

**SUPPORTING STATEMENT**  
**for the Paperwork Reduction Act Information Collection Submission for**  
**Rule 17g-7 - “Disclosure requirements”**

**A. JUSTIFICATION**

**1. Necessity of Information Collection**

The Credit Rating Agency Reform Act of 2006<sup>1</sup> (“Rating Agency Act”), enacted on September 29, 2006, 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,”<sup>2</sup> 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.<sup>3</sup>

The Dodd-Frank Wall Street Reform and Consumer Protection Act<sup>4</sup> (“Dodd-Frank Act”) was enacted on July 21, 2010. Title IX, Subtitle C of the Dodd-Frank, “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.<sup>5</sup>

Section 932(a)(8) of the Dodd-Frank Act amended Section 15E of the Exchange Act to add paragraphs (q) and (s).<sup>6</sup> Section 15E(q)(2)(F) of the Exchange Act provides that the Commission’s rules must require an NRSRO to include an attestation with any credit rating that it issues affirming that no part of the rating was influenced by any other business activities, that the rating was based solely on the merits of the instruments being rated, and that such rating was an independent evaluation of the risks and merits of the instrument.<sup>7</sup> Sections 15E(s)(1) through (4) of the Exchange Act, among other things, require Commission rulemaking with respect to disclosures an NRSRO must make with the publication of a credit rating.<sup>8</sup>

<sup>1</sup> Pub. L. No. 109-291 (2006).

<sup>2</sup> 15 U.S.C. 78o-7.

<sup>3</sup> 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).

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

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

<sup>6</sup> See 15 U.S.C. 78o-7(q) and (s).

<sup>7</sup> See 15 U.S.C. 78o-7(q)(2)(F).

<sup>8</sup> 15 U.S.C. 78o-7(s)(1) through (4).

Rule 17g-7 (17 CFR 240.17g-7) was adopted by the Commission on January 20, 2011 to implement Section 943 of the Dodd-Frank Act which, among other things, provides that the Commission must prescribe rules requiring NRSROs to provide investors with certain information regarding the representations, warranties, and enforcement mechanisms available to investors in an asset-backed securities offering.<sup>9</sup> Rule 17g-7 requires NRSROs to include in any report accompanying a credit rating with respect to an asset-backed security (as that term is defined in Section 3(a)(79) of the Exchange Act)<sup>10</sup> a description of the representations, warranties, and enforcement mechanisms available to investors and a description of how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities.<sup>11</sup> On May 18, 2011, the Commission proposed for comment amendments to Rule 17g-7, discussed in greater detail below, to implement rulemaking required by Sections 15E(q) and 15E(s) of the Exchange Act.<sup>12</sup>

Rule 17g-7 contains disclosure requirements for NRSROs. These disclosure requirements involve a collection of information within the meaning of the Paperwork Reduction Act of 1995 (“PRA”)<sup>13</sup>. The collection of information obligations imposed by the rule are mandatory. The requirements of Rule 17g-7, however, apply only to credit rating agencies that are registered with the Commission as NRSROs, and registration is voluntary.

### Overview of Rule 17g-7 Prior to the Proposed Amendments

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<sup>9</sup> See Disclosure for Asset-Backed Securities Required by Section 943 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Securities Act Release No. 9175, Exchange Act Release No. 63741 (Jan. 20, 2011), 76 FR 4489 (Jan. 26, 2011).

<sup>10</sup> The term “asset-backed security”, as defined in Section 3(a)(79) of the Exchange Act, (A) means a fixed-income or other security collateralized by any type of self-liquidating financial asset (including a loan, a lease, a mortgage, or a secured or unsecured receivable) that allows the holder of the security to receive payments that depend primarily on cash flow from the asset, including (i) a collateralized mortgage obligation; (ii) a collateralized debt obligation; (iii) a collateralized bond obligation; (iv) a collateralized debt obligation of asset-backed securities; (v) a collateralized debt obligation of collateralized debt obligations; and (vi) a security that the Commission, by rule, determines to be an asset-backed security for purposes of this section; and (B) does not include a security issued by a finance subsidiary held by the parent company or a company controlled by the parent company, if none of the securities issued by the finance subsidiary are held by an entity that is not controlled by the parent company. See 15 U.S.C. §78c(a) (79).

<sup>11</sup> 17 CFR 240.17g-7.

<sup>12</sup> See Proposed Rules for Nationally Recognized Statistical Rating Organizations, Exchange Act Release No. 64514 (May 18, 2011), 76 FR 33420 (June 8, 2011) (“Proposing Release”).

<sup>13</sup> The Office of Management and Budget (“OMB”) Control Number for Rule 17g-7 is 3235-0656.

Rule 17g-7 requires an NRSRO to disclose, in any report accompanying a credit rating in an asset-backed securities offering, the representations, warranties and enforcement mechanisms available to investors and describe how they differ from those in issuances of similar securities.<sup>14</sup>

Proposed Amendments to Rule 17g-7

The Commission proposed to amend Rule 17g-7.<sup>15</sup> First, the Commission proposed to add new paragraphs (a)(1) and (2) to Rule 17g-7 to implement rulemaking mandated in Sections 15E(s)(1), (2), (3), and (4)(D) of the Exchange Act.<sup>16</sup>

Proposed new paragraphs (a)(1) and (2) of Rule 17g-7 would require, respectively, an NRSRO when taking a rating action to publish a form containing information about the credit rating resulting from or subject to the rating action; and any certification of a provider third-party due diligence services received by the NRSRO that relates to the credit rating. Proposed paragraph (a)(1) of Rule 17g-7 would contain three primary components: paragraph (a)(1)(i) prescribing the format of the form; paragraph (a)(1)(ii) prescribing the content of the form (which must include certain qualitative and quantitative information relating to the credit rating); and paragraph (a)(1)(iii) prescribing an attestation requirement for the form.<sup>17</sup> Proposed paragraph (a)(2) of Rule 17g-7 would identify a certification from a provider of third-party due diligence services as an item that must be published with a rating action.<sup>18</sup>

Second, the Commission proposed to add new paragraph (b) to Rule 17g-7.<sup>19</sup> This proposed amendment would implement rulemaking mandated in Section 15E(q) of the Exchange Act by: (1) re-codifying in paragraph (b) of Rule 17g-7 requirements currently contained in paragraph (d)(3) of Rule 17g-2; and (2) substantially enhancing those requirements.<sup>20</sup> More specifically, paragraph (d)(3) of Rule 17g-2 requires an NRSRO to, among other things, make publicly available on its corporate Internet website in an XBRL format the information required to be documented pursuant to paragraph (a)(8) of the rule with respect to any credit rating initially determined by the NRSRO on or after June 26, 2007, the effective date of the Rating Agency Act.

The proposed amendments would enhance these requirements in four ways. The first enhancement would make the disclosure easier for investors and other users of credit ratings to locate. Specifically, new proposed paragraph (b)(1) of Rule 17g-7 would require the NRSRO,

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<sup>14</sup> 17 CFR 240.17g-7.

<sup>15</sup> See Proposed Rules for Nationally Recognized Statistical Rating Organizations, 76 FR at 33430.

<sup>16</sup> See proposed new paragraph (a)(1) and (a)(2) of Rule 17g-7.

<sup>17</sup> See proposed new paragraph (a)(1) of Rule 17g-7.

<sup>18</sup> See proposed new paragraph (a)(2) of Rule 17g-7.

<sup>19</sup> See Proposed Rules for Nationally Recognized Statistical Rating Organizations, 76 FR at 33430.

<sup>20</sup> See proposed new paragraph (b) of Rule 17g-7.

among other things, to publicly disclose the ratings history information for free on an easily accessible portion of its corporate Internet website.

The second enhancement would broaden the scope of credit ratings subject to the disclosure requirements. Specifically, proposed new paragraph (b)(1)(i) of Rule 17g-7 would require an NRSRO to disclose each credit rating assigned to an obligor, security, and money market instrument in every class of credit ratings for which the NRSRO is registered that was outstanding as of June 26, 2007 and any subsequent upgrades or downgrades of a credit rating assigned to the obligor, security, or money market instrument (including a downgrade to, or assignment of, default), any placements of a credit rating assigned to the obligor, security, or money market instrument on watch or review, any affirmation of a credit rating assigned to the obligor, security, or money market instrument, and a withdrawal of a credit rating assigned to the obligor, security, or money market instrument.<sup>21</sup> With respect to credit ratings initially determined on or after June 26, 2007, the amendments would clarify that the disclosure of the rating history information would be triggered when an NRSRO publishes any expected or preliminary credit rating assigned to an obligor, security, or money market instrument before the publication of an initial credit rating, and any subsequent upgrades or downgrades of a credit rating assigned to the obligor, security, or money market instrument (including a downgrade to, or assignment of, default), any placements of a credit rating assigned to the obligor, security, or money market instrument on watch or review, any affirmation of a credit rating assigned to the obligor, security, or money market instrument, and a withdrawal of a credit rating assigned to the obligor, security, or money market instrument.

The third enhancement would increase the scope of information that must be disclosed about a rating action. Specifically, proposed paragraph (b)(2) of Rule 17g-7 would identify seven categories of data that would need to be disclosed when a credit rating action is published pursuant to proposed new paragraph (b)(1) of Rule 17g-7.<sup>22</sup> The fourth enhancement would be to require that a rating history not be removed from the disclosure until 20 years after the NRSRO withdraws the credit rating assigned to the obligor, security, or money market instrument.

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

The Commission adopted Rule 17g-7 in January 2011 to implement Section 943 of the Dodd-Frank Act which, among other things, requires NRSROs to provide investors with certain disclosures regarding the representations, warranties, and enforcement mechanisms available to investors in an asset-backed securities offering.<sup>23</sup> The disclosures required by Rule 17g-7 are not made directly with the Commission. Rather, the information regarding the representations, warranties, and enforcement mechanisms available to investors with respect to an asset-backed securities transaction is provided in any report accompanying a credit rating by an NRSRO. The disclosures regarding representations, warranties, and enforcement

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<sup>21</sup> See proposed new paragraph (b)(1) of Rule 17g-7.

<sup>22</sup> See proposed new paragraph (b)(2) of Rule 17g-7.

<sup>23</sup> See Disclosure for Asset-Backed Securities Required by Section 943 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, 76 FR at 4489.

mechanisms are intended to help ensure that investors in asset-backed securities transactions are provided with important information about such transactions prior to the point at which they make an investment decision.

The purpose of the proposed amendments to Rule 17g-7 is to implement Sections 15E(q) and 15E(s) of the Exchange Act as added by Section 932(a) of the Dodd-Frank Act which, among other things, mandate that the Commission adopt rulemaking requiring NRSROs to provide an attestation and disclosures with the publication of a credit rating. The proposed amendments to paragraph (a) of Rule 17g-7 would require an NRSRO, when taking certain rating actions, to publish a form containing information about the credit rating resulting from or subject to the rating action as well as any certification of a provider of third-party due diligence services received by the NRSRO that relates to the credit rating. The disclosures required by paragraph (a) of the proposed rule will be used by investors and other users of credit ratings to better understand the credit ratings issued by the NRSRO. In addition, the disclosure of the certification will allow investors and other users of credit ratings to determine the adequacy and level of due diligence services provided by the third party executing the certification.

The proposed amendments to paragraph (b) of Rule 17g-7 would require an NRSRO to disclose rating histories that may be used by investors and other users of credit ratings to evaluate the performance of the NRSRO's credit ratings. As the Commission stated when adopting the original rating history disclosure requirement, the "intent of the rule is to facilitate comparisons of credit rating accuracy across all NRSROs – including direct comparisons of different NRSROs' treatment of the same obligor or instrument – in order to enhance NRSRO accountability, transparency, and competition."<sup>24</sup> The proposed amendments to paragraph (b) also are designed to provide persons (such as market participants and academics and other market observers) with the "raw data" necessary to generate statistical information about the performance of each NRSRO's credit ratings.<sup>25</sup> The information disclosed pursuant to the proposed amendments to paragraph (b) also may be used by economists to study the performance of NRSRO credit ratings. The Commission also may use the information as part of its oversight function.

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

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<sup>24</sup> See Amendments to Rules for Nationally Recognized Statistical Rating Organizations, Exchange Act Release No. 61050 (Nov. 23, 2009), 74 FR at 63838 (Dec. 4, 2009) ("Ratings history information for outstanding credit ratings is the most direct means of comparing the performance of two or more NRSROs. It allows an investor or other user of credit ratings to compare how all NRSROs that maintain a credit rating for a particular obligor or instrument initially rated that obligor or instrument and, thereafter, how and when they adjusted their credit rating over time.").

<sup>25</sup> See Amendments to Rules for Nationally Recognized Statistical Rating Organizations, 74 FR at 63837-63838 ("The raw data to be provided by NRSROs pursuant to the new ratings history disclosure requirements...will enable market participants to develop performance measurement statistics that would supplement those required to be published by NRSROs themselves in Exhibit 1, tapping into the expertise of credit market observers and participants in order to create better and more useful means to compare the credit ratings performance of NRSROs.").

NRSROs are not prevented by Rule 17g-7 from using computers or other mechanical devices to generate the disclosures required under the rule. The Commission believes that improvements in data processing technology could reduce the burdens associated with Rule 17g-7 and the proposed amendments.

#### **4. Duplication**

The Commission has not identified any duplication with respect to the information required by Rule 17g-7 and the proposed amendments.

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

Small entities may be affected by Rule 17g-7 because all NRSROs, regardless of size are subject to the rule and the additional requirements in the proposed amendments. Currently, there are ten credit rating agencies registered with the Commission as NRSROs. The Commission stated in the Proposing Release that, based on their most recent annual reports under Rule 17g-3, one NRSRO was a small entity.<sup>26</sup>

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

Sections 15E(q) and 15E(s) of the Exchange Act and Section 943 of the Dodd-Frank Act mandate that the Commission adopt rulemaking requiring that disclosures be provided along with any credit rating published by an NRSRO. Consequently, the objectives of the disclosure requirements for NRSROs under Sections 15E(q) and 15E(s) the Exchange Act and Section 943 of the Dodd-Frank Act would not be met with less frequent collection of the information required by Rule 17g-7.

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

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

#### **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.<sup>27</sup> The comments received on this rulemaking are posted on the Commission's public website, and are available through <http://www.sec.gov/comments/s7-18-11/s71811.shtml>. The Commission will consider all comments prior to adopting the proposed amendments in accordance with 5 CFR 1320.11(f).

#### **9. Payment or Gift**

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<sup>26</sup> See Proposed Rules for Nationally Recognized Statistical Rating Organizations, 76 FR at 33534.

<sup>27</sup> See Proposed Rules for Nationally Recognized Statistical Rating Organizations, 76 FR at 33420.

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

## **10. Confidentiality**

The information collected under Rule 17g-7 and the proposed amendments will not be confidential. The disclosure an NRSRO is required to provide under Rule 17g-7 regarding representations, warranties and enforcement mechanisms available to investors in connection with an offering of asset-backed securities must be provided in any report accompanying a credit rating by an NRSRO in connection with an asset-backed securities transaction. The form and attestation an NRSRO would be required to publish when taking certain rating actions under the proposed amendments to paragraph (a) of the rule must be published in the same manner as the credit rating that is the result or subject of the rating action and made available to the same persons who can receive or access the credit rating. The proposed amendments to paragraph (b) of the rule would require an NRSRO to publicly disclose for free credit rating histories under on an easily accessible portion of its corporate Internet website.

## **11. Sensitive Questions**

Not applicable. No inquiries of a sensitive nature are made under the rule. The information collection does not collect any personally identifiable information.

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

### *Rule 17g-7 Prior to the Proposed Amendments*

The current PRA burdens for Rule 17g-7 include approximately 100 hours per year for each NRSRO to review and update benchmarks for various types of securities for purposes of comparing representations, warranties, and enforcement mechanisms, resulting in an annual industry-wide reporting burden of 1,000 hours (10 respondents X 100 hours/respondent). On a deal-by-deal basis, the current burdens for each NRSRO are an average of approximately: (i) one hour to review each asset-backed securities transaction to review the relevant disclosures prepared by an issuer, which an NRSRO would review as part of the rating process, and convert those disclosures into a format suitable for inclusion in any report to be issued by the NRSRO, and (ii) 10 hours per asset-backed securities transaction to compare the terms of the current deal to those of similar securities.

When the Commission adopted Rule 17g-7 in January 2011, it estimated the average annual number of asset-backed securities offerings to be 2,067 and the average number of credit ratings per issuance of asset-backed securities to be four, resulting in 8,268 annual responses.<sup>28</sup> Accordingly, the total industry-wide annual reporting burden of complying with the disclosure requirements under Rule 17g-7, prior to the proposed amendments, is 90,948 hours (8,268 responses x 11 hours/response). As a result, the current total aggregate

<sup>28</sup> See Disclosure for Asset-Backed Securities Required by Section 943 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, 76 FR at 4508.

burden for complying with Rule 17g-7 is 91,948 hours per year (1,000 hours for reviewing and updating benchmarks + 90,948 hours for complying with disclosure requirements).

### *Proposed Amendments to Rule 17g-7*

The Commission proposed to add new paragraphs (a) and (b) to Rule 17g-7, which would contain substantial new requirements. As discussed below, the Commission preliminarily estimated that these proposals would result in additional one-time and annual hour burdens for NRSROs.

The Commission proposed to add new paragraphs (a)(1) and (2) to Rule 17g-7 to implement rulemaking mandated in Sections 15E(s)(1), (2), (3), and (4)(D) of the Exchange Act.<sup>29</sup> Proposed new paragraphs (a)(1) and (2) of Rule 17g-7 would require, respectively, an NRSRO, when taking a rating action, to publish a form containing information about the credit rating resulting from, or subject to, the rating action and any certification of a provider of third-party due diligence services received by the NRSRO relating to the credit rating.<sup>30</sup>

The Commission preliminarily believes that much of the information required to be disclosed in the form could be standardized based on the class and subclass of credit rating. For example, an NRSRO could develop a set of standardized disclosures for structured finance products based on whether the credit rating was issued for an RMBS, CMBS, CDO, CLO, ABCP, or other type of structured finance product. Similarly, for corporate issuers, the NRSRO could develop a set of standardized disclosures depending on factors such as the industry sector and geographic location of the rated issuer. In addition, the Commission believes that much of the information, particularly as it relates to the specific obligor, security, or money market instrument that is subject to the rating action, already would be generated or collected through the credit rating process. Finally, the Commission noted in the Proposing Release that globally active NRSROs are subject to similar requirements.<sup>31</sup>

Consequently, the Commission estimated that the proposed amendments to the rule would result in a one-time hour burden to develop the standardized disclosures and to create systems, protocols, and procedures for populating the form with information generated and collected during the rating process. In addition, the NRSRO would need to develop procedures designed to ensure that all the information required to be included in the form is input into the form prior to the publication of the credit rating, that any certifications received from a provider of third-party due diligence services are attached to the form, and that the form and certifications are published with the credit rating.

The Commission preliminarily estimated that the one-time hour burden to develop these standardized disclosures would vary considerably among NRSROs based on the number of credit

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<sup>29</sup> See 15 U.S.C. 78o-7(s)(1), (2), (3), and (4)(D).

<sup>30</sup> See proposed new paragraph (a)(1) and (a)(2) of Rule 17g-7.

<sup>31</sup> See, e.g., Regulation no. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, Article 8.2 and Annex 1, Section D.

ratings they issue and monitor and the number of classes and subclasses of credit ratings for which they issue and monitor credit ratings. Specifically, the larger NRSROs that issue and monitor a high volume of credit ratings across multiple classes and subclasses of credit ratings would bear a significantly greater burden than smaller NRSROs that may need to develop standardized disclosures for far fewer classes and subclasses of credit ratings. The Commission estimated that an NRSRO would spend an average of approximately 5,000 hours to develop the standardized disclosures and create the systems, protocols, and procedures for populating the form with information generated and collected during the rating process.<sup>32</sup> However, the Commission preliminarily estimated that this amount is heavily skewed upward by the number of credit ratings issued, as well as the breadth of the classes and subclasses rated, by the three largest NRSROs as compared to the seven smaller NRSROs. Given the 5,000 hours per NRSRO preliminary estimate, the Commission preliminarily estimated that the proposed amendments would result in a one-time industry wide hour burden of approximately 50,000 hours.<sup>33</sup> In addition, the Commission preliminarily allocated 75% of these burden hours (37,500 hours) to internal burden and the remaining 25% (12,500 hours) to external burden to hire outside professionals to assist in setting up the process to generate the forms and publish them with applicable credit ratings.<sup>34</sup>

With respect to the annual hour burden, the Commission preliminarily estimated that the estimate should be divided into two components. The first component would constitute the amount of time an NRSRO would spend to update its standardized disclosures. The Commission preliminarily estimated an NRSRO would spend substantially less time updating the disclosures than the one-time estimate of approximately 5,000 hours per NRSRO to initially establish the standardized disclosures and the systems, protocols, and processes to generate the forms. Consequently, the Commission preliminarily estimated that each NRSRO would spend an average of approximately 500 hours per year updating the standardized disclosures, resulting in an annual industry-wide hour burden of approximately 5,000 hours. The Commission preliminarily estimated that the update process would be handled by the NRSROs internally.

The second component would constitute the amount of time an NRSRO would spend generating and publishing each form and attaching applicable certifications to the form. The Commission stated in the Proposing Release that it preliminarily believed that this estimate should be based on the number of rating actions taken per year by the NRSROs because the

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<sup>32</sup> This estimate is based on the Commission's estimate for the amount of time it would take a securitizer to set-up a system to make the disclosures required by Form ABS-15G. 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). The Commission significantly increases the estimate for Form ABS-15G because the form required pursuant to Rule 17g-7 would contain substantially more qualitative information for which the NRSRO would need to develop standardized disclosures.

<sup>33</sup> 10 NRSROs x 5,000 hours = 50,000 hours.

<sup>34</sup> 50,000 hours x 0.75 = 37,500 hours; 50,000 hours x 0.25 = 12,500 hours. This allocation is based on the Commission's allocation of the industry-wide hour burden for the amount of time it would take a securitizer to set-up a system to make the disclosures required by Form ABS-15G. 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).

requirement to generate and publish the form and attach the certifications would be triggered upon the taking of a rating action. Based on information submitted to the Commission by NRSROs pursuant to paragraph (a)(6) of Rule 17g-3, the Commission preliminarily estimated that NRSROs took approximately 2,000,000 credit rating actions in 2009, consisting of upgrades, downgrades, placements on credit watch, and withdrawals of credit ratings.<sup>35</sup>

The Commission noted in the Proposing Release that this figure does not include the following rating actions: expected or preliminary credit ratings, initial credit ratings, and affirmations of existing credit ratings.<sup>36</sup>

Based on staff experience, the Commission preliminarily believed that expected or preliminary credit ratings are published primarily (but not exclusively) with respect to new issuances of structured finance products. In the PRA for the adoption of Rule 17g-7, the Commission estimated that there would be an average of approximately 2,067 Exchange Act-asset-backed securities offerings per year.<sup>37</sup> The Commission, based on staff experience, stated in the Proposing Release that it believed that expected or preliminary credit ratings are used in other types of offerings as well and, therefore, is increasing that estimate by 100% or to 4,134 preliminary or expected credit ratings per year.<sup>38</sup>

In terms of estimating the number of initial credit ratings, the Commission noted in the Proposing Release that there were approximately 2,905,824 credit ratings outstanding across all 10 NRSROs as of the 2009 calendar year-end. Based on staff experience, the Commission estimated in the Proposing Release that the average maturity of rated securities and money market instruments is approximately 7 years. Consequently, assuming 2,905,824 is the approximate average number of credit ratings outstanding at any given time, the Commission preliminarily estimated that approximately 415,117 initial credit ratings are issued per year.<sup>39</sup>

<sup>35</sup> See 17 CFR 240.17g-3(a)(6).

<sup>36</sup> The Commission proposed that the requirement to publish the form and any certifications would be triggered when an NRSRO takes the following rating actions: publication of an expected or preliminary credit rating assigned to an obligor, security, or money market instrument before the publication of an initial credit rating; an initial credit rating; an upgrade or downgrade of an existing credit rating (including a downgrade to, or assignment of, default); a placement of an existing credit rating on credit watch or review; an affirmation of an existing credit rating; and a withdrawal of an existing credit rating.

<sup>37</sup> See Disclosure for Asset-Backed Securities Required by Section 943 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, 76 FR at 4507-4508 (Jan. 26, 2011).

<sup>38</sup> 2,067 offerings x 2 = 4,134 offerings. See Proposed Rules for Nationally Recognized Statistical Rating Organizations, 76 FR at 33506.

<sup>39</sup> 2,905,824 credit ratings/7 = 415,117 credit ratings. In other words, the Commission estimated that issuers pay off in full all outstanding principal and interest outstanding with respect to approximately 415,117 rated securities or money market instruments and, consequently, the credit ratings for these securities and money market instruments are withdrawn. Those withdrawn credit ratings, in turn, are replaced by 415,117 initial (or new) credit ratings. The Commission notes that outstanding credit ratings assigned to securities and money market instruments are withdrawn for other reasons, including the security or money market instrument went into default. In addition, the Commission notes that a percent of the outstanding credit ratings are assigned to obligors as entities and, therefore, these credit ratings would not be withdrawn

Finally, with respect to affirmations of existing credit ratings, the Commission stated in the Proposing Release that it preliminarily believed that NRSROs generally affirm existing credit ratings at least once a year. Consequently, the Commission preliminarily estimated that the number of affirmations would be the total number of credit ratings outstanding (2,905,824), less the number of credit ratings subject to other types of rating actions, excluding expected or preliminary ratings (2,000,000), and less the number of credit ratings assigned to securities or money market instruments that are paid off in full during the year (415,117). Consequently, the Commission preliminarily estimated that the number of affirmations per year is approximately 490,707.<sup>40</sup>

Based on these estimates, the Commission preliminarily estimated that the 10 NRSROs take approximately 2,909,958 credit rating actions per year.<sup>41</sup> The Commission preliminarily estimated that the time it would take to generate a form by populating it with the required disclosures and to publish the form with the credit rating would be approximately 15 minutes on average, resulting in an industry-wide annual hour burden of approximately 727,490 hours.<sup>42</sup> Moreover, although larger NRSROs may realize economies of scale, the Commission preliminarily estimated that the annual burden would be allocated to the 10 NRSROs based on the number of credit ratings they have outstanding.

The Commission also proposed to add new paragraph (b) to Rule 17g-7. The proposed amendments would: (1) re-codify in paragraph (b) of Rule 17g-7 requirements currently contained in paragraph (d)(3) of Rule 17g-2; and (2) substantially enhance those requirements. The Commission noted that NRSROs currently are required to provide ratings history information for each credit rating initially determined on or after June 26, 2007. The Commission preliminarily estimated that NRSROs could use the internal information technology systems and expertise and other resources they currently devote to complying with this requirement to implement the proposed enhancements. At the same time, the Commission noted that, under the proposed amendments, NRSROs would be required to add substantially more ratings histories to the disclosures and provide more information about each rating action in the ratings history for a given obligor, security, or money market instrument. Consequently, the Commission preliminarily estimated that the proposed amendments would result in a one-time hour burden to program existing systems and initially add the ratings histories for all outstanding

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because an obligation was extinguished. However, they might be withdrawn for other reasons, including the obligor went into default. Nonetheless, the Commission preliminarily believes these estimates are reasonable approximations of the number of initial credit ratings determined per year.

<sup>40</sup> [2,905,824 outstanding credit ratings] - [2,000,000 credit ratings that are upgraded, downgraded, placed on watch, or withdrawn] - [415,117 rated securities and money market instruments that pay off in full] = 490,707 affirmations.

<sup>41</sup> [2,000,000 credit rating actions constituting upgrades, downgrades, placements on credit watch, and withdrawals] + [4,134 preliminary or expected credit ratings] + [415,117 initial credit ratings] + [490,707 affirmations of existing credit ratings] = 2,909,958 rating actions per year.

<sup>42</sup> 2,909,958 rating actions x .25 hours = 727,489.5 hours (rounded to 727,490 hours).

credit ratings as of June 26, 2007, and an incremental increase in the annual hour burden to comply with the enhanced requirements.

When adopting paragraph (d)(3) of Rule 17g-2, the Commission estimated that the average one-time hour burden per NRSRO would be approximately 45 hours.<sup>43</sup> Based on that estimate, the Commission estimated that the proposed amendments to this disclosure requirement would result in an average one-time hour burden for each NRSRO of approximately 135 hours, resulting in an industry-wide one-time hour burden of approximately 1,350 hours.<sup>44</sup> In addition, when adopting paragraph (d)(3) of Rule 17g-2, the Commission estimated the average annual burden per NRSRO would be approximately 15 hours.<sup>45</sup> Based on that estimate, the Commission preliminarily estimated in the Proposing Release that the proposed enhancements would require each NRSRO to spend an average of 45 hours per year making the disclosures, resulting in an industry-wide annual hour burden of approximately 450 hours.<sup>46</sup>

For the foregoing reasons, the Commission estimated in the Proposing Release that the proposed amendments to Rule 17g-7 would result in a total industry-wide one-time internal hour burden increase of approximately 38,850 hours,<sup>47</sup> and a total industry-wide annual hour burden increase of approximately 732,940 hours.<sup>48</sup>

This estimate would increase the industry-wide annual hour burden for Rule 17g-7 from 91,948 hours to 824,888 hours (732,940 hours + 91,948 = 824,888 hours). In addition, the annual hour burden per NRSRO resulting from the existing requirements in paragraph (d)(3) of Rule 17g-2 is 15 hours, which would result in an adjusted industry-wide annual hour burden of 150 hours (10 NRSROs x 15 hours = 150 hours). This amount would need to be transferred to the industry-wide annual hour burden for Rule 17g-7 resulting in a total industry-wide annual hour burden of 825,038 hours (824,888 hours + 150 hours = 825,038 hours).

### 13. Cost to Respondents

#### *Rule 17g-7 Prior to the Proposed Amendments*

<sup>43</sup> Amendments to Rules for Nationally Recognized Statistical Rating Organizations, 74 FR at 63853 (Dec. 4, 2009).

<sup>44</sup> 10 NRSROs x 135 hours = 1,350 hours.

<sup>45</sup> Amendments to Rules for Nationally Recognized Statistical Rating Organizations, 74 FR at 63853 (Dec. 4, 2009).

<sup>46</sup> 10 NRSRO x 45 hours = 450 hours. See Proposed Rules for Nationally Recognized Statistical Rating Organizations, 76 FR at 33506.

<sup>47</sup> 37,500 hours + 1,350 hours = 38,850 hours.

<sup>48</sup> 727,490 hours + 5,000 hours + 450 hours = 732,940 hours. See Proposed Rules for Nationally Recognized Statistical Rating Organizations, 76 FR at 33506.

Prior to the proposed amendments, it was not anticipated that respondents would have to incur any capital and start-up costs, nor any additional operational or maintenance costs to comply with the collection of information.

#### *Proposed Amendments to Rule 17g-7*

The Commission estimated that the proposed amendments to Rule 17g-7 will result in an external burden of 1,250 hours per NRSRO relating to developing the standardized disclosures and creating the systems, protocols, and procedures for populating the form required by Rule 17g-7, and estimated a \$400 per hour cost for outside professionals such as counsel and information technology consultants. This results in an industry-wide one-time cost of approximately \$5,000,000 (\$400 x 1,250 hours x 10 NRSROs).<sup>49</sup> For the purposes of this PRA submission, this one-time cost will be annualized over the three year approval period. The cost per year is approximately \$1,666,667 (\$5,000,000/3).

#### **14. Cost to Federal Government**

The Commission does not anticipate that Rule 17g-7 will result in additional costs to the federal government beyond normal full-time employee labor costs, nor will the rule and the proposed amendments require the Commission to hire any new employees or reallocate existing employees to ensure compliance with the rule.

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

The change in burden is a result of amendments to Rule 17g-7 the Commission proposed to implement the attestation and disclosures required by Sections 15E(q) and 15E(s) of the Exchange Act. The Commission estimated that the proposed amendments to Rule 17g-7 would result in a total industry-wide one-time hour burden increase of approximately 38,850 hours and a total industry-wide annual hour burden increase of approximately 733,090 hours.<sup>50</sup>

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

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

#### **17. Approval to Omit Display of OMB Approval Date**

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<sup>49</sup> See Proposed Rules for Nationally Recognized Statistical Rating Organizations, 76 FR at 33505. This estimate was based on the Commission's estimate for the amount of time it would take a securitizer to set-up a system to make the disclosures required by Form ABS-15G. 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. The Commission significantly increased the estimate for Form ABS-15G because the form required pursuant to Rule 17g-7 contains substantially more qualitative information.

<sup>50</sup> 732,940 hours + 150 hours = 733,090 hours.

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

**18. Exceptions to Certifications**

No exceptions to certification are contained in the proposal.

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

The collection of information does not employ statistical methods, nor does it analyze the information for the Commission.