

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

A. JUSTIFICATION

1. Necessity of Information Collection

Section 15E of the Securities Exchange Act of 1934 (“Exchange Act”),¹ added to the Exchange Act by the Credit Rating Agency Reform Act of 2006 (“Rating Agency Act”)² and amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act enacted in 2010,³ sets forth the regulatory framework applicable to credit rating agencies that register with the Securities and Exchange Commission (“Commission” or “SEC”) as nationally recognized statistical rating organizations or NRSROs. Section 15E contains self-executing requirements and authorizes the Commission to adopt implementing registration, recordkeeping, and reporting rules.

Rule 17g-7(a), adopted under Sections 15E(q) and (s) of the Exchange Act,⁴ requires NRSROs to publish certain rating information when taking a rating action with respect to a credit rating.⁵ The information must be disclosed in a form containing certain specified information⁶ and must be accompanied by an attestation signed by a representative of the NRSRO.⁷ The rule also requires NRSROs to publish any executed certification on Form ABS Due Diligence-15E received from a provider of third-party due diligence services with respect to an asset-backed security subject to a rating action.⁸

Rule 17g-7(b) requires NRSROs to disclose rating histories covering specified time periods.⁹ This provision was adopted, in part, under Section 17(a)(1) of the Exchange Act.¹⁰ The

¹ 15 U.S.C. 78o-7.

² Pub. L. No. 109-291 (2006).

³ Pub. L. No. 111-203, 124 Stat. 1376, H.R. 4173 (2010).

⁴ See 15 U.S.C. 78o-7(q) and (s) (directing the Commission to adopt rules requiring the disclosure of certain rating information).

⁵ See 17 CFR 240.17g-7(a).

⁶ See 17 CFR 240.17g-7(a)(1)(ii).

⁷ See 17 CFR 240.17g-7(a)(1)(iii).

⁸ See 17 CFR 240.17g-7(a)(2).

⁹ See 17 CFR 240.17g-7(b).

¹⁰ See 15 U.S.C. 78q(a)(1) (setting forth recordkeeping requirements for NRSROs).

rule requires each NRSRO to disclose the rating history of credit ratings on its corporate website, including the initial credit rating or the initial entry of the credit rating into the history, any subsequent upgrade or downgrade (including a downgrade to, or assignment of, default) and a withdrawal of the credit rating, as well as the date of such actions identified by the name of the rated security or money market instrument, or rated obligor.¹¹ The rating histories must be disclosed in an interactive file using an XBRL (eXtensible Business Reporting Language) format.¹²

Rule 17g-7 contains “collection of information” requirements within the meaning of the Paperwork Reduction Act of 1995.¹³ The collection of information is mandatory for credit rating agencies that register as NRSROs and is necessary to promote the better understanding of credit ratings by users of ratings. The collection of information has been approved and extended by the Office of the Management and Budget (“OMB”) under control number 3235-0656 (expiring September 30, 2024).

2. Purpose and Use of the Information Collection

The rating information required to be disclosed by Rule 17g-7(a) may help users of credit ratings better understand how credit ratings are produced and the information content of a credit rating.¹⁴ Disclosures made pursuant to the rule, such as the potential limitations of a rating, the volatility of the rating, and the rating’s sensitivity to underlying assumptions, and, with respect to asset-backed security ratings, due diligence information, may prevent undue reliance on the ratings by investors and other users of credit ratings.¹⁵ Furthermore, the requirement that the credit rating information include an attestation signed by a representative of the NRSRO, promotes enhanced integrity in the production of the credit ratings.¹⁶

The rating histories required to be disclosed by Rule 17g-7(b) may be used by investors and other users of credit ratings to evaluate the performance of NRSROs’ credit ratings.¹⁷ This

¹¹ See 17 CFR 240.17g-7(b)(2).

¹² See 17 CFR 240.17g-7(b)(3).

¹³ 44 U.S.C. 3501, *et seq.*

¹⁴ See Nationally Recognized Statistical Rating Organizations, 79 FR 55078, 55180 (Sept. 15, 2014).

¹⁵ See *id.*

¹⁶ See *id.*

¹⁷ See *id.* at 55140.

may foster accountability, transparency, and competition across NRSROs.¹⁸ Commission staff may also use the rating histories and other required rating information in its oversight function.

3. Consideration Given to Information Technology

NRSROs may use computers, mechanical devices, or other programmatic solutions to generate and disclose rating information required by Rule 17g-7(a), which may reduce the burden of compliance. Commission staff also believes that improvements in data processing technology may facilitate the publishing of rating histories, as required by Rule 17g-7(b).

4. Duplication

Commission staff has not identified any duplication with respect to the information required by Rule 17g-7.

5. Effect on Small Entities

None of the currently registered NRSROs, which are subject to the collection of information under Rule 17g-7, meets the definition of small entity.¹⁹

6. Consequences of Not Conducting Collection

Without the collection of information under Rule 17g-7, information about NRSROs' credit ratings would be less readily available. Users of ratings would have less visibility into the NRSROs' rating process and the factors used in the rating determination. As a result, it may be harder for users of credit ratings to understand NRSRO ratings and what their content represents and to compare the performance of credit ratings across NRSROs.

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).

8. Consultations Outside the Agency

¹⁸ 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.”).

¹⁹ See 17 CFR 240.0-10 [Small entities under the Securities Exchange Act for purposes of the Regulatory Flexibility Act] (defining “small business or small organization” as a person that, on the last day of its most recent fiscal year, had total assets of \$5 million or less).

The SEC’s Office of Credit Ratings (“OCR”), which administers Rule 17g-7, conducts annual examinations of NRSROs under Section 15E(p)(3)(A) of the Exchange Act and engages representatives of the NRSRO industry through meetings and information exchanges. This provides OCR staff with the opportunity to determine, and act upon, paperwork burdens imposed upon by the rule.

The required notice with a 60-day comment period soliciting comments on this collection of information was published in the Federal Register on May 7, 2024.²⁰ The Commission did not receive comments on its estimates of the paperwork burdens associated with Rule 17g-7.

9. Payment or Gift

The Commission did not provide any payment or gift to respondents in connection with Rule 17g-7.

10. Confidentiality

Rating information disclosed under Rule 17g-7 is not confidential. Rule 17g-7(a) requires NRSROs to publish the required information in the same manner as the related credit rating and to make it available to the same persons who can receive or access the credit rating. Rule 17g-7(b) requires credit rating histories to be publicly disclosed.

The information collection under Rule 17g-7 does not require the disclosure of any Personally Identifiable Information (PII). The Systems of Record Notice may be reviewed at <https://www.sec.gov/oit/system-records-notices>. The Privacy Impact Assessment document for Electronic Data Gathering Analysis and Retrieval may be reviewed at <https://www.sec.gov/about/privacy/pia/pia-edgar.pdf>.

11. Sensitive Questions

Not applicable.

12. Burden of Information Collection

For purposes of the Paperwork Reduction Act, Commission staff derives the hour burden for Rule 17g-7(a) by estimating the amount of time an NRSRO would spend updating its standardized disclosures and tailoring disclosures to particular rating actions and asset classes.²¹ Commission staff also estimates the amount of time the NRSRO would spend generating and publishing the form required by the rule and attaching the certification on Form ABS Due

²⁰

See Proposed Collection; Comment Request, Extension: Rule 17g-7, 89 FR 38217 (May 7, 2024).

²¹

See 79 FR at 55234.

Diligence-15E by determining the number of rating actions taken by NRSROs per year because the requirement to generate and publish the form and attach the certification is triggered by the rating action.²²

Based on staff experience, it is estimated that each NRSRO will spend an average of approximately 500 hours per year updating the standardized disclosures, for a total annual burden of 5,000 hours, based on the currently registered 10 NRSROs.²³ With respect to the amount of time NRSROs will spend generating and publishing the form and attaching the certification, Commission staff estimates that each NRSRO will spend 20 minutes on average for each rating action and that NRSROs will collectively take approximately 1,908,670 credit rating actions, as the term is defined in Rule 17g-7(a), per year,²⁴ resulting in an industry-wide annual hour disclosure burden of approximately 636,223 hours.²⁵ Assuming an average cost per hour of \$372 for a compliance manager,²⁶ the total internal cost of compliance is estimated at \$238,534,956.²⁷

²² See id.

²³ 500 hours x 10 NRSROs = 5,000 hours.

²⁴ 124,485 upgrades and downgrades + 1,478,118 affirmations + 303,107 initial credit ratings + 2,960 preliminary or expected credit ratings = 1,908,670 rating actions per year. The number of credit rating actions was estimated in the same manner as set forth in Nationally Recognized Statistical Rating Organizations, 79 FR 55078, 55241 (Sept. 15, 2014), using current data, as described in this footnote. The number of upgrades and downgrades is based on information provided to the Commission by each NRSRO pursuant to Rule 17g-3(a)(6) for the fiscal year ending in 2023. The number of affirmations is calculated by using the number of credit ratings outstanding reported in the annual certifications on Form NRSRO for calendar year ended December 31, 2023 filed pursuant to Rule 17g-1(f) (2,121,746 ratings), less the number of credit ratings that are upgraded and downgraded (124,485 ratings), placed on credit watch (72,758 ratings), withdrawn (143,278), and paid off during the year (303,106.57 ratings, rounded to 303,107 ratings) (the latter number is estimated by dividing the number of credit ratings outstanding by 7, which, based on staff experience, represents the average number of years over which rated securities and money market instruments mature). The number of initial credit ratings is estimated using the same formula for determining credit ratings for paid off instruments (303,107 ratings). The number of preliminary or expected ratings is calculated based on the number of new issuances of asset-backed securities increased by 100% to account for other types of offerings for which preliminary or expected ratings may be issued (2,960 ratings). This number was estimated using information from the databases maintained by Asset-Backed Alert and Commercial Mortgage Alert and represents the average number of new asset-backed securities transactions for the years ended December 31, 2021, 2022, and 2023.

²⁵ 1,908,670 rating actions x 1/3 hour = 636,223.3 hours, rounded to 636,223 hours.

²⁶ This salary estimate and other salary estimates discussed in the supporting statement are based on SIFMA's Management & Professional Earnings in the Securities Industry 2013, modified by Commission staff to account for an 1,800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead ("2013 SIFMA survey"), as adjusted for inflation using the Bureau of Labor Statistics CPI Inflation Calculator.

²⁷ (5,000 hours + 636,223 hours = 641,223) x \$372 per hour for a compliance manager = \$238,534,956.

Commission staff estimates that the average annual burden per NRSRO related to the disclosure of credit rating histories pursuant to Rule 17g-7(b), including updating and administering the database of rating histories, will be approximately 45 hours per year, for an industry-wide annual disclosure burden of approximately 450 hours.²⁸ Based on an average cost per hour of \$342 for a senior systems analyst, the total internal cost of compliance is estimated at \$153,900.²⁹

Therefore, Commission staff estimates that the total aggregate industry-wide burden to comply with Rule 17g-7 is 641,673 hours and that the total aggregate internal cost of compliance is \$238,688,856.

²⁸ 45 hours x 10 NRSROs = 450 hours.

²⁹ 450 hours x \$342 per hour for a senior systems analyst = \$153,900.

IC	IC Title	Annual No. of Responses			Annual Time Burden (Hrs.)			Burden Cost (\$)		
		Previously approved	Requested	Change	Previously approved	Requested	Change	Previously approved ³⁰	Requested	Change
IC1	Annual burden to update standardized disclosures	9	10	1	4,500	5,000	500			
IC2	Annual disclosure burden to generate and publish forms	2,071,040	1,908,670	-162,370	690,348	636,223	-54,125	\$196,783,000	\$238,534,956	+41,751,956
IC3	Annual disclosure burden for credit rating histories	9	10	1	405	450	45	\$131,000	\$153,900	+\$22,900
Total for all ICs						641,673	-53,580		\$238,688,856	+\$41,751,956

13. Costs to Respondents

Commission staff does not anticipate that NRSROs will incur any costs other than those already discussed in Item 12.

14. Costs to Federal Government

Rule 17g-7 does not result in any costs to the federal government beyond normal full-time employee labor costs.

15. Changes in Burden

The hour burden for Rule 17g-7 has decreased due to a decrease in the number of rating actions that may be impacted by the rule based on updated estimates using current data. The cost burden has mainly increased due to inflation. Costs had not been adjusted for inflation since the adoption of the rule in 2014. The decrease in the overall hour and cost burden was partially offset by an increase in the number of NRSROs from 9 to 10.

³⁰ Amounts reflected in this column have not been updated since the adoption of Rule 17g-7 in 2014.

16. Information Collection Planned for Statistical Purposes

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

17. Approval to Omit OMB Expiration Date

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

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 employ statistical methods or analyze the information for the Commission.