROs that are considered small entities. The Commission received comments regarding the burden on applicants or NRSROs that are small entities. An NRSRO stated that complying with the amended instructions for Exhibit 1 to Form NRSRO regarding the production and presentation of performance statistics will require "substantial technology resources" and that smaller NRSROs' resources may be strained if sufficient time is not provided to comply.²⁰ One commenter stated that the single cohort approach could lead to results that are "significantly more volatile within the shorter time period, which will make interpreting those results more

¹⁹ See Nationally Recognized Statistical Rating Organizations, 76 FR 33537 (June 8, 2011).

²⁰ See letter from Robert Dobilas, President, Morningstar Credit Ratings, LLC, to the Commission (Aug. 8, 2011), available at <http://www.sec.gov/comments/s7-18-11/s71811-42.pdf>.

difficult.”²¹ This commenter stated further that “the volatility impact will be amplified for NRSROs with fewer ratings, which could lead to bias against smaller NRSROs.”²²

In response to the first comment, the Commission notes that NRSROs will not be required to provide performance statistics in Exhibit 1 to Form NRSRO that adhere to the new requirements until they file their annual certifications in 2016. This will provide all NRSROs, including small NRSROs, with a substantial transition period to prepare to comply with the new requirements. In response to the second comment, the Commission has balanced this concern with section (q)(2)(B) of the Exchange Act, which provides that the Commission’s rules shall require that the performance measurement disclosures be clear and informative for investors having a wide range of sophistication.²³ The single cohort approach involves simpler computations than other approaches for calculating the performance statistics. The requirements in the instructions for Exhibit 1 provide for very transparent disclosures about the number of credit ratings in the start date cohort and in the cohort for each notch in the credit rating scale of a given class or subclass. This transparency will provide persons reviewing the performance statistics with information to assess how the small number of credit rating ratings in a given cohort may have impacted the results.

The Commission also notes that it has modified the instructions for Exhibit 1 to Form NRSRO from the proposal in ways that will reduce the impact on small NRSROs. For example, the final amendments provide that, except for the issuers of asset-backed securities class of credit ratings, to determine the number of credit ratings outstanding as of the beginning of the applicable period, the NRSRO must include only credit ratings assigned to an obligor as an entity or, if there is no such rating, the rating of the obligor’s senior unsecured debt, instead of the credit ratings of individual securities or money-market instruments issued by the obligor. Because the Commission has narrowed the scope of the credit ratings included in the performance statistics for four of the five classes of credit ratings, this is expected to substantially reduce the amount of historical information that an NRSRO is required to analyze. The Commission has also revised the standard definition of paid off, in response to comment,²⁴ to eliminate the prong that applied to entity ratings of obligors. The Commission has clarified that the rule does not require an NRSRO to track the outcome of an obligor, security, or money market instrument after the credit rating has been withdrawn, in response to comments.²⁵

6. Consequences of Not Conducting Collection

²¹ See letter from Daniel Curry, President, and Mary Keogh, Managing Director, Regulatory Affairs, DBRS Limited, to the Commission (Aug. 8, 2011) (“DBRS Letter”), available at <http://www.sec.gov/comments/s7-18-11/s71811-38.pdf>.

²² See id.

²³ See 15 U.S.C. 78o-7(q)(2)(B).

²⁴ See letter from Deven Sharma, President, Standard & Poor’s Ratings Services, to the Commission (Aug. 8, 2011) (“S&P Letter”) available at <http://www.sec.gov/comments/s7-18-11/s71811-32.pdf>.

²⁵ See, e.g., S&P Letter (stating that that the Commission should not require that an NRSRO monitor an obligor, security, or money market instrument after withdrawal because of the lack of information available to the NRSRO to perform such monitoring).

If the information were not conducted as frequently, the Commission would be unable to determine whether an entity should be registered as an NRSRO under section 15E of the Exchange Act. Further, the Commission would be unable to effectively monitor whether NRSROs are conducting their activities in accordance with section 15E of the Exchange Act and Exchange Act rules. In addition, users of credit ratings would have less data available to evaluate the accuracy of credit ratings and compare the performance of credit ratings by different NRSROs.

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

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

8. Consultations Outside the Agency

The Commission issued a proposing release soliciting comment on the Paperwork Reduction Act (“PRA”) analysis with respect to the new “collection of information” requirements and associated paperwork burdens.²⁶ Comments on the release were received from registrants, investors, and other market participants. In addition, the Commission and staff participated in ongoing dialogue with representatives of various market participants through public conferences, meetings, and informal exchanges. The comments received on the amendments are posted on the Commission’s public website, and made available through <http://www.sec.gov/rules/proposed.shtml>. The Commission considered all comments received prior to publishing the final rule, and explained in the adopting release how the final rule responds to such comments, in accordance with 5 CFR 1320.11(f).

The Commission received comments with respect to the costs and burdens associated with the amendments. In response to comments stating that NRSROs should be able to charge the requesting individual postage and handling fees in connection with providing copies of Exhibit 1 to Form NRSRO,²⁷ the Commission agreed that an NRSRO may charge a reasonable postage and handling fee.

An NRSRO stated, in response to the amendment to Rule 17g-1 requiring NRSROs to provide Form NRSRO via EDGAR, that it would have no objection to the proposal, that providing the information as PDF documents would be “the most preferred and simplest” way to provide the information, and that providing the information in and XBRL or XML format would not provide additional analytical benefit and could make it more difficult for users to access Form NRSRO.²⁸ Another NRSRO, however, stated that the Commission’s estimate of the cost of the proposal “accounts for only a small fraction of the expected cost of compliance” as “an NRSRO will have to familiarize itself with the roughly 35 Rules of Regulation S-T as well as the

²⁶ See Nationally Recognized Statistical Rating Organizations, 76 FR at 33511.

²⁷ See DBRS Letter; S&P Letter.

²⁸ See S&P Letter.

first two volumes of the EDGAR Filer Manual (which currently total more than 600 pages) and related EDGAR technical guidance.”²⁹ This commenter also stated that the Commission did not estimate “the expense an NRSRO would incur in compiling Form NRSRO, its exhibits, and the annual reports into an EDGAR-acceptable format.”³⁰ However, the commenter did not provide a different estimate of the costs associated with the proposal.

In response to the comment from an NRSRO that the Commission’s proposed cost estimate for the proposal “accounts for only a small fraction of the expected cost of compliance” and that instead PDF copies of the required submissions should be transmitted via e-mail,³¹ the Commission noted that it has modified the amendments to require that the electronic submissions be made on EDGAR as PDF documents, which another NRSRO described as “the most preferred and simplest” way to provide the information.³² The Commission also pointed out that not all of Regulation S-T or the EDGAR Filer Manual applies to NRSRO submissions, in particular, as these submissions will be made as PDF documents.³³ Moreover, having the reports submitted via the EDGAR system – rather than to a Commission e-mail box – will assist the Commission staff in storing and accessing these records in furtherance of the Commission’s NRSRO oversight function.

In response to the comment that the Commission underestimated the burden of becoming familiar with the EDGAR system,³⁴ the Commission revised its estimate, as discussed below, based on staff experience.

An NRSRO stated that collecting the data required for purposes of the amendments to the instructions for Exhibit 1 to Form NRSRO would be burdensome, and this NRSRO suggested that NRSROs be exempt from the requirement to include historical data to the extent that the NRSRO does not already capture such information “in a readily retrievable format.”³⁵ Another NRSRO stated that the definition of paid off as applied to obligors “is not practicable” because some obligors do not have rated debt outstanding and it would be difficult to track whether all obligations of an obligor are paid off.³⁶ In addition, an NRSRO objected to basing burden

²⁹ See DBRS Letter.

³⁰ See id.

³¹ See DBRS Letter.

³² See S&P Letter.

³³ See EDGAR Filer Manual, available at <http://www.sec.gov/info/edgar/edmanuals.htm>. Significant portions of the manual relate to public company filing of information on various Commission forms and to filing forms in formats other than PDF (ASCII, HTML, XML, or XBRL). The third volume of the manual relates to the filing of Form N-SAR by investment management companies registered with the Commission.

³⁴ See DBRS Letter.

³⁵ See letter from Michel Madelain, President and Chief Operating Officer, Moody’s Investors Service, dated Aug. 8, 2011 (“Moody’s Letter”), available at <http://www.sec.gov/comments/s7-18-11/s71811-48.pdf>.

³⁶ See S&P Letter.

estimates on the number of credit ratings outstanding or the number of credit analysts employed by NRSROs, stating that the burden estimates “must include the amount of legal and compliance resources necessary to implement systemic and simultaneous changes.”³⁷

As discussed above, in response to comment, the Commission has modified the instructions for Exhibit 1 to Form NRSRO. The final amendments provide that, except for the issuers of asset-backed securities class of credit ratings, to determine the number of credit ratings outstanding as of the beginning of the applicable period, the NRSRO must include only credit ratings assigned to an obligor as an entity or, if there is no such credit rating, the credit rating of the obligor’s senior unsecured debt, instead of all of the credit ratings of individual securities or money-market instruments issued by the obligor. Because the Commission has narrowed the scope of the types of credit ratings that will have to be included in the performance statistics for four of the five classes of credit ratings, this should substantially reduce the amount of historical information that will need to be analyzed. The Commission has also revised the standard definition of paid off, in response to comment,³⁸ to eliminate the prong that applied to credit ratings of obligors as entities. The Commission has clarified that the rule does not require NRSROs to track the outcomes of obligors, securities, or money market instruments after the credit ratings assigned to them have been withdrawn, in response to comments from two NRSROs,³⁹ one of which stated that “the proposed requirement to separately track rating withdrawals, because of repayments and other reasons, likely would be impractical in many cases.”⁴⁰

In response to comment, the Commission added to its one-time burden estimate to account for burden that does not depend on the number of NRSRO credit ratings outstanding.⁴¹ For example, some of the burden associated with establishing systems for determining performance statistics according to the amended instructions may not depend on the number of credit ratings outstanding. While commenters did not provide an estimate of the amount of one-time burden that would be unrelated to the number of credit ratings outstanding, the Commission added to the one-time hour burden estimated in the proposing release a one-time hour burden that is not linked to the number of credit ratings outstanding.

9. Payment or Gift

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

10. Confidentiality

³⁷ See letter from Larry G. Mayewski, Executive Vice President, A.M. Best, dated Aug. 8, 2011 (“A.M. Best Letter”). See also DBRS Letter.

³⁸ See S&P Letter.

³⁹ See Moody’s Letter; S&P Letter.

⁴⁰ See S&P Letter.

⁴¹ See A.M. Best Letter; DBRS Letter.

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

11. Sensitive Questions

Not applicable. No inquiries of a sensitive nature were made. The information collection does not collect any Personally Identifiable information (PII). The Systems of Record Notice may be reviewed at the following site, <http://www.sec.gov/about/privacy/sorn/secsorn1.pdf>. The Privacy Impact Assessment document for EDGAR is attached as a supplemental document.

12. Burden of Information Collection

Rule 17g-1 and Form NRSRO Prior to the Amendments

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.⁴² 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.⁴³

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.⁴⁴ 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 the reporting burden of filing an amended Form NRSRO for this purpose will take an average of approximately 25 hours.⁴⁵

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

⁴² See Exchange Act Release No. 49830 (June 8, 2004), at note 89; see also 17 CFR 240.17a-11.

⁴³ 1 hour x 1 entity = 1 hour.

⁴⁴ See 17 CFR 240.17g-1(e).

⁴⁵ 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).

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.⁴⁶ 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.⁴⁷ 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)).⁴⁸ 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.⁴⁹

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.⁵⁰

⁴⁶ Section 3(a)(62)(B)(i)-(iii) of the Exchange Act (15 U.S.C. 78c(a)(62)(B)(i)-(iii)).

⁴⁷ Section 3(a)(62)(B)(v) of the Exchange Act (15 U.S.C. 78c(a)(62)(B)(v)).

⁴⁸ Section 3(a)(62)(B)(iv) of the Exchange Act (15 U.S.C. 78c(a)(62)(B)(iv)).

⁴⁹ 25 hours x 5 NRSROs = 125 hours. For the purposes of Form 83-I, the industry-wide one-time hourly burden has been annualized over the three year approval period to an hourly burden of approximately 42 hours per year (125 hours/3 years). This equates to an annual burden of approximately 8 hours per NRSRO (42 hours/5 NRSROs) during the three year approval period.

⁵⁰ 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.

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.⁵¹

Section 15E(b)(2) of the Exchange Act requires an NRSRO to furnish an annual certification.⁵² Rule 17g-1 requires an NRSRO to furnish the annual certification on Form NRSRO.⁵³ 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 (annually) 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.⁵⁴ 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.⁵⁵

Rule 17g-1 requires an NRSRO to furnish the Commission with a withdrawal of registration on Form NRSRO.⁵⁶ 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.⁵⁷ 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.⁵⁸

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.⁵⁹ 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 certification.⁶⁰ The Commission assumes that each NRSRO already will have a Web site and

⁵¹ 25 hours per amendment x 2 amendments x 10 NRSROs = 500 hours.

⁵² 15 U.S.C. 78o-7(b)(2).

⁵³ See 17 CFR 240.17g-1(g).

⁵⁴ See 17 CFR 240.17h-1T and 2T.

⁵⁵ 10 hours x 10 NRSROs = 100 hours.

⁵⁶ See 17 CFR 240.17g-1(g).

⁵⁷ See Exchange Act Release No. 49830 (June 8, 2004); see also 17 CFR 240.17a-11.

⁵⁸ 1 hour x 1 entity = 1 hour.

⁵⁹ 15 U.S.C. 78o-7(a)(3).

⁶⁰ See 17 CFR 240.17g-1(f).

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 disclosure burden to the industry to make Form NRSRO publicly available will be 300 hours⁶¹ and the total aggregate ongoing disclosure burden will be 100 hours.⁶²

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.⁶³

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 amendments to Exhibit 6 to Form NRSRO would be 25 hours per NRSRO, which would be a one-time hour reporting burden to the industry of 250 hours.⁶⁴ In addition, the Commission estimates that the additional disclosures 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.⁶⁵

⁶¹ 30 hours x 10 NRSROs. For the purposes of Form 83-I, the industry-wide one-time hourly burden has been annualized over the three year approval period to an hourly burden of 100 hours per year (300 hours/3 years). This equates to an annual burden of 10 hours per NRSRO (100/10) during the three year approval period.

⁶² 10 hours x 10 NRSROs.

⁶³ 100 hours x 10 NRSROs = 1,000 hours. See supra note 3. For the purposes of Form 83-I, the industry-wide one-time hourly burden has been annualized over the three year approval period to an hourly burden of approximately 333 hours per year (1,000 hours/3 years). This equates to an annual burden of approximately 33 hours per NRSRO (333 hours/10 NRSROs) during the three year approval period.

⁶⁴ 10 NRSROs x 25 hours = 250 hours. For the purposes of Form 83-I, the industry-wide one-time hourly burden has been annualized over the three year approval period to an hourly burden of approximately 83 hours per year (250 hours/3 years). This equates to an annual burden of 8.33 hours per NRSRO (83/10) during the three year approval period. 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. Oversight of Credit Rating Agencies Registered as Nationally Recognized Statistical Rating Organizations, 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.

⁶⁵ 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.

The Commission therefore estimates that the total one-time burden as a result of Rule 17g-1 and Form NRSRO will be 1,675 hours (125 + 300 + 1,000 + 250 = 1,675).⁶⁶ The Commission also estimates that the total ongoing burden will be 822 hours (1 + 500 + 100 + 1 + 100 + 120 = 822).

Amendments to Rule 17g-1

The Commission amended paragraph (i) of Rule 17g-1 to require that an NRSRO make Form NRSRO and Exhibits 1 through 9 to Form NRSRO freely available on an easily accessible portion of its corporate Internet website.⁶⁷ The amendment removes the option for an NRSRO to make the form publicly available “through another comparable, readily accessible means” as an alternative to Internet website disclosure.

As stated above, the Commission believes that a Form NRSRO and Exhibits 1 through 9 will be “easily accessible” if they can be accessed through a clearly and prominently labeled hyperlink (including through a hyperlink labeled “Regulatory Disclosures”) on the homepage of the NRSRO’s corporate Internet website. NRSROs may need to make changes to their corporate Internet websites to place clearly and prominently labeled hyperlinks to Form NRSRO and Exhibits 1 through 9 on the websites. In the proposing release, the Commission estimated that reconfiguring a corporate Internet website for this purpose would take an average of approximately five hours (and would be accomplished by NRSROs using their corporate Internet website administrators), resulting in an estimated industry-wide one-time disclosure burden of approximately fifty hours.⁶⁸ The Commission did not receive comment on this estimate and adopted the amendment as proposed. Therefore, the Commission is retaining this estimate without revision.

The Commission also amended paragraph (i) of Rule 17g-1 to require that NRSROs make their most recent Exhibit 1 freely available in writing to any individual who requests a copy of the Exhibit to implement the rulemaking mandated in section 15E(q)(2)(D) of the Exchange Act.⁶⁹

In the proposing release, the Commission stated that it believed that NRSROs would need to establish procedures and protocols for receiving and processing these requests and that this

⁶⁶ For the purposes of Form 83-I, the industry-wide one-time hourly burden has been annualized over the three year approval period to an hourly burden of approximately 558 hours per year (1,675 hours/3 years). This equates to an annual burden of approximately 56 hours per NRSRO (558/10) during the three year approval period.

⁶⁷ See 17 CFR 240.17g-1(i).

⁶⁸ See Nationally Recognized Statistical Rating Organizations, 76 FR at 33501 (5 hours x 10 NRSROs = 50 hours). For the purposes of Form 83-I, the industry-wide one-time hourly burden has been annualized over the three year approval period to an hourly burden of approximately 17 hours per year (50 hours/3 years). This equates to an annual burden of approximately 1.7 hours per NRSRO (17/10) during the three year approval period.

⁶⁹ See 15 U.S.C. 78o-7(q)(2)(D).

would take an average of approximately forty-eight hours per NRSRO, resulting in an industry-wide one-time hour disclosure burden of approximately 480 hours.⁷⁰ The Commission did not receive comment on this estimate and adopted the amendments as proposed. Therefore, the Commission is retaining this estimate without revision.

The Commission also estimated that each NRSRO would on average receive approximately 200 requests per year and would spend an average of twenty minutes processing each request, resulting in an industry-wide annual hour disclosure burden of approximately 670 hours.⁷¹ The Commission did not receive comments on this estimate and adopted the amendments as proposed. Therefore, the Commission is retaining this estimate without revision.

The Commission also amended paragraphs (e), (f), and (g) of Rule 17g-1 to require NRSROs to use the Commission's EDGAR system to electronically submit Form NRSRO and the required exhibits to the form to the Commission as PDF documents in the format required by the EDGAR Filer Manual, as defined in Rule 11 of Regulation S-T.⁷² NRSROs currently submit these documents to the Commission in paper form.

The Commission estimated in the proposing release that each NRSRO would spend an average of approximately four and 3/4 hours becoming familiar with the EDGAR filing system, resulting in an estimated industry-wide one-time hour reporting burden of forty-seven and a half hours.⁷³ An NRSRO stated that it would have no objection to the proposal, that providing the information as PDF documents would be "the most preferred and simplest" way to provide the information, and that providing the information in and XBRL or XML format would not provide additional analytical benefit and could make it more difficult for users to access Form NRSRO.⁷⁴ Another NRSRO, however, stated that the Commission's estimate of the cost of the proposal "accounts for only a small fraction of the expected cost of compliance" as "an NRSRO will have to familiarize itself with the roughly 35 Rules of Regulation S-T as well as the first two volumes of the EDGAR Filer Manual (which currently total more than 600 pages) and related EDGAR technical guidance."⁷⁵ This commenter also stated that the Commission did not estimate "the

⁷⁰ See Nationally Recognized Statistical Rating Organizations, 76 FR at 33501 (10 NRSROs x 48 hours = 480 hours). For the purposes of Form 83-I, the industry-wide one-time hourly burden has been annualized over the three year approval period to an hourly burden of 160 hours per year (480 hours/3 years). This equates to an annual burden of 16 hours per NRSRO (160/10) during the three year approval period.

⁷¹ See Nationally Recognized Statistical Rating Organizations, 76 FR at 33501 (200 requests x 20 minutes per request = 67 hours per year; 10 NRSROs x 67 hours per year = 670 hours per year).

⁷² See 17 CFR 240.17g-1(e); 17 CFR 240.17g-1(f); and 17 CFR 240.17g-1(g).

⁷³ See Nationally Recognized Statistical Rating Organizations, 76 FR at 33501 (10 NRSROs x 4.75 hours = 47.5 hours). For the purposes of Form 83-I, the industry-wide one-time hourly burden has been annualized over the three year approval period to an hourly burden of approximately 16 hours per year (47.5 hours/3 years). This equates to an annual burden of approximately 1.6 hours per NRSRO (160/10) during the three year approval period.

⁷⁴ See S&P Letter.

⁷⁵ See DBRS Letter.

expense an NRSRO would incur in compiling Form NRSRO, its exhibits, and the annual reports into an EDGAR-acceptable format.”⁷⁶ However, the commenter did not provide a different estimate of the costs associated with the proposal.

In response to the comment from an NRSRO that the Commission’s proposed cost estimate for the proposal “accounts for only a small fraction of the expected cost of compliance” and that instead PDF copies of the required submissions should be transmitted via e-mail,⁷⁷ the Commission notes that it has modified the amendments to require that the electronic submissions be made on EDGAR as PDF documents, which, as noted above, another NRSRO described as “the most preferred and simplest” way to provide the information.⁷⁸ The Commission also points out that not all of Regulation S-T or the EDGAR Filer Manual applies to NRSRO submissions, in particular, as these submissions will be made as PDF documents.⁷⁹ Moreover, having the reports submitted via the EDGAR system – rather than to a Commission e-mail box – will assist the Commission staff in storing and accessing these records in furtherance of the Commission’s NRSRO oversight function.

In response to the comment that the Commission underestimated the burden of becoming familiar with the EDGAR system,⁸⁰ the Commission is revising its estimate, based on staff experience, from 4 and 3/4 hours on a one-time basis as the amount of time, on average, an NRSRO would need to spend to become familiar with the EDGAR system to sixteen hours, for an industry-wide one-time reporting burden of approximately 160 hours.⁸¹ This includes developing an understanding of how to use the system for both submitting Forms NRSRO (and applicable exhibits) and for submitting the Rule 17g-3 annual reports. The Commission is allocating this one-time hour burden and corresponding cost solely to Rule 17g-1.

The Commission stated in the proposing release that it did not believe that changing the method of submitting Form NRSRO and Exhibits 1 through 9 from a paper submission to an

⁷⁶ See id.

⁷⁷ See DBRS Letter.

⁷⁸ See S&P Letter.

⁷⁹ See EDGAR Filer Manual, available at <http://www.sec.gov/info/edgar/edmanuals.htm>. Significant portions of the manual relate to public company filing of information on various Commission forms and to filing forms in formats other than PDF (ASCII, HTML, XML, or XBRL). The third volume of the manual relates to the filing of Form N-SAR by investment management companies registered with the Commission.

⁸⁰ See DBRS Letter.

⁸¹ 16 hours x 10 NRSROs = 160 hours. For the purposes of Form 83-I, the industry-wide one-time hourly burden has been annualized over the three year approval period to an hourly burden of approximately 53 hours per year (160 hours/3 years). This equates to an annual burden of 5.3 hours per NRSRO (53/10) during the three year approval period. In addition, as discussed below in section IV.D.12. of this PRA analysis, the Commission estimates that the one-time industry-wide burden resulting from filing Form ID to gain access to the EDGAR system to be approximately two and half hours, for a total industry-wide one-time burden of approximately 162.5 hours.

electronic submission would increase the current annual hour burden for Rule 17g-1.⁸² An NRSRO stated that the Commission failed to consider the significant ongoing expenses of monitoring changes in EDGAR filing requirements.⁸³ Because the amendments to Rule 17g-1 require the submission to be made in PDF format (the simplest process), the Commission does not believe that changes to the EDGAR filer manual generally will impact the NRSROs. However, the Commission agrees with the commenter that NRSROs will need to spend some time each year reviewing changes to the EDGAR filer manual to determine whether they relate to the NRSRO's submissions.⁸⁴ Consequently, the Commission now estimates, based on Commission staff experience, that each NRSRO will spend an average of approximately two hours per year monitoring changes in EDGAR filing requirements, resulting in a total industry-wide annual hour reporting burden of approximately twenty hours.⁸⁵ This includes monitoring changes in EDGAR filing requirements for both submitting Forms NRSRO and for submitting the Rule 17g-3 annual reports.

The Commission is allocating the one-time and annual hour burdens and corresponding costs of the requirement to submit Form NRSRO and the Rule 17g-3 annual reports to the Commission electronically on EDGAR as PDF documents solely to Rule 17g-1.

The Commission therefore estimates that the total industry-wide one-time hour burden resulting from the amendments to Rule 17g-1 is approximately 692.5 hours consisting of 50 hours to reconfigure NRSROs' corporate Internet websites, 480 hours to establish procedures and protocols for receiving and processing requests for a paper copy of Exhibit 1, 160 hours for becoming familiar with the EDGAR system, and 2.5 hours to complete Form ID.⁸⁶ The Commission estimates that the total industry-wide annual burden is approximately 690 hours consisting of 670 hours to process requests for a paper copy of Exhibit 1 and 20 hours to monitor changes in EDGAR filing requirements.⁸⁷

Amendments to Form NRSRO Instructions

The Commission amended the instructions for Exhibit 1 to Form NRSRO to standardize the production and presentation of the 1-year, 3-year, and 10-year transition and default statistics that an NRSRO must disclose in the exhibit.⁸⁸ The performance statistics must be presented in a

⁸² See Nationally Recognized Statistical Rating Organizations, 76 FR at 33501.

⁸³ See DBRS Letter.

⁸⁴ See, e.g., Adoption of Updated EDGAR Filer Manual, Securities Act Release No. 9600 (June 16, 2014), 79 FR 35280 (June 20, 2014); Adoption of Updated EDGAR Filer Manual, Securities Act Release No. 9554 (Mar. 4, 2014), 79 FR 13216 (Mar. 10, 2014). The Commission succinctly summarizes the updates to the EDGAR filer manual in these releases, which are less than ten pages long.

⁸⁵ 10 NRSROs x 2 hours = 20 hours.

⁸⁶ 50 + 480 + 160 + 2.5 = 692.5. For the purposes of Form 83-I, the industry-wide one-time hourly burden has been annualized over the three year approval period to an hourly burden of approximately 231 hours per year (692.5 hours/3 years). This equates to an annual burden of approximately 23 hours per NRSRO (231/10) during the three year approval period.

⁸⁷ 670 + 20 = 690

⁸⁸ See Nationally Recognized Statistical Rating Organizations, 76 FR 33537 (June 8, 2011).

format specified in the instructions, which include a sample “Transition/Default Matrix.” The amendments also will enhance the information to be disclosed by, for example, requiring statistics to be produced and presented for subclasses of structured finance products and for credit ratings where the obligation was paid off or the credit rating was withdrawn for reasons other than a default or the obligation was paid off.

In the proposing release, the Commission stated that it believed that the burdens attributable to the amendments to the instructions for Exhibit 1 should be based on the number of NRSRO credit ratings outstanding (which, based on annual certifications submitted by the NRSROs for the 2009 calendar year end, totaled 2,905,824 credit ratings outstanding across the ten NRSROs), that the one-time hour burden would be approximately three seconds per outstanding credit rating, and that the annual hour burden would be approximately one and a half seconds per outstanding credit rating, for an industry-wide one-time reporting burden of approximately 2,422⁸⁹ hours and an industry-wide annual reporting burden of approximately 1,211 hours.⁹⁰

An NRSRO stated that collecting the data required for purposes of the amendments to the instructions for Exhibit 1 to Form NRSRO would be burdensome, and this NRSRO suggested that NRSROs be exempt from the requirement to include historical data to the extent that the NRSRO does not already capture such information “in a readily retrievable format.”⁹¹ Another NRSRO stated that the definition of paid off as applied to obligors “is not practicable” because some obligors do not have rated debt outstanding and it would be difficult to track whether all obligations of an obligor are paid off.⁹² In addition, an NRSRO objected to basing burden estimates on the number of credit ratings outstanding or the number of credit analysts employed by NRSROs, stating that the burden estimates “must include the amount of legal and compliance resources necessary to implement systemic and simultaneous changes.”⁹³

As discussed above, in response to comment, the Commission has modified the instructions for Exhibit 1 to Form NRSRO. The final amendments provide that, except for the issuers of asset-backed securities class of credit ratings, to determine the number of credit ratings outstanding as of the beginning of the applicable period, the NRSRO must include only credit ratings assigned to an obligor as an entity or, if there is no such credit rating, the credit rating of the obligor’s senior unsecured debt, instead of all of the credit ratings of individual securities or money-market instruments issued by the obligor. Because the Commission has narrowed the scope of the types of credit ratings that will have to be included in the performance statistics for four of the five classes of credit ratings, this should substantially reduce the amount of historical information that will need to be analyzed. The Commission has also revised the standard

⁸⁹ 2,905,824 credit ratings x 3 seconds = 2,421.52 hours (rounded to 2,422 hours).

⁹⁰ See Nationally Recognized Statistical Rating Organizations, 76 FR at 33502. 2,905,824 credit ratings x 1.5 seconds = 1,210.76 hours (rounded to 1,211 hours).

⁹¹ See Moody’s Letter.

⁹² See S&P Letter.

⁹³ See A.M. Best Letter. See also DBRS Letter.

definition of paid off, in response to comment,⁹⁴ to eliminate the prong that applied to credit ratings of obligors as entities. The Commission has clarified that the rule does not require NRSROs to track the outcomes of obligors, securities, or money market instruments after the credit ratings assigned to them have been withdrawn, in response to comments from two NRSROs,⁹⁵ one of which stated that “the proposed requirement to separately track rating withdrawals, because of repayments and other reasons, likely would be impractical in many cases.”⁹⁶

The Commission believes that it is appropriate to base some of the burden estimates attributable to the amendments to the instructions for Exhibit 1 on the number of NRSRO credit ratings outstanding, as the time required to retrieve information will depend on the number of credit ratings outstanding and the time required to calculate the performance statistics should be greater for a larger start-date cohort. However, as stated above, in response to comment, the Commission added to its one-time burden estimate to account for burden that does not depend on the number of NRSRO credit ratings outstanding.⁹⁷ For example, some of the burden associated with establishing systems for determining performance statistics according to the amended instructions may not depend on the number of credit ratings outstanding. While commenters did not provide an estimate of the amount of one-time burden that would be unrelated to the number of credit ratings outstanding, the Commission added to the one-time hour burden estimated in the proposing release a one-time hour reporting burden that is not linked to the number of credit ratings outstanding. Specifically, the Commission estimates, based on Commission staff experience, a one-time reporting burden of approximately fifty hours per NRSRO, for an industry-wide total of approximately 500 hours on a one-time basis,⁹⁸ attributable to the amendments to the instructions for Exhibit 1 that is in addition to the one-time burden based on the number of credit ratings outstanding.

In order to be conservative, the Commission did not revise its time per credit rating estimates as a result of the modifications to the amendments to the instructions for Exhibit 1 in the final rule, although the modifications may result in lower burdens compared to those of the proposed amendments. However, the Commission is updating its estimate of the number of NRSRO credit ratings outstanding. Based on the annual certifications submitted by the NRSROs for the 2013 calendar year, there were approximately 2,437,046 credit ratings outstanding across all ten NRSROs. The Commission therefore estimates that the industry-wide one-time hour reporting burden for NRSROs to establish systems to process the relevant information necessary to complete Exhibit 1 to Form NRSRO that is based on the number of outstanding credit ratings

⁹⁴ See S&P Letter.

⁹⁵ See Moody’s Letter; S&P Letter.

⁹⁶ See S&P Letter.

⁹⁷ See A.M. Best Letter; DBRS Letter.

⁹⁸ 50 hours x 10 NRSROs = 500 hours. Annualized over three years, the hour burden equals approximately 167 (500 / 3 = 166.67).

is approximately 2,031 hours⁹⁹ and that the industry-wide annual reporting burden is approximately 1,015 hours.¹⁰⁰

The Commission therefore estimates that the total industry-wide one-time hour burden to NRSROs resulting from the amendments to the instructions for Exhibit 1 to Form NRSRO is approximately 2,531 hours¹⁰¹ to establish systems for determining performance statistics according to the amended instructions and that the annual burden is approximately 1,015 hours to calculate and format the performance statistics according to the amended instructions.

Therefore, prior to giving effect to the amendments to paragraph (i) of Rule 17g-1 and the instructions to Exhibit 1 of Form NRSRO, the total one-time burden for Rule 17g-1 and Form NRSRO is 1,675 hours (125 + 300 + 1,000 + 250), and the revised total ongoing burden is 822 hours (1 + 500 + 100 + 1 + 100 + 120). 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 4,898.5 hours (1,675 + 692.5 + 2,531) and the revised ongoing burden is 2,527 hours (822 + 690 + 1,015).

The amendments to paragraph (i) of Rule 17g-1 and the instructions to Exhibit 1 of Form NRSRO result in a one-time increase of 3,223.5¹⁰² hours, and an ongoing increase of 1,705 annual hours.¹⁰³

13. Costs to Respondents

Rule 17g-1 Prior to the Amendments

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 previously estimated 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 estimated that this work will be split between a

⁹⁹ 2,437,046 credit ratings x 3 seconds = 2,030.9 hours (rounded to 2,031 hours). For the purposes of Form 83-I, the industry-wide one-time hourly burden has been annualized over the three year approval period to an hourly burden of approximately 677 hours per year (2,031 hours/3 years). This equates to an annual burden of approximately 67.7 hours per NRSRO (677/10) during the three year approval period.

¹⁰⁰ 2,437,046 credit ratings x 1.5 seconds = 1015.4 hours (rounded to 1015 hours).

¹⁰¹ 500 hours + 2,031 hours = 2,531 hours. For the purposes of Form 83-I, the industry-wide one-time hourly burden has been annualized over the three year approval period to an hourly burden of approximately 844 hours per year (2,531 hours/3 years). This equates to an annual burden of approximately 84.4 hours per NRSRO (844/10) during the three year approval period.

¹⁰² 4,898.5 – 1,675 = 3,223.5. For the purposes of Form 83-I, the industry-wide one-time hourly burden has been annualized over the three year approval period to an hourly burden of 1,074.5 hours per year (3,223.5 hours/3 years). This equates to an annualized annual burden of 107.45 hours per NRSRO (1,074.5/10).

¹⁰³ 2,527 – 822 = 1,705

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 \$16,000¹⁰⁴ and the one-time cost to the industry will be \$160,000.¹⁰⁵ 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 $\$160,000/3=\$53,333$.

Amendments to Rule 17g-1 and Form NRSRO

The Commission amended paragraph (i) of Rule 17g-1 to require that NRSROs make their most recent Exhibit 1 of Form NRSRO freely available in writing to any individual who requests a copy of the Exhibit to implement the rulemaking mandated in section 15E(q)(2)(D) of the Exchange Act. In response to comments stating that NRSROs should be able to charge the requesting individual postage and handling fees,¹⁰⁶ the Commission agreed, as stated above, that an NRSRO may charge a reasonable postage and handling fee. Because NRSROs may choose not to pass the postage costs on to persons requesting the exhibit in writing, the Commission estimates that the cost of postage will be approximately two dollars per request, for an industry-wide annual cost of approximately \$4,000.¹⁰⁷ The Commission therefore estimates that the total industry-wide annual external cost to NRSROs resulting from the amendments to Rule 17g-1 is approximately \$4,000.

The total industry-wide annual external cost to NRSROs resulting from Rule 17g-1 is therefore approximately $=\$57,333$ per year ($=\$53,333+ \$4,000$). The amendments to paragraph (i) of Rule 17g-1 and the instructions to Exhibit 1 of Form NRSRO result in an ongoing increase of \$4,000 per year.

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, internal staff labor is not included as a cost to the federal government, so this cost is zero.

¹⁰⁴ \$400 per hour x 40 hours = \$16,000.

¹⁰⁵ \$16,000 x 10 NRSROs = \$160,000.

¹⁰⁶ See [DBRS Letter](#); [S&P Letter](#).

¹⁰⁷ 200 requests x \$2.00 = \$400; 10 NRSROs x \$400 = \$4,000.

15. Changes in Burden

The change in burden is a result of the amendments to Rule 17g-1 and the Instructions to Form NRSRO.

16. Information Collection Planned for Statistical Purposes

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

17. Approval to Omit OMB Expiration Date

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 rule.

B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS

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