

SUPPORTING STATEMENT
for the Paperwork Reduction Act Information Collection Submission
“Rule 17g-8: Policies, procedures, and internal controls”,
and
“Rule 17g-9: Standards of training, experience, and competence for credit analysts”

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” (“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 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, established new self-executing requirements applicable to NRSROs, required certain studies, and required 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.⁵

On May 18, 2011, the Commission proposed for comment new Rule 17g-8 and new Rule 17g-9 under the Exchange Act, in accordance with Title IX, Subtitle C of the Dodd-Frank Act and to enhance oversight of NRSROs.⁶ On August 27, 2014, the Commission adopted new Rule 17g-8 (17 CFR 240.17g-8), to implement rulemaking required by Sections 15E(h)(4)(A)(ii) and 15E(r) of the Exchange Act and Section 938(a) of the Dodd-Frank Act, and new Rule 17g-9 (17 CFR 240.17g-9), to implement rulemaking required by Section 936 of the Dodd-Frank Act, as discussed below.⁷

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 at 33564 (June 18, 2007).

⁴ Pub. L. No. 111-203, 124 Stat. 1376, H.R. 4173 (July 21, 2010).

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

⁶ Nationally Recognized Statistical Rating Organizations, Exchange Act Release No. 64514 (May 18, 2011), 76 FR at 33420 (June 8, 2011) (“Proposing Release”).

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New Rule 17g-8 requires NRSROs to (1) establish, maintain, and enforce certain policies and procedures relating to the determination of credit ratings; (2) establish, maintain, and enforce certain policies and procedures relating to the assignment of credit rating symbols, numbers, or scores; and (3) establish, maintain, and enforce certain policies and procedures relating to look-back reviews.⁸ New Rule 17g-9 requires NRSROs to establish, maintain, enforce and document standards of training, experience and competence for the individuals it employs to determine credit ratings.⁹

Rule 17g-8

Rule 17g-8 under the Exchange Act contains recordkeeping requirements for NRSROs.¹⁰ These recordkeeping requirements involve a collection of information within the meaning of the Paperwork Reduction Act of 1995 (“PRA”). The collection of information obligations imposed by Rule 17g-8 are mandatory, but only apply to credit rating agencies that are voluntarily registered with the Commission as NRSROs.

A. Credit Rating Methodologies and Procedures

Paragraph (a) of Rule 17g-8 implements rulemaking mandated in Section 15E(r) of the Exchange Act by requiring an NRSRO to establish, maintain, enforce and document policies and procedures with respect to the procedures and methodologies the NRSRO uses to determine credit ratings.¹¹ In particular, paragraph (a)(1) requires the NRSRO to have policies and procedures that are reasonably designed to ensure that the procedures and methodologies, including qualitative and quantitative data and models, the NRSRO uses to determine credit ratings are approved by its board of directors or, if the NRSRO does not have a board of directors, a body performing a function similar to that of a board of directors.¹² Paragraph (a)(2) requires an NRSRO to have policies and procedures that are reasonably designed to ensure that the procedures and methodologies, including qualitative and quantitative data and models, the NRSRO uses to determine credit ratings are developed and modified in accordance with the policies and procedures of the NRSRO.¹³ Paragraph (a)(3)(i) requires an NRSRO to have policies and procedures that are reasonably designed to ensure that material changes to the procedures and methodologies, including changes to qualitative and quantitative data and models, the NRSRO uses to determine credit ratings are applied consistently to all current and

Nationally Recognized Statistical Rating Organizations, Exchange Act Release No. 72936 (August 27, 2014), 79 FR at 55078 (Sept. 15, 2014) (“Adopting Release”).

⁸ See 17 CFR 240.17g-8.

⁹ See 17 CFR 240.17g-9.

¹⁰ The Office of Management and Budget (“OMB”) Control Number for Rule 17g-8 and Rule 17g-9 is 3235-693.

¹¹ 17 CFR 240.17g-8(a).

¹² 17 CFR 240.17g-8(a)(1).

¹³ 17 CFR 240.17g-8(a)(2).

future credit ratings to which the changed procedures or methodologies apply.¹⁴ Paragraph (a)(3)(ii) requires the NRSRO to have policies and procedures that are reasonably designed to ensure that material changes to the procedures and methodologies, including changes to qualitative and quantitative data and models, the NRSRO uses to determine credit ratings are, to the extent that the changes are to surveillance or monitoring procedures and methodologies, applied to current credit ratings to which the changed procedures or methodologies apply within a reasonable period of time, taking into consideration the number of credit ratings impacted, the complexity of the procedures and methodologies used to determine the credit ratings, and the type of obligor, security, or money market instrument being rated.¹⁵ Paragraph (a)(4)(i) requires the NRSRO to have policies and procedures that are reasonably designed to ensure that the NRSRO promptly publishes on an easily accessible portion of its corporate Internet website material changes to the procedures and methodologies, including to qualitative models or quantitative inputs, the NRSRO uses to determine credit ratings, the reason for the changes, and the likelihood the changes will result in changes to any current ratings.¹⁶ Paragraph (a)(4)(ii) requires the NRSRO to have policies and procedures that are reasonably designed to ensure the NRSRO promptly publishes on an easily accessible portion of its corporate Internet website notice of the existence of significant errors identified in a procedure or methodology, including a qualitative or quantitative model, the NRSRO uses to determine credit ratings that may result in a change in current credit ratings.¹⁷ Finally, paragraph (a)(5) requires the NRSRO to have policies and procedures that are reasonably designed to ensure that it discloses the version of a credit rating procedure or methodology, including the qualitative methodology or quantitative inputs, used with respect to a particular credit rating.¹⁸

B. Credit Rating Symbols

Paragraph (b) of Rule 17g-8 implements rulemaking mandated in Section 938(a) of the Dodd-Frank Act by requiring an NRSRO to establish, maintain, enforce and document policies and procedures with respect to the symbols, numbers, or scores it uses to denote credit ratings.¹⁹ In particular, paragraph (b)(1) requires the NRSRO to have policies and procedures reasonably designed to assess the probability that an issuer of a security or money market instrument will default, fail to make timely payments, or otherwise not make payments to investors in accordance with the terms of the security or money market instrument.²⁰ Paragraph (b)(2) requires the NRSRO to have policies and procedures reasonably designed to clearly define the meaning of each symbol, number, or score in the rating scale used by the NRSRO to denote a

¹⁴ 17 CFR 240.17g-8(a)(3)(i).

¹⁵ 17 CFR 240.17g-8(a)(3)(ii).

¹⁶ 17 CFR 240.17g-8(a)(4)(i).

¹⁷ 17 CFR 240.17g-8(a)(4)(ii).

¹⁸ 17 CFR 240.17g-8(a)(5).

¹⁹ 17 CFR 240.17g-8(b).

²⁰ 17 CFR 240.17g-8(b)(1).

credit rating category and notches within a category for each class and subclass of credit ratings for which the NRSRO is registered and to include such definitions in Exhibit 1 to Form NRSRO.²¹ Paragraph (b)(3) requires the NRSRO to have policies and procedures reasonably designed to apply any symbol, number, or score defined pursuant to paragraph (b)(2) of Rule 17g-8 in a manner that is consistent for all types of obligors, securities and money market instruments for which the symbol, number, or score is used.²²

C. Look-back Review

Paragraph (c) of Rule 17g-8 implements rulemaking mandated in Section 15E(h)(4)(A) (ii) of the Exchange Act by requiring an NRSRO to include certain policies and procedures in the policies and procedures the NRSRO is required to establish, maintain, and enforce pursuant to Section 15E(h)(4)(A) of the Exchange Act.²³ Specifically, paragraph (c) requires an NRSRO to have policies and procedures to address instances in which a look-back review determines that a conflict of interest influenced a credit rating assigned to an obligor, security, or money market instrument by including, at a minimum, procedures that are reasonably designed to ensure that the NRSRO will: (1) promptly determine whether the credit rating must be revised so that it is no longer influenced by a conflict of interest; (2) promptly publish a revised credit rating, if appropriate, or affirm the credit rating, if appropriate, and, in either case, disclose certain information about the reason for the rating action; and (3) if the credit rating is not revised or affirmed within fifteen calendar days of the date of the discovery that the credit rating was influenced by a conflict of influence, publish a rating action placing the credit rating on watch or review and include with the publication an explanation that the reason for the action is the discovery that the credit rating was influenced by a conflict of interest.²⁴

D. Internal Control Structure

Paragraph (d) of Rule 17g-8 requires an NRSRO to consider certain prescribed factors when establishing, maintaining, enforcing, and documenting an effective internal structure governing the implementation of and adherence to policies, procedures, and methodologies for determining credit ratings pursuant to Section 15E(c)(3)(A) of the Exchange Act.²⁵ This requirement does not contain a collection of information requirement within the meaning of the PRA.

Rule 17g-9

Rule 17g-9 under the Exchange Act contains recordkeeping requirements for NRSROs. These recordkeeping requirements involve a collection of information within the meaning of the

²¹ 17 CFR 240.17g-8(b)(2).

²² 17 CFR 240.17g-8(b)(3).

²³ 17 CFR 240.17g-8(c).

²⁴ Id.

²⁵ 17 CFR 240.17g-8(d).

PRA. The collection of information obligations imposed by Rule 17g-9 are mandatory, but only apply to credit rating agencies that are voluntarily registered with the Commission as NRSROs.

Rule 17g-9 implements Section 936 of the Dodd-Frank Act, which requires the Commission to issue rules reasonably designed to ensure that any person employed by an NRSRO to determine credit ratings meets standards of training, experience, and competence necessary to produce accurate ratings for the categories of issuers whose securities the person rates and is tested for knowledge of the credit rating process.²⁶ Paragraph (a) of Rule 17g-9 requires an NRSRO to establish, maintain, enforce, and document standards of training, experience, and competence for the individuals it employs to determine credit ratings that are reasonably designed to achieve the objective that such individuals produce accurate credit ratings in the classes and subclasses of credit ratings for which the NRSRO is registered.²⁷ Paragraph (b) of Rule 17g-9 requires that the NRSRO consider certain factors when establishing the standards, including the knowledge and technical expertise required of the individual and the classes and complexity of credit ratings being rated by the individual.²⁸ Paragraph (c) of Rule 17g-9 requires that the standards must include a requirement for periodic testing of the individuals on their knowledge of the procedures and methodologies used by the NRSRO to determine credit ratings in the classes of credit ratings for which the individual participates in determining credit ratings; and a requirement that at least one individual with three years or more experience in performing credit analysis participates in the determination of a credit rating.²⁹

2. Purpose and Use of the Information Collection

Rule 17g-8

The purpose of new Rule 17g-8 is to implement rulemaking required by Sections 15E(h)(4)(A)(ii) and 15E(r) of the Exchange Act and Section 938(a) of the Dodd-Frank Act.

Paragraph (a) of Rule 17g-8 requires an NRSRO to have policies and procedures with respect to the procedures and methodologies the NRSRO uses to determine credit ratings. These policies and procedures will be used by the NRSRO to achieve the objectives of Section 15E(r) of the Exchange Act,³⁰ namely, that the NRSRO:

- determines credit ratings using procedures and methodologies, including qualitative and quantitative data and models, that are approved by the board of the NRSRO, or a body performing a function similar to that of a board;³¹

²⁶ See Pub. L. No. 111-203 § 936.

²⁷ 17 CFR 240.17g-9(a).

²⁸ 17 CFR 240.17g-9(b).

²⁹ 17 CFR 240.17g-9(c).

³⁰ See 15 U.S.C. 78o-7(r)(1) through (3).

³¹ See 15 U.S.C. 78o-7(r)(1)(A).

- determines credit ratings using procedures and methodologies, including qualitative and quantitative data and models, that are in accordance with the policies and procedures of the NRSRO for the development and modification of credit rating procedures and methodologies;³²
- when material changes are made to credit rating procedures and methodologies (including changes to qualitative and quantitative data and models), applies the changes consistently to all credit ratings to which the changed procedures and methodologies apply;³³
- when material changes are made to credit rating procedures and methodologies (including changes to qualitative and quantitative data and models), to the extent that changes are made to credit rating surveillance procedures and methodologies, applies the changes to then-current credit ratings within a reasonable time period determined by the Commission, by rule;³⁴
- when material changes are made to credit rating procedures and methodologies (including changes to qualitative and quantitative data and models), the NRSRO publicly discloses the reason for the change;³⁵
- notifies users of credit ratings of the version of a procedure or methodology, including the qualitative methodology or quantitative inputs, used with respect to a particular credit rating;³⁶
- notifies users of credit ratings when a material change is made to a procedure or methodology, including to a qualitative model or quantitative input;³⁷
- notifies users of credit ratings when a significant error is identified in a procedure or methodology, including a qualitative or quantitative model, that may result in credit rating actions;³⁸ and

³² See 15 U.S.C. 78o-7(r)(1)(B).

³³ See 15 U.S.C. 78o-7(r)(2)(A).

³⁴ See 15 U.S.C. 78o-7(r)(2)(B).

³⁵ See 15 U.S.C. 78o-7(r)(2)(C).

³⁶ See 15 U.S.C. 78o-7(r)(3)(A).

³⁷ See 15 U.S.C. 78o-7(r)(3)(B).

³⁸ See 15 U.S.C. 78o-7(r)(3)(C).

- notifies users of credit ratings when a material change is made to a procedure or methodology, including to a qualitative model or quantitative input, of the likelihood the change will result in a change in current credit ratings.³⁹

Paragraph (b) of Rule 17g-8 requires an NRSRO to have policies and procedures with respect to the symbols, numbers, or scores it uses to denote credit ratings. These policies and procedures will be used by the NRSRO to achieve the objectives of Sections 938(a)(1) through (3) of the Dodd-Frank Act;⁴⁰ namely, that the NRSRO establishes, maintains, and enforces written policies and procedures to: (1) assess the probability that an issuer of a security or money market instrument will default, fail to make timely payments, or otherwise not make payments to investors in accordance with the terms of the security or money market instrument;⁴¹ (2) clearly define and disclose the meaning of any symbol used by the NRSRO to denote a credit rating;⁴² and (3) apply any symbol described in item (2) in a manner that is consistent for all types of securities and money market instruments for which the symbol is used.⁴³

Paragraph (c) of Rule 17g-8 requires that the policies and procedures an NRSRO is required to establish, maintain, and enforce pursuant to Section 15E(h)(4)(A) of the Exchange Act with respect to look-back reviews must address instances in which a look-back review determines that a conflict of interest influenced a credit rating by including, at a minimum, procedures that are reasonably designed to ensure that the NRSRO takes certain steps reasonably designed to ensure the credit rating is no longer influenced by the conflict and that the existence and an explanation of the conflict is disclosed. These policies and procedures will be used by the NRSRO to achieve the objective specified in Section 15E(h)(4)(A)(ii) of the Exchange Act to revise a credit rating, if appropriate, when a look-back review determines the credit rating was influenced by the conflict of interest of the credit analyst seeking employment with the person subject to the credit rating or the issuer, underwriter, or sponsor of a security or money market instrument subject to the credit rating.⁴⁴

The collection of information included in Rule 17g-8 including the requirement that the required policies and procedures be documented in writing, will also 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.

Rule 17g-9

³⁹ See 15 U.S.C. 78o-7(r)(3)(D).

⁴⁰ See Pub. L. No. 111-203 §§ 938(a)(1) through (3).

⁴¹ See Pub. L. No. 111-203 § 938(a)(1).

⁴² See Pub. L. No. 111-203 § 938(a)(2).

⁴³ See Pub. L. No. 111-203 § 938(a)(3).

⁴⁴ See 15 U.S.C. 78o-7(h)(4)(A)(ii).

The purpose of new Rule 17g-9 is to implement rulemaking required by Section 936 of the Dodd-Frank Act.

Rule 17g-9 requires an NRSRO to establish, maintain, enforce, and document standards of training, experience, and competence for the individuals it employs to determine credit ratings. These standards will be used by the NRSRO to achieve the objectives of Sections 936(1) and (2) of the Dodd-Frank Act that any person employed by the NRSRO to perform credit ratings produces accurate ratings for the categories of issuers whose securities the person rates and is tested for knowledge of the credit rating process.⁴⁵ The requirement that the standards be documented in writing will be used by the NRSRO to promote an understanding of the standards within the NRSRO.

The collection of information included in Rule 17g-9, including the requirement that the standards be documented in writing, will also assist the Commission in effectively monitoring, through its examination function, whether an NRSRO is in compliance with Rule 17g-9.

3. Consideration Given to Information Technology

Rule 17g-8

With respect to Rule 17g-8, the Commission does not believe that the policies and procedures related to credit rating methodologies, the use of credit rating symbols, and “look-backs” to credit ratings that may have been influenced by conflicts of interest materially implicate the use of information technology. The records that Rule 17g-8 requires NRSROs to make could be made electronically. NRSROs are not prevented by Rule 17g-8 from using computers or other mechanical devices to generate the records required by the rule.

Rule 17g-9

With respect to Rule 17g-9, the Commission does not believe that the standards of training, experience, and competence materially implicate the use of information technology. The records that Rule 17g-9 requires NRSROs to make could be made electronically. NRSROs are not prevented by Rule 17g-9 from using computers or other mechanical devices to generate the records required by the rule.

4. Duplication

The Commission has not identified any duplication with respect to the information required by Rule 17g-8 or Rule 17g-9.

5. Effect on Small Entities

Rule 17g-8

⁴⁵ See Pub. L. No. 111-203 §§ 936(1) and (2).

Small entities may be affected by Rule 17g-8 because all NRSROs, regardless of size are subject to the rule. Currently, there are ten credit rating agencies registered with the Commission as NRSROs. The Commission stated in the Adopting Release that based on their annual reports under Rule 17g-3 for the 2013 fiscal year, two NRSROs are small entities.⁴⁶ The Commission solicited comment in the Proposing Release regarding the rule's burden on small entities and considered potential alternatives to minimize the burden of the collection of information requirements on those who are required to respond. The Commission received comments regarding the burden on applicants or NRSROs that are small entities. With respect to Rule 17g-8, the Commission has adopted policies and procedures-based requirements which allow an NRSRO considered to be a small entity to comply with the rule by tailoring and scaling its policies and procedures to its size and business activities. This should result in a lower burden on smaller NRSROs as compared to large NRSROs because the smaller NRSROs issue substantially fewer credit ratings than the large NRSROs.⁴⁷ Consequently, the number of credit analysts and credit ratings to which the policies and procedures will need to be applied will be significantly fewer than will be the case for a large NRSRO. Thus, the new rule should result in lower burden for small NRSROs in terms of the scope of the activities to be addressed by the policies and procedures.

Rule 17g-9

Small entities may be affected by Rule 17g-9 because all NRSROs, regardless of size are subject to the rule. Currently, there are ten credit rating agencies registered with the Commission as NRSROs. The Commission stated in the Adopting Release that, based on their annual reports under Rule 17g-3 for the 2013 fiscal year, two NRSROs are small entities.⁴⁸ The Commission solicited comment in the Proposing Release regarding the proposal's burden on small entities and considered potential alternatives to minimize the burden of the collection of information requirements on those who are required to respond. Some commenters believed that the proposed rule provided too much flexibility to an NRSRO to design its standards of training, experience and competence. The Commission intended the rule to provide flexibility because, among other reasons, the NRSROs vary significantly in size and the scope of their activities. Therefore Rule 17g-9 provides flexibility to NRSROs, including small NRSROs, to customize their standards, provided they consider the factors in paragraph (b) and incorporate the standards required under paragraph (c) of Rule 17g-9.⁴⁹

6. Consequences of Not Conducting Collection

Rule 17g-8

⁴⁶ See Nationally Recognized Statistical Rating Organizations, 79 FR at 55257.

⁴⁷ See Nationally Recognized Statistical Rating Organizations, 79 FR at 55086 (Sept. 15, 2014) (Table 4 - showing the approximate number of credit ratings outstanding across the ten NRSROs).

⁴⁸ See Nationally Recognized Statistical Rating Organizations, 79 FR at 55257.

⁴⁹ See id. at 55202.

Up-to-date records are essential for the Commission to monitor whether an NRSRO continues to meet the requirements for registration as an NRSRO. Section 15E(r) and Section 15E(h)(4)(A)(ii) of the Exchange Act require the Commission to adopt rules that require NRSROs to adopt policies and procedures relating to credit rating methodologies and “look-backs” to credit ratings possibly influenced by conflicts of interest. Consequently, if the information required by Rule 17g-8 is not collected, the objectives of Section 15E(r) and Section 15E(h)(4)(A)(ii) of the Exchange Act⁵⁰ would not be achieved. Furthermore, if the information required by Rule 17g-8 is not collected, the objectives of Section 938(a) of the Dodd-Frank Act,⁵¹ which requires the Commission to adopt rules relating to NRSROs’ use of credit rating symbols, would also not be achieved.

Rule 17g-9

Up-to-date records are essential for the Commission to monitor whether an NRSRO continues to meet the requirements for registration as an NRSRO. Section 936 of the Dodd-Frank Act requires the Commission to issue rules reasonably designed to ensure that any person employed by an NRSRO to determine credit ratings meets standards of training, experience, and competence necessary to produce accurate ratings for the categories of issuers whose securities the person rates and is tested for knowledge of the credit rating process. Consequently, if the information required by Rule 17g-9 is not collected, the objectives of Section 936 of the Dodd-Frank Act⁵² would not be achieved. Furthermore, if the information required to be retained under Rule 17g-9 were not collected, the Commission would be unable to ascertain, on an ongoing basis, whether any person employed by an NRSRO to determine credit ratings meets standards of training, experience, and competence necessary to produce accurate ratings for the categories of issuers whose securities the person rates and is tested for knowledge of the credit rating process.

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 solicited comment on the estimated PRA burden associated with the proposed collection of information requirements in the Proposing Release.⁵³ Comments on the Proposing Release were received from registrants, investors, and other market participants. In addition, the Commission and staff participate in ongoing dialogue with representatives of various market participants through public conferences, meetings and informal exchanges. The comments received on the Proposing Release are posted on the Commission’s public website,

⁵⁰ See 15 U.S.C. 78o-7(r) and 15 U.S.C. 78o-7(h)(4)(A)(ii).

⁵¹ See Pub. L. No. 111-203 § 938(a).

⁵² See Pub. L. No. 111-203 § 936.

⁵³ See Proposed Rules for Nationally Recognized Statistical Rating Organizations, 76 FR at 33420.

and made available here <http://www.sec.gov/comments/s7-18-11/s71811.shtml>. The Commission considered all comments received prior to adopting Rules 17g-8 and 17g-9 and explained in the Adopting Release how the final rules responded to such comments, in accordance with 5 C.F.R. 1320.11(f).

Rule 17g-8

With respect to paragraph (a) of Rule 17g-8, one commenter stated that to adopt policies mandating board approval of procedures and methodologies to determine credit ratings would be “overly-burdensome for many smaller NRSROs and likely cost prohibitive for a small credit rating agency seeking to become an NRSRO.”⁵⁴ A second commenter stated that certain provisions of Rule 17g-8, including those related to credit rating methodologies, would compound barriers to entry, that many of the new provisions are “expensive and burdensome to implement,” especially for newer and smaller NRSROs, and do not appear to promote competition, and that the Commission should take into account the “dominance” of the larger players and expand small company exceptions that are “needed to level the competitive field.”⁵⁵

In response to comments about the board’s role in approving the procedures and methodologies an NRSRO uses to determine credit ratings, the Commission noted in the Adopting Release that Section 15E(t)(3)(A) of the Exchange Act provides that the board of an NRSRO shall oversee the establishment, maintenance, and enforcement of policies and procedures for determining credit ratings.⁵⁶ Consequently, the self-executing requirement in the statute governs the responsibility of the board. Paragraph (a)(1) of Rule 17g-8 governs the responsibility of the NRSRO to have policies and procedures reasonably designed to ensure that board carries out this statutory responsibility. Therefore, the rule implements a policies and procedures-based requirement and, therefore, a small NRSRO can comply with the rule requirements by tailoring and scaling its policies and procedures to its size and business activities. Moreover, with respect to the self-executing requirement, Section 15E(t)(5) of the Exchange Act provides exception authority under which the Commission may permit an NRSRO to delegate responsibilities required in Section 15E(t) to a committee if the Commission finds that compliance with the provisions of that Section present an unreasonable burden on a small NRSRO.⁵⁷ The ability to request an exception under Section 15E(t)(5) provides a means for a small NRSRO to seek relief to delegate responsibilities to a committee if the Commission finds the costs and burdens associated with the requirements of Section 15E(t) of the Exchange Act – including the requirement that the board oversee the establishment, maintenance, and enforcement of the policies and procedures for determining credit ratings – are an unreasonable burden.⁵⁸

⁵⁴ See letter from Larry G. Mayewski, Executive Vice President, A.M. Best, dated Aug. 8, 2011 (“A.M. Best Letter”); available at <http://www.sec.gov/comments/s7-18-11/s71811-39.pdf>.

⁵⁵ See letter from Jules B. Kroll, Chairman and CEO, Kroll Bond Rating Agency, Inc., dated Aug. 8, 2011 (“Kroll Letter”); available at <http://www.sec.gov/comments/s7-18-11/s71811-36.pdf>.

⁵⁶ See 15 U.S.C. 78o-7(t)(3)(A).

⁵⁷ See 15 U.S.C. 78o-7(t)(5).

Rule 17g-9

The Commission received comments regarding the use of the number of credit ratings or credit analysts in estimating the burdens associated with Rule 17g-9, stating that the burden must also “include the amount of legal and compliance resources necessary to implement system and simultaneous changes” and that “investments will not be diminished relative to financial resources because an NRSRO may have fewer analysts or credit ratings issued.”⁵⁹ In response to this comment, the Commission added to its burden estimate for Rule 17g-9 in the Adopting Release to account for burdens that do not depend on the number of credit analysts employed by an NRSRO.

9. Payment or Gift

The Commission did not provide any payment or gift to respondents in connection with Rule 17g-8 or Rule 17g-9.

10. Confidentiality

The records that an NRSRO must make and retain under Rule 17g-8 and Rule 17g-9 will be made available to the Commission and its representatives as required in connection with examinations, investigations, and enforcement proceedings. The confidentiality of the information submitted to the Commission under Rule 17g-8 and Rule 17g-9 will be protected only to the extent permitted by the Freedom of Information Act (FOIA).

11. Sensitive Questions

Not applicable. No inquiries of a sensitive nature were made. The information collections required under Rule 17g-8 and Rule 17g-9 do not collect any Personally Identifiable Information (PII).

12. Burden of Information Collection

Rule 17g-8

In the Proposing Release, the Commission estimated that an NRSRO would spend an average of approximately 200 hours establishing the policies and procedures required under paragraph (a) of Rule 17g-8, resulting in an industry-wide one-time recordkeeping burden of approximately 2,000 hours,⁶⁰ and that an NRSRO would spend an average of approximately fifty hours per year reviewing the policies and procedures, updating them (if necessary), and

⁵⁸ The Commission will handle such requests in a manner similar to requests for relief under section 36 of the Exchange Act. See 15 U.S.C. 78mm. Further information about requesting relief from the Commission under section 36 of the Exchange Act is available at <http://www.sec.gov/rules/exempt.shtml>.

⁵⁹ See A.M. Best Letter; see also letter from Daniel Curry, President, and Mary Keogh, Managing Director, Regulatory Affairs, DBRS, Inc., dated Aug. 8, 2011 (“DBRS Letter”), available at <http://www.sec.gov/comments/s7-18-11/s71811-38.pdf>.

⁶⁰ 200 hours x 10 NRSROs = 2,000 hours. See Nationally Recognized Statistical Rating Organizations, 76

enforcing them, resulting in an industry-wide annual recordkeeping burden of approximately 500 hours.⁶¹ The Commission did not receive comments on these estimates and adopted the amendments to paragraph (a) of Rule 17g-8 substantially as proposed. The Commission does not believe the modifications will change the burden estimates as they either remove ambiguities or make minor wording revisions. Consequently, the Commission is retaining these estimates without revision.

Accordingly, the Commission estimates that paragraph (a) of Rule 17g-8 will result in industry-wide one-time costs for NRSROs of approximately \$566,000⁶² to establish and document the policies and procedures and total industry-wide annual costs for NRSROs to maintain, review, update (if necessary), and enforce the policies and procedures of approximately \$142,000.⁶³

In addition, the Commission estimates that it will take an NRSRO an average of approximately twenty hours to promptly publish on an easily accessible portion of its Internet website information about material changes to its procedures and methodologies to determine credit ratings and the likelihood such changes will result in changes to any current credit ratings, or a notice of significant errors identified in a procedure or methodology, resulting in an industry-wide annual disclosure burden of approximately 200 hours.⁶⁴

Accordingly, the Commission estimates that compliance with this requirement will result in total industry-wide annual costs for NRSROs of approximately \$57,000.⁶⁵

Paragraph (b) of Rule 17g-8 requires an NRSRO to establish, maintain, enforce, and document policies and procedures with respect to the symbols, numbers, or scores it uses to denote credit ratings. In the Proposing Release, the Commission estimated that an NRSRO would spend an average of approximately 200 hours establishing the policies and procedures,

FR at 33507 (June 8, 2011). 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 666.7 hours per year (2000 hours/3 years). This equates to an annual burden of approximately 66.67 hours per NRSRO (666.7 hours/10 NRSROs) during the three year approval period.

⁶¹ 50 hours x 10 NRSROs = 500 hours. See Nationally Recognized Statistical Rating Organizations, 76 FR at 33507 (June 8, 2011).

⁶² 2,000 hours x \$283 per hour for a compliance manager = \$566,000. The salary figures provided in this Supporting Statement are from SIFMA's Management & Professional Earnings in the Securities Industry 2013, modified by Commission staff to account for a 1,800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead. For the purposes of this PRA submission, this one-time cost will be amortized over the three year approval period, \$566,000/3 = \$188,666.67. This equates to an annual cost of approximately \$18,866.67 per NRSRO (\$188,666.67/10 NRSROs) during the three year approval period.

⁶³ 500 hours x \$283 per hour for a compliance manager = \$141,500, rounded up to \$142,000.

⁶⁴ 20 hours x 10 NRSROs = 200 hours.

⁶⁵ 200 hours x \$283 per hour for a compliance manager = \$56,600, rounded up to \$57,000.

resulting in an industry-wide one-time recordkeeping burden of approximately 2,000 hours,⁶⁶ and that an NRSRO would spend an average of approximately fifty hours per year reviewing the policies and procedures, updating them (if necessary), and enforcing them, resulting in an industry-wide annual recordkeeping burden of approximately 500 hours.⁶⁷ The Commission did not receive comments on these estimates and adopted the amendments to paragraph (b) of Rule 17g-8 substantially as proposed. The Commission does not believe the modifications in the Adopting Release will change the burden estimates as they are minor wording revisions. Consequently, the Commission is retaining these estimates without revision.

Accordingly, the Commission estimates paragraph (b) of Rule 17g-8 will result in total industry-wide one-time costs for NRSROs to establish and document the policies and procedures of approximately \$566,000⁶⁸ and total industry-wide annual costs for NRSROs of approximately \$142,000 to maintain, review, update (if necessary), and enforce the policies and procedures.⁶⁹

Paragraph (c) of Rule 17g-8 requires that the policies and procedures an NRSRO is required to establish, maintain, and enforce pursuant to Section 15E(h)(4)(A) of the Exchange Act with respect to look-back reviews must address instances in which a look-back review determines that a conflict of interest influenced a credit rating by including, at a minimum, procedures that are reasonably designed to ensure that the NRSRO takes certain steps reasonably designed to ensure the credit rating is no longer influenced by the conflict and that the existence and an explanation of the conflict is disclosed in the form required under paragraph (a) of Rule 17g-7. In the Proposing Release, the Commission estimated that an NRSRO would spend an average of approximately 100 hours establishing and making a record of the policies and procedures, resulting in an industry-wide one-time recordkeeping burden of approximately 1,000 hours,⁷⁰ and that an NRSRO would spend an average of approximately twenty-five hours per year reviewing, and, if necessary, updating the policies and procedures and its record documenting the policies and procedures, maintaining and enforcing the policies and procedures, and taking steps pursuant to the policies and procedures when a look-back review determines

⁶⁶ 20 hours x 10 NRSROs = 2,000 hours. See Nationally Recognized Statistical Rating Organizations, 76 FR at 33507 (June 8, 2011). 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 666.7 hours per year (2,000 hours/3 years). This equates to an annual burden of approximately 66.67 hours per NRSRO (666.7 hours/10 NRSROs) during the three year approval period.

⁶⁷ 50 hours x 10 NRSROs = 500 hours. See Nationally Recognized Statistical Rating Organizations, 76 FR at 33507 (June 8, 2011).

⁶⁸ 2,000 hours x \$283 per hour for a compliance manager = \$566,000. For the purposes of this PRA submission, this one-time cost will be amortized over the three year approval period, $\$566,000/3 = \$188,666.67$. This equates to an annual cost of approximately \$18,866.67 per NRSRO ($\$188,666.67/10$ NRSROs) during the three year approval period.

⁶⁹ 500 hours x \$283 per hour for a compliance manager = \$141,500, rounded to \$142,000.

⁷⁰ 100 hours x 10 NRSROs = 1,000 hours. See Nationally Recognized Statistical Rating Organizations, 76 FR at 33507 (June 8, 2011). 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 333.3 hours per year (1,000 hours/3 years). This equates to an annual burden of approximately 33.33 hours per NRSRO (333.3 hours/10 NRSROs) during the three year approval period.

that a credit rating was influenced by a conflict, resulting in an average industry-wide annual recordkeeping burden of approximately 250 hours.⁷¹ The Commission did not receive comments on these estimates and adopted the amendments to paragraph (c) of Rule 17g-8 with modifications that reduce the burden in terms of the steps an NRSRO must take pursuant to the policies and procedures when a look-back review determines that a credit rating was influenced by a conflict. However, the PRA burden accounts for the time an NRSRO will spend establishing, reviewing and updating, and documenting the policies and procedures. The time spent establishing, reviewing, updating, and documenting the policies and procedures will not change because of the modifications to the rule from the proposal. Consequently, the Commission is retaining these burden estimates without revision.

Accordingly, the Commission estimates that paragraph (c) of Rule 17g-8 will result in total industry-wide one-time costs for NRSROs to establish and make a record of the policies and procedures of approximately \$283,000⁷² and total industry-wide annual costs for NRSROs of approximately \$71,000⁷³ to review, to update (if necessary) the policies and procedures and the record documenting the policies and procedures, to maintain and enforce the policies and procedures, and to take steps pursuant to the policies and procedures when a look-back review determines that a credit rating was influenced by a conflict.

The Commission therefore estimates that the total industry-wide one-time hour burden to NRSROs resulting from Rule 17g-8, as adopted, is approximately 5,000 hours to: (1) establish and document policies and procedures with respect to an NRSRO's procedures and methodologies to determine credit ratings; (2) establish and document policies and procedures with respect to the symbols, numbers, or scores an NRSRO uses to denote credit ratings; and (3) establish and make a record of its policies and procedures with respect to look-back reviews.⁷⁴ The Commission estimates that the total industry-wide annual hour burden resulting from Rule 17g-8, as adopted, is approximately 1,450 hours to: (1) maintain, review, update (if necessary), and enforce an NRSRO's policies and procedures with respect to an NRSRO's procedures and methodologies to determine credit ratings; (2) promptly publish on an easily accessible portion of its Internet website information about material changes to its procedures and methodologies to determine credit ratings and the likelihood such changes will result in changes to any current

⁷¹ 25 hours x 10 NRSROs = 250 hours. See Nationally Recognized Statistical Rating Organizations, 76 FR at 33507 (June 8, 2011).

⁷² 1,000 hours x \$283 per hour for a compliance manager = \$283,000. For the purposes of this PRA submission, this one-time cost will be amortized over the three year approval period, $\$283,000/3 = \$94,333.33$. This equates to an annual cost of \$9,433.33 per NRSRO ($\$94,333.33/10$ NRSROs) during the three year approval period.

⁷³ 250 hours x \$283 per hour for a compliance manager = \$70,750, rounded to \$71,000.

⁷⁴ 2,000 hours + 2,000 hours + 1,000 hours = 5,000 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 1,666.7 hours per year (5,000 hours/3 years). This equates to an annual burden of approximately 166.67 hours per NRSRO (1,666.7 hours/10 NRSROs) during the three year approval period. The burden associated with retaining the record documenting the procedures is attributed to Rule 17g-2(b)(13) and Rule 17g-2(b)(14).

credit ratings, or a notice of significant errors identified in a procedure or methodology; (3) maintain, review, update (if necessary), and enforce its procedures and methodologies with respect to the symbols, numbers, or scores it uses to denote credit ratings; and (4) maintain, review, update (if necessary), and enforce its policies and procedures with respect to look-back reviews and its record documenting the policies and procedures and take steps when a look-back review determines that a credit rating was influenced by a conflict.⁷⁵

Accordingly, the Commission estimates that Rule 17g-8 (including paragraph (a), (b), and (c)) will result in total industry-wide one-time costs for NRSROs of approximately \$1,415,000⁷⁶ and total industry-wide annual costs for NRSROs of approximately \$412,000.⁷⁷

Rule 17g-9

The Commission adopted Rule 17g-9, which requires an NRSRO to establish, maintain, enforce, and document standards of training, experience, and competence for the individuals it employs to determine credit ratings.⁷⁸

The Commission stated in the Proposing Release that in order to account for the significant variance in the size and complexity of NRSROs, the one-time and annual hour burden estimates attributable to Rule 17g-9 should be based on the number of credit analysts employed by the NRSROs.⁷⁹ Based on 2009 annual certifications, the Commission estimated in the Proposing Release that NRSROs employed approximately 3,520 credit analysts and that the one-time burden to establish the standards required under proposed Rule 17g-9 would be approximately five hours per credit analyst, resulting in an industry-wide one-time hour recordkeeping burden of 17,600 hours.⁸⁰ In addition, the Commission allocated 75% of these burden hours (13,200 hours) to internal burden and 25% of these burden hours (4,400 hours) to external burden to hire outside professionals to assist in setting up training programs.⁸¹ The Commission stated in the Proposing Release that it believed that the annual hour burden to comply with Rule 17g-9 would be less than the one-time hour burden since NRSROs will have established the standards of training, experience, and competence for the individuals they employ to determine credit ratings. The Commission estimated that the industry-wide annual hour

⁷⁵ 500 hours + 200 hours + 500 hours + 250 hours = 1,450 hours. The burden associated with retaining the record documenting the procedures is attributed to Rule 17g-2(b)(13) and Rule 17g-2(b)(14).

⁷⁶ \$566,000 + \$566,000 + \$283,000 = \$1,415,000. For the purposes of this PRA submission, this one-time cost will be amortized over the three year approval period, $\$1,415,000/3 = \$471,666.67$. This equates to an annual cost of \$47,166.67 per NRSRO ($\$471,666.67/10$ NRSROs) during the three year approval period.

⁷⁷ \$142,000 + \$57,000 + \$142,000 + \$71,000 = \$412,000.

⁷⁸ 17 CFR 240.17g-9.

⁷⁹ See Nationally Recognized Statistical Rating Organizations, 76 FR at 33508 (June 8, 2011).

⁸⁰ See id. 5 hours x 3,520 credit analysts = 17,600 hours.

⁸¹ See id.

recordkeeping burden to update the standards and to enforce them would be approximately one hour per credit analyst employed, resulting in an industry-wide annual hour burden of approximately 3,520 hours and allocated 75% of the burden hours (2,640 hours) to internal burden and the remaining 25% of the burden hours (880 hours) to external burden.⁸² The Commission did not receive comment on these allocation percentages and is retaining them as proposed.

However, an NRSRO objected to using the number of credit ratings or credit analysts in estimating the burdens associated with the proposal, stating that the burden must also “include the amount of legal and compliance resources necessary to implement system 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.”⁸³ In response to this comment, the Commission added to its burden estimate for Rule 17g-9 in the Adopting Release to account for burdens that do not depend on the number of credit analysts employed by an NRSRO. For example, the cost of establishing, maintaining, enforcing, and documenting standards of training, experience, and competence for credit analysts, establishing testing programs, and administering training and testing programs may not be directly proportional to the number of credit analysts employed by an NRSRO. The Commission believes that it is appropriate, however, to retain the burdens based on the number of credit analysts employed by NRSROs as some of the burden attributable to Rule 17g-9 (for example, the burden associated with testing credit analysts on their knowledge of the procedures and methodologies used by the NRSRO to determine credit ratings) may be proportional to the number of credit analysts employed by an NRSRO.

Based on staff experience, the Commission estimates that the additional burden attributable to Rule 17g-9 that does not depend on the number of credit analysts employed by an NRSRO is approximately 400 hours per NRSRO on a one-time basis and approximately 100 hours per NRSRO annually, for an industry-wide one-time recordkeeping burden of approximately 4,000 hours and an industry-wide annual recordkeeping burden of approximately 1,000 hours. The Commission believes that it is appropriate to allocate 75% of the one-time and annual burden hours to internal burden and the remaining 25% to external burden to hire outside professionals to assist in establishing and updating credit analyst training programs. Of the totals, therefore, 3,000 hours are allocated to internal one-time burden,⁸⁴ 1,000 hours are allocated to external one-time burden,⁸⁵ 750 hours are allocated to internal annual burden,⁸⁶ and

⁸² See id.

⁸³ See A.M. Best Letter. See also DBRS Letter.

⁸⁴ 4,000 hours x .75 = 3,000 hours. For the purposes of Form 83-I, the industry-wide one-time internal hourly burden has been annualized over the three year approval period to an hourly burden of approximately 1,000 hours per year (3,000 hours/3 years). This equates to an annual burden of approximately 100 hours per NRSRO (1,000 hours/10 NRSROs) during the three year approval period.

⁸⁵ 4,000 hours x .25 = 1,000 hours.

⁸⁶ 1,000 hours x .75 = 750 hours.

250 hours are allocated to external annual burden.⁸⁷ Please see Section 13 for estimates of external cost burdens relating to hiring outside parties.

The burdens the Commission estimates above that do not depend on the number of credit analysts are in addition to the burdens that depend on the number of credit analysts. Furthermore, the Commission believes that the modifications to Rule 17g-9 in the Adopting Release will not affect the burden per credit analyst or the allocation of that burden to internal and external burdens that the Commission estimated in the Proposing Release, as those modifications should not affect the burdens associated with establishing, maintaining, enforcing, and documenting the standards. However, the Commission is revising the total number of credit analysts employed by the NRSROs based on updated information. The Commission estimates that NRSROs employ a total of approximately 4,218 credit analysts.⁸⁸ Therefore, the Commission estimates the industry-wide one-time recordkeeping burden based on the number of credit analysts employed by the NRSROs to be approximately 21,090 hours.⁸⁹ Of this total, 15,818 hours⁹⁰ are allocated to internal burden and 5,272 hours are allocated to external burden.⁹¹ Please see Section 13 for estimates of external cost burdens relating to hiring outside parties.

The Commission estimates an industry-wide annual recordkeeping burden based on the number of credit analysts employed by the NRSROs of approximately 4,218 hours.⁹² The Commission is allocating 75% of these burden hours (3,164 hours) to internal burden and 25% these burden hours (1,054 hours) to external burden to hire outside professionals to assist in reviewing and updating training and testing programs.⁹³ Please see Section 13 for estimates of external cost burdens relating to hiring outside parties. Finally, although larger NRSROs may realize economies of scale, the Commission believes that the industry-wide annual and one-time hour burdens and external costs would be allocated to each NRSRO based on the number of credit analysts the firm employs.

The Commission estimates that Rule 17g-9 will result in total industry-wide one-time costs for NRSROs to establish and document the standards of training, experience, and competence for their credit analysts required under the rule and to establish testing programs, of

⁸⁷ 1,000 hours x .25 = 250 hours.

⁸⁸ See Nationally Recognized Statistical Rating Organizations, 79 FR at 55084 (Sept. 15, 2014).

⁸⁹ 4,218 credit analysts x 5 hours = 21,090 hours.

⁹⁰ 21,090 hours x 0.75 = 15,818 hours. For the purposes of Form 83-I, the industry-wide one-time internal hourly burden has been annualized over the three year approval period to an hourly burden of approximately 5,272.7 hours per year (15,818 hours/3 years). This equates to an annual burden of 527.3 hours per NRSRO (5,272.7 hours/10 NRSROs) during the three year approval period.

⁹¹ 21,090 hours x 0.25 = 5,272 hours.

⁹² 4,218 credit analysts x 1 hour = 4,218 hours.

⁹³ 4,218 hours x 0.75 = 3,164 hours; 4,218 hours x 0.25 = 1,054 hours.

approximately \$5,325,494⁹⁴ and total industry-wide annual costs for NRSROs of approximately \$1,107,662 to maintain, review, update (if necessary), and enforce the standards and to administer the training and testing programs.⁹⁵

In addition, the Commission estimates that NRSROs will spend approximately five hours per credit analyst per year to conduct periodic testing of their credit analysts, for a total industry wide annual recordkeeping burden to NRSROs of approximately 21,090 hours.⁹⁶ Accordingly, the Commission estimates that Rule 17g-9 will result in total industry-wide annual costs for NRSROs to conduct periodic testing of their credit analysts of approximately \$5,990,000.⁹⁷

Therefore, the Commission estimates that Rule 17g-9 will result in a total industry-wide one-time recordkeeping burden for NRSROs to establish and document the standards of training, experience, and competence for their credit analysts required under the rule and to establish testing programs of approximately 18,818 hours,⁹⁸ and a total industry-wide annual recordkeeping burden to maintain, review, update (if necessary), and enforce the standards and to administer the training and testing programs of approximately 25,004 hours.⁹⁹ Please see Section 13 for estimates of external cost burdens relating to hiring outside parties.

13. Costs to Respondents

Rule 17g-8

The Commission estimates that there are no costs to respondents as a result of new Rule 17g-8.

Rule 17g-9

⁹⁴ 15,818 hours + 3,000 hours = 18,818 hours x \$283 per hour for a compliance manager = \$5,325,494. See Nationally Recognized Statistical Rating Organizations, 79 FR at 55252 (Sept. 14, 2014) (PRA analysis providing cost and hour burden estimates). For the purposes of this PRA submission, the industry-wide one-time internal cost has been annualized over the three year approval period to a cost of approximately \$1,775,164.66 per year (\$5,325,494/3 years). This equates to an annual cost of \$177,516.47 per NRSRO (\$1,775,164.66 hours/10 NRSROs) during the three year approval period.

⁹⁵ 750 hours + 3,164 hours = 3,914 hours x \$283 per hour for a compliance manager = \$1,107,662. See id. (PRA analysis providing cost and hour burden estimates).

⁹⁶ 4,218 credit analysts x 5 hours = 21,090 hours.

⁹⁷ 21,090 hours x \$284 per hour for a fixed income research analyst (intermediate) = \$5,989,560, rounded to \$5,990,000.

⁹⁸ 3,000 hours + 15,818 hours = 18,818 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 6,272.7 hours per year (18,818 hours/3 years). This equates to an annual burden of 627.3 hours per NRSRO (6,272.7 hours/10 NRSROs) during the three year approval period.

⁹⁹ 750 hours + 3,164 hours + 21,090 hours = 25,004 hours.

The Commission estimates that the industry-wide one-time and annual recordkeeping burdens attributable to Rule 17g-9 that do not depend on the number of credit analysts employed by an NRSRO are approximately 4,000 hours and 1,000 hours, respectively. The Commission believes that it is appropriate to allocate 75% of the one-time and annual burden hours to internal burden and the remaining 25% to external burden to hire outside professionals to assist in establishing and updating credit analyst training programs. Therefore, 1,000 hours are allocated to external one-time burden,¹⁰⁰ and 250 hours are allocated to external annual burden.¹⁰¹ The Commission estimates that it would cost \$400 per hour to retain outside professionals, resulting in industry-wide one-time costs of approximately \$400,000¹⁰² and industry-wide annual costs of approximately \$100,000.¹⁰³

The Commission estimated the industry-wide one-time recordkeeping burden based on the number of credit analysts employed by the NRSROs to be approximately 21,090 hours.¹⁰⁴ Of this total, 15,818 hours¹⁰⁵ are allocated to internal burden and 5,272 hours are allocated to external burden.¹⁰⁶ The Commission estimates that it would cost \$400 per hour for retaining outside professionals, resulting in an industry-wide one-time cost of approximately \$2,108,800.¹⁰⁷

The Commission estimates an industry-wide annual recordkeeping burden based on the number of credit analysts employed by the NRSROs of approximately 4,218 hours.¹⁰⁸ The Commission allocated 75% of these burden hours (3,164 hours) to internal burden and 25% these

¹⁰⁰ 4,000 hours x .25 = 1,000 hours.

¹⁰¹ 1,000 hours x .25 = 250 hours.

¹⁰² 1,000 hours x \$400 = \$400,000. See Nationally Recognized Statistical Rating Organizations, 76 FR at 33508 (June 8, 2011). See also Disclosure for Asset-Backed Securities Required by Section 943 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, 76 FR at 4507-4506 (Jan. 26, 2011) (providing an estimate of \$400 per hour to engage outside professionals). For the purposes of this PRA submission, this one-time cost will be amortized over the three year approval period, $\$400,000/3 = \$133,333.33$. This equates to an annual cost of \$13,333.33 per NRSRO ($\$133,333.33/10$ NRSROs) during the three year approval period.

¹⁰³ 250 hours x \$400 per hour = \$100,000.

¹⁰⁴ 4,218 credit analysts x 5 hours = 21,090 hours.

¹⁰⁵ 21,090 hours x 0.75 = 15,818 hours. For the purposes of Form 83-I, the industry-wide one-time internal hourly burden has been annualized over the three year approval period to an hourly burden of approximately 5,272.7 hours per year (15,818 hours/3 years). This equates to an annual burden of 527.3 hours per NRSRO (5,272.7 hours/10 NRSROs) during the three year approval period.

¹⁰⁶ 21,090 hours x 0.25 = 5,272 hours.

¹⁰⁷ 5,272 hours x \$400 per hour = \$2,108,800. For the purposes of this PRA submission, this one-time cost will be amortized over the three year approval period, $\$2,108,800/3 = \$702,933.33$. This equates to an annual cost of \$70,293.33 per NRSRO ($\$702,933.33/10$ NRSROs) during the three year approval period.

¹⁰⁸ 4,218 credit analysts x 1 hour = 4,218 hours.

burden hours (1,054 hours) to external burden to hire outside professionals to assist in reviewing and updating training and testing programs.¹⁰⁹ The Commission estimates a cost of \$400 per hour for retaining outside professionals, which results in an industry-wide annual cost of \$421,600.¹¹⁰

In summary, the Commission estimates that Rule 17g-9 will result in a total industry-wide one-time cost of approximately \$2,508,800 to hire outside professionals to assist in setting up training and testing programs,¹¹¹ and a total industry-wide annual external cost of approximately \$521,600 to hire outside professionals to assist in reviewing and updating training and testing programs.¹¹²

14. Cost to Federal Government

The Commission does not anticipate any costs to the federal government associated with the information collections under Rule 17g-8 and Rule 17g-9.

15. Changes in Burden

Rule 17g-8 and Rule 17g-9 are new collections of information.

16. Information Collection Planned for Statistical Purposes

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

17. Display of OMB Approval Date

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

18. Exceptions to Certifications for Paperwork Reduction Act Submissions

This collection complies with the requirements in 5 CFR 1320.9.

B. Collections of Information Employing Statistical Methods

The collection of information does not employ statistical methods, or analyze the information for the Commission.

¹⁰⁹ 4,218 hours x 0.75 = 3,164 hours; 4,218 hours x 0.25 = 1,054 hours.

¹¹⁰ 1,054 hours x \$400 = \$421,600. See Disclosure for Asset-Backed Securities Required by Section 943 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, 76 FR at 4507-4506 (Jan. 26, 2011) (providing an estimate of \$400 per hour to engage outside professionals).

¹¹¹ \$400,000 + \$2,108,800 = \$2,508,800.

¹¹² \$100,000 + \$421,600 = \$521,600.