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December 18, 2009

The Honorable Christopher J. Dodd  
Chairman  
The Honorable Richard C. Shelby  
Ranking Minority Member  
Committee on Banking, Housing, and Urban Affairs  
United States Senate

The Honorable Barney Frank  
Chairman  
The Honorable Spencer Bachus  
Ranking Minority Member  
Committee on Financial Services  
House of Representatives

Subject: *Securities and Exchange Commission: Amendments to Rules for Nationally Recognized Statistical Rating Organizations*

Pursuant to section 801(a)(2)(A) of title 5, United States Code, this is our report on a major rule promulgated by the Securities and Exchange Commission (Commission), entitled “Amendments to Rules for Nationally Recognized Statistical Rating Organizations” (RIN: 3235-AK14). We received the rule on November 24, 2009. It was published in the *Federal Register* a final rule on December 4, 2009. 74 Fed. Reg. 63,832. The rule has a stated effective date of February 1, 2010, and a stated compliance date of June 2, 2010.

The final rule imposes additional disclosure and conflict of interest requirements on nationally recognized statistical rating organizations (NRSROs) in order to address concerns about the integrity of the credit rating procedures and methodologies at NRSROs. According to the Commission, the rule amendments are intended to increase the transparency of the NRSROs’ rating methodologies, strengthen the NRSROs’ disclosure of rating performance, prohibit the NRSROs from engaging in certain practices that create conflicts of interest, and enhance the NRSROs’ recordkeeping and reporting obligations. Specifically, the rule requires NRSROs to publicly disclose all credit rating histories for ratings initially determined after June 26, 2007, in an interactive data file that uses a machine-readable computer format and either with a 12- or 24-month grace period, depending on whether the action relates to a credit rating that was issuer-paid or not. The rule will also require

NRSROs that are paid by arrangers to determine credit ratings for structured finance products to maintain a password-protected Internet Website that lists each deal they have been hired to rate.

Enclosed is our assessment of the Commission's compliance with the procedural steps required by section 801(a)(1)(B)(i) through (iv) of title 5 with respect to the rule. Our review of the procedural steps taken indicates that the Commission complied with the applicable requirements.

If you have any questions about this report or wish to contact GAO officials responsible for the evaluation work relating to the subject matter of the rule, please contact Shirley A. Jones, Assistant General Counsel, at (202) 512-8156.

signed

Robert J. Cramer  
Managing Associate General Counsel

Enclosure

cc: Elizabeth M. Murphy  
Secretary  
Securities and Exchange Commission

ENCLOSURE

REPORT UNDER 5 U.S.C. § 801(a)(2)(A) ON A MAJOR RULE  
ISSUED BY THE  
SECURITIES AND EXCHANGE COMMISSION  
ENTITLED  
"AMENDMENTS TO RULES FOR NATIONALLY RECOGNIZED  
STATISTICAL RATING ORGANIZATIONS"  
(RIN: 3235-AK14)

(i) Cost-benefit analysis

The Securities and Exchange Commission (the Commission) analyzed the costs and benefits of this final rule. The Commission stated that the rule is designed to improve the transparency of credit ratings performance and promote competition by making histories of credit ratings actions publicly available and creating a mechanism for nationally recognized statistical rating organizations (NRSROs) to determine unsolicited credit ratings for structured finance products. The Commission estimated the one-time and annual costs of various parts of this rule to the average NRSRO and others and the industry in total. In sum, the Commission estimated the one-time cost to the average NRSRO and others is \$160,145 and to the industry, \$16,177,350. In sum, the Commission estimated the annual costs for the average large NRSRO to be \$962,796 and for a non-large NRSRO to be \$188,236. The Commission estimated that the annual total cost for the industry is \$34,936,160. The Commission noted that the actual costs to a given NRSRO will depend on its size and the complexity of its business activities. The Commission noted further that the size and complexity of NRSROs vary significantly.

(ii) Agency actions relevant to the Regulatory Flexibility Act, 5 U.S.C. §§ 603–605, 607, and 609

The Commission stated that it prepared a Final Regulatory Flexibility Analysis in accordance with the Act. The analysis included discussions of the need for and objectives of the rule; significant issues raised by comments; small entities subject to the rule; projected reporting, recordkeeping, and other compliance requirements; and significant alternatives.

(iii) Agency actions relevant to sections 202–205 of the Unfunded Mandates Reform Act of 1995, 2 U.S.C. §§ 1532–1535

As an independent regulatory agency, the Commission is not subject to the Act.

(iv) Other relevant information or requirements under acts and executive orders

Administrative Procedure Act, 5 U.S.C. §§ 551 *et seq.*

The Commission published a proposed rule on February 2, 2009. 74 Fed. Reg. 6485. The Commission received letters from 31 parties on the proposed rule, to which it responded in this final rule.

Paperwork Reduction Act, 44 U.S.C. §§ 3501–3520

The Commission determined that this final rule contains two information collection requirements under the Act, on which the Commission requested public comment and submitted to the Office of Management and Budget (OMB) for review. The first information collection requirement is entitled “Rule 17g-2, Records to be made and retained by nationally recognized statistical rating organizations” (OMB Control Number 3235-0628) and the second is entitled “Rule 17g-5, Conflicts of interest” (OMB Control Number 3235-0649). The Commission estimates that the total recordkeeping burden from this rule will be approximately 71,550 hours on a one-time basis and 169,390 hours on an annual basis.

Statutory authorization for the rule

The Commission promulgated this final rule under the authority of the Exchange Act, including sections 3(b), 15E, 17, and 23(a). 15 U.S.C. §§ 78c(b), 78o–7, 78q, 78w.

Investment Company Act of 1940 and Securities Act of 1933,  
15 U.S.C. §§ 78w(a), 78c(f)

The Investment Company Act of 1940 and the Securities Act of 1933 require the Commission to determine whether a rulemaking will promote efficiency, competition, and capital formation. The Commission stated that this rule is designed to provide the marketplace with additional information for comparing the ratings performance of NRSROs and, therefore, provide users of credit ratings with more useful metrics with which to compare these NRSROs. The Commission believes that this enhanced disclosure will benefit smaller NRSROs that determine issuer-paid credit ratings to the extent they do a better job of assessing creditworthiness because these smaller NRSROs will be better able to compete with the larger NRSROs for new business; users of credit ratings will be able to compare credit rating performance, allowing smaller NRSROs more easily to compete based on quality and creditability of their ratings, and, as a consequence, the rule may result in a more efficient allocation of capital and loans to issuers and obligors based on the risk appetites of the investors and lenders.