
Annual Report on Nationally Recognized Statistical Rating Organizations

**As Required by Section 6 of the
Credit Rating Agency Reform
Act of 2006**



December 2015

This is a report of the staff of the U.S. Securities and Exchange Commission. The Commission has expressed no view regarding the analysis, findings, or conclusions contained in this report.

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ANNUAL REPORT ON NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATIONS

As Required by Section 6 of the Credit Rating Agency Reform Act of 2006

I. INTRODUCTION

The staff (the “Staff”) of the U.S. Securities and Exchange Commission (the “Commission” or “SEC”) is providing this report (“Report”) regarding nationally recognized statistical rating organizations (“NRSROs”) pursuant to Section 6 of the Credit Rating Agency Reform Act of 2006 (“Rating Agency Act”).¹ This Report reflects solely the Staff’s views. Section 6 of the Rating Agency Act requires the Commission to submit an annual report (“Annual Report”) to the Committee on Banking, Housing, and Urban Affairs of the U.S. Senate and the Committee on Financial Services of the U.S. House of Representatives that, with respect to the year to which the Annual Report relates:

- identifies applicants for registration as NRSROs under Section 15E of the Securities Exchange Act of 1934 (“Exchange Act”);²
- specifies the number of, and actions taken on, such applications; and
- specifies the views of the Commission on the state of competition, transparency, and conflicts of interest among NRSROs.

This Report relates generally to the period from June 26, 2014 to June 25, 2015 (the “Report Period”). In addition to addressing the items specified in Section 6 of the Rating Agency Act, this Report provides an overview of certain Commission and Staff activities relating to NRSROs.

Information regarding the topics covered in this Report with respect to prior periods can be found on the Office of Credit Ratings (“OCR” or the “Office”) page of the Commission’s website.³

¹ Pub. L. No. 109-291, 120 Stat. 1327 (Sept. 29, 2006). The Rating Agency Act, among other things, added Section 15E to the Securities Exchange Act of 1934 (15 U.S.C. §78o-7) to establish self-executing requirements on NRSROs and provide the Commission with the authority to implement a registration and oversight program for NRSROs. In June 2007, the Commission approved rules implementing such a program. See Oversight of Credit Rating Agencies Registered as Nationally Recognized Statistical Rating Organizations, Release No. 34-55857, 72 FR 33564 (Jun. 18, 2007), available at <https://www.sec.gov/rules/final/2007/34-55857.pdf>.

² Unless otherwise noted, all references to specific statutory sections and rules in this Report are to sections in the Exchange Act and related rules.

³ Prior Annual Reports can be found under “Annual Reports to Congress” in the “Public Reports” section of the OCR webpage at <http://www.sec.gov/ocr>.

II. STATUS OF REGISTRANTS AND APPLICANTS

Section 3(a)(62)(A) defines a “nationally recognized statistical rating organization” as a credit rating agency that issues credit ratings certified by qualified institutional buyers, in accordance with Section 15E(a)(1)(B)(ix), with respect to:

- (i) financial institutions, brokers, or dealers;
- (ii) insurance companies;
- (iii) corporate issuers;
- (iv) issuers of asset-backed securities (as that term is defined in 17 CFR 229.1101(c));
- (v) issuers of government securities, municipal securities, or securities issued by a foreign government; or
- (vi) a combination of one or more categories of obligors described in any of clauses (i) through (v) above, and that is registered under Section 15E.

As of the date of this Report, there are ten credit rating agencies registered as NRSROs. The NRSROs, dates of initial registration, categories of credit ratings described in clauses (i) through (v) of Section 3(a)(62)(A) in which they are registered, and locations of their principal offices, as of the date of this Report, are listed below:⁴

NRSRO / Categories of Credit Ratings	Registration Date	Principal Office
A.M. Best Company, Inc. (“A.M. Best”) Categories (ii), (iii), and (iv)	September 24, 2007	U.S.
DBRS, Inc. (“DBRS”) Categories (i) through (v)	September 24, 2007	U.S.
Egan-Jones Ratings Company (“EJR”) ⁵ Categories (i) through (iii)	December 21, 2007	U.S.
Fitch Ratings, Inc. (“Fitch”) Categories (i) through (v)	September 24, 2007	U.S.
HR Ratings de México, S.A. de C.V. (“HR Ratings”) Category (v)	November 5, 2012	Mexico
Japan Credit Rating Agency, Ltd. (“JCR”) Categories (i), (ii), (iii), and (v)	September 24, 2007	Japan
Kroll Bond Rating Agency, Inc. (“KBRA”) Categories (i) through (v)	February 11, 2008	U.S.
Moody’s Investors Service, Inc. (“Moody’s”) Categories (i) through (v)	September 24, 2007	U.S.

⁴ See the current Form NRSRO on each NRSRO’s website for any updates to this information.

⁵ On January 22, 2013, EJR and its founder Sean Egan consented to a Commission order under which, among other things, EJR agreed to be barred from rating asset-backed and government securities issuers as an NRSRO, with the right to re-apply for registration in these classes after 18 months from the date of the order. See In the Matter of Egan-Jones Ratings Company and Sean Egan, Release No. 34-68703 (Jan. 22, 2013), available at <http://www.sec.gov/litigation/admin/2013/34-68703.pdf>.

Morningstar Credit Ratings, LLC (“Morningstar”) Category (iv)	June 23, 2008	U.S.
Standard & Poor’s Ratings Services (“S&P”) Categories (i) through (v)	September 24, 2007	U.S.

During the Report Period, the Commission did not receive any complete applications for initial registration as an NRSRO or any complete applications from current NRSROs to register in additional ratings classes.

III. ACTIVITIES RELATING TO NRSROs

A. Activities

The creation of OCR was mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”)⁷ and the Office was established in June 2012 with the appointment of its Director, Thomas Butler. OCR is responsible for the oversight of credit rating agencies registered with the Commission as NRSROs. OCR’s Staff includes professionals with expertise in a variety of areas that relate to its regulatory mission, such as corporate, municipal, and structured debt finance.⁸

OCR’s responsibilities – as mandated by the Dodd-Frank Act – include conducting an examination of each NRSRO at least annually in eight specified review areas.⁹ Information regarding the examinations, including those that concluded during the Report Period, is included in OCR’s annual examination reports.¹⁰

In connection with its regulatory mission, OCR also monitors trends and developments affecting the credit rating industry. For example, during the Report Period, OCR Staff met with each NRSRO to discuss rating and industry developments and met with the board of directors of certain NRSROs to discuss, among other things, compliance and oversight matters. OCR Staff also met with a variety of other market participants, including investors, issuers, and industry organizations, to discuss matters relevant to the credit rating industry. OCR Staff also attended various conferences, seminars, and other events addressing topics applicable to the industry. These monitoring activities are focused on informing Commission policy and rulemaking and NRSRO examinations.

During the Report Period, OCR Staff also continued to participate in meetings that involved rating agency regulators globally, including those of the International Organization of

⁶ On January 21, 2015, S&P consented to a Commission order under which, among other things, S&P agreed to refrain from making preliminary or final ratings for any new issue U.S. conduit/fusion CMBS transaction for a period of twelve months from the date of the order, including engaging in any marketing activity related thereto. See In the Matter of Standard & Poor’s Ratings Services, Release Nos. 33-9705 and 34-74104 (Jan. 21, 2015), available at <http://www.sec.gov/litigation/admin/2015/33-9705.pdf>.

⁷ See Pub. L. No. 111-203, 124 Stat. 1376 (2010).

⁸ See Section 15E(p)(2) for a description of OCR staffing requirements.

⁹ See Section 15E(p)(3) for a description of the scope of the required examinations.

¹⁰ The examination reports can be found on OCR’s page of the Commission’s website, which is located at <http://www.sec.gov/ocr>, in the “Public Reports” section under “Annual Examination Reports.”

Securities Commissions (“IOSCO”) Committee 6 on Credit Rating Agencies¹¹ and the supervisory colleges that were formed at IOSCO’s recommendation for the largest internationally active credit rating agencies.¹² During the Report Period, the colleges held an in-person meeting and conducted quarterly calls. OCR Staff also conducted additional discussions with international regulators as appropriate.

B. Commission Releases and Orders and Other Staff Publications

From the beginning of the Report Period to the date preceding the issuance of this Report, the below-listed final rule releases, proposing rule releases, Commission orders, and other Staff publications were issued relating to NRSROs or credit ratings in general.

- Final Rules: Nationally Recognized Statistical Rating Organizations, Release No. 34-72936 (Aug. 27, 2014), 79 FR 55077 (Sept. 15, 2014) (“Adopting Release”).¹³ In accordance with the Dodd-Frank Act and to enhance its oversight responsibilities, the Commission adopted amendments to existing rules and new rules that apply to NRSROs. The adopted amendments and new rules (collectively, the “New NRSRO Rules”) address the following areas, among others: filing annual reports on internal control structures; addressing conflicts of interest with respect to sales and marketing considerations; taking certain actions when a review conducted by an NRSRO determines that a conflict of interest relating to post-NRSRO employment influenced a credit rating; enhancing and standardizing disclosure of credit rating performance statistics; consolidating and expanding the scope of credit rating histories to be disclosed by NRSROs; requiring certain policies and procedures with respect to the procedures and methodologies used to determine credit ratings; publishing a form with certain rating actions disclosing information about the credit rating and any applicable certification by a provider of third-party due diligence services; requiring the establishment by NRSROs of standards of training, experience, and competence for credit rating analysts; and requiring policies and procedures that are designed to ensure the consistent application of rating symbols and definitions. In addition to NRSROs, the New NRSRO Rules also apply to providers of third-party due diligence services for asset-backed securities and issuers and underwriters of asset-backed securities. The New NRSRO Rules became effective on various dates during the Report Period (i.e., November 14, 2014, January 1, 2015 and June 15, 2015).

¹¹ IOSCO Committee 6 was formed to evaluate and consider regulatory and policy initiatives relating to credit rating agencies’ activities and oversight and facilitate regular dialogue between regulators and the credit rating industry. The SEC chairs Committee 6, and OCR Staff represents the SEC in this regard. In March 2015, IOSCO published the final report on Code of Conduct Fundamentals for Credit Rating Agencies, available at: <https://www.iosco.org/news/pdf/IOSCONEWS375.pdf>.

¹² The supervisory colleges were formed to enhance communication among credit rating agency regulators globally with respect to examinations of the relevant credit rating agencies. See Supervisory Colleges for Credit Rating Agencies, Final Report (July 2013), available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD416.pdf>. The SEC serves as chair of the colleges for S&P and Moody’s, and OCR Staff represents the SEC in this regard. The European Securities and Markets Authority serves as chair of the college for Fitch.

¹³ Available at: <http://www.sec.gov/rules/final/2014/34-72936.pdf>.

- Final Rule: Asset-Backed Securities Disclosure and Registration, Release Nos. 33-9638 and 34-72982 (Sept. 4, 2014), 79 FR 57183 (Sept. 24, 2014).¹⁴ The Commission adopted revisions to Regulation AB and other rules governing the offering process, disclosure, and reporting for asset-backed securities. The final rules require that, with some exceptions, prospectuses for public offerings under the Securities Act of 1933 and ongoing reports under the Exchange Act of asset-backed securities backed by real estate assets, auto-related assets, or debt securities, contain specified asset-level information about each asset in the pool. The asset-level information is required to be provided according to specified standards and in a tagged data format using eXtensible Markup Language. The Commission also adopted rules revising filing deadlines for asset-backed securities offerings and new registration forms tailored to asset-backed securities offerings. Credit ratings references in shelf eligibility criteria for asset-backed securities issuers were repealed and new criteria established, pursuant to Section 939A of the Dodd-Frank Act.
- Final Rule: Adoption of Updated EDGAR Filer Manual, Release Nos. 33-9874, 34-75586, 39-2505, and IC-31735 (Aug. 3, 2015), 80 FR 51123 (Aug. 24, 2015).¹⁵ The Commission adopted revisions to the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system and related rules to reflect updates, including those enabling NRSROs to deliver certain forms and reports to the Commission electronically, as required under the new rules adopted by the Commission with respect to NRSROs on August 27, 2014.
- Final Rule: Removal of Certain References to Credit Ratings and Amendment to the Issuer Diversification Requirement in the Money Market Fund Rule, Release No. IC-31828 (Sept. 16, 2015), 80 FR 58124 (Sept. 25, 2015).¹⁶ The Commission adopted amendments to address provisions that reference credit ratings in Rule 2a-7 and Form N-MFP, under the Investment Company Act of 1940. Specifically, the amendments to Rule 2a-7 replace references to credit ratings in the rule with alternative standards designed to maintain a similar level of credit quality as under the rule prior to the amendments. The amendments to Form N-MFP require that a fund disclose any credit rating that the fund's board considered in determining the credit quality of a portfolio security. The amendments were adopted pursuant to Section 939A of the Dodd-Frank Act, and finalize the re-proposed rule described below.
- Re-Proposed Rule: Removal of Certain References to Credit Ratings and Amendment to the Issuer Diversification Requirement in the Money Market Fund Rule, Release No. IC-31184 (July 23, 2014), 79 FR 47985 (Aug. 14, 2014).¹⁷ The Commission re-proposed amendments to address provisions that reference credit ratings in Rule 2a-7 and Form N-MFP, under the Investment Company Act of 1940. Specifically, the proposed amendments to Rule 2a-7 would replace references to credit ratings in the rule with alternative standards designed to maintain a similar level of credit quality as under the rule prior to the amendments. The proposed amendments to Form N-MFP would require that a fund disclose any credit rating that the fund's board considered in determining the

¹⁴ Available at: <http://www.sec.gov/rules/final/2014/33-9638.pdf>.

¹⁵ Available at: <http://www.sec.gov/rules/final/2015/33-9874.pdf>.

¹⁶ Available at: <http://www.sec.gov/rules/final/2015/ic-31828.pdf>.

¹⁷ Available at: <http://www.sec.gov/rules/proposed/2014/ic-31184.pdf>.

credit quality of a portfolio security. The amendments were proposed pursuant to Section 939A of the Dodd-Frank Act.

- Order Extending Temporary Conditional Exemption for Nationally Recognized Statistical Rating Organizations from Requirements of Rule 17g-5 under the Securities Exchange Act of 1934 and Request for Comment, Release No. 34-73649 (Nov. 19, 2014), 79 FR 70261 (Nov. 25, 2014).¹⁸ The Commission extended, until December 2, 2015, the order exempting NRSROs from complying with Rule 17g-5(a)(3) with respect to credit ratings for certain structured finance products where the issuer is a non-U.S. person and the NRSRO reasonably believes that the products will be offered and sold only in transactions outside the United States.
- Orders Instituting Administrative and Cease-and-Desist Proceedings. On January 21, 2015, the Commission issued the following orders pertaining to proceedings regarding certain mortgage-backed securities rating practices at S&P:
 - Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Section 8A of the Securities Act of 1933 and Sections 15E(d) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order, Release Nos. 33-9704 and 34-74102 (Jan. 21, 2015).¹⁹ The Commission instituted settled administrative proceedings against S&P relating to its conduit/fusion commercial mortgage-backed securities rating methodology.
 - Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Sections 15E(d) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order, Release No. 34-74103 (Jan. 21, 2015).²⁰ The Commission instituted settled administrative proceedings against S&P regarding S&P's surveillance practices with respect to certain residential mortgage-backed securities.
 - Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Section 8A of the Securities Act of 1933 and Sections 15E(d) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order, Release Nos. 33-9705 and 34-74104 (Jan. 21, 2015).²¹ The Commission instituted settled administrative proceedings against S&P addressing S&P's practices in its conduit/fusion commercial mortgage-backed securities ratings methodology.

¹⁸ Available at: <http://www.sec.gov/rules/exorders/2014/34-73649.pdf>.

¹⁹ Available at: <http://www.sec.gov/litigation/admin/2015/33-9704.pdf>.

²⁰ Available at: <http://www.sec.gov/litigation/admin/2015/34-74103.pdf>.

²¹ Available at: <http://www.sec.gov/litigation/admin/2015/33-9705.pdf>.

- Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Section 8A of the Securities Act of 1933 and Sections 15E(d) and 21C of the Securities Exchange Act of 1934, and Section 9(b) of the Investment Company Act of 1940, Release Nos. 33-9706, 34-74105, and IC-31425 (Jan. 21, 2015).²² The Commission instituted administrative proceedings against the former head of S&P’s commercial mortgage-backed securities group alleging false and misleading statements related to S&P’s conduit/fusion commercial mortgage-backed securities ratings methodology.
- Order Granting Temporary Conditional Exemption for Japan Credit Rating Agency, Ltd. from Certain Requirements of Section 15E(t) of the Securities Exchange Act of 1934, Release No. 34-75747 (Aug. 20, 2015).²³ The Commission granted JCR a temporary, conditional exemption until August 20, 2018 from certain corporate governance requirements under Section 15E(t).
- Order Granting Temporary, Limited, and Conditional Exemption of Kroll Bond Rating Agency, Inc. from the Conflict of Interest Prohibition in Rule 17g-5(c)(1) of the Securities Exchange Act of 1934, Release No. 34-76129 (Oct. 13, 2015).²⁴ The Commission granted KBRA a temporary, conditional exemption, until January 1, 2017, from the conflict of interest prohibition in Rule 17g-5(c)(1), which prohibits an NRSRO from issuing or maintaining credit ratings solicited by a person that provided 10% or more of an NRSRO’s total net revenue in the NRSRO’s most recently ended fiscal year.
- Order Extending Temporary Conditional Exemption for Nationally Recognized Statistical Rating Organizations from Requirements of Rule 17g-5(a)(3) under the Securities Exchange Act of 1934 and Request for Comment, Release No. 34-76183 (Oct. 16, 2015) 80 FR 64031 (Oct. 22, 2015).²⁵ The Commission extended, until December 2, 2017, the order exempting NRSROs from complying with Rule 17g-5(a)(3) with respect to credit ratings for certain structured finance products where the issuer is a non-U.S. person and the NRSRO has a reasonable basis to conclude that the products will be offered and sold only in transactions outside the United States.
- Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Sections 15E(d) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order, Release No. 34-76261 (Oct. 26, 2015).²⁶ The Commission instituted settled administrative proceedings against DBRS regarding DBRS’s surveillance methodology and practices with respect to residential mortgage-backed securities and re-securitized real estate mortgage investment conduits.

²² Available at: <http://www.sec.gov/litigation/admin/2015/33-9706.pdf>.

²³ Available at: <http://www.sec.gov/rules/exorders/2015/34-75747.pdf>.

²⁴ Available at: <http://www.sec.gov/rules/exorders/2015/34-76129.pdf>.

²⁵ Available at: <http://www.sec.gov/rules/exorders/2015/34-76183.pdf>.

²⁶ Available at: <http://www.sec.gov/litigation/admin/2015/34-76261.pdf>.

- 2014 Summary Report of Commission Staff’s Examinations of Each Nationally Recognized Statistical Rating Organization, dated December 2014, as required under Section 15E(p)(3)(C).²⁷ The report summarizes essential findings of the examinations conducted by Staff under Section 15E(p)(3)(C), generally focusing on the period from January 1, 2013 through December 31, 2013.
- Annual Report to Congress on Nationally Recognized Statistical Rating Organizations, dated December 2014, as required by Section 6 of the Rating Agency Act.²⁸ The Annual Report addresses the matters described in the first paragraph under Section I hereof, generally covering the period from June 26, 2013 to June 25, 2014.
- Record of Credit Ratings Taxonomy, 2015 and Rating History Files Publication Guide.²⁹ The XBRL taxonomy applicable to disclosures of credit rating histories pursuant to Rule 17g-7(b), together with a guide for preparing XBRL files in accordance with the requirements of such rule and taxonomy, was posted on April 29, 2015.

IV. COMPETITION

A. Select NRSRO Statistics

Sections 1 through 3 below summarize and discuss certain information reported by NRSROs on Form NRSRO³⁰ or pursuant to Rule 17g-3 that provides insight into the state of competition among NRSROs. While this information indicates the high percentage of outstanding ratings that continue to be issued by Moody’s, S&P, and Fitch, other information demonstrates that smaller NRSROs have been able to make competitive inroads in certain rating categories.³¹

²⁷ Available at: <http://www.sec.gov/ocr/reportspubs/special-studies/nrsro-summary-report-2014.pdf>.

²⁸ Available at: <http://www.sec.gov/ocr/reportspubs/annual-reports/nrsroannrep1214.pdf>.

²⁹ Available at: <http://www.sec.gov/info/edgar/edgartaxonomies.shtml#RATINGS2015>.

³⁰ Form NRSRO is the application for registration as an NRSRO under Section 15E and Rule 17g-1. Rule 17g-1 requires an applicant/NRSRO to use Form NRSRO for the following, as applicable:

- an initial application to be registered as an NRSRO;
- an application to register for an additional class of credit ratings;
- an application supplement;
- an update of registration pursuant to Section 15E(b)(1);
- an annual certification pursuant to Section 15E(b)(2); and
- a withdrawal of registration pursuant to Section 15E(e).

See <http://www.sec.gov/about/forms/formnrsro.pdf> for additional information.

³¹ For example, information regarding current market share among NRSROs in the asset-backed securities category is published on the websites of Commercial Mortgage Alert (<https://www.cmalert.com/>) and Asset-Backed Alert (<https://www.abalert.com/>) and is discussed in Section IV(B)(1) of this Report. In addition, Section IV(B)(2) of this Report provides examples of certain asset classes in which smaller NRSROs have been able to gain market share and discusses other developments relevant to competition among NRSROs.

1. NRSRO Credit Ratings Outstanding

(a) Number of Outstanding Ratings in Statutory Rating Categories

Each NRSRO annually reports the number of credit ratings outstanding in each rating category for which it is registered.³² This information, which is summarized in Charts 1 through 9 below, can be useful in determining the breadth of an NRSRO's coverage with respect to issuers and obligors within a particular rating class.

Comparing the number of ratings outstanding for established NRSROs and newer NRSROs may not provide a comprehensive picture of the state of competition. Certain NRSROs (particularly S&P, Moody's, and Fitch) have a longer history of issuing ratings and their ratings include those for debt obligations and obligors that were rated well before the establishment of the newer entrants.³³ Consequently, the information described in Section IV(B)(1) of this Report (relating to recent market share developments in the asset-backed securities rating category) may provide a better gauge of how well newer entrants are competing with more established rating agencies, specifically in the asset-backed securities rating category.

Chart 1 provides the number of outstanding credit ratings reported by each NRSRO in its annual certification for the calendar year ending December 31, 2014, in each of the five categories identified in Section 3(a)(62) for which the NRSRO is registered, as applicable.

³² Annual certifications on Form NRSRO must be filed with the Commission pursuant to Rule 17g-1(f) and made publicly and freely available on each NRSRO's website pursuant to Rule 17g-1(i). The number of outstanding credit ratings for each class of credit ratings for which an NRSRO is registered is reported on Item 7A of Form NRSRO.

³³ The ratings counts disclosed on Item 7A of Form NRSRO include all credit ratings currently outstanding, regardless of when they were issued. As a result, the ratings counts of the more established NRSROs may include credit ratings that were issued before the newer entrants began issuing credit ratings. These earlier ratings will continue to be included in the disclosed ratings counts until the rated securities are repaid or the credit ratings are otherwise withdrawn. Because all outstanding ratings are included in the ratings counts, historical results factor significantly into the disclosed number of ratings, making it more difficult to discern current-year trends and identify gains achieved by the newer entrants.

Chart 1: Number of Outstanding Credit Ratings as of December 31, 2014 by Rating Category*						
NRSRO	Financial Institutions	Insurance Companies	Corporate Issuers	Asset-Backed Securities	Government Securities	Total Ratings
A.M. Best	N/R	7,910	1,526	26	N/R	9,462
DBRS	10,176	147	3,732	11,497	16,650	42,202
EJR	11,956	1,025	7,013	N/R	N/R	19,994
Fitch	46,260	3,011	15,558	42,237	194,086	301,152
HR Ratings	N/R	N/R	N/R	N/R	277	277
JCR	807	57	2,206	N/R	399	3,469
KBRA	14,809	49	2,856	2,626	37	20,377
Moody's	52,049	3,336	41,364	71,504	673,166	841,419
Morningstar	N/R	N/R	N/R	5,542	N/R	5,542
S&P	61,000	6,800	53,000	85,200	970,200	1,176,200
Total	197,057	22,335	127,255	218,632	1,854,815	2,420,094

*N/R indicates that the NRSRO is not registered for the rating category indicated.

Source: NRSRO annual certifications for the 2014 calendar year, Item 7A on Form NRSRO³⁴

Chart 2 displays the percentage of total credit ratings that were issued by each NRSRO, and charts 3 through 7 depict the percentages of credit ratings in each rating category that were attributable to each NRSRO that is registered in such category, in each case, based on information reported by the NRSROs as of December 31, 2014.^{35, 36}

³⁴ Effective January 1, 2015, Item 7A of Form NRSRO and the corresponding instructions were amended to clarify the manner in which the number of outstanding credit ratings should be calculated and presented. The clarifying amendments are designed to better ensure that disclosures on Item 7A of Form NRSRO are consistent across NRSROs. Although NRSROs were not required to adhere to the updated instructions for the annual certifications pertaining to the year ended December 31, 2014, the change in instructions may have caused some NRSROs to modify the way they count ratings for purposes of Item 7A of Form NRSRO, which may affect comparisons to disclosures made in prior years. See Adopting Release, 79 FR at 55220-22 (discussing the clarifying amendments to Item 7A of Form NRSRO).

³⁵ For example, according to Chart 1, A.M. Best reported that it had 7,910 insurance company credit ratings, and the total of the credit ratings in that category reported by all NRSROs was 22,335. Dividing 7,910 by 22,335 equals (approximately) 0.354 or 35.4% (which is the percentage of NRSRO insurance company ratings attributable to A.M. Best, as shown on Chart 4).

³⁶ The percentages used in Charts 2 through 9 have been rounded to the nearest one-tenth of one percent.

Chart 2: Total Ratings

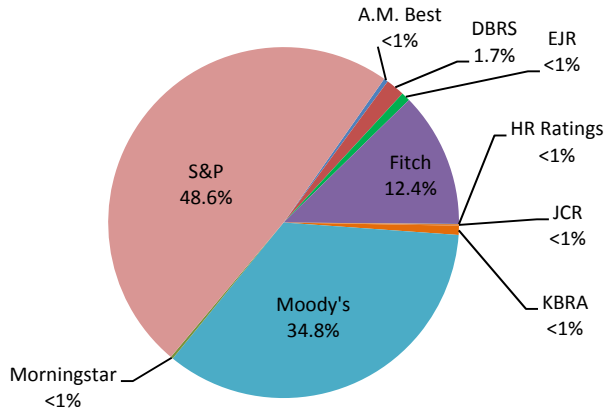


Chart 3: Financial Institutions

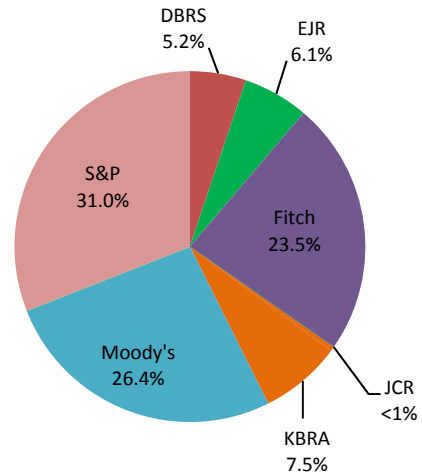


Chart 4: Insurance Companies

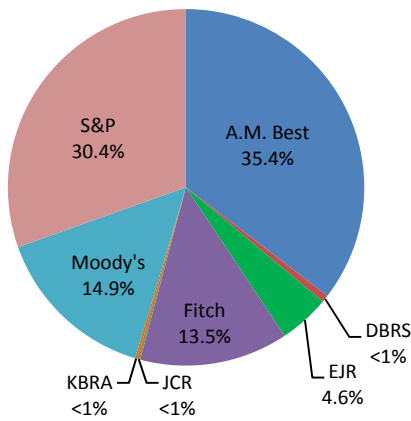


Chart 5: Corporate Issuers

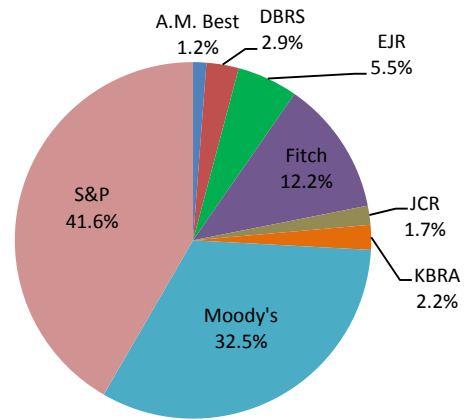


Chart 6: Asset-Backed Securities

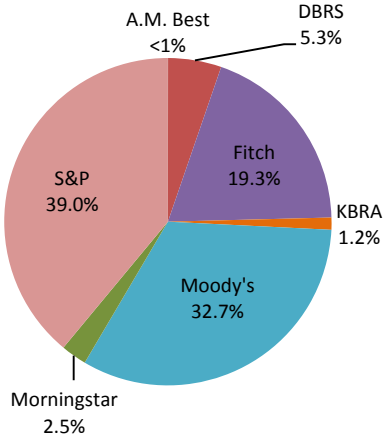
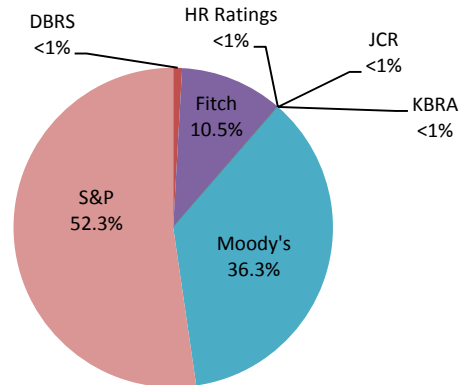


Chart 7: Government Securities



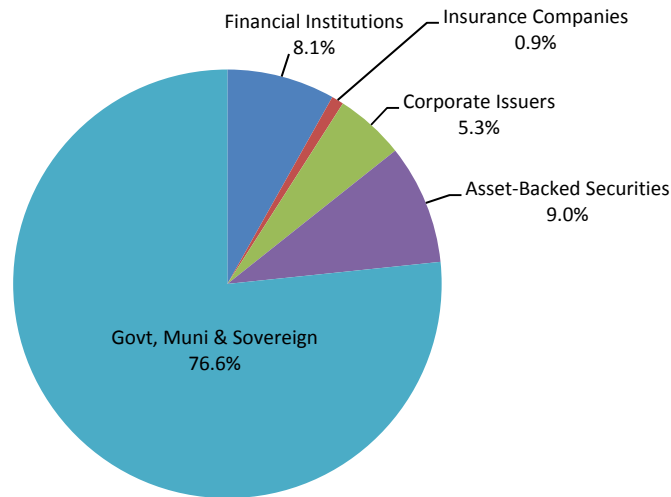
Source: NRSRO annual certifications for the 2014 calendar year, Item 7A on Form NRSRO

S&P, Moody’s, and Fitch continue to be the three NRSROs with the highest number of ratings reported to be outstanding as of December 31, 2014. As illustrated in Chart 2, in total, these NRSROs issued 95.8% of all the ratings that were reported to be outstanding as of December 31, 2014, slightly lower than 96.6% as of December 31, 2013. In 2007, the year when NRSROs began reporting outstanding ratings on Form NRSRO, these NRSROs accounted for 98.8% of all outstanding ratings.

Charts 3 through 7 show that, as of December 31, 2014, Moody’s, S&P, and Fitch were also the top three issuers of ratings in every rating category except for insurance ratings, in which A.M. Best specializes. In that category, A.M. Best issued about 35.4% of the ratings outstanding, which was the highest percentage among the NRSROs. S&P issued about 30.4% of the outstanding insurance ratings, which was the second highest percentage. Moody’s and Fitch issued about 14.9% and 13.5%, respectively, of such ratings. A.M. Best has consistently reported being one of the top three issuers of insurance ratings since this information began to be reported in 2007. In each other rating category, S&P reported the highest percentage of outstanding ratings, Moody’s reported the second highest percentage, and Fitch reported the third highest percentage.

Chart 8 depicts the percentages of outstanding credit ratings attributable to each rating category, based on information reported by the NRSROs as of December 31, 2014.

Chart 8: Breakdown of Outstanding Ratings By Rating Category



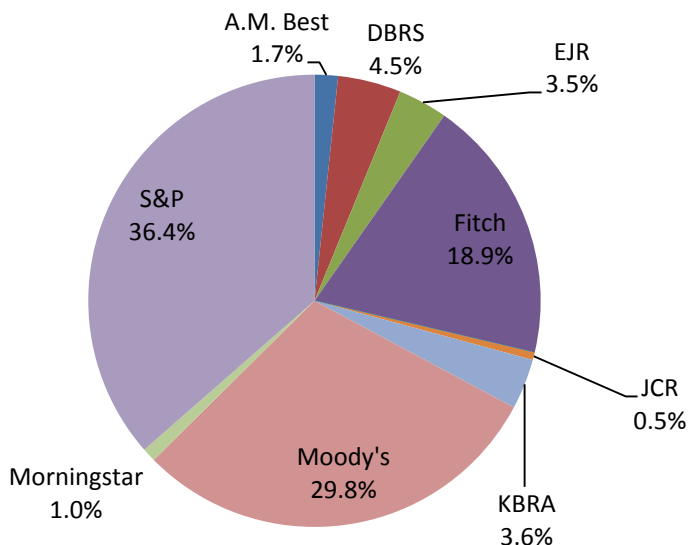
Source: NRSRO annual certifications for the 2014 calendar year, Item 7A on Form NRSRO

As illustrated by Chart 8, as of December 31, 2014, a disproportionate number of the aggregate credit ratings reported to be outstanding were in the government securities category, which may be attributable to the large number of government bond issuers and their multiple debt offerings. The government securities category accounted for 76.6% of the total number of credit ratings reported across all categories and, as shown on Chart 7, is also the most concentrated rating category, with 88.6% of all outstanding government ratings reported having been issued by Moody’s and S&P.

Given the disproportionate size of the government securities rating category relative to the other rating categories and the high concentration of NRSROs rating government securities, the inclusion of the government securities category in the calculation of total market share for each NRSRO may make it difficult to assess the relative market shares of the smaller NRSROs.

Chart 9 depicts the percentages of the credit ratings attributable to each NRSRO over all rating categories other than the government securities category, based on information reported by the NRSROs as of December 31, 2014. This chart includes all NRSROs which issue ratings in rating categories other than government securities.

**Chart 9: Breakdown of Outstanding Ratings by NRSRO
Exclusive of Government Securities**



Source: NRSRO annual certifications for the 2014 calendar year, Item 7A on Form NRSRO

A comparison of Chart 9 to Chart 2 (which shows each NRSRO's total market share over all rating categories, including government securities) illustrates that there is more competition in the non-government rating categories. Moody's and S&P's percentage share of the overall market declines by 5.0% and 12.2%, respectively, when government securities are excluded. Fitch's percentage share of outstanding ratings, on the other hand, increases by 6.5% when government securities are excluded. The percentage market share for all the remaining NRSROs other than HR Ratings (which is only registered in the government securities category) also increases when government securities are excluded. Further, when government securities are included in the total calculation, all but one of these smaller NRSROs have less than 1.0% of the market share, making it difficult to assess their relative market shares. When government securities are excluded, a clearer picture of the relative market shares of the smaller NRSROs can be observed, as illustrated in Chart 9.

As discussed above, the number of outstanding ratings reported by the NRSROs provides insights into the state of competition in each rating class and in the aggregate, but assessing the state of competition based on this data has some limitations. For instance, some NRSROs have

pursued business strategies to specialize in particular rating categories or sub-categories³⁷ and may not plan to issue ratings in certain of the other rating categories. Also, the reported information does not reflect any classes of ratings being issued by NRSROs in which they are not registered with the Commission, nor does it reflect ratings issued by an affiliate of an NRSRO unless the affiliate is identified as a credit rating affiliate on Item 3 of Form NRSRO.

Further, the outstanding ratings reported by the NRSROs are based on their own determinations of the applicable categories and number of ratings, which are not necessarily consistent among all the NRSROs. As NRSROs adjust their ratings count disclosures in accordance with the new instructions to Form NRSRO (which are designed to enhance comparability across NRSROs), comparisons to ratings counts disclosed in prior years may also be affected.³⁸

(b) Industry Concentration

Economists generally measure industry concentration, which indicates the competitiveness of an industry, by using the Herfindahl-Hirschman Index (“HHI”).³⁹ The inverse of the HHI (“HHI Inverse”) can be used to represent the number of firms with equal market share necessary to replicate the degree of concentration in a particular industry.⁴⁰ In other words, an industry with an HHI Inverse of 3.0 has a concentration that is equal to an industry where the entire market is evenly divided among three firms. A highly concentrated market will have a low HHI Inverse, whereas an unconcentrated market will have a high HHI Inverse.⁴¹

Calculations of the HHI and HHI Inverse for the NRSRO industry are consistent with the results included in Section IV(A)(1)(a) of this Report and further illustrate competitive inroads made by smaller NRSROs in certain rating categories. Based on the number of outstanding ratings included in such section,⁴² the HHI Inverse indicates that the NRSRO industry constitutes a “highly concentrated” market, and has the equivalent concentration of an industry with approximately 2.68 firms with equal market share. This is consistent with the high proportion of

³⁷ For example, A.M. Best with respect to insurance companies and their affiliates; JCR with respect to Japanese issuers and securities; and HR Ratings with respect to Mexican securities.

³⁸ See supra note 34.

³⁹ See, e.g., U.S. Department of Justice and the Federal Trade Commission, Horizontal Merger Guidelines §5.3 (2010) (discussing how the Department of Justice and the Federal Trade Commission use HHI to measure the impact of a merger on market concentration); however, since the HHI calculation does not take into account that multiple NRSROs may rate a single issue, different considerations may be applicable to the use of the HHI calculation for NRSROs.

⁴⁰ The HHI Inverse is calculated by dividing 10,000 (i.e., the highest possible HHI) by the HHI. For additional discussion of the HHI Inverse, see Vera Pawlowsky-Glahn and Antonella Buccianti, Compositional Data Analysis: Theory and Applications (2011); Toby Roberts, When Bigger is Better: A Critique of the Herfindahl-Hirschman Index’s Use to Evaluate Mergers in Network Industries, 34 PACE L. REV. 894, 908 (2014).

⁴¹ A market with an HHI Inverse of less than 4.0 is considered to be highly concentrated; a market with an HHI Inverse between 4.0 and 6.67 is considered to be moderately concentrated; and a market with an HHI Inverse above 6.67 is considered to be unconcentrated. See generally U.S. Department of Justice and the Federal Trade Commission, Horizontal Merger Guidelines §5.3 (2010).

⁴² See Section IV(A)(1)(a) of this Report for a discussion of certain limitations involved in determining the number of outstanding ratings reported.

outstanding ratings that have been issued by the three largest NRSROs. Although the industry remains highly concentrated, a comparison of the HHI Inverse calculations since 2010 shows that each rating category other than the government securities category has become less concentrated.

Chart 10 reports the HHI Inverses calculated from 2008 to 2014 for the ratings outstanding (as reported by the NRSROs) in each rating category, in total for all rating categories, and in total for all rating categories excluding government securities.

Chart 10: HHI Inverses for Each Rating Category

Year	Financial Institutions*	Insurance Companies**	Corporate Issuers**	Asset-Backed Securities*	Government Securities*	Total (all rating categories)	Total Excluding Government Securities
2008	3.72	4.05	3.79	2.82	2.83	2.99	3.56
2009	3.85	3.84	3.18	3.18	2.65	2.86	3.58
2010	3.99	3.37	3.17	3.20	2.69	2.88	3.55
2011	4.16	3.76	3.02	3.38	2.47	2.74	3.70
2012	4.04	3.72	3.00	3.44	2.50	2.75	3.68
2013	3.99	3.68	3.03	3.48	2.46	2.72	3.65
2014	4.30	3.83	3.35	3.34	2.40	2.68	3.81

* Seven credit rating agencies are registered in this rating category. Therefore, the highest possible HHI Inverse (in a perfectly competitive market where all firms have an equal share of business) would be 7.0.

** Eight credit rating agencies are registered in this rating category. Therefore, the highest possible HHI Inverse (in a perfectly competitive market where all firms have an equal share of business) would be 8.0.

Source: NRSRO annual certifications for the 2008-14 calendar years, Item 7A on Form NRSRO

As mentioned in Section IV(A)(1)(a) of this Report, as of December 31, 2014, the government securities rating category (which includes sovereigns, U.S. public finance, and international public finance) is the largest class of ratings (comprising approximately 76.6% of all ratings outstanding) and is dominated by S&P and Moody's (which together issued 88.6% of all outstanding government ratings). Given the disproportionate size of the government securities rating category relative to the other rating categories and the high concentration of NRSROs rating government securities, the inclusion of the government securities category in the calculation of the aggregate HHI Inverse may make it difficult to assess the level of market concentration in the other four rating categories.

Chart 10 illustrates that the financial institutions, insurance companies, corporate issuers, and asset-backed securities categories of credit ratings are significantly less concentrated than the government securities rating category. The aggregate HHI Inverse for these four rating categories is 3.81, which is 1.13 higher than the aggregate HHI Inverse when government securities are included. Chart 10 also shows that, when government securities are excluded, the aggregate HHI Inverse for all other rating categories has increased by 0.25 since 2008, showing that industry concentration has declined somewhat for these rating categories.⁴³

⁴³ Unlike the financial institutions and asset-backed securities rating categories, the HHI Inverse for the insurance companies and corporate issuers categories decreased (indicating higher concentration) when compared to 2008. However, the HHI Inverse increased (indicating lesser concentration) for these two latter rating categories when compared to 2010.

2. NRSRO Analytical Staffing Levels

Chart 11 reports the number of credit analysts (including supervisors) and the number of credit analyst supervisors employed by each of the NRSROs, as reported on Exhibit 8 of Form NRSRO.⁴⁴

Chart 11: NRSRO Credit Analysts and Credit Analyst Supervisors

NRSRO	Credit Analysts (Including Supervisors)	Credit Analyst Supervisors	Ratio of Supervisors to Credit Analysts
A.M. Best	128	46	1 : 1.78
DBRS	150	41	1 : 2.66
EJR	8	4	1 : 1.00
Fitch	1,155	326	1 : 2.54
HR Ratings	36	7	1 : 4.14
JCR	58	32	1 : 0.81
KBRA	96	14	1 : 5.86
Moody's	1,486	189	1 : 6.86
Morningstar	40	10	1 : 3.00
S&P	1,371	214	1 : 5.41
Total	4,528	883	1 : 4.13

Source: NRSRO annual certifications for the 2014 calendar year, Exhibit 8 on Form NRSRO

The three largest NRSROs report employing 4,012 credit analysts (including supervisors), which is approximately 88.6% of the total number employed by all of the NRSROs. Although the smaller NRSROs in the aggregate employ only approximately 11.4% of all credit analysts employed by NRSROs, this percentage has increased steadily in recent years,⁴⁵ and some of the smaller NRSROs have reported significant increases in their analytical staff.⁴⁶ The trend in the number of rating analysts employed by an NRSRO can indicate the state of the NRSRO's business or its business outlook—i.e., NRSROs that are increasing their staff may be experiencing or anticipating an increase in ratings volumes or planning to enter new markets.

⁴⁴ Effective January 1, 2015, the instructions for Exhibit 8 of Form NRSRO were amended to clarify that NRSROs must include credit analyst supervisors in the total number of credit analysts disclosed on Exhibit 8. This amendment was designed to enhance consistency of the disclosures on Exhibit 8 of Form NRSRO. Prior to this amendment, some NRSROs may have excluded credit analyst supervisors from the total number of credit analysts disclosed.

⁴⁵ Based on amounts reported by the currently registered NRSROs on their annual certifications for the applicable calendar year, the smaller NRSROs employed approximately 7.5% of all NRSRO analysts in 2010, 8.3% of all NRSRO analysts in 2011, 9.2% of all NRSRO analysts in 2012, and 9.6% of all NRSRO analysts in 2013. A portion of the increase since 2012 is attributable to the registration of HR Ratings as an NRSRO in 2012.

⁴⁶ For example, KBRA reported on its most recent annual certification that it employs 96 credit analysts and supervisors, as compared to 13 reported for 2010.

3. NRSRO Revenue Growth

The total revenue reported to the Commission⁴⁷ by all of the NRSROs for their 2014 fiscal year was approximately \$5.9 billion, which was an increase of 9.0% from the 2013 fiscal year. Revenue at Moody's, Fitch, and S&P was reported to have increased from 2013 to 2014 by 9.0%, 8.7%, and 8.0%, respectively.⁴⁸ Chart 12 shows the percentage of total NRSRO revenues accounted for by S&P, Fitch, and Moody's since 2011. As illustrated by Chart 12, the relative percentages of total NRSRO revenues between the three largest NRSROs and the other NRSROs have remained relatively constant over the past four years.

Chart 12: NRSRO Revenue Information Fiscal Year Percentage of Total Reported NRSRO Revenue

	2011	2012	2013	2014
S&P, Fitch, and Moody's	94.0%	94.7%	94.5%	94.3%
All Other NRSROs	6.0%	5.3%	5.5%	5.7%
Total	100.0%	100.0%	100.0%	100.0%

Source: Financial reports provided to the Commission under Rule 17g-3 for the fiscal years ended 2011-14

Further revenue information is available for NRSROs that are owned, in whole or in part, by public companies. The following information is from the annual reports of public companies with an ownership interest in an NRSRO:

- Moody's Corporation, the owner of Moody's, attributes the growth in revenues at Moody's to certain pricing increases, higher issuance volumes for investment-grade corporate debt and collateralized loan obligations, and higher monitoring fees, but noted that these increases were partially offset by declines in issuance volumes in the U.S. in high-yield corporate debt, as well as an unfavorable issuance mix in the banking sector.⁴⁹

⁴⁷ Annual unaudited reports with revenue information are required to be provided by NRSROs to the Commission under Rule 17g-3(a)(3). These reports are not required to be made publicly available.

⁴⁸ See McGraw Hill Financial, Inc. 10-K Annual Report for the year ended December 31, 2014, available at http://investor.mhfi.com/phoenix.zhtml?c=96562&p=irol-sec&seccat01.3_rs=11&seccat01.3_rc=10; Fimalac's 2014 Annual Report for the year ended December 31, 2014, available at <http://www.fimalac.com/annual-reports-b5397cc5c4d4f9999586462260ce2f42.html>; and Moody's Corporation 10-K Annual Report for the year ended December 31, 2014, available at <http://ir.moodys.com/Cache/22249805.pdf?IID=108462&FID=22249805&O=3&OSID=9>.

⁴⁹ See Moody's Corporation 10-K Annual Report for the year ended December 31, 2014, available at <http://ir.moodys.com/Cache/22249805.pdf?IID=108462&FID=22249805&O=3&OSID=9>.

- McGraw Hill Financial Inc. (“MHFI”) attributes the increase in revenues at S&P, a business unit under the ownership of MHFI, to growth in both corporate and financial services bond ratings revenue, an increase in bank loan ratings, higher annual fees, and an increase in ratings evaluation services activity, but noted that these increases were partially offset by declines in structured finance revenues.⁵⁰
- Fimalac, S.A. (“Fimalac”), a significant equity investor in Fitch’s parent, Fitch Group, Inc. (“Fitch Group”), attributes the growth in revenues at Fitch to favorable issuance trends and business development efforts worldwide.⁵¹
- Morningstar’s parent company, Morningstar, Inc., stated that the increased revenue at Morningstar reflects both higher industry-wide new issuance volume in structured credits and increased market share for commercial mortgage-backed securities new-issue ratings.⁵²

B. Recent Developments in the State of Competition among NRSROs

1. Market Share Developments in the Asset-Backed Securities Rating Category

Based on information from the websites of Commercial Mortgage Alert and Asset-Backed Alert,⁵³ some of the smaller NRSROs have built significant market shares in the asset-backed securities rating category. These websites, which allow NRSROs to self-report the transactions that they have rated, indicate that the growth trend the Staff has observed since the 2012 Annual Report continued during the Report Period. Sections (a) and (b) below include market share information reported on these websites as to commercial mortgage-backed securities (“CMBS”), asset-backed securities (“ABS”), and mortgage-backed securities (“MBS”), as further described in the following paragraph.⁵⁴

The following definitions from the Commercial Mortgage Alert and Asset-Backed Alert websites apply to the determination of reported market share numbers: (i) CMBS is comprised of transactions collateralized by mortgages or leases on commercial or multi-family income-producing properties;⁵⁵ (ii) the ABS category is comprised of securities that are collateralized by assets (excluding mortgages, commercial paper, and other continuously offered securities

⁵⁰ See McGraw Hill Financial, Inc. 10-K Annual Report for the year ended December 31, 2014, available at http://investor.mhfi.com/phoenix.zhtml?c=96562&p=irol-sec&seccat01.3_rs=11&seccat01.3_rc=10.

⁵¹ See Fimalac’s 2014 Annual Report for the year ended December 31, 2014, available at <http://www.fimalac.com/annual-reports-b5397cc5c4d4f9999586462260ce2f42.html>.

⁵² See Morningstar, Inc. 2014 Annual Report, available at <http://corporate.morningstar.com/US/documents/PR/MorningstarAnnualReport2014.pdf>.

⁵³ See <https://www.abalert.com/> and <https://www.cmalert.com/>.

⁵⁴ References to U.S. ABS, MBS and CMBS issuance and market shares in Section IV(B)(1) of this Report reflect securities issued for sale primarily in the U.S., which includes securities issued publicly and those issued under Rule 144A. See https://www.abalert.com/market/about_db.pl; https://www.cmalert.com/market/about_db.pl.

⁵⁵ See https://www.cmalert.com/market/about_db.pl.

such as medium-term notes);⁵⁶ and (iii) the MBS category is comprised of first lien mortgages on residential properties.⁵⁷

(a) CMBS

Charts 13 through 15 provide information concerning U.S. CMBS ratings by NRSROs.⁵⁸ NRSRO market share varies between the conduit/fusion CMBS and single borrower CMBS segments,⁵⁹ the two segments that account for most of the U.S. CMBS transactions recently rated by NRSROs. The charts include market share information for total U.S. CMBS transactions,⁶⁰ U.S. conduit/fusion CMBS transactions and U.S. single borrower CMBS transactions for calendar year 2013, calendar year 2014, and the first half of calendar year 2015.

Chart 13: Rating Agencies for CMBS Issued in 2013, 2014 and First Half of 2015										
Total U.S. CMBS*										
1H 2015 Rank	NRSRO	1H-2015 Issuance (\$Mil.)	No. of deals	Market Share (%)	2014 Issuance (\$Mil.)	No. of deals	Market Share (%)	2013 Issuance (\$Mil.)	No. of deals	Market Share (%)
1	Moody's	\$35,492.4	36	65.1	\$62,036.7	66	65.9	\$62,802.6	67	72.9
2	KBRA	30,847.7	35	56.6	53,790.1	65	57.2	45,140.1	55	52.4
3	Morningstar	24,203.3	29	44.4	31,129.7	45	33.1	17,089.0	27	19.8
4	Fitch	23,994.8	26	44.0	45,406.6	48	48.3	50,447.7	56	58.6
5	DBRS	18,970.3	22	34.8	37,183.5	43	39.5	18,574.9	26	21.6
6	S&P	18,748.7	28	34.4	31,614.2	53	33.6	34,255.2	49	39.8
	Total Rated Market	\$54,492.8	75		\$94,084.4	134		\$86,135.8	122	

Source: <https://www.cmalert.com/rankings.pl>

⁵⁶ See https://www.abalert.com/market/about_db.pl.

⁵⁷ See *id.*

⁵⁸ The charts reflect market share percentages based on dollar amounts of issuance. The market shares of individual NRSROs do not add up to 100% since more than one NRSRO may rate a particular transaction or obligor. CMBS market share data is from the *Commercial Mortgage Alert*. See <https://www.cmalert.com/rankings.pl>.

⁵⁹ The term “conduit” refers to a financial intermediary that functions as a link, or conduit, between the lender(s) originating loans and the ultimate investor(s). The conduit makes loans to, or purchases loans from, third parties under standardized terms, underwriting, and documents and then, when sufficient volume has been accumulated, pools the loans for sale to investors in the CMBS market. The term “fusion” refers to the combination within one CMBS of conduit loans, small loans and large loans. See http://www.crefc.org/uploadedFiles/CMSA_Site_Home/Industry_Resources/Research/Glossary.pdf. In contrast, a single borrower transaction includes commercial mortgage loans made to a single borrower.

⁶⁰ Total U.S. CMBS ratings include conduit/fusion CMBS, single-borrower CMBS, and other types of CMBS, such as distressed/non-performing CMBS transactions and resecuritizations of CMBS transactions.

Chart 14: Rating Agencies for CMBS Issued in 2013, 2014 and First Half of 2015										
U.S. Conduit/Fusion*										
1H 2015 Rank	NRSRO	1H-2015 Issuance (\$Mil.)	No. of deals	Market Share (%)	2014 Issuance (\$Mil.)	No. of deals	Market Share (%)	2013 Issuance (\$Mil.)	No. of deals	Market Share (%)
1	Moody's	\$30,126.5	27	100.0	\$54,027.6	47	94.0	\$44,659.4	38	83.2
2	KBRA	22,812.2	20	75.7	39,096.4	33	68.0	37,529.3	31	69.9
3	DBRS	15,487.4	14	51.4	32,523.3	29	56.6	14,644.9	13	27.3
4	Fitch	13,627.4	12	45.2	39,008.6	33	67.8	36,922.4	32	68.8
5	Morningstar	13,579.7	12	45.1	14,464.3	13	25.2	2,928.5	3	5.5
6	S&P	0.0	0	0.0	5,070.3	4	8.8	15,918.7	14	29.7
	Total Rated Market	\$30,126.5	27		\$57,497.4	50		\$53,663.1	46	

Source: <https://www.cmalert.com/rankings.pl>

Chart 15: Rating Agencies for CMBS Issued in 2013, 2014 and First Half of 2015										
U.S. Single Borrower*										
1H 2015 Rank	NRSRO	1H-2015 Issuance (\$Mil.)	No. of deals	Market Share (%)	2014 Issuance (\$Mil.)	No. of deals	Market Share (%)	2013 Issuance (\$Mil.)	No. of deals	Market Share (%)
1	S&P	\$17,133.0	25	87.8	\$20,510.9	35	81.7	15,491.5	25	65.0
2	Fitch	8,958.0	9	45.9	4,701.1	8	18.7	10,789.4	14	45.2
3	Morningstar	8,861.5	13	45.4	13,809.6	25	55.0	12,815.9	19	53.7
4	KBRA	6,095.0	8	31.2	7,555.4	13	30.1	4,437.3	11	18.6
5	Moody's	3,846.5	4	19.7	4,763.9	7	19.0	15,472.9	19	64.9
6	DBRS	2,768.6	5	14.2	3,225.0	6	12.8	2,074.1	5	8.7
	Total Rated Market	\$19,513.0	28		\$25,099.8	43		\$23,848.8	39	

Source: <https://www.cmalert.com/rankings.pl>

* Charts 13-15 reflect market share percentages based on dollar amounts of issuance. The market shares of individual NRSROs do not add up to 100% since more than one NRSRO may rate a particular transaction or obligor.

Moody's had the highest market share in the U.S. CMBS sector during the Report Period. Moody's rated 65.1% and 65.9% of all rated U.S. CMBS in the first half of 2015 and full year 2014, respectively. Moody's market share was particularly strong in the U.S. conduit/fusion CMBS sector, where it rated one or more tranches of all rated transactions issued in the first half of 2015 and 94.0% of the transactions rated in 2014.

During the Report Period, there was a trend of certain larger NRSROs rating only the more senior tranches of U.S. conduit/fusion CMBS transactions, while smaller NRSROs generally rated both the senior and subordinate tranches of the same transactions.⁶¹ This trend reflects significant inroads being made by certain smaller NRSROs into the U.S. CMBS sector. KBRA and Morningstar had the second and third highest market shares in the U.S. CMBS sector, respectively, during the first half of 2015. KBRA rated 56.6% of rated U.S. CMBS

⁶¹ See Sarah Mulholland, [Wall Street Shopping for CMBS Ratings as Warnings Raised](http://www.bloomberg.com/news/articles/2014-08-21/wall-street-shopping-for-cmbs-ratings-as-warnings-raised), Bloomberg Business, Aug. 21, 2014, available at <http://www.bloomberg.com/news/articles/2014-08-21/wall-street-shopping-for-cmbs-ratings-as-warnings-raised>.

during the first half of 2015, which is comparable to its market shares in 2013 and 2014. Morningstar rated 44.4% of rated U.S. CMBS during the first half of 2015, an increase from 33.1% in 2014. The increase in market share for each of KBRA and Morningstar is largely attributable to their growth in the U.S. conduit/fusion CMBS sector of CMBS ratings. KBRA's market share in this sector was 75.7% in the first half of 2015, which is an increase from 68.0% in 2014, and Morningstar's market share in this sector increased to 45.1% in the first half of 2015 from 25.2% in 2014. DBRS also achieved sizeable market share in the U.S. conduit/fusion CMBS sector, rating 51.4% of the transactions in the first half of 2015 and 56.6% of the transactions in 2014.

The market share results from the first half of 2015 for U.S. conduit/fusion CMBS may have also been affected by a settlement, dated January 21, 2015, between S&P and the Commission regarding charges relating to S&P's ratings on certain conduit/fusion CMBS.⁶² The settlement terms include a one-year timeout from marketing or rating new issue conduit/fusion CMBS transactions. As shown in Chart 14, S&P did not rate any U.S. conduit/fusion CMBS transactions in the first half of 2015.

(b) ABS/MBS⁶³

Charts 16 and 17 provide information concerning U.S. ABS and U.S. MBS ratings by NRSROs. The charts show rankings for the rated public and Rule 144A ABS and MBS markets in the U.S.

Chart 16: Rating Agency Market Shares for U.S. Public and Rule 144A ABS Issued in 2013, 2014 and First Half of 2015*										
1H 2015 Rank	NRSRO	1H-2015 Issuance (\$Mil.)	No. of deals	Market Share (%)	2014 Issuance (\$Mil.)	No. of deals	Market Share (%)	2013 Issuance (\$Mil.)	No. of deals	Market Share (%)
1	Moody's	\$79,008.8	107	62.8	\$128,392.5	174	58.4	\$114,219.9	155	58.2
2	S&P	75,462.3	109	60.0	150,775.2	241	68.6	137,539.6	251	70.1
3	Fitch	70,407.9	96	56.0	120,649.8	169	54.9	114,180.3	159	58.2
4	DBRS	22,024.1	49	17.5	24,557.7	65	11.2	16,530.6	52	8.4
5	KBRA	12,614.4	26	10.0	19,568.2	46	8.9	3,983.1	16	2.0
6	Morningstar	5,607.1	11	4.5	0.0	0	0.0	0.0	0	0.0
	Total Rated Market	\$ 125,834.8	195		219,922.2	361		\$196,217.2	348	

Source: <https://www.abalert.com/rankings.pl>

⁶² See In the Matter of Standard & Poor's Ratings Services, Release Nos. 33-9705 and 34-74104 (Jan. 21, 2015), available at <http://www.sec.gov/litigation/admin/2015/33-9705.pdf>; see also SEC Announces Charges Against Standard & Poor's for Fraudulent Ratings Misconduct, Release No. 2015-10 (Jan. 21, 2015), available at: <http://www.sec.gov/news/pressrelease/2015-10.html>.

⁶³ ABS/MBS market share data is from the Asset-Backed Alert. See <https://www.abalert.com/rankings.pl>. Charts 16 and 17 reflect market share percentages based on dollar amounts of issuance. The market shares of individual NRSROs do not add up to 100% since more than one NRSRO may rate a particular transaction or obligor.

Chart 17: Rating Agency Market Shares for U.S. MBS Issued in 2013, 2014 and First Half of 2015*

1H 2015 Rank	NRSRO	1H-2015 Issuance (\$Mil.)	No. of deals	Market Share (%)	2014 Issuance (\$Mil.)	No. of deals	Market Share (%)	2013 Issuance (\$Mil.)	No. of deals	Market Share (%)
1	DBRS	\$13,552.2	41	76.2	\$16,445.2	71	75.3	\$12,501.9	50	61.8
2	Fitch	5,518.2	19	31.0	5,025.9	16	23.0	9,834.6	21	48.6
3	Moody's	4,265.3	13	24.0	977.1	3	4.5	3,796.0	9	18.8
4	KBRA	4,238.1	14	23.8	4,183.1	13	19.2	7,908.7	17	39.1
5	S&P	2,381.2	7	13.4	9,003.4	27	41.3	9,597.5	23	47.4
6	Morningstar	1,110.2	2	6.2	0.0	0	0.0	0.0	0	0.0
	Total Rated Market	\$17,776.7	54		21,826.2	86		\$20,237.0	66	

Source: <https://www.abalert.com/rankings.pl>

* Charts 16 and 17 reflect market share percentages based on dollar amounts of issuance. The market shares of individual NRSROs do not add up to 100% since more than one NRSRO may rate a particular transaction or obligor.

As Chart 16 shows, S&P, Moody's and Fitch continue to have the largest market shares in the U.S. ABS sector. However, the smaller NRSROs have increased their market shares in this sector during the first half of 2015. DBRS increased its market share from 8.4% in 2013 to 17.5% in the first half of 2015, while KBRA increased its market share from 2.0% to 10.0% over the same time period. As indicated by data on the [Asset-Backed Alert](#) website, Morningstar began rating U.S. ABS in 2015 and had a reported market share of 4.5% during the first half of 2015.

As Chart 17 shows, DBRS had a market share of 76.2% in the U.S. MBS sector during the first half of 2015, which was the largest market share of all NRSROs. DBRS also had the highest market shares in this sector in both 2014 and 2013. Fitch had the second highest market share reported during the first half of 2015, which increased from 2014.

Moody's had the largest increase in U.S. MBS market share from 2014 to the first half of 2015. Its market share increased to 24.0% from 4.5% in 2014. KBRA also increased its market share to 23.8% during this time, up from 19.2% in 2014. Compared to the other NRSROs, S&P had the largest decline in U.S. MBS market share during the first half of 2015. Its market share was 13.4% in the first half of 2015, which was the fifth highest market share reported. In 2014, it had a market share of 41.3%, which was the second highest.

2. Other NRSRO Developments

In 2015, two smaller NRSROs reported changes in their ownership structures that could impact opportunities for growth. In March 2015, DBRS was acquired by investors including The Carlyle Group LP and Warburg Pincus LLC.⁶⁴ The new owners of DBRS stated that DBRS would focus on growth opportunities in Europe and emerging markets and in rating complex

⁶⁴ See [The Carlyle Group and Warburg Pincus Complete Acquisition of DBRS](http://www.dbrs.com/research/277553/the-carlyle-group-and-warburg-pincus-complete-acquisition-of-dbrs.pdf), Mar. 4, 2015, available at: <http://www.dbrs.com/research/277553/the-carlyle-group-and-warburg-pincus-complete-acquisition-of-dbrs.pdf>.

bond deals like mortgage-backed securities.⁶⁵ Additionally, in November 2015, KBRA announced a recapitalization whereby an existing investor, Wharf Street, LLC, acquired a majority ownership stake in KBRA.⁶⁶ According to its announcement of the increased ownership stake, KBRA believes that the capital raised in the recapitalization will allow it to continue to grow its credit rating business, and has indicated its intention to expand within the corporate finance markets and internationally.⁶⁷

Fitch also reported a change in its ownership structure during the Report Period. In December 2014, the Hearst Corporation increased its equity interest in Fitch Group (the sole shareholder of Fitch) from 50% to 80%, by acquiring a 30% equity stake from Fimalac. Fimalac continues to hold the remaining 20% equity stake in Fitch Group.⁶⁸

As described in Section IV(B)(1) of this Report, some of the smaller NRSROs have been experiencing growth in the asset-backed securities rating category, such as in U.S. CMBS. Additionally, some of the smaller NRSROs are rating newer asset classes (such as single-family rental (“SFR”) securitizations⁶⁹ and marketplace lending securitizations⁷⁰).

KBRA and Morningstar have rated a very high percentage of the SFR securitizations issued.⁷¹ During the Report Period, the first two multi-borrower SFR securitizations⁷² were issued, both of which were rated by Morningstar⁷³ and one of which was rated by KBRA.⁷⁴ One

⁶⁵ See Timothy W. Martin, DBRS Buyers Target Rating Firms – Carlyle, Warburg Hope to Challenge Big U.S. Debt Rating Firms with their Latest Purchase, Wall St. J., Mar. 3, 2015 at C3.

⁶⁶ See Kroll Bond Rating Agency Announces Recapitalization and New Partnership, Nov. 3, 2015, available at: <https://www.krollbondratings.com/announcements/1792>.

⁶⁷ Id. See also Philip Scipio, Kroll eyes expansion into corporate bonds, Nov. 6, 2015, available at: <http://www.reuters.com/article/2015/11/06/usa-corpbonde-ratings-idUSL1N13026U20151106> (discussing potential areas for growth by KBRA).

⁶⁸ See Hearst Corporation to Increase Equity Interest in Fitch Group to 80 Percent, Dec. 12, 2014, available at: <http://www.hearst.com/newsroom/hearst-corporation-to-increase-equity-interest-in-fitch-group-to-80-percent>.

⁶⁹ SFR securitizations are collateralized by rental income from residential rental properties and proceeds from the sale of residential rental properties. Ratings of the first rated SFR securitization were issued in November 2013.

⁷⁰ The assets collateralizing marketplace lending securitizations are generally loans that were made through online platforms that connect borrowers with lenders. The first rated marketplace lending securitization was issued in December 2013.

⁷¹ According to the Asset-Backed Alert's database, as of June 30, 2015, there have been 23 rated SFR securitizations issued. Of these deals, 22 were rated by Moody's, KBRA, and Morningstar, and one was rated by Fitch and KBRA.

⁷² Previous SFR securitizations were collateralized by loans to a single borrower. Multi-borrower SFR securitizations are collateralized by multiple loans to multiple borrowers.

⁷³ See the following presale reports describing Morningstar's ratings of these securitizations: FirstKey Lending 2015-SFR1, Apr. 2, 2015, available at: <https://ratingagency.morningstar.com/PublicDocDisplay.aspx?i=SI5NWzrZwYQ%3d&m=i0Pyc%2bx7qZZ4%2bsXnymazBA%3d%3d&s=LviRtUKXqs8kml5dHt7FTeE2SZmY0Fvqd4iX49Mk%2f9UapyiFTEO6TA%3d%3d&v=5c1X08qMtXiddNe6bfgPRg%3d%3d>; B2R Mortgage Trust 2015-1, Apr. 1, 2015, available at: <https://ratingagency.morningstar.com/PublicDocDisplay.aspx?i=EDYEuxxe%2f%2bk%3d&m=i0Pyc%2bx7qZZ4%2bsXnymazBA%3d%3d&s=LviRtUKXqs8kml5dHt7FTeE2SZmY0Fvqd4iX49Mk%2f9UapyiFTEO6TA%3d%3d&v=5c1X08qMtXiddNe6bfgPRg%3d%3d>.

⁷⁴ See the following presale report describing KBRA's rating of one of these securitizations: FirstKey Lending 2015-SFR1, Mar. 31, 2015, available at: https://www.krollbondratings.com/show_report/2020.

of these multi-borrower SFR securitizations was also rated by Fitch,⁷⁵ while the other was also rated by Moody's.⁷⁶

Although there were only a few rated marketplace lending transactions during the Report Period, DBRS has been active in this asset class. DBRS was one of the first NRSROs to issue ratings on these types of transactions, rating debt issuances collateralized by loans made to individuals in order to refinance student loans.⁷⁷ Since that transaction, S&P and Moody's have also issued ratings on marketplace lending transactions backed by student loans.⁷⁸ During the Report Period, the first marketplace lending transaction collateralized by consumer loans was issued and rated solely by Moody's.⁷⁹

Smaller NRSROs are also rating other new types of asset-backed securities and issuances commonly referred to as "esoteric" asset-backed securities. For example, during the Review Period, a smaller NRSRO rated airport revenue bonds,⁸⁰ property assessed clean energy securitizations,⁸¹ and tax lien securitizations,⁸² and two smaller NRSROs rated subprime auto transactions.⁸³

Some smaller NRSROs continue to pursue expansion in more traditional types of asset-backed securities as well. For example, during the Report Period, Morningstar publicly announced its first assignment to rate a non-mortgage asset-backed securitization⁸⁴ and also rated its first MBS

⁷⁵ See Fitch to Rate B2R Mortgage Trust 2015-1 Mortgage Pass-Through Certificates; Presale Issued, Apr. 1, 2015, available at: <https://www.fitchratings.com/site/fitch-home/pressrelease?id=982315>.

⁷⁶ See Moody's Assigns a Definitive Rating to First Key Lending 2015-SFR1, Apr. 23, 2015, available at: https://www.moody.com/research/Moodys-assigns-a-definitive-rating-to-First-Key-Lending-2015--PR_323702.

⁷⁷ See, e.g., SoFi Professional Loan Program 2013-A LLC, Dec. 3, 2013 available at: <http://www.dbrs.com/research/263287/sofi-professional-loan-program-2013-a-llc-presale-report.pdf>; SoFi Professional Loan Program 2015-A LLC, Jan. 21, 2015, available at: <http://www.dbrs.com/research/276208/sofi-professional-loan-program-2015-a-llc-presale-report.pdf>.

⁷⁸ See SoFi Professional Loan Program 2015-A LLC's \$313.8 Million Notes Assigned Ratings, Jan. 29, 2015, available at: http://www.standardandpoors.com/en_US/web/guest/article/-/view/type/HTML/id/1381439; Moody's Assigns Provisional Ratings to SoFi Professional Loan Program 2015-A LLC, Jan. 21, 2015, available at: https://www.moody.com/research/Moodys-assigns-provisional-ratings-to-SoFi-Professional-Loan-Program-2015--PR_316573.

⁷⁹ See Moody's Assigns Provisional Ratings to CCOLT Securitization of Consumer Marketplace Loans, Jan. 28, 2015, available at: https://www.moody.com/research/Moodys-assigns-provisional-ratings-to-CCOLT-securitization-of-consumer-marketplace--PR_316471.

⁸⁰ See, e.g., Columbus Regional Airport Authority (Columbus, Ohio) Airport Revenue Bonds, Oct. 22, 2014, available at: https://www.krollbondratings.com/show_report/1631.

⁸¹ See, e.g., HERO Funding Trust 2015-1 Class A Notes, May 1, 2015, available at: https://www.krollbondratings.com/show_report/2143.

⁸² See, e.g., Alterna Funding I, LLC 2014-1, Jul. 31, 2014, available at: https://www.krollbondratings.com/show_report/1348.

⁸³ See, e.g., Exeter Automobile Receivables Trust 2015-1, Mar. 4, 2015, available at: <http://www.dbrs.com/research/277548/exeter-automobile-receivables-trust-2015-1-rating-report.pdf>; Flagship Credit Auto Trust 2015-1, Jun. 8, 2015, available at: https://www.krollbondratings.com/show_report/1971.

⁸⁴ See Morningstar, Inc. 2014 Annual Report, available at: <http://corporate.morningstar.com/us/documents/PR/MorningstarAnnualReport2014.pdf>.

transaction.⁸⁵ Additionally, in June 2014, the National Association of Insurance Commissioners (“NAIC”) voted to extend Morningstar’s designation on the NAIC Credit Rating Provider List (“Provider List”) to additional structured finance asset classes.⁸⁶ The NAIC converts current ratings from an approved credit rating agency on its Provider List into the equivalent designation on an NAIC credit risk rating scale that is used to compute risk-based capital requirements of insurance companies.⁸⁷

Smaller NRSROs also continue to pursue rating opportunities outside of the asset-backed securities rating category. For example, during the Report Period, a smaller NRSRO published criteria articles that describe its methodologies for rating certain public finance and financial institution issuances.⁸⁸

C. Barriers to Entry

Despite the notable progress made by smaller NRSROs in gaining market share in some of the ratings classes (see Section IV(B) of this Report), economic and regulatory barriers to entry continue to exist in the credit ratings industry, making it difficult for the smaller NRSROs to compete with the larger NRSROs.

One such potential barrier that is consistently referred to by certain smaller NRSROs is the minimum ratings requirements that specify use of the ratings of particular rating agencies in the investment management contracts of institutional fund managers and the investment guidelines of fixed income mutual fund managers, pension plan sponsors, and endowment fund managers.⁸⁹ The effect of these requirements can be to increase the demand and liquidity for

⁸⁵ See WinWater Mortgage Loan Trust 2015-4, Mortgage Pass-Through Certificates, Series 2015-4, Jun. 9, 2015, available at: <https://ratingagency.morningstar.com/PublicDocDisplay.aspx?i=aZHxal4paYk%3d&m=i0Pyc%2bx7qZZ4%2bsXnymazBA%3d%3d&s=LviRtUKXqs8kml5dHt7FTeE2SZmY0Fvqd4iX49Mk%2f9UapyiFTEO6TA%3d%3d&v=5c1X08qMtXiddNe6bfgPRg%3d%3d>.

⁸⁶ See National Association of Insurance Commissioners Extends Morningstar Credit Ratings, LLC Designation to All Structured Finance, Jun. 27, 2014, available at: <https://ratingagency.morningstar.com/PublicDocDisplay.aspx?i=UPmpWRshA7w%3d&m=i0Pyc%2bx7qZZ4%2bsXnymazBA%3d%3d&s=LviRtUKXqs8kml5dHt7FTeE2SZmY0Fvqd4iX49Mk%2f9UapyiFTEO6TA%3d%3d>. The other NRSROs on the NAIC Credit Rating Provider list for one or more types of ratings are A.M. Best, DBRS, EJR, Fitch, KBRA, Moody’s, and S&P. See NAIC CRP Rating Equivalents to SVO Designations, available at: http://www.naic.org/documents/svo_naic_aro.pdf.

⁸⁷ See Rating Agencies, NAIC, May 13, 2015, available at: http://www.naic.org/cipr_topics/topic_rating_agencies.htm.

⁸⁸ See <https://www.krollbondratings.com/ratings/methodologies/>.

⁸⁹ See letter from KBRA to the Commission, dated Aug. 19, 2014, available at: <http://www.sec.gov/comments/s7-18-11/s71811-88.pdf>. This barrier to entry was also mentioned during the SEC’s Credit Ratings Roundtable held on May 14, 2013. At the roundtable, a representative of Morningstar mentioned that, according to a study conducted by Morningstar, approximately 42% of the fixed income funds having investment guidelines referring to ratings specifically referred to S&P, Moody’s or a “major NRSRO.” See Credit Rating Roundtable, May 14, 2013, available at: <http://www.sec.gov/spotlight/credit-ratings-roundtable.shtml>.

securities bearing the ratings of specified rating agencies.⁹⁰ Historically, many of these guidelines refer to the ratings from the larger NRSROs by name (i.e., S&P, Moody's, and Fitch). However, there have been reports that some investors are changing their guidelines to include ratings from other NRSROs.⁹¹

Another potential barrier to entry is the inclusion requirements of some fixed income indices. To be included in many of these indices, securities must be rated by specific NRSROs. These indices are used to evaluate the performance of investment managers, which often try to mimic the performance of the indices by purchasing the securities included in them. These inclusion requirements increase the demand and liquidity for securities bearing the ratings of specific NRSROs. It was reported that, during the Report Period, some indices changed their requirements to include ratings from smaller NRSROs.⁹²

With respect to potential regulatory barriers to entry, the Commission received public comments regarding the effect that the proposed rules implementing the NRSRO mandates of the Dodd-Frank Act (the "Proposed Rules") would have on competition.⁹³ Generally, these comments expressed concerns that certain of the Proposed Rules could have negative effects on competition because they would be burdensome for smaller NRSROs to implement and could raise barriers to entry for credit rating agencies that seek to register as NRSROs.⁹⁴ The New NRSRO Rules include various changes from the Proposed Rules that were intended to address such comments. For example, the New NRSRO Rules relating to certain disclosure and reporting requirements were modified from the Proposed Rules in ways that could reduce the

⁹⁰ The effect of including particular NRSROs in investment guidelines was highlighted in an article concerning a loan securitization that was rated during the Report Period. In the article, an issuer referred to the fact that many institutional buyers are limited to purchasing securities rated by one of the larger NRSROs, and that a large NRSRO's rating on the issue expanded the number of entities which could purchase the rated securities. See Tracy Alloway, Peer-to-Peer Lender Wins Landmark Rating, Fin. Times, Jul. 10, 2014 at Companies and Markets, 18.

⁹¹ See, e.g., Matt Scully, Bond Buyers Easing Rating Requirements to Shop for More Deals, Bloomberg Business, Jun. 22, 2015, available at: <http://www.bloomberg.com/news/articles/2015-06-22/bond-buyers-easing-rating-requirements-to-shop-for-more-deals>.

⁹² See Jody Shenn, Ratings Shopping in CMBS Prompts Changes to Derivative Indexes, Bloomberg Business, Jan. 20, 2015, available at: <http://www.bloomberg.com/news/articles/2015-01-20/ratings-shopping-in-cmbs-prompts-changes-to-derivative-indexes>.

⁹³ See Nationally Recognized Statistical Rating Organizations, Release No. 34-64514 (May 18, 2011), 76 FR 33420 (Jun. 8, 2011), available at: <https://www.sec.gov/rules/proposed/2011/34-64514.pdf>. See also comment letters submitted with respect to the Proposed Rules, available at <http://www.sec.gov/comments/s7-18-11/s71811.shtml>.

⁹⁴ See Adopting Release, 79 FR at 55090, 55154, 55161, and, 55254-55.

impact on smaller NRSROs, while maintaining the usefulness of the information to users of credit ratings.⁹⁵

The Commission also adopted standards allowing NRSROs to tailor particular requirements to their business models, size, and rating methodologies, which vary significantly across NRSROs and potential NRSRO applicants. The Commission intended such rules to provide flexibility to NRSROs to customize these standards, recognizing that NRSROs vary significantly in the size and the scope of their activities.⁹⁶ For example, the New NRSRO Rules require each NRSRO to establish, maintain, document, and enforce standards of training, experience, and competence for credit rating analysts.⁹⁷ The standards of training must be reasonably designed to achieve the objective that the NRSRO produces accurate ratings in classes of ratings for which it is registered. Although an NRSRO is required to include certain elements in its training standards and to consider certain enumerated factors in the design of such standards, the rule provides flexibility to NRSROs to customize their standards as appropriate for their business model, size, and rating methodologies.⁹⁸

The New NRSRO Rules also include other provisions that may decrease the burden of certain requirements on small NRSROs. For example, consistent with Section 15E(h)(3)(B)(i), the Commission provided a mechanism for smaller NRSROs to apply for an exemption from certain requirements relating to conflicts of interest.⁹⁹

The Commission stated in the Adopting Release that the New NRSRO Rules enhancing disclosure requirements and providing for the standardization of information may increase competition by enabling smaller and newer NRSROs to attract attention to their rating performance and methodologies, enhancing their ability to develop a reputation for producing quality credit ratings.¹⁰⁰ For a further discussion of these rules, see Sections V and VI of this Report.

⁹⁵ See Section VI of the Adopting Release. For example, the Commission modified the instructions for Exhibit 1 to Form NRSRO by narrowing the scope of credit ratings included in the performance statistics for four of the five classes of credit ratings, which is expected to substantially reduce the amount of historical information that an NRSRO is required to analyze. The Commission also modified Rule 17g-7(a) by narrowing the scope of rating actions that will trigger the disclosure requirement, exempting certain rating actions involving credit ratings assigned to foreign obligors or securities issued overseas, and significantly reducing the reporting requirements relating to representations, warranties, and enforcement mechanisms. These modifications from the Proposed Rules were described in the Adopting Release as reducing the impact on small NRSROs. See Adopting Release, 79 FR at 55255-56.

⁹⁶ In the Adopting Release, the Commission stated that the New NRSRO Rules are constructed to be appropriate for NRSROs of all sizes. According to the Adopting Release, a number of the New NRSRO Rules are policy and procedure-based requirements which allow NRSROs, including smaller NRSROs, to comply with these requirements by tailoring and scaling their policies and procedures to their individual sizes and business activities. See Adopting Release, 79 FR at 55253.

⁹⁷ See Rule 17g-9. In the Adopting Release, the Commission noted that these requirements may increase the level of competence and experience of the credit analysts employed by an NRSRO with possible positive effects on the integrity and quality of credit ratings. See Adopting Release, 79 FR at 55092.

⁹⁸ See Adopting Release, 79 FR at 55202-05.

⁹⁹ See exemption in Rule 17g-5(f) as to the conflict of interest in Rule 17g-5(c)(8).

¹⁰⁰ See Adopting Release, 79 FR at 55095.

V. TRANSPARENCY

A. Disclosure Requirements

Congress described the Rating Agency Act as an act to improve ratings quality “by fostering accountability, transparency, and competition in the credit rating agency industry.”¹⁰¹ Section 932 of the Dodd-Frank Act is entitled “Enhanced regulation, accountability, and transparency of NRSROs.” Both Acts contain various provisions designed to increase the transparency—through clear disclosure open to public scrutiny—of, among other things, NRSROs’ credit rating procedures and methodologies, business practices, and credit ratings performance.

The New NRSRO Rules adopted during the Report Period improved and expanded the disclosure requirements applicable to NRSROs. Additional sources of information that can be beneficial to investors and others are now required to be made publicly available under requirements of the New NRSRO Rules. These requirements are designed to enhance the transparency of NRSRO credit ratings by reducing information asymmetries that may adversely affect users of credit ratings.¹⁰² Specifically, the New NRSRO Rules require an NRSRO to disclose:

- (1) standardized performance statistics;¹⁰³
- (2) consolidated and increased information about credit rating histories;¹⁰⁴
- (3) information about material changes and significant errors in the procedures and methodologies used to determine credit ratings;¹⁰⁵
- (4) information about specific rating actions;¹⁰⁶ and
- (5) clear definitions of each symbol, number, or score in the rating scale used by the NRSRO.¹⁰⁷

An objective of these requirements is to improve the information provided to users of credit ratings in order to facilitate external scrutiny of NRSRO activities, enable ratings users to make more informed investment and credit-related decisions and allow users to compare the performance of credit ratings by different NRSROs.¹⁰⁸

The New NRSRO Rules amended the instructions to Exhibit 1 of Form NRSRO to require a standard method for calculating and presenting performance statistics.¹⁰⁹ The revised instructions also require that the information for credit ratings of asset-backed securities be presented on a more granular level than previously required. NRSROs must now disclose the

¹⁰¹ See the preamble to the Rating Agency Act.

¹⁰² See Adopting Release, 79 FR at 55091.

¹⁰³ See Instructions for Exhibit 1 to Form NRSRO; Adopting Release, 79 FR at 55295-302.

¹⁰⁴ See Rule 17g-7(b); Adopting Release, 79 FR at 55266-67.

¹⁰⁵ See Rule 17g-8(a)(4); Adopting Release, 79 FR at 55267-68.

¹⁰⁶ See Rule 17g-7(a); Adopting Release, 79 FR at 55264-66.

¹⁰⁷ See Rule 17g-8(b)(2); Adopting Release, 79 FR at 55268.

¹⁰⁸ See Adopting Release, 79 FR at 55091.

¹⁰⁹ For example, the amended instructions establish a standard definition of the term “default” to facilitate comparisons of default rates across NRSROs.

performance for various subclasses¹¹⁰ of asset-backed securities (rather than grouping all asset-backed securities ratings together in a single category), which is intended to provide more useful information to users of credit ratings of those subclasses. The Commission noted in the Adopting Release that the amendments to Exhibit 1 should result in performance statistics that are more directly comparable across NRSROs.¹¹¹

Additionally, the New NRSRO Rules also require NRSROs to use the EDGAR system to file electronically with the Commission Form NRSRO and required exhibits to the form.¹¹² On August 3, 2015, the EDGAR system was updated to enable NRSROs to file Form NRSRO through EDGAR. From that date forward, NRSROs are required to file their annual certifications and updates to registration electronically using the EDGAR system, and the Commission is to make such Form NRSRO filings publicly available on EDGAR upon submission. These Form NRSRO submissions will remain available for reference even after updated versions are submitted. Information filed using the EDGAR system will be publicly available in a centralized online location, making the information easier for users of credit ratings to access, search, and compare.¹¹³

The New NRSRO Rules enhance the disclosure requirements for credit rating histories so that the histories will have a more complete scope and the information that must be disclosed will be more robust. NRSROs are required to present this disclosure in a standardized XBRL format as set forth in the Record of Credit Ratings Taxonomy, 2015 that was posted to the Commission's website on April 29, 2015.¹¹⁴

While the disclosure of performance statistics on Exhibit 1 of Form NRSRO provides an overview of the performance of an NRSRO's credit ratings in each class and subclass of credit ratings, the disclosure of credit rating histories allows users of credit ratings to directly compare the rating history of the same obligor or instrument across multiple NRSROs. The standardized XBRL formatting requirements allow users of credit ratings to download, filter, and compare the disclosures of each NRSRO. The objective of these enhancements is to make the disclosures more useful in terms of the amount of information provided, the ability to search and sort the information, and the ability to compare historical rating information across NRSROs.¹¹⁵

In accordance with the New NRSRO Rules, each NRSRO must now disclose certain information in connection with each rating action it takes.¹¹⁶ Such information includes, among other things, the version of the procedure or methodology used to determine the credit rating, a description of the types of data that were relied upon for purposes of determining the credit

¹¹⁰ The required subclasses are residential mortgage backed securities, CMBS, collateralized loan obligations, collateralized debt obligations, asset-backed commercial paper, other ABS, and other structured finance products.

¹¹¹ Adopting Release, 79 FR at 55148.

¹¹² See Rule 17g-1(e); Adopting Release, 79 FR at 55262; Rule 17g-1(f); Adopting Release, 79 FR at 55262; Rule 17g-1(g); Adopting Release, 79 FR at 55262; Instructions to Form NRSRO; Adopting Release, 79 FR at 55282-55310.

¹¹³ See Adopting Release, 79 FR at 55095.

¹¹⁴ See Rule 17g-7(b)(3). The taxonomy is available at: <http://www.sec.gov/info/edgar/edgartaxonomies.shtml#RATINGS2015>.

¹¹⁵ Adopting Release, 79 FR at 55142.

¹¹⁶ Rule 17g-7(a).

rating, an assessment of the quality of information available and considered in determining the credit rating, and information on the sensitivity of the credit ratings to assumptions made by the NRSRO.¹¹⁷ These requirements are designed to promote transparency of the process for determining credit rating actions, allowing users of credit ratings to better understand how credit ratings are produced and the information content of credit ratings, including how these factors vary across NRSROs.¹¹⁸

The New NRSRO Rules require an NRSRO to promptly publish information about material changes to its procedures and methodologies for determining credit ratings, the reason for the changes, and the likelihood the changes will result in a change of existing credit ratings.¹¹⁹ These disclosure requirements are designed to provide users of credit ratings with additional information with which to assess the quality of a given NRSRO's credit rating processes.¹²⁰ This new rule also requires an NRSRO to promptly publish notice of any significant errors to such procedures and methodologies that may result in a change to current credit ratings,¹²¹ further increasing the transparency of the NRSRO's credit rating activities.

Under the New NRSRO Rules, each NRSRO must disclose on Form NRSRO a clear definition of each symbol, number, or score it uses to denote a credit rating and must apply such symbols, numbers, or scores consistently across all types of obligors and securities.¹²² This requirement is designed to promote a better understanding of credit rating terminology and to allow users of credit ratings to better compare the various credit ratings issued by a single NRSRO, as well as credit ratings across NRSROs.¹²³

B. Unsolicited Ratings and Commentaries

Beyond the disclosures required under Section 15E and the Commission's rules, transparency may be increased if NRSROs that are not hired to rate a security published their views of the credit quality of such a security, such as by issuing an unsolicited rating or publishing unsolicited commentaries. It is not uncommon for certain NRSROs to issue unsolicited ratings in rating classes, outside of structured finance, where there is lower issuer concentration, and where sufficient information is publicly available upon which to base a rating.¹²⁴ For structured finance transactions, however, much of the information on the underlying assets necessary to produce a rating is not publicly available. Rule 17g-5(a)(3) was intended to encourage the issuance of unsolicited ratings by NRSROs that are not hired to rate a structured finance transaction by making the information necessary to rate such transactions

¹¹⁷ Rule 17g-7(a)(1)(ii).

¹¹⁸ Adopting Release, 79 FR at 55180.

¹¹⁹ Rule 17g-8(a)(4)(i).

¹²⁰ Adopting Release, 79 FR at 55161.

¹²¹ Rule 17g-8(a)(4)(ii).

¹²² Rule 17g-8(b)(2) and (3).

¹²³ Adopting Release, 79 FR at 55212.

¹²⁴ See Timothy Martin and Mike Cherney, [S&P Increases Unsolicited Ratings](http://blogs.wsj.com/moneybeat/2014/12/24/sp-increases-unsolicited-ratings/), Wall St. J. Money Beat, Dec. 24, 2014, available at: <http://blogs.wsj.com/moneybeat/2014/12/24/sp-increases-unsolicited-ratings/> (reporting that S&P published unsolicited ratings of debt from seven companies in 2014).

available to such NRSROs.¹²⁵ However, no unsolicited initial ratings of structured finance transactions have been produced in reliance on the information provided in the websites created under such rule,¹²⁶ and the rule contemplates that such information be used only for credit ratings (and not for other types of publications, such as rating commentaries).

As mentioned in the Staff's 2014 Annual Report, some NRSROs have published unsolicited commentaries in which they express their viewpoints on particular securities, ratings, or asset classes (including with respect to structured finance asset classes¹²⁷). Several such commentaries were issued over the course of the Report Period. For example, one larger NRSRO published a report on the subprime auto sector, which highlighted some of the credit risks associated with subprime auto transactions.¹²⁸ The NRSRO stated that, because of these risks, it did not view subprime auto deal tranches as worthy of the high ratings assigned to them by other NRSROs. Additionally, two larger NRSROs published commentaries on CMBS transactions in which they stated that the credit quality of loans in U.S. conduit/fusion CMBS transactions has weakened.¹²⁹ Both NRSROs also stated that some of the subordinate tranches of these CMBS transactions which were not rated by these NRSROs were, in their opinions, undercollateralized. These subordinate tranches received investment grade ratings from other NRSROs.¹³⁰ A larger NRSRO also published a commentary in which it criticized a rating on Chinese ABS issued by another larger NRSRO.¹³¹

¹²⁵ See Amendments to Rules for Nationally Recognized Statistical Rating Organizations, Release 34-61050 (Nov. 23, 2009), 74 FR 63831 (Dec. 4, 2009), available at: <http://www.sec.gov/rules/final/2009/34-61050.pdf>.

¹²⁶ Some of the reasons for the lack of unsolicited initial ratings using such information are noted in the Report to Congress on Assigned Credit Ratings. See Report to Congress on Assigned Credit Ratings, Dec. 2012, at 58-59, available at: <http://www.sec.gov/news/studies/2012/assigned-credit-ratings-study.pdf>.

¹²⁷ As noted above, information obtained pursuant to Rule 17g-5(a)(3) may not be used to produce commentaries. Commentaries on specific structured finance transactions have largely been based on public information and/or offering materials for the transaction. In other cases, NRSROs have produced commentaries that discuss a structured finance asset class more generally, without commenting on a particular transaction.

¹²⁸ See Some U.S. Subprime Auto Lenders Exposed to Domino Risk, Sep. 16, 2014, available at: https://www.fitchratings.com/gws/en/fitchwire/fitchwirearticle/Some-U.S.-Subprime?pr_id=873154.

¹²⁹ See Moody's: US CMBS Conduit Loan Leverage Reaches Second-generation High, Jan. 29, 2015, available at: https://www.moodys.com/research/Moodys-US-CMBS-conduit-loan-leverage-reaches-second-generation-high--PR_317463; and Fitch: New U.S. CMBS Revealing an Increasing Divide, Jun. 8, 2015, available at: <https://www.fitchratings.com/site/fitch-home/pressrelease?id=986012>.

¹³⁰ See New Moody's Report Criticizes Rivals for Easy Ratings on CMBS, Jan. 29, 2015, available at: <http://www.wsj.com/articles/new-moodys-report-criticizes-rivals-for-easy-ratings-on-cmbs-1422551180>.

¹³¹ See Fitch: Recent China Auto ABS Falls Short of Global Standards, Jun. 10, 2015, available at: <https://www.fitchratings.com/site/fitch-home/pressrelease?id=986137>.

Some of the smaller NRSROs have also published commentaries during the Report Period. For example, one smaller NRSRO published a commentary on its views about certain recent events in the CMBS sector.¹³² Another smaller NRSRO published a commentary discussing the performance of banks during the financial crisis.¹³³

Commentaries such as those mentioned above highlight differences in opinions and ratings criteria among NRSROs, concerning matters such as the sufficiency of the credit enhancement for the transactions. This type of information can serve to enhance investors' understanding of the differences in ratings approaches used by the NRSROs.

VI. CONFLICTS OF INTEREST

NRSROs operate under one of two business models (or a combination of them), and there are potential conflicts of interest inherent in both. Most of the NRSROs, including the largest NRSROs, operate under the “issuer-pay” model, which is subject to a potential conflict in that the credit rating agency may be influenced to determine more favorable (i.e., higher) ratings than warranted in order to retain the obligors or issuers as clients.¹³⁴ This conflict could affect an entire asset class if, for example, an NRSRO becomes known for issuing higher credit ratings with respect to such class, resulting in that NRSRO's retaining or attracting business from most or all issuers of securities in such class.

The other business model is the “subscriber-pay” model which means that investors pay the rating agency a subscription fee to access its ratings.¹³⁵ This model is also subject to potential conflicts of interest. For example, the NRSRO may be aware that an influential subscriber holds a securities position (long or short) that could be advantaged if a credit rating upgrade or downgrade causes the market value of the security to increase or decrease; or that the subscriber invests in newly issued bonds and would obtain higher yields if the bonds were to have lower ratings.

¹³² See Structured Credit Ratings Commentary: Rating Shopping Persists in Asset Securitization Markets, Nov. 2014, available at: <https://corporate.morningstar.com/us/documents/ResearchPapers/Structured-Credit-Ratings-Commentary-Rating-Shopping.pdf>.

¹³³ See Large & Small Bank Performance During the Financial Crisis, Apr. 21, 2015, available at: https://www.krollbondratings.com/show_report/2162.

¹³⁴ For example, during the Report Period, the Department of Justice and 19 states and the District of Columbia announced that they had entered into a settlement agreement with S&P to resolve certain allegations regarding S&P's ratings on MBS and collateralized debt obligations. One such allegation was that S&P falsely represented that its ratings were objective, independent, and uninfluenced by S&P's business relationships with the investment banks that issued the securities. See Justice Department and State Partners Secure \$1.375 Billion Settlement with S&P for Defrauding Investors in the Lead Up to the Financial Crisis, Feb. 3, 2015, available at: <http://www.justice.gov/opa/pr/justice-department-and-state-partners-secure-1375-billion-settlement-sp-defrauding-investors>. In addition, the Commission announced a separate settlement agreement with S&P during the Report Period. Among other things, the agreement settled charges that S&P loosened its CMBS rating criteria to obtain more business but did not properly disclose the criteria changes to investors. See SEC Announces Charges Against Standard & Poor's for Fraudulent Ratings Misconduct, Release No. 2015-10 (Jan. 21, 2015), available at: <http://www.sec.gov/news/pressrelease/2015-10.html>.

¹³⁵ Under the “subscriber-pay” model, investors choosing not to subscribe might learn about credit ratings from subscribers and other sources. This may be a reason for most of the NRSROs currently operating under the issuer-pay business model.

Another example of a conflict in a “subscriber-pay” model is that the NRSRO may be aware that a subscriber wishes to acquire a particular security but is prevented from doing so because the credit rating of the security is lower than internal investment guidelines or an applicable contract permit. An upgrade of the credit rating of the security by the NRSRO could remove this impediment to investing in the security. These potential conflicts could be mitigated to the extent that an NRSRO has a wide subscriber base and subscribers have different interests with respect to an upgrade or downgrade of a particular security.

The potential for conflicts of interest involving an NRSRO may continue to be particularly acute in structured finance products, where transactions are arranged by a relatively concentrated group of sponsors, underwriters and managers, and rating fees are particularly lucrative.¹³⁶ Section 15E and the related Commission rules contain provisions addressing conflicts of interest, applicable to both structured finance products and other types of rated instruments and obligors.

The New NRSRO Rules supplemented and strengthened the prior existing rules related to conflicts of interest. For example, the New NRSRO Rules:

- (1) prohibit conflicts of interest relating to sales and marketing activities;¹³⁷
- (2) address conflicts of interest relating to employment of former analysts;¹³⁸
- (3) require, with respect to each rating action, disclosure of certain information related to conflicts of interest and an attestation affirming the independence of such rating action;¹³⁹
- (4) require each NRSRO to assess and report on the effectiveness of its internal controls;¹⁴⁰ and
- (5) provide that an NRSRO could have its registration suspended or revoked for violating the rules governing conflicts of interest.¹⁴¹

These requirements are designed to promote the production of unbiased credit ratings and limit the potential risk that users of credit ratings will make investment decisions using biased or inaccurate information.¹⁴²

The New NRSRO Rules prohibit an NRSRO from issuing or maintaining a credit rating where a person within the NRSRO who participates in determining or monitoring the credit rating, or developing or approving procedures or methodologies used for determining the credit rating, also participates in sales or marketing activities, or is influenced by sales or marketing considerations.¹⁴³ This absolute prohibition is intended to isolate the analytical function,

¹³⁶ A Senate Report related to the Dodd-Frank Act noted, for instance, that conflicts of interest in the process of rating structured financial products contributed to the issuance of inaccurate ratings by rating agencies and accordingly to the mismanagement of risks by financial institutions and investors. See S. Report No. 111-176 (2010).

¹³⁷ See Rule 17g-5(c)(8).

¹³⁸ See Rule 17g-8(c).

¹³⁹ See Rule 17g-7(a)(1)(ii)(J) and (iii).

¹⁴⁰ See Rule 17g-3(a)(7) and (b)(2).

¹⁴¹ See Rule 17g-5(g).

¹⁴² See Adopting Release, 79 FR at 55091, 55105.

¹⁴³ See Rule 17g-5(c)(8); Adopting Release, 79 FR at 55264.

including the development of the procedures and methodologies for determining credit ratings, from sales and marketing considerations within an NRSRO, in order to promote the integrity and quality of an NRSRO's credit ratings.¹⁴⁴

In instances in which a conflict of interest relating to a future prospect of employment of an analyst influenced a credit rating, the New NRSRO Rules require an NRSRO to have policies and procedures to promptly determine whether a credit rating must be revised and promptly publish a revised credit rating or an affirmation of the credit rating, along with certain disclosures about the existence of the conflict.¹⁴⁵ This new rule enhances the related requirements set forth in the Dodd-Frank Act¹⁴⁶ by requiring the NRSRO to act promptly and to disclose information about the conflict of interest. The Commission noted in the Adopting Release that these new requirements will provide users of credit ratings with information to assess an NRSRO's ability to address conflicts of interest and to compare NRSROs with respect to their ability to manage the conflicts.¹⁴⁷

The New NRSRO Rules also prescribe certain factors that an NRSRO must consider with respect to its internal control structure governing the implementation of and adherence to policies, procedures, and methodologies for determining credit ratings¹⁴⁸ and require each NRSRO to submit to the Commission an annual report, certified by its CEO, containing an assessment by management of the effectiveness of, and identifying any material weaknesses identified in, such internal control structure.¹⁴⁹ The Commission observed in the Adopting Release that the exercise of considering the factors identified in the New NRSRO Rules will provide NRSROs with an opportunity to critically evaluate their existing internal control structures and should improve the overall effectiveness of these internal controls.¹⁵⁰ Further, the requirement to file and certify an internal controls report could provide accountability and increase the likelihood that NRSROs will adhere to their procedures and methodologies for determining credit ratings, thereby improving the integrity of credit ratings.¹⁵¹

Under the New NRSRO Rules, an NRSRO must disclose, when taking a rating action, information relating to conflicts of interest of the NRSRO and provide an attestation that the credit rating was not influenced by any other business activities, was based solely upon the merits of the instruments being rated, and was an independent evaluation of the credit risk of the instrument.¹⁵² The Commission noted in the Adopting Release that the individual providing the

¹⁴⁴ See Adopting Release, 79 FR at 55091-92.

¹⁴⁵ See Rule 17g-8(c); Adopting Release, 79 FR at 55268.

¹⁴⁶ See Section 15E(h)(4)(A)(1).

¹⁴⁷ Adopting Release, 79 FR at 55124.

¹⁴⁸ Rule 17g-8(d).

¹⁴⁹ Rule 17g-3(a)(7) and (b)(2).

¹⁵⁰ Adopting Release, 79 FR at 55105.

¹⁵¹ Id.

¹⁵² See Rule 17g-7(a)(1)(ii)(J); Adopting Release, 79 FR at 55264-65. See also Rule 17g-7(a)(1)(iii); Adopting Release, 79 FR at 55264-66.

attestation will be incentivized to take steps to verify the truth thereof, thus promoting analytical independence.¹⁵³

Finally, the New NRSRO Rules provide that an NRSRO could have its registration suspended or revoked for violating the rules governing conflicts of interest if the violation affected a credit rating and suspension or revocation is necessary for the protection of investors and in the public interest.¹⁵⁴ One objective of this new provision is to allow for suspension or revocation of an NRSRO for conflict of interest violations that are not willful.¹⁵⁵

VII. CONCLUSION

The Staff will continue to conduct its oversight function with respect to NRSROs, including the performance of Staff examinations, and engage in other initiatives with respect to NRSROs.

¹⁵³ Adopting Release, 79 FR at 55178.

¹⁵⁴ See Rule 17g-5(g); Adopting Release, 79 FR at 55264.

¹⁵⁵ Adopting Release, 79 FR at 55114. In cases other than violation of a conflict of interest rule, Section 15E(d) requires that a violation of the securities laws must have been willful in order to give rise to a suspension or revocation of a credit rating agency's registration as an NRSRO.