

**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 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 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.<sup>5</sup> On August 27, 2014, the Commission adopted rules and rule amendments to implement certain of these provisions.<sup>6</sup> 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. 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.<sup>7</sup>

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<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, 72 FR at 33564 (June 18, 2007).

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

<sup>5</sup> See Pub. L. No. 111-203 §§ 939, 939D-939F.

<sup>6</sup> Nationally Recognized Statistical Rating Organizations, 79 FR at 55078 (Sept. 15, 2014).

<sup>7</sup> Nationally Recognized Statistical Rating Organizations, 76 FR at 33420 (June 8, 2011).

## Rule 17g-8

Rule 17g-8 under the Exchange Act (17 CFR 240.17g-8) contains recordkeeping requirements for NRSROs.<sup>8</sup> 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 have policies and procedures with respect to the procedures and methodologies the NRSRO uses to determine credit ratings.<sup>9</sup> 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.<sup>10</sup> 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.<sup>11</sup> 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 future credit ratings to which the changed procedures or methodologies apply.<sup>12</sup> 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.<sup>13</sup> 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

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<sup>8</sup> The Office of Management and Budget ("OMB") Control Number for Rule 17g-8 is 3235-693.

<sup>9</sup> 17 CFR 240.17g-8(a).

<sup>10</sup> 17 CFR 240.17g-8(a)(1).

<sup>11</sup> 17 CFR 240.17g-8(a)(2).

<sup>12</sup> 17 CFR 240.17g-8(a)(3)(i).

<sup>13</sup> 17 CFR 240.17g-8(a)(3)(ii).

current ratings.<sup>14</sup> 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.<sup>15</sup> 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.<sup>16</sup>

## 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 have policies and procedures with respect to the symbols, numbers, or scores it uses to denote credit ratings.<sup>17</sup> 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.<sup>18</sup> 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 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.<sup>19</sup> 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.<sup>20</sup>

## 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.<sup>21</sup> Specifically, paragraph (c) requires an NRSRO to

<sup>14</sup> 17 CFR 240.17g-8(a)(4)(i).

<sup>15</sup> 17 CFR 240.17g-8(a)(4)(ii).

<sup>16</sup> 17 CFR 240.17g-8(a)(5).

<sup>17</sup> 17 CFR 240.17g-8(b).

<sup>18</sup> 17 CFR 240.17g-8(b)(1).

<sup>19</sup> 17 CFR 240.17g-8(b)(2).

<sup>20</sup> 17 CFR 240.17g-8(b)(3).

<sup>21</sup> 17 CFR 240.17g-8(c).

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.<sup>22</sup>

#### 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.<sup>23</sup> This requirement does not contain a collection of information requirement within the meaning of the Paperwork Reduction Act (“PRA”).

#### Rule 17g-9

Rule 17g-9 under the Exchange Act (17 CFR 240.17g-9) contains recordkeeping requirements for NRSROs.<sup>24</sup> 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.<sup>25</sup> 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.<sup>26</sup> Paragraph (b) of Rule 17g-9 requires that the NRSRO consider certain factors when establishing the

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<sup>22</sup> Id.

<sup>23</sup> 17 CFR 240.17g-8(d).

<sup>24</sup> The OMB Control Number for Rule 17g-9 is 3235-693.

<sup>25</sup> See Pub. L. No. 111–203 § 936.

<sup>26</sup> 17 CFR 240.17g-9(a).

standards, including the knowledge and technical expertise required of the individual and the classes and complexity of credit ratings being rated by the individual.<sup>27</sup> 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.<sup>28</sup>

## 2. Purpose and Use of the Information Collection

### Rule 17g-8

The collection of information included in Rule 17g-8 is necessary for Commission oversight of NRSROs registered with the Commission. This collection of information will aid the Commission in determining whether the initiation of a de-registration proceeding under Section 15E(d) of the Exchange Act<sup>29</sup> would be appropriate.

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 identified in Section 15E(r) of the Exchange Act,<sup>30</sup> 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;<sup>31</sup>
- 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;<sup>32</sup>
- 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;<sup>33</sup>

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<sup>27</sup> 17 CFR 240.17g-9(b).

<sup>28</sup> 17 CFR 240.17g-9(c).

<sup>29</sup> See 15 U.S.C. 78o-7(d).

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

<sup>31</sup> See 15 U.S.C. 78o-7(r)(1)(A).

<sup>32</sup> See 15 U.S.C. 78o-7(r)(1)(B).

<sup>33</sup> See 15 U.S.C. 78o-7(r)(2)(A).

- 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;<sup>34</sup>
- 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;<sup>35</sup>
- 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;<sup>36</sup>
- notifies users of credit ratings when a material change is made to a procedure or methodology, including to a qualitative model or quantitative input;<sup>37</sup>
- 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;<sup>38</sup> and
- 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.<sup>39</sup>

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 identified in Sections 938(a)(1) through (3) of the Dodd-Frank Act;<sup>40</sup> 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;<sup>41</sup>

<sup>34</sup> See 15 U.S.C. 78o-7(r)(2)(B).

<sup>35</sup> See 15 U.S.C. 78o-7(r)(2)(C).

<sup>36</sup> See 15 U.S.C. 78o-7(r)(3)(A).

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

<sup>38</sup> See 15 U.S.C. 78o-7(r)(3)(C).

<sup>39</sup> See 15 U.S.C. 78o-7(r)(3)(D).

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

<sup>41</sup> See Pub. L. No. 111-203 § 938(a)(1).

(2) clearly define and disclose the meaning of any symbol used by the NRSRO to denote a credit rating;<sup>42</sup> 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.<sup>43</sup>

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.<sup>44</sup>

#### Rule 17g-9

The collection of information included in Rule 17g-9 is necessary for Commission oversight of NRSROs registered with the Commission. This collection of information will aid the Commission in determining whether the initiation of a de-registration proceeding under Section 15E(d) of the Exchange Act<sup>45</sup> would be appropriate.

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. These standards will be used by the NRSRO to achieve the objectives specified in 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.<sup>46</sup> 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 and will be used by the Commission to examine the NRSRO's compliance with Rule 17g-9.

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

#### Rule 17g-8

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<sup>42</sup> See Pub. L. No. 111-203 § 938(a)(2).

<sup>43</sup> See Pub. L. No. 111-203 § 938(a)(3).

<sup>44</sup> See 15 U.S.C. 78o-7(h)(4)(A)(ii).

<sup>45</sup> See 15 U.S.C. 78o-7(d).

<sup>46</sup> See Pub. L. No. 111-203 §§ 936(1) and (2).

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

Small entities will be affected by Rule 17g-8 because all NRSROs, regardless of size, are required to comply with the rule. The Commission staff believes that there are currently two NRSROs that are considered small entities. The Commission previously solicited comment 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. 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 lower impacts on smaller NRSROs as compared to large NRSROs because the smaller NRSROs issue substantially fewer credit ratings than the large NRSROs.<sup>47</sup>

##### Rule 17g-9

Small entities will be affected by Rule 17g-9 because all NRSROs, regardless of size, are required to comply with the rule. The Commission staff believes that there are currently two NRSROs that are considered small entities. 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 to customize their standards, provided they consider the factors in paragraph (b) and incorporate the standards required under paragraph (c) of Rule 17g-9.<sup>48</sup>

<sup>47</sup> 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).

<sup>48</sup> See id. at 55202.



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

### ***Rule 17g-8***

Up-to-date records are essential for the Commission to monitor whether an NRSRO continues to meet the requirements for registration as an NRSRO. If the information required by Rule 17g-8 is not collected, the Commission could be in violation of Section 15E(r) and Section 15E(h)(4)(A)(ii) of the Exchange Act<sup>49</sup> which 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.

### ***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. 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 required notice with a 60-day comment period soliciting comments on this collection of information was published in the Federal Register on February 15, 2018.<sup>50</sup> The Commission did not receive comments on its estimates of the paperwork burden associated with Rule 17g-8 or 17g-9.

## **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

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<sup>49</sup> See 15 U.S.C. 78o-7(r) and 15 U.S.C. 78o-7(h)(4)(A)(ii).

<sup>50</sup> See 83 FR 6908 (Feb. 15, 2018).

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 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

The Commission previously estimated that an NRSRO would spend an average of approximately 50 hours per year reviewing the policies and procedures required under paragraph (a) of Rule 17g-8, updating them (if necessary), and enforcing them, resulting in an industry-wide annual recordkeeping burden of approximately 500 hours.<sup>51</sup> The Commission previously estimated that paragraph (a) of Rule 17g-8 will result in total industry-wide annual costs for NRSROs to maintain, review, update (if necessary), and enforce the policies and procedures of approximately \$142,000.<sup>52</sup>

In addition, the Commission estimated that it will take an NRSRO an average of approximately 20 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.<sup>53</sup> Accordingly, the Commission estimated that compliance with this requirement will result in total industry-wide annual costs for NRSROs of approximately \$57,000.<sup>54</sup>

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. The Commission previously estimated that an NRSRO would spend an average of approximately 50 hours per year reviewing the policies and procedures, updating them (if necessary), and enforcing them, resulting in an industry-wide annual recordkeeping

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<sup>51</sup> 50 hours x 10 NRSROs = 500 hours. See Nationally Recognized Statistical Rating Organizations, 76 FR at 33507 (June 8, 2011).

<sup>52</sup> 500 hours x \$283 per hour for a compliance manager = \$141,500, rounded up to \$142,000.

<sup>53</sup> 20 hours x 10 NRSROs = 200 hours.

<sup>54</sup> 200 hours x \$283 per hour for a compliance manager = \$56,600, rounded up to \$57,000.

burden of approximately 500 hours.<sup>55</sup> Accordingly, the Commission estimated paragraph (b) of Rule 17g-8 will result in total industry-wide annual costs for NRSROs of approximately \$142,000 to maintain, review, update (if necessary), and enforce the policies and procedures.<sup>56</sup>

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. The Commission previously estimated that an NRSRO would spend an average of approximately 25 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 that a credit rating was influenced by a conflict, resulting in an average industry-wide annual recordkeeping burden of approximately 250 hours.<sup>57</sup> Accordingly, the Commission estimates that paragraph (c) of Rule 17g-8 will result in total industry-wide annual costs for NRSROs of approximately \$71,000<sup>58</sup> 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 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 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.<sup>59</sup>

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<sup>55</sup> 50 hours x 10 NRSROs = 500 hours. See Nationally Recognized Statistical Rating Organizations, 76 FR at 33507 (June 8, 2011).

<sup>56</sup> 500 hours x \$283 per hour for a compliance manager = \$141,500, rounded to \$142,000.

<sup>57</sup> 25 hours x 10 NRSROs = 250 hours. See Nationally Recognized Statistical Rating Organizations, 76 FR at 33507 (June 8, 2011).

<sup>58</sup> 250 hours x \$283 per hour for a compliance manager = \$70,750, rounded to \$71,000.

<sup>59</sup> 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).

Accordingly, the Commission estimates that Rule 17g-8 (including paragraph (a), (b), and (c)) will result in total industry-wide annual costs for NRSROs of approximately \$412,000.<sup>60</sup>

### 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.<sup>61</sup>

The Commission previously 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.<sup>62</sup> The Commission previously estimated that NRSROs employ a total of approximately 4,218 credit analysts<sup>63</sup> and stated in the proposing release that it believed that the annual hour burden to comply with Rule 17g-9 would be less than the initial one-time hour burden when the Rule was adopted 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 recordkeeping burden to update the standards and to enforce them would be approximately one hour per credit analyst employed. Therefore, the Commission estimated an industry-wide annual recordkeeping burden based on the number of credit analysts employed by the NRSROs of approximately 4,218 hours.<sup>64</sup> The Commission allocated 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.<sup>65</sup>

The Commission previously supplemented its burden estimate for Rule 17g-9 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. Based on staff experience, the Commission previously estimated 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 100 hours per NRSRO annually, for an industry-wide annual recordkeeping burden of approximately 1,000 hours. The Commission believed that it is appropriate to allocate 75% of annual burden hours to internal burden and the remaining 25% to external burden to hire outside professionals to assist in updating credit analyst

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<sup>60</sup> \$142,000 + \$57,000 + \$142,000 + \$71,000 = \$412,000.

<sup>61</sup> 17 CFR 240.17g-9.

<sup>62</sup> See Nationally Recognized Statistical Rating Organizations, 76 FR at 33508 (June 8, 2011).

<sup>63</sup> See Nationally Recognized Statistical Rating Organizations, 79 FR at 55084 (Sept. 15, 2014).

<sup>64</sup> 4,218 credit analysts x 1 hour = 4,218 hours.

<sup>65</sup> 4,218 hours x 0.75 = 3,164 hours; 4,218 hours x 0.25 = 1,054 hours.

training programs. Of the totals, therefore, 750 hours are allocated to internal annual burden,<sup>66</sup> and 250 hours are allocated to external annual burden.<sup>67</sup>

The Commission estimated that Rule 17g-9 will result in 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.<sup>68</sup> In addition, the Commission estimated 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.<sup>69</sup> Accordingly, the Commission estimated 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.<sup>70</sup>

Therefore, the Commission estimated that Rule 17g-9 will result in 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.<sup>71</sup>

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

#### Rule 17g-8

There are no costs to respondents as a result of Rule 17g-8.

#### Rule 17g-9

The industry-wide annual recordkeeping burden attributable to Rule 17g-9 that does not depend on the number of credit analysts employed by an NRSRO is approximately 1,000 hours. The Commission believed that it is appropriate to allocate 75% of the 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, 250 hours are allocated to external annual burden.<sup>72</sup> The Commission estimated that it would cost \$400 per hour to retain outside professionals, resulting in industry-wide annual costs of approximately \$100,000.<sup>73</sup>

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<sup>66</sup> 1,000 hours x .75 = 750 hours.

<sup>67</sup> 1,000 hours x .25 = 250 hours.

<sup>68</sup> 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).

<sup>69</sup> 4,218 credit analysts x 5 hours = 21,090 hours.

<sup>70</sup> 21,090 hours x \$284 per hour for a fixed income research analyst (intermediate) = \$5,989,560, rounded to \$5,990,000.

<sup>71</sup> 750 hours + 3,164 hours + 21,090 hours = 25,004 hours.

<sup>72</sup> 1,000 hours x .25 = 250 hours.

<sup>73</sup> 250 hours x \$400 per hour = \$100,000.

The Commission estimated the industry-wide annual recordkeeping burden based on the number of credit analysts employed by the NRSROs of approximately 4,218 hours.<sup>74</sup> The Commission allocated 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.<sup>75</sup> The Commission estimated a cost of \$400 per hour for retaining outside professionals, which results in an industry-wide annual cost of \$421,600.<sup>76</sup>

In summary, there will be total industry-wide annual external cost of approximately \$521,600 to hire outside professionals to assist in reviewing and updating training and testing programs.<sup>77</sup>

#### **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**

The changes in burden for Rules 17g-8 and 17g-9 were the result of the completion of previously estimated one-time burdens. No additional changes or requirements were added to these rules, so registrants have made the appropriate changes and adjustments to their policies and procedures to be in compliance, therefore eliminating the previously estimated one-time burdens for implementing such changes and updates. There were no changes made to the previously estimated ongoing annual burdens for Rule 17g-8 and 17g-9.

#### **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.

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<sup>74</sup> 4,218 credit analysts x 1 hour = 4,218 hours.

<sup>75</sup> 4,218 hours x 0.75 = 3,164 hours; 4,218 hours x 0.25 = 1,054 hours.

<sup>76</sup> 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).

<sup>77</sup> \$100,000 + \$421,600 = \$521,600.

**B. Collections of Information Employing Statistical Methods**

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