

SUPPORTING STATEMENT
for the Paperwork Reduction Act Information Collection Submission for Rule 17g-2--
Records to be Made and Retained by Nationally Recognized Statistical Rating Organizations

A. JUSTIFICATION

1. Necessity of Information Collection

The Credit Rating Agency Reform Act of 2006¹ (“Rating Agency Act”), enacted on September 29, 2006, established a registration and oversight program for credit rating agencies registered as “nationally recognized statistical rating organizations,” or “NRSROs,” and provided authority for the Securities and Exchange Commission (“Commission”) to implement registration, recordkeeping, financial reporting, and oversight rules with respect to NRSROs.

The Rating Agency Act amended section 17(a)(1) of the Securities Exchange Act of 1934 (“Exchange Act”) to add NRSROs to the list of entities required to make and keep such records, and make and disseminate such reports, as the Commission may prescribe by rule as necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the Exchange Act.² The inclusion of NRSROs on this list of entities provided the Commission with authority to examine all the records of an NRSRO.³ Pursuant to its rulemaking authority, the Commission adopted Rule 17g-2 to require NRSROs to make and retain certain records relating to their business and to retain certain other business records, if such records are made. The rule also prescribes the time periods and manner in which all of these records must be retained.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) was enacted on July 21, 2010.⁴ Title IX, Subtitle C of the Dodd-Frank Act, “Improvements to the Regulation of Credit Rating Agencies,” required the Commission to adopt rules applicable to NRSROs in a number of areas.⁵ On August 27, 2014, the Commission adopted rules and rule amendments, including amendments to Rule 17g-2. These amendments included the repeal of paragraph (d)(2) of Rule 17g-2 and the addition of paragraph (a)(9) to Rule 17g-2 to identify the policies and procedures an NRSRO is required to establish, maintain, and enforce pursuant to Section 15E(h)(4)(A) of the Exchange Act and paragraph (c) of new Rule 17g-8 as a record that must be made and retained.⁶ In addition, the Commission added paragraphs to Rule 17g-2 to identify records that must be retained and to provide that records identified in paragraphs (a)(9), (b)(12), (b)(13), (b)(14), and (b)(15) of Rule 17g-2 must be retained until three years after the

¹ Pub. L. No. 109-291 (2006).

² See section 5 of the Rating Agency Act and 15 U.S.C. 78q(a)(1)

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³ See 15 U.S.C. 78q(b)(1).

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

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

⁶ See 17 CFR 240.17g-2(a)(9).

date the record is replaced with an updated record, instead of three years after the record is made or received, which is the retention period for other records identified in paragraphs (a) and (b) of Rule 17g-2.⁷

The collections of information in Rule 17g-2 are mandatory for all credit rating agencies that are registered with the Commission as NRSROs.⁸

2. Purpose and Use of the Information Collection

The collections of information in Rule 17g-2 are designed to allow the Commission to determine whether an NRSRO continues to meet the requirements for registration and is complying with applicable laws and regulations. In particular, the collections of information in Rule 17g-2 will assist Commission staff in effectively monitoring, through its examination function, whether an NRSRO is conducting its activities in accordance with Section 15E of the Exchange Act⁹ and applicable Exchange Act rules.

3. Consideration Given to Information Technology

The records that Rule 17g-2 requires NRSROs to make and retain could be made and retained electronically. Commission staff believes that improvements in telecommunications and data processing technology may reduce any burdens associated with the amendments to Rule 17g-2.

4. Duplication

Commission staff has not identified any duplication with respect to the information required by Rule 17g-2.

5. Effect on Small Entities

Small entities may be affected by the rule because all credit rating agencies, regardless of size, that are registered as NRSROs are required to make and retain records in accordance with Rule 17g-2. Currently, there are 10 NRSROs and, based on their most recently filed annual reports pursuant to Rule 17g-3, one NRSRO is a small entity for purposes of the Regulatory Flexibility Act.

6. Consequences of Not Conducting Collection

Up-to-date records are essential for Commission staff to monitor whether an NRSRO is conducting its activities in accordance with Section 15E of the Exchange Act and the Exchange Act rules.

⁷ See 17 CFR 240.17g-2(c).

⁸ The Office of Management and Budget (“OMB”) Control Number for Rule 17g-2 is 3235-0628.

⁹ 15 U.S.C. 78o-7.

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

There are no special circumstances. This collection is consistent with 5 CFR 1320.8(d).

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 July 12, 2023.¹⁰

The Commission received one comment letter in response to the notice. The commenter asserted that the Commission underestimated the burden associated with Rule 17g-2.¹¹ In particular, the commenter stated that a wide range of functions and personnel is required for record creation, maintenance, and retention, which are not reflected in the current hourly burden. The commenter noted that the rule requires a substantial supporting infrastructure that is not static. In this regard, the commenter stated that NRSROs conduct an ongoing assessment of the technology deployed to support its recordkeeping efforts and such systems evolve over time. For instance, post-pandemic changes in remote work practices have necessitated a reassessment of the infrastructures supporting NRSROs' recordkeeping processes to ensure that systems and practices function properly in that environment. The commenter also stated that some NRSROs utilize external services that, among other things, assist with hosting and software development services.

Although the commenter asserted that the burden was understated for the foregoing reasons, the commenter did not recommend an alternative estimate of the burden. The observations of the commenter are generally consistent with the staff's experience, although, in the staff's view and as acknowledged by the commenter, costs of this nature will vary based on the size and complexity of the NRSRO. In response to the comment and consistent with staff experience, Commission staff believes it is appropriate to increase the estimated average burden from 239 annual hours to 265 annual hours, for an ongoing industry burden of 2,650 annual hours.¹²

9. Payment or Gift

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

10. Confidentiality

The records that an NRSRO must make and retain under Rule 17g-2 must be made available to the Commission and its representatives as required in connection with examinations,

¹⁰ See 88 FR 44424 (July 12, 2023).

¹¹ See letter from S&P Global Ratings dated Aug. 11, 2023.

¹² 265 hours x 10 NRSRO = 2,650.

investigations, and enforcement proceedings. The confidentiality of the information submitted to the Commission under the rule will be protected only to the extent permitted by FOIA.

11. Sensitive Questions

No inquiries of a sensitive nature were made. This information collection does not collect any personal identifiable information of a sensitive nature.

12. Burden of Information Collection

The cumulative impact of the Commission’s estimates when adopting and subsequently amending Rule 17g-2 results in a total annual burden estimate of 239 annual hours per respondent.¹³ Based on staff’s experience, and in response to the comment received, Commission staff believes it is appropriate to increase the estimated average burden per respondent to 265 annual hours, for an ongoing industry burden of 2,650 annual hours.

IC	IC Title	Annual No. of Responses			Annual Time Burden (Hrs.)			Burden Cost Burden (\$)		
		Previously approved	Requested	Change	Previously approved	Requested	Change	Previously approved	Requested	Change
IC1	Ongoing Recordkeeping	9	10	+1	2106	2600	+494	0	0	0
IC2	Retaining Updated Records	9	10	+1	45	50	+5	0	0	0
Total for all ICs		18	20	+2	2151	2650	+499	0	0	0

13. Costs to Respondents

In the relevant adopting releases,¹⁴ the Commission did not identify any additional ongoing costs to respondents that result from the rule.

¹³ See 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); Amendments to Rules for Nationally Recognized Statistical Rating Organizations, Exchange Act Release No. 59342 (Feb. 2, 2009), 74 FR 6456 (Feb. 9, 2009); Amendments to Rules for Nationally Recognized Statistical Rating Organizations, Exchange Act Release No. 61050 (Nov. 23, 2009), 74 FR 63832 (Dec. 4, 2009); and Nationally Recognized Statistical Rating Organizations, Exchange Act Release No. 72936 (Aug. 27, 2014), 79 FR 55078 (Sep. 15, 2014).

¹⁴ See 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); Amendments to Rules for Nationally Recognized Statistical Rating Organizations, Exchange Act Release No. 59342 (Feb. 2, 2009), 74 FR 6456 (Feb. 9, 2009); and Nationally Recognized Statistical Rating Organizations, Exchange Act Release No. 72936 (Aug. 27, 2014), 79 FR 55078 (Sep. 15, 2014).

14. Costs to Federal Government

Commission staff does not anticipate any additional costs to the Federal Government that result from the rule.

15. Changes in Burden

The estimated burden on respondents is calculated based on the 10 credit rating agencies currently registered as NRSROs under Section 15E of the Exchange Act, compared to the 9 previously registered at the time of the prior renewal. Additionally, the change in the average annual burden per respondent is the result of Commission staff's consideration of a comment received.

16. Information Collection Planned for Statistical Purposes

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

17. Display of OMB Approval Date

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

18. Exceptions to Certification 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 involve statistical methods or analyze the information for the agency.