

SUPPORTING STATEMENT
for the Paperwork Reduction Act Information Collection Submission
“Rule 17g-4: Prevention of Misuse of Material Nonpublic Information”

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 (“Dodd-Frank Act”) enacted in 2010,³ sets forth the regulatory framework for credit rating agencies that register as nationally recognized statistical rating organizations (“NRSROs”). Section 15E imposes self-executing requirements and authorizes the Commission to adopt implementing rules, including rules requiring the establishment of policies and procedures governing the use of material, nonpublic information.

Section 15E(g)(1) of the Exchange Act⁴ requires each NRSRO to establish, maintain, and enforce written policies and procedures to prevent the misuse of material, nonpublic information. Section 15E(g)(2)⁵ directs the Commission to issue rules to require specific policies and procedures that are reasonably designed to prevent the misuse of material, non-public information.

Rule 17g-4, which contains the collection of information requirements subject to the request for renewal discussed herein, implements Section 15E(g) by requiring an NRSRO to establish, maintain, and enforce written policies and procedures that are reasonably designed to prevent the following: (1) the inappropriate dissemination of material nonpublic information obtained in connection with the performance of credit rating services; (2) a person within the NRSRO from trading or otherwise benefiting on material nonpublic information; and (3) the inappropriate dissemination of a pending credit rating action.⁶ These policies and procedures

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 15 U.S.C. 78o-7(g)(1) (requiring an NRSRO to establish, maintain, and enforce written policies and procedures to prevent misuse of material, nonpublic information).

⁵ 15 U.S.C. 78o-7(g)(2) (providing the Commission’s authority to issue final rules to require specific policies or procedures that are reasonably designed to prevent the misuse of material, nonpublic information).

⁶ See 17 CFR 240.17g-4(a)(1) through (a)(3); Release No. 34-55231 (Feb. 2, 2007), 72 FR 6378 (Feb. 9, 2007); Release No. 34-55857 (June 5, 2007), 72 FR 33564 (June 18, 2007).

must be attached as Exhibit 3 to Form NRSRO,⁷ which must be retained for three years after the date the record is made or received.⁸

Rule 17g-4 contains “collection of information” requirements within the meaning of the Paperwork Reduction Act of 1995.⁹ The collection of information is mandatory for credit rating agencies that register as NRSROs and is necessary to prevent the misuse of material, nonpublic information in the context of NRSROs’ rating activities. The collection of information has been approved and extended by the Office of the Management and Budget (“OMB”) under control number OMB 3235-0627 (expiring March 31, 2025).

2. Purpose and Use of the Information Collection

The information collection in Rule 17g-4 assists the Commission in making the findings required under Section 15E(a)(2)(c) of the Exchange Act with respect to whether an applicant should be granted registration as an NRSRO. Specifically, the collection of information allows the Commission to determine whether a credit rating agency seeking to register as an NRSRO satisfies Section 15E(g)(1), which requires NRSROs to establish policies and procedures that are reasonably designed to prevent the misuse of material, nonpublic information obtained in connection with the performance of credit ratings services.¹⁰

Further, the collection of information pursuant to Rule 17g-4 assists the Commission in effectively monitoring, through its examinations function, whether an NRSRO is conducting its activities in accordance with Section 15E of the Exchange Act and the Commission’s rules thereunder.¹¹ Collectively, this collection of information provides users of credit ratings with information that assists them in comparing NRSROs and understanding how a given NRSRO conducts its activities.¹²

3. Consideration Given to Information Technology

Rule 17g-4 requires NRSROs to establish, maintain, and enforce policies and procedures to prevent the misuse of material nonpublic information. In addition, Rule 17g-4 requires the documentation of policies or procedures adopted pursuant to the rule. These records could be made, retained, and updated electronically, which could reduce the potential burden of compliance.

4. Duplication

⁷ See Form NRSRO available at <http://www.sec.gov/about/forms/formnrsro.pdf>.

⁸ See 17 CFR 240.17g-2(c); 17 CFR 240.17g-2(b)(11).

⁹ 44 U.S.C. 3501, *et seq.*

¹⁰ Release No. 34-55857 (June 5, 2007), 72 FR 33564 (June 18, 2007).

¹¹ See *id.* at 33606.

¹² See *id.*

Commission staff has not identified any duplication with respect to the information required by Rule 17g-4.

5. Effect on Small Entities

One of the currently registered NRSROs, which are subject to the collections of information under Rule 17g-4, meets the definition of small entity.¹³ The rules permit NRSROs to tailor and scale their policies or procedures to their organizational structure and business activities, reducing the impact of the rules on smaller NRSROs.

6. Consequences of Not Conducting Collection

Without the collection of information under Rule 17g-4, the objectives of Section 15E(g) of the Exchange Act may not be achieved. Rule 17g-4 implements Section 15E(g) by requiring that an NRSRO's policies and procedures established specific procedures to address three areas where material, nonpublic information could be inappropriately disclosed or used.¹⁴ These procedures represent a baseline for the type of procedures an NRSRO must implement to meet the statutory requirement in Section 15E(g) of the Exchange Act.¹⁵

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 SEC's Office of Credit Ratings ("OCR"), which administers Rule 17g-4, 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 rules.

The required notice with a 60-day comment period soliciting comments on this collection of information was published in the Federal Register on December 13, 2024.¹⁶ The Commission did not receive comments on its estimates of the paperwork burdens associated with Rule 17g-4.

¹³ 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).

¹⁴ Release No. 34-55857 (June 5, 2007), 72 FR 33613 (June 18, 2007).

¹⁵ See *id.* at 33613.

¹⁶ See Proposed Collection; Comment Request; Extension: Rule 17g-4, X FR X (X).

9. Payment or Gift

The Commission did not provide any payment or gift to respondents in connection with Rule 17g-4.

10. Confidentiality

The written policies and procedures required by Rule 17g-4 are not confidential and will be made available to the Commission and its representatives as required in connection with examinations, investigations, and enforcement proceedings.

The information collection under Rule 17g-4 does not collect 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 estimates the burden related to Rule 17g-4 based on the number of NRSROs and the number of hours each NRSRO would spend complying with the rule. There are 10 NRSROs currently registered with the SEC. Based on staff experience, an NRSRO is estimated to spend an average of approximately 10 hours per year reviewing policies and procedures required by Rule 17g-4, updating the policies and procedures (if necessary), and enforcing them, for an industry-wide annual recordkeeping burden of approximately 100 hours.¹⁷

IC	IC Title	Annual No. of Responses			Annual Time Burden (Hrs.)		
		<i>Previously approved</i>	<i>Requested</i>	<i>Change</i>	<i>Previously approved</i>	<i>Requested</i>	<i>Change</i>
IC1	Prevention of misuses of material nonpublic information	9	10	+1	90	100	+10

13. Costs to Respondents

¹⁷ 10 hours x 10 NRSROs = 100 hours.

The Commission believes that there will be no additional reporting costs associated with the rule.

14. Cost to Federal Government

Commission staff does not anticipate any costs to the Federal Government associated with the information collections under Rule 17g-4.

15. Changes in Burden

The hour burden for Rule 17g-4 has increased due to an increase in the number of NRSROs from 9 to 10.

16. Information Collection Planned for Statistical Purposes

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

17. Display of OMB Approval Date

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

18. Exceptions to Certifications for Paperwork Reduction Act Submissions

This collection complies with the requirements in 5 CFR 1320.9.

B. Collections of Information Employing Statistical Methods

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