OFFICE OF CREDIT RATINGS

Staff Report

ON

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATIONS

As Required by Section 6 of the Credit Rating Agency Reform Act of 2006 and Section 15E(p)(3)(C) of the Securities Exchange Act of 1934

January 2022

U.S. SECURITIES AND EXCHANGE COMMISSION

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I. MESSAGE FROM THE DIRECTOR

I am pleased to share the Office of Credit Ratings' (OCR) Staff Report (Report) on nationally recognized statistical rating organizations (NRSROs) for calendar year 2021. During 2021, OCR, the U.S. Securities and Exchange Commission (the Commission or SEC), and the market continued to navigate the extraordinary circumstances caused by COVID-19. Through it all, OCR continued, without interruption, to excel at its mission of assisting the Commission in protecting investors, promoting capital formation, and maintaining fair, orderly, and efficient markets through the oversight of NRSROs.

In past years, OCR published two separate annual reports: The Annual Report to Congress and the Summary Examination Report. For the first time, OCR has prepared one report that combines the information from the two reports to present OCR's annual activity in a more integrated way. In addition to combining the reports, we have also made a variety of substantive and organizational changes to the Report to provide greater transparency about the NRSROs and their credit ratings businesses, and the market more broadly. For example, to increase transparency about OCR's exam findings, the Report organizes the NRSROs into three groups—"large," "medium," and "small"—instead of two groups ("larger" and "smaller") as in past years.

The Report includes a summary of the Commission staff's (the Staff) essential findings from the most recently completed examination of each NRSRO. These examinations covered the eight statutorily mandated review areas and focused on certain subjects and activities that the Staff, through its risk assessment process, identified as relevant to certain NRSROs, including Environmental, Social, and Governance (ESG) issues, COVID-19, and collateralized loan obligations (CLOs). In addition, the Report also includes, for the first time, the Staff's definitions of the terms "essential finding" and "material regulatory deficiencies" to provide greater transparency regarding OCR's work.

OCR's examinations have been successful in promoting greater compliance by NRSROs with applicable laws and rules as the NRSROs advance initiatives to address the Staff's recommendations. The Report includes a new section on essential findings trends from examinations conducted between 2016 and 2021.

The Report also discusses the state of competition, transparency, and conflicts of interest at NRSROs. Importantly, the Report illustrates that the small and medium NRSROs (as defined below) continue to compete with the largest three NRSROs, with each of the small and medium firms increasing its total number of ratings outstanding as compared to declines among two of the largest three firms. The data show these increases occurring across all rating categories and, though modest in total number, illustrate, in some cases, significant year-over-year increases in rating activity for some firms.

To help inform its risk assessment process, exam program, and policy initiatives, OCR monitors credit rating activity and industry developments, especially in connection with capital market and economic events and trends, such as ESG and COVID-19. Staff communicates with NRSROs and a variety of market participants, and reviews NRSRO publications, news reports, trade publications, academic papers, and government reports, among other information sources.

The year continued to see OCR leadership and Staff engaged in discussions about the issues and challenges of diversity, equity, and inclusion. Along with our partners in the Office of Minority and Women Inclusion, the Office of Equal Employment Opportunity, and the Office of the Chair we will continue to embrace these topics as we continuously work to fulfill our mission.

As proud as I am of everything OCR accomplished throughout 2021, I truly believe that the best is yet to come as OCR advances the SEC's mission through the dedicated oversight of NRSROs in the coming years. I hope you find the Report interesting and informative.

Ahmed Abonamah

II. INTRODUCTION

The Staff of the Commission provides this Report regarding NRSROs pursuant to Section 6 of the Credit Rating Agency Reform Act of 2006 (Rating Agency Act)[1] and Section 15E(p)(3)(C) of the Securities Exchange Act of 1934 (Exchange Act).[2] This Report generally focuses on the period from January 1, 2021 to December 31, 2021 (the Report Period).[3]

Section 6 of the Rating Agency Act requires the Commission to submit an 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 report relates:

- Identifies applicants for registration as NRSROs under Section 15E;
- 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.

Section 15E(p)(3)(C) requires the Commission to make available to the public an annual report summarizing:

- Essential findings of all Section 15E examinations, as deemed appropriate by the Commission;
- NRSROs' responses to any material regulatory deficiencies identified by the Commission; and
- Whether the NRSROs have appropriately addressed the recommendations of the Commission contained in previous annual reports on examinations.

This Report addresses the items specified in Section 6 of the Rating Agency Act and Section 15E(p)(3). This is a report of the Staff and, as such, reflects solely the Staff's views.

1 Pub. L. No. 109-291, 120 Stat. 1327 (Sept. 29, 2006).

2 Unless otherwise noted, all Section and Rule references in this report are to the Exchange Act and rules under the Exchange Act.

3 The Annual Report and the Summary Examination Report covered different time periods. In order to align the time periods, Sections II.A and IV. of this Report include information about applications for registration as NRSROs and views of the Commission on the state of competition, transparency, and conflicts of interest among NRSROs from June 26, 2020 through December 31, 2021 (the December 2020 Annual Report reported this information through June 25, 2020). Section V of this Report includes information about activities relating to NRSROs from December 1, 2020 through December 31, 2021 (the December 2020 Annual Report included this information through November 30, 2020).

Information regarding the topics covered in this Report with respect to prior periods can be found on the OCR page of the Commission's website.[4]

Information regarding the registration and oversight program for credit rating agencies that are registered with the Commission as NRSROs can be found in Section VI. of this Report.

A. STATUS OF REGISTRANTS AND APPLICANTS

In 2007, the Commission began granting registrations to credit rating agencies that applied to be registered as an NRSRO. Section 3(a)(62) defines a "nationally recognized statistical rating organization" as a credit rating agency that is registered under Section 15E and 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.[5]

As of December 31, 2021, there were nine credit rating agencies registered as NRSROs.[6] Chart 1 below lists each NRSRO registered with the Commission, the categories of credit ratings described in clauses (i) through (v) of Section 3(a)(62)(A) in which each NRSRO is registered, and the location of each NRSRO's principal office.[7]

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4 The prior annual reports pursuant to Section 6 of the Rating Agency Act, through December 2020, can be found under "Annual Reports to Congress" in the "Reports and Studies" section of the OCR webpage, available at https://www.sec.gov/ocr/ocr-reports-and-studies.html. Separately, the prior summary reports of the Staff's examinations of NRSROs pursuant to Section 15E(p)(3), through December 2020, can be found under "Summary Examination Reports" in the "Reports and Studies" section of the OCR webpage, available at https://www.sec.gov/ocr/ocr-reports-and-studies.html.

5 Section 3(a)(62)(A).

6 Section 15E(a) sets out registration procedures for a credit rating agency to voluntarily apply to be registered with the Commission as an NRSRO.

7 *See* each NRSRO's current Form NRSRO for any updates to this information. Each NRSRO must file with the Commission on EDGAR a Form NRSRO for annual certification and registration updates pursuant to Rule 17g-1(e) and (1)(f), and each NRSRO must make its current Form NRSRO publicly and freely available on its website pursuant to Rule 17g-1(i). Form NRSRO filings are available on the EDGAR system at https://www.sec.gov/edgar/searchedgar/companysearch.html. Links to each NRSRO's website can be found under the "Current NRSROs" section of the OCR webpage, available at https://www.sec.gov/ocr/ocr-current-nrsros.html.

Chart 1. Table of NRSROs

NRSRO	Categories of Credit Ratings	Principal Office
A.M. Best Rating Services, Inc. (AMB)	(ii), (iii), and (iv)	U.S.
DBRS, Inc. (DBRS)	(i) through (v)	U.S.
Egan-Jones Ratings Company (EJR)	(i) through (iii)	U.S.
Fitch Ratings, Inc. (Fitch)	(i) through (v)	U.S.
HR Ratings de México, S.A. de C.V. (HR)	(i), (iii), and (v)	Mexico
Japan Credit Rating Agency, Ltd. (JCR)	(i), (ii), (iii), and (v)	Japan
Kroll Bond Rating Agency, Inc. (KBRA)	(i) through (v)	U.S.
Moody's Investors Service, Inc. (MIS)	(i) through (v)	U.S.
S&P Global Ratings (S&P)	(i) through (v)	U.S.

For purposes of this Report only, we refer to Fitch, MIS, and S&P as "large NRSROs"; AMB, DBRS, and KBRA as "medium NRSROs"; and EJR, HR, and JCR as "small NRSROs" based on revenue.[8]

Applications for initial registration by a credit rating agency and for registration by a current NRSRO in additional rating categories are filed on Form NRSRO.[9] A credit rating agency may choose not to apply for registration as an NRSRO, in which case it may issue credit ratings as a credit rating agency but it may not issue credit ratings as an NRSRO.[10] In addition, a credit rating agency may choose to apply for registration as an NRSRO in one or more rating categories.[11] As noted in Chart 1 above, certain NRSROs are registered in all of the rating categories and certain NRSROs are registered in fewer than all of the rating categories.

No applications for initial registration as an NRSRO or for registration by a current NRSRO in additional rating categories were filed with the Commission in the Report Period.

8 OCR's prior reports categorized the NRSROs in two groups: the "larger NRSROs" (Fitch, MIS, and S&P) and the "smaller NRSROs" (AMB, DBRS, EJR, HR, JCR, and KBRA). Beginning with this Report, we have re-categorized the NRSROs into three groups based on revenue as reported on each NRSRO's most recently filed Rule 17g-3(a)(3) financial report.

9 *See* Section 15E(a) and Rule 17g-1; *see also* Form NRSRO, available at https://www.sec.gov/about/forms/formnrsro.pdf. In addition, Section 15E(b) requires NRSROs to promptly amend Form NRSRO if any information or document provided therein becomes materially inaccurate.

10 Section 3(a)(60) defines the term "credit rating," Section 3(a)(61) defines the term "credit rating agency," and Section 3(a)(62) defines the term "nationally recognized statistical rating organization." For additional information about credit ratings, *see* Updated Investor Bulletin: The ABCs of Credit Ratings (Oct. 12, 2017), available at https://www.sec.gov/oiea/investor-alerts-and-bulletins/ib_creditratings.

11 *See* Section 3(a)(62)(A)(i) – (vi).

III. EXAMINATIONS AND MONITORING

A. OVERVIEW

Generally, the purpose of NRSRO examinations is to promote compliance with applicable federal securities laws and rules by identifying potential instances of non-compliance of NRSROs with their statutory and regulatory obligations and encouraging remedial action. Examinations also inform the Commission and the NRSROs' compliance personnel of regulatory obligations and noteworthy industry developments.

To facilitate and promote compliance by NRSROs with their statutory and regulatory obligations, the Staff sends each NRSRO an examination summary letter that discusses its findings related to that NRSRO and recommends remedial measures. When appropriate, the Staff may refer findings to the Commission's Division of Enforcement for investigation.

Section 15E(p)(3)(B) provides that each NRSRO examination shall include a review of the following eight topic areas (Section 15E Review Areas):

- Whether the NRSRO conducts business in accordance with its policies, procedures, and rating methodologies;
- Management of conflicts of interest by the NRSRO;
- Implementation of ethics policies by the NRSRO;
- Internal supervisory controls of the NRSRO;
- Governance of the NRSRO;
- Activities of the Designated Compliance Officer (DCO) of the NRSRO;
- Processing of complaints by the NRSRO; and
- Policies of the NRSRO governing the post-employment activities of its former staff.

B. RISK ASSESSMENT

The 2021 Section 15E examinations encompassed all of the statutorily required Section 15E Review Areas. Within each of the Section 15E Review Areas, the Staff determined areas of emphasis and issues of focus for each NRSRO based upon an NRSRO-specific risk assessment performed by the Staff, while also considering how to limit the amount of personal data collected in the examination process. The NRSRO-specific risk assessments considered a number of factors, including, but not limited to:

- NRSROs' rating activities and operations;
- Staff's findings, recommendations, and other observations from prior examinations;
- Impact of a potential or actual internal control or compliance failure by the NRSRO;
- Recent industry developments affecting NRSROs and the asset classes in which the NRSRO is registered;
- NRSROs' filings with the Commission and public disclosures;

- NRSROs' self-identified weaknesses; and
- Relevant Tips, Complaints, and Referrals (TCRs) received by the Commission.

The 2021 Section 15E examinations also focused on certain subjects and activities that the Staff, through its risk assessment process, identified as relevant to certain NRSROs, as summarized below.

- **ESG Factors and Products:** NRSROs and their affiliates have developed and are offering an increasing number of ESG-related products and services.[12] Development in the area has grown rapidly, and competition has increased among NRSRO and non-NRSRO providers, leading the Staff to identify several areas of potential risk to NRSROs. These include the risks that, in incorporating ESG factors into ratings determinations, NRSROs may not adhere to their methodologies or policies and procedures, consistently apply ESG factors, make adequate disclosure regarding the use of ESG factors applied in rating actions, or maintain effective internal controls involving the use in ratings of ESG-related data from affiliates or unaffiliated third parties. The Staff also identified the potential risk for conflicts of interest if an NRSRO offers ratings and non-ratings ESG products and services.
- **COVID-19 Related Risk Areas:** COVID-19 caused a sudden economic shock that led to NRSROs downgrading certain ratings, changing their macroeconomic forecasts and assumptions, and revising some methodologies. The Staff identified as potential risks whether the NRSROs have sufficient controls in place to ensure that changes to assumptions and inputs are applied and disclosed in ratings determinations, and whether data collected by NRSROs during the pre-COVID period and used in ratings determinations was adjusted to reflect how assets will perform in a COVID-affected economy. The Staff noted that such risks could have a heightened effect on the assignment and surveillance of ratings in particular sectors.
- **CLOs:** Qualitative adjustments may be made during the rating process for certain CLOs. The Staff identified a potential risk that NRSROs may not adhere to their policies, procedures, and methodologies in making such adjustments, as well as the risk that the practice could lead to inconsistent use of ratings symbols.
- **Commercial Real Estate:** Commercial real estate assets experienced a period of economic distress that could have an effect on credit ratings associated with such properties. The Staff identified a potential risk that NRSROs may not adhere to their policies and procedures regarding surveillance of such ratings, or to their methodologies with respect to the use of data associated with determining cash flows from the underlying properties and property valuations.

12 Some NRSROs offer ESG products and services separate from their credit ratings, and corporate affiliates of NRSROs, which are entirely separate from the NRSROs, may also offer ESG products and services. Examples of such ESG products and services include: evaluations of the environmental benefits of a project financed with the proceeds of a "green" bond issuance; ESG scores based on the expected impact of ESG factors on a company's growth, profitability, capital efficiency, and risk exposure; and assessments of a company's risk from climate-related scenarios. These products and services are not credit ratings and are therefore not directly regulated by OCR.

- **Consumer Asset-Backed Securities:** The COVID-19 economic shock reduced consumer incomes resulting in potential impact to ratings on consumer asset-backed securities. The Staff identified potential risks to credit ratings with regard to repayment challenges, a lack of standardization with regard to servicers, reporting standards and treatment of forbearances, deferrals, and extensions, and the absence of standardized definitions of default in the sector, if NRSROs did not adhere to their relevant policies, procedures, and methodologies.
- **Low-Investment Grade-Rated Corporates:** The proportion of U.S. corporate debt rated in the BBB category increased over several years, reaching a historically high level in 2020. The Staff identified a risk posed to credit ratings if NRSROs did not adhere to their relevant surveillance practices, policies, procedures, and methodologies regarding such debt.
- **Municipal Securities:** An NRSRO did not make a timely discovery of incorrect information it received regarding when securities had been paid off and also failed to identify existing rating errors where a rating had gone through the surveillance process. The Staff identified as a potential risk, particularly for NRSROs with a large volume of municipal ratings, that such NRSROs may lack adequate controls for detecting rating errors or may not adhere to policies and procedures used to determine when municipal ratings should be withdrawn.

The foregoing were incorporated into the Section 15E examinations as appropriate for each NRSRO.

C. MONITORING

To help inform its risk assessment process and exam program, the Staff also actively monitored credit rating activity and industry developments during the Report Period, especially in connection with capital market and economic events and trends, such as ESG, COVID-19, cybersecurity, and digital assets. The Staff communicated with NRSROs and market participants, and reviewed NRSRO publications, news reports, trade publications, academic papers, and government reports, among other information sources.

The Staff's monitoring efforts included, for example, discussions that covered the scope and nature of rating actions for which NRSROs cited the impact of COVID-19 and resulting business shutdowns as material credit considerations and how NRSROs incorporated ESG considerations into credit ratings and communicated such considerations to the market. Monitoring also covered NRSRO considerations of distributed ledger technologies, digital assets, and smart contracts in credit ratings[13] and NRSRO perspectives on cyber risk management and the vulnerability to and financial impact of cyber attacks.

13 OCR continues to monitor these developing areas and has observed limited NRSRO ratings activity. For example, in early 2020, DBRS rated debt securities issued on a blockchain, noting that the structuring consultant intends to issue security tokens to all investors and record the transaction on the Ethereum blockchain. *See* Press Release: DBRS Morningstar Finalizes Provisional Ratings on FAT Brands Royalty I, LLC (Mar. 9, 2020), available at https://www.dbrsmorningstar.com/research/357772/dbrs-morningstar-finalizes-provisional-ratings-on-fat-brands-royalty-i-llc.

The Staff also monitored other industry events during the Report Period, including, for example, the NRSRO response to Archegos Capital Management,[14] the NRSRO approach to rating companies emerging from special purpose acquisition company (SPAC) transactions,[15] and the NRSRO response to financial stress experienced by Chinese property and development companies.[16] Monitoring also covered NRSRO projections for inflation, perceptions of its causes, and views as to the potential credit impacts on entities and transactions across different market sectors.

D. 2021 SECTION 15E(p)(3) EXAMINATIONS

1. 2021 Section 15E Examinations

The 2021 Section 15E examinations generally focused on the NRSROs' activities for the period covering January 1, 2020 through December 31, 2020 (the Review Period). Examinations also reviewed certain activities or credit rating actions from outside the Review Period.[17]

The 2021 Section 15E examinations reviewed the Section 15E Review Areas and examined each NRSRO's adherence to Section 15E and Rules 17g-1 through 17g-10. For example, the Staff reviewed a sample of rating actions of each NRSRO in certain asset classes for which it is registered and for certain issuers and obligors to determine whether the NRSRO operated in accordance with its policies, procedures, and rating methodologies. The Staff also reviewed rating files and documentation to evaluate whether each NRSRO adhered to recordkeeping requirements.[18]

During the Review Period, the Staff also continued to participate in meetings that involved rating agency regulators globally, including those of the supervisory colleges that were formed for the largest internationally active credit rating agencies. The supervisory colleges were formed to enhance communication among credit rating agency regulators globally with respect to examinations of the relevant credit rating agencies.[19] During the Review Period, each college conducted periodic

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14 *See e.g.*, Fitch, Archegos Fallout Signals Heightened Counterparty, Regulatory Risk, available at https://www.fitchratings.com/research/banks/archegos-fallout-signals-heightened-counterparty-regulatory-risk-01-04-2021.

15 *See e.g.*, S&P, Credit FAQ: SPACs and Credit Quality: S&P Global Ratings' Recent Ratings Experience, available at https://www.spglobal.com/ratings/en/research/articles/210312-credit-faq-spacs-and-credit-quality-s-p-global-ratings-recent-ratings-experience-11868991.

16 *See e.g.*, Moody's, Research Announcement: Chinese Property Developers' Liquidity Stress Will Continue Amid Tight Credit Conditions and Lowered Sales, available at https://www.moodys.com/research/Moodys-Chinese-property-developers-liquidity-stress-will-continue-amid-tight--PBC_1311317.

17 For example, the Staff may review information relating to TCRs in a current examination, even if the referenced activities occurred outside of the Review Period.

18 To select rating actions and rating files to review, the Staff used a risk-based sampling process that is consistent with its overall risk assessment approach described in this Report. The Staff also considered factors including, but not limited to, the size of the rated asset class in the financial markets and the NRSRO's business, the NRSRO's activity in the rated asset class, the likelihood of impact on investors if a rating was not determined in accordance with the NRSRO's methodologies and procedures, news reports and developments concerning the NRSROs or particular asset classes, TCRs, and information the Staff learned during examinations.

19 *See* IOSCO, Supervisory Colleges for Credit Rating Agencies, Final Report (July 2013), available at https://www.iosco.org/library/pubdocs/pdf/IOSCOPD416.pdf. The SEC serves as chair of the colleges for S&P and MIS, and OCR Staff represents the SEC in this regard. The European Securities and Markets Authority serves as chair of the college for Fitch.

calls to discuss supervisory activities related to the credit rating agencies. The Staff also conducted additional discussions with international regulators, as appropriate.

2. Terms Used in This Report

Section 15E(p)(3)(C)(i)-(iii) requires this Report to contain a summary of, respectively, the essential findings of the annual examinations, as deemed appropriate by the Commission; the NRSROs' responses to any material regulatory deficiencies identified by the Commission; and whether the NRSROs have appropriately addressed the recommendations of the Commission contained in previous reports.[20]

For purposes of this Report, the Staff considers an "essential finding" to be any instance of apparent non-compliance by an NRSRO with the federal securities laws or related Commission rules applicable to NRSROs, except those instances attributable to a non-recurring and non-significant clerical or ministerial error or omission.

For purposes of this Report, the Staff considers "material regulatory deficiencies" to be essential findings that involve:

- Conduct or a deficiency that could undermine the quality of a credit rating or impair the objectivity of an NRSRO's credit rating process; or
- Conduct that may be inconsistent with the anti-fraud provisions of the federal securities laws.

The Staff's determination that an NRSRO appropriately addressed a recommendation does not constitute its endorsement of that NRSRO or its policies, procedures, internal controls, or operations. In a future examination, the Staff may reevaluate the NRSRO's response to recommendations that it previously deemed to be appropriately addressed by, for example, assessing whether the NRSRO fully implemented remedial measures and whether those remedial measures appear to be effective. The Staff may also review and make recommendations concerning the NRSRO's policies, procedures, internal controls, or operations related to the general subject matter of a recommendation that it previously deemed to be appropriately addressed. The determination of whether an NRSRO appropriately addressed a recommendation reflects solely the Staff's view and does not necessarily reflect the views of the Commission.

The Staff's assessment of whether an NRSRO has appropriately addressed a recommendation depends on the specific facts and circumstances, including, but not limited to, the promptness of the NRSRO's response, the severity of the conduct at issue, and whether the remedial action undertaken by the NRSRO is expected to fully resolve the Staff's concerns.

20 In this Report, essential findings are organized by NRSRO within the applicable large, medium, and small groups. This Report uses the phrases "significant," "numerous," "several," and "some" to describe and distinguish the frequency of conduct or instances underlying certain essential findings. The particular phrase used generally reflects the number of instances during the Review Period, recognizing that the number of instances may be reflective of a test sample and not necessarily an NRSRO's comprehensive activities during the Review Period.

3. Summary of Essential Findings and Responses to Material Regulatory Deficiencies

a. Large NRSRO #1

(1) The NRSRO did not report an allegation of fraud and therefore did not appear to comply with Section 15E(u) or the NRSRO's policies and procedures. The NRSRO issued a credit rating on a bond after the underwriter for the bond communicated to an analyst of the NRSRO an allegation of potential fraud relating to the authenticity of a letter of credit upon which such credit rating was based. The Staff also noted that the NRSRO did not withdraw the credit rating for some months during which the NRSRO had knowledge of a potential fraud. The Staff recommended that the NRSRO adhere to its policies and procedures to ensure that it fulfils its obligations under Section 15E(u).

The Staff identified such essential finding as a material regulatory deficiency.

The NRSRO stated in its response that, while the analyst inquired of the underwriter and its counsel, the analyst did not report the matter because communication with the underwriter led him to believe that the matter was under review by the bank that provided the letter of credit. The NRSRO also stated that the failure of the transaction to close was not itself indicative of fraud because transactions can fail to close for other reasons. The NRSRO agreed that the allegation should have been reported to the compliance department, and the NRSRO conducted an internal investigation, resulting in discipline of the analyst. Furthermore, the NRSRO issued a communication to all employees regarding their obligations to internally report allegations that may implicate the NRSRO's obligations under Section 15E(u), encouraging them to consult with a compliance officer if they have any doubt as to whether a particular matter should be reported.

(2) The NRSRO did not appear to preserve certain documents in the manner that the NRSRO's policies and procedures require, and the NRSRO did not promptly produce complete copies of records required to be retained in accordance with Rule 17g-2(b)(2). The NRSRO also did not timely provide to the Staff other documents in accordance with Rule 17g-2(f). The Staff recommended that the NRSRO ensure that it includes all relevant documents in its productions and retains required records in a way that enables it to promptly furnish complete copies of such records in response to requests from the Staff.

(3) The NRSRO did not appear to evaluate and record all potential complaints in the manner that its policies and procedures required. The NRSRO also did not document its conclusion with respect to handling a complaint, contrary to the NRSRO's policies and procedures. The Staff recommended that the NRSRO ensure that all complaints are subject to its policies and procedures for the receipt, retention, and treatment of complaints.

b. Large NRSRO #2

(1) The NRSRO did not appear to comply with Rule 17g-7(a) disclosure requirements when taking a significant number of rating actions. As a result of a coding error that the NRSRO identified in its systems, the NRSRO did not

timely publish information disclosure forms for a significant number of surveillance rating actions during some years. The Staff recommended that the NRSRO ensure compliance with Rule 17g-7(a) disclosure requirements.

(2) The NRSRO did not appear to enforce its policies and procedures as required by Section 15E(h)(4)(A) and (5)(A). The NRSRO produced to the Staff a report that identified a number of instances where the NRSRO did not appear to comply with its policies and procedures related to statutorily-mandated post-employment requirements. Among other things, such report indicated that the NRSRO did not submit certain Employment Transition Reports to the Commission. The Staff recommended that the NRSRO enforce its policies and procedures related to post-employment requirements.

c. Large NRSRO #3

(1) The NRSRO made clarifying changes to a draft rating report for an issuer's credit rating after receiving comments from the issuer, and such changes did not appear to be approved in the manner required by the NRSRO's policies and procedures. The Staff recommended that the NRSRO ensure that it adheres to its policies and procedures for documentation evidencing approval of changes to a rating report requested by an issuer.

(2) The NRSRO did not appear to have effective internal controls pursuant to Section 15E(c)(3)(A) to ensure that it does not inadvertently withdraw certain active credit ratings. Specifically, the NRSRO reported two instances in which it inadvertently withdrew from its website a significant number of credit ratings for active securities. Such instances were based on the NRSRO incorrectly processing third party data. The Staff recommended that the NRSRO establish effective internal controls to ensure that it does not inadvertently withdraw certain active credit ratings.

d. Medium NRSRO #1

(1) The NRSRO issued and maintained some credit ratings that appeared to be prohibited by Rule 17g-5(c)(2). Contrary to the NRSRO's policies and procedures, certain NRSRO employees held restricted securities in a managed account and the NRSRO's compliance department did not routinely perform post-trade reviews of brokerage statements for managed accounts. On some occasions, an analyst participated in a rating committee while holding securities of the rated entity in a managed account. The Staff recommended that the NRSRO establish, maintain, and enforce written policies and procedures reasonably designed to address and manage conflicts of interest with respect to securities held in employees' managed accounts.

The Staff identified such essential finding as a material regulatory deficiency.

In its response, the NRSRO stated that it has commenced an action plan designed to strengthen relevant systems, practices, policies, resources, and personnel. The action plan includes, among other things: (i) changes to the organizational design and staffing of a relevant team; (ii) selection and deployment of a new system used to monitor and enforce compliance with applicable procedures; (iii) an organizational initiative led by senior management to foster adherence to policies and procedures;

(iv) a review, led by counsel, of (and appropriate enhancements to) policies, procedures and practices focused on avoidance or management of actual, potential or perceived conflicts of interest relating to the issuance of credit ratings; (v) improvements to certain compliance reporting to senior management; and (vi) outreach by compliance to analytical personnel regarding their responsibilities and obligations under applicable policies and procedures, with a particular focus on securities held in managed accounts. The NRSRO has completed some measures of such action plan, and others are still on-going. The NRSRO will continue assessing the robustness of its action plan and may implement additional measures.

(2) The NRSRO did not appear to enforce its policies and procedures in some instances as Section 15E(g)(1) requires, by granting access to certain information without required approval, mistakenly sending certain information intended for one recipient to numerous recipients, and not taking reasonable steps to protect confidential information from inadvertent disclosure. The Staff recommended that the NRSRO enforce its policies and procedures with respect to the protection of material non-public information.

(3) The NRSRO did not appear to follow Section 15E(b)(2), Rule 17g-1(f), and the Form NRSRO Instructions when filing certain information with the Commission. The NRSRO filed with the Commission some Form NRSRO Exhibits that included incomplete transition/default matrices, incomplete and potentially inaccurate identifications of conflicts of interest relating to the issuance of credit ratings, and incomplete information about the NRSRO's DCO. The Staff recommended that the NRSRO ensure that all Form NRSRO filings adhere to the Form NRSRO Instructions and the required information is accurate and complete.

e. Medium NRSRO #2

(1) The NRSRO did not appear to adhere to Rule 17g-7(a)(1)(iii) when publishing Rule 17g-7(a) information disclosure forms. Such forms did not contain an attestation that was signed as the rule requires. In addition, the attestation provided was inconsistent with the requirements of the rule. The Staff recommended that the NRSRO ensure that a person with responsibility for the rating action signs the information disclosure forms and attests to the statements contained therein and that all such statements are consistent with the requirements of Rule 17g-7(a)(1)(iii).

(2) The NRSRO did not appear to make certain disclosures that Rule 17g-7(a)(1)(ii)(B) requires relating to the version of the NRSRO's rating methodology used for certain rating actions. The Staff recommended that the NRSRO ensure that it discloses in information disclosure forms the version of the methodology used to determine credit ratings.

(3) The NRSRO did not appear to comply with Rule 17g-7(a)(1)(ii)(L)(1) for certain credit ratings. Specifically, the NRSRO's information disclosure form for certain rating actions did not include applicable information related to the historical performance of the relevant credit

rating. The Staff recommended that the NRSRO ensure that its information disclosure forms for all rating actions contain the information that Rule 17g-7(a)(1)(ii)(L)(1) requires.

(4) The NRSRO did not appear to provide a required disclosure about the conflict of interest described in Rule 17g-5(b)(6) in Exhibit 6 of Form NRSRO, given that the NRSRO's policies and procedures allowed employees, in certain circumstances, to own securities of issuers or obligors subject to a credit rating determined by the NRSRO. Also, the NRSRO recorded that during the Review Period, eight employees held or purchased restricted securities contrary to such policies and procedures. The Staff recommended that the NRSRO disclose conflicts of interest related to securities ownership by its employees, as the Instructions to Form NRSRO require, and establish, maintain, and enforce written policies and procedures designed to address and manage conflicts of interest.

(5) The NRSRO's policies and procedures did not appear to be reasonably designed to ensure that it will promptly publish the notice of the existence of a significant error as Rule 17g-8(a)(4)(ii) requires. The NRSRO's policies and procedures required the NRSRO to publish notice of the existence of a significant error identified in a procedure or methodology only after the development and approval of a revised procedure or methodology. Application of these policies and procedures is likely to delay publication of such notice. The Staff recommended that the NRSRO establish, maintain, enforce, and document policies and procedures reasonably designed to ensure that it promptly publishes notice of the existence of a significant error as Rule 17g-8(a)(4)(ii) requires.

f. Medium NRSRO #3

(1) The NRSRO did not appear to adhere to Rule 17g-7(a)(1)(iii) when publishing Rule 17g-7(a) information disclosure forms. Such forms contained an attestation that was inconsistent with the requirements of the rule. The Staff recommended that the NRSRO ensure the attestation statement in information disclosure forms is consistent with Rule 17g-7(a)(1)(iii) text.

(2) The NRSRO did not appear to enforce its policies and procedures with regard to publishing on an easily accessible portion of its website information relating to material changes to methodologies, as Rule 17g-8(a)(4)(i) requires. The NRSRO's reason for certain material changes to methodologies and disclosure about the likelihood those changes will result in changes to any current credit ratings were not easily accessible on the NRSRO's website, as its policies and procedures require. The Staff recommended that the NRSRO ensure that it promptly publishes on an easily accessible portion of its website material changes to methodologies, the reason for the changes, and the likelihood the changes will result in changes to current credit ratings.

(3) The NRSRO did not withdraw credit ratings on certain matured bonds that the NRSRO stated it should have withdrawn and, accordingly, it did not appear that the NRSRO maintained effective internal supervisory controls as

required by Section 15E(c)(3)(A). The Staff recommended that the NRSRO enhance its internal controls to ensure that credit ratings on bonds that have matured are promptly detected and withdrawn.

(4) The NRSRO's policies and procedures regarding complaints by employees did not appear to adequately address all of the requirements of Section 15E(j)(3). Specifically, such policies and procedures did not address complaints from employees regarding credit ratings, models, and methodologies and did not address employee complaints about the NRSRO or certain other third parties. The Staff recommended that the NRSRO establish procedures for the receipt, retention, and treatment of complaints to adequately address the requirements of Section 15E(j)(3) for complaints from employees.

g. Small NRSRO #1

(1) The NRSRO did not appear to have reasonably designed procedures to ensure accurate, reliable, and consistent revenue information to effectively monitor and prevent the occurrence of the conflict of interest identified in Rule 17g-5(c)(1). The Staff recommended that the NRSRO establish, maintain, and enforce written policies and procedures, including policies and procedures regarding the recognition of revenue in accordance with applicable accounting standards, reasonably designed to ensure that the NRSRO does not issue or maintain credit ratings subject to the prohibited conflict of interest specified in Rule 17g-5(c)(1).

The Staff identified such essential finding as a material regulatory deficiency.

In its response, the NRSRO stated that it is drafting a new policy and procedure to address the finding and recommendation in accordance with applicable standards relating to revenue from customer contracts. The NRSRO further stated that the new policy and procedure will provide requirements to ensure that revenue is recognized according to the new policy and procedure and will also include provisions addressing treatment for Rule 17g-5(c)(1) purposes where a client is billed in separate years. The NRSRO represented that it will begin complying with the new policy and procedure by January 1, 2022.

(2) The NRSRO published information disclosure forms that did not appear to comply with Rule 17g-7(a)(1)(ii)(J)(1), (K), and (M). Specifically, several such forms did not include required disclosures regarding the source of payment for the credit rating, the potential volatility of the credit rating, and the sensitivity of the credit rating to assumptions made by the NRSRO. The Staff recommended that the NRSRO ensure that its information disclosure forms contain all the disclosures that Rule 17g-7(a)(1)(ii) requires.

(3) The NRSRO's policies and procedures did not appear to be reasonably designed pursuant to Section 15E(h)(1) to prevent the occurrence of the prohibited conflict of interest in Rule 17g-5(c)(7). The NRSRO's policies and procedures allowed employees to receive gifts with a specified limited dollar amount, but did not limit such gifts to items provided in the context of normal business activities such as meetings. The Staff recommended that the NRSRO establish, maintain, and enforce written policies

and procedures reasonably designed to ensure that it does not issue or maintain credit ratings subject to the prohibited conflict of interest specified in Rule 17g-5(c)(7).

(4) The NRSRO appeared to misrepresent the effect of its registration as an NRSRO in certain rating reports. The NRSRO made a statement in several reports accompanying a non-credit rating product that appeared to misrepresent the effect of the NRSRO's registration as an NRSRO and could lead recipients of the reports to mistakenly conclude that such product is an NRSRO rating. The Staff also noted that certain templates for reports and letters of the NRSRO potentially could result in misrepresentations or false statements in the future. The Staff recommended that the NRSRO revise its templates for reports and letters so that they do not contain any statements about its registration with the SEC as an NRSRO that are incorrect or misleading or that misrepresent the effect of such registration.

(5) The NRSRO's policies and procedures for the receipt, retention, and treatment of complaints appeared to improperly exclude certain complaints. The Staff recommended that the NRSRO revise its policies and procedures for the receipt, retention, and treatment of complaints to ensure that they cover all complaints contemplated under Section 15E(j)(3).

(6) The NRSRO's policies and procedures did not appear to require the disclosure of the information that Rule 17g-7(a)(1)(ii)(J)(3)(i) and (J)(3)(ii) require for rating revisions and affirmations, respectively, resulting from a look-back review. The Staff recommended that the NRSRO establish, maintain, and enforce policies and procedures that are reasonably designed to ensure that the information required by Rule 17g-7(a)(1)(ii)(J)(3) is included with the publication of a revised credit rating or affirmation following a look-back review that determines that a conflict of interest had influenced the rating.

h. Small NRSRO #2

(1) The NRSRO did not appear to adhere to Rule 17g-7(a) and its policies and procedures with regard to the publication of an information disclosure form for a credit rating withdrawal. Such policies and procedures did not appear to accurately reflect the Rule 17g-7(a) disclosure requirements, and the NRSRO did not publish a required information disclosure form for the withdrawal. Also, the NRSRO did not appear to generate a certain report as the NRSRO's policies and procedures require. The Staff recommended that the NRSRO ensure it adheres to its policies and procedures, and all applicable requirements under Rule 17g-7(a), when it withdraws a credit rating.

(2) The NRSRO did not appear to have effective internal controls pursuant to Section 15E(c)(3)(A) governing surveillance of certain ratings and did not appear to adhere to the applicable methodology. Specifically, the NRSRO did not perform surveillance of a credit rating in accordance with the enumerated time period in the NRSRO's methodology. Also, such methodology did not clearly indicate how frequently the NRSRO must conduct surveillance on such rating. The Staff recommended that the NRSRO

enhance its internal controls with respect to its policies and procedures governing surveillance of certain credit ratings. The Staff also recommended that the NRSRO ensure that it adheres to the applicable methodology.

(3) The NRSRO did not appear to have effective internal controls pursuant to Section 15E(c)(3)(A) governing the review and testing of its credit rating models. Specifically, the NRSRO used a model in determining credit ratings which contained data that was not consistent with the NRSRO's policies and procedures. Such model also contained errors with one or more formula references. The Staff recommended that the NRSRO enhance its internal controls governing the review and testing of its credit rating models.

i. Small NRSRO #3

(1) The NRSRO did not appear to have effective internal controls pursuant to Section 15E(c)(3)(A) with respect to credit ratings that are linked to other credit rating actions. Specifically, the NRSRO took a rating action on an outstanding credit rating without taking appropriate action with respect to a linked credit rating, and the NRSRO did not have an effective internal control at the relevant time to ensure that the NRSRO takes such action. The Staff recommended that the NRSRO establish, maintain, enforce, and document effective internal controls to ensure that it correctly issues and maintains credit ratings that are linked to other credit rating actions.

4. Responses to Recommendations from the 2020 Section 15E Examinations

To assess whether NRSROs appropriately addressed findings from the 2020 Section 15E examinations, the Staff reviewed each NRSRO's written response describing its planned remedial measures, and participated in calls with each NRSRO to discuss its written response.

During the 2021 Section 15E examinations, the Staff assessed each NRSRO's progress in implementing remedial measures such as establishing new or enhancing existing policies or procedures or internal controls, or adding personnel and other resources in areas such as compliance, information technology, or analytics. The Staff takes into account that NRSROs may not be able to fully implement remedial measures and the Staff may not be able to fully assess the effectiveness of these measures during the 2021 examination.

The Staff has determined all findings from the 2020 Section 15E examinations have been appropriately addressed, except in one instance. In such instance, the Staff issued a finding relating to a small NRSRO's revenue recognition practices related to the NRSRO's obligations under Rule 17g-5(c)(1) and recommended that the NRSRO establish, maintain, and enforce policies and procedures that are reasonably designed to ensure that it does not issue or maintain ratings subject to the Rule 17g-5(c)(1) prohibited conflict of interest. However, as discussed further in Section III.C.3(g), the Staff observed in the 2021 examination that, despite efforts to address the previous finding, the NRSRO did not appear to have reasonably designed procedures to ensure accurate, reliable, and consistent revenue information to effectively monitor and prevent the occurrence of the conflict of interest identified in Rule 17g-5(c)(1). Except for such instance, NRSROs generally addressed 2020 recommendations by taking remedial measures such as adopting new or enhancing existing policies or procedures, internal controls, or systems and processes, and by adding personnel and other resources.

5. Essential Findings Trends

Chart 2 depicts the percentage of essential findings by Section 15E Review Area for all NRSROs from the Section 15E examinations conducted from 2016 to 2021. Of the 487 total essential findings arising from the Section 15E examinations conducted from 2016 to 2021, internal supervisory controls, adherence, and conflicts of interest were the top Section 15E Review Areas, accounting for 42.3%, 30.6%, and 11.5%, respectively, of all essential findings.

The other five Section 15E Review Areas each accounted for less than 5% of the total essential findings from 2016 to 2021. Certain essential findings may relate to more than one Section 15E Review Area but are categorized in only one category for counting purposes. For example, the Staff did not make any essential findings based solely on an NRSRO's implementation of ethics policies and procedures, as such essential findings were accounted for in other Section 15E Review Areas. OCR continues to review all eight statutorily mandated review areas as required by Section 15E, described in Section III.A.

Chart 2. Essential Findings by Section 15E Review Area: 2016 to 2021

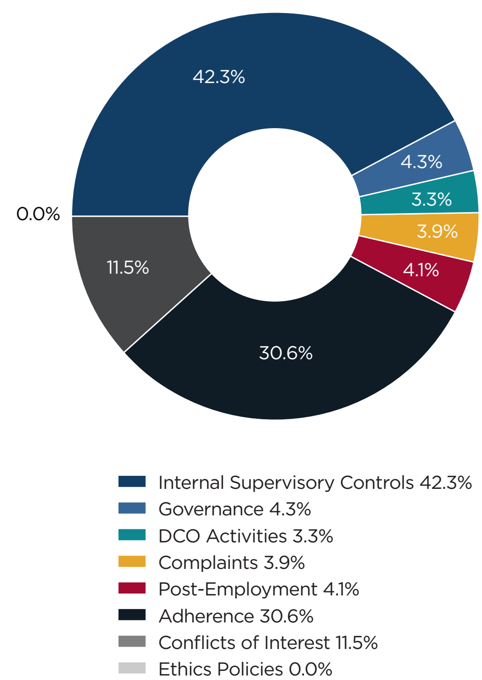
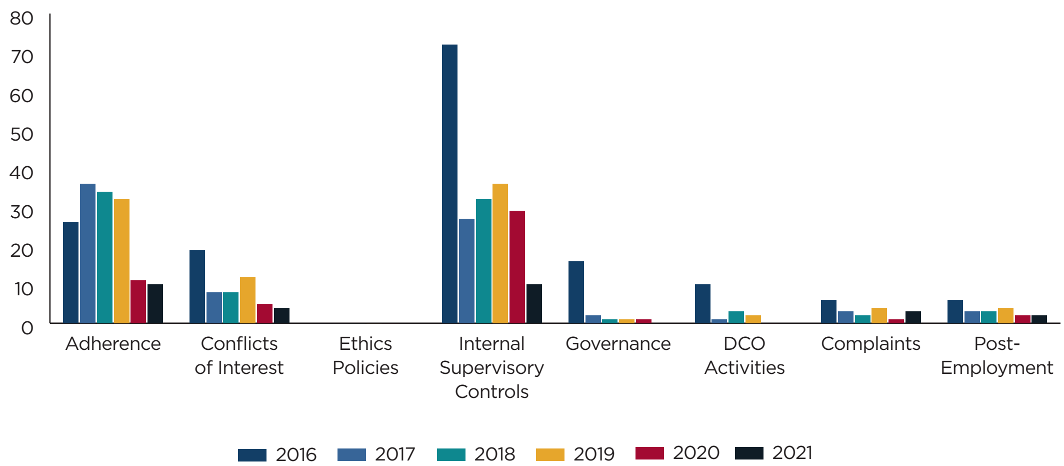


Chart 3 shows the number of essential findings by Section 15E Review Area from the Section 15E examinations conducted from 2016 to 2021. The number of essential findings from the 2016 examination cycle was higher in several review areas, which was likely related to the new and amended rules that became effective in 2015.[21] Essential findings have generally decreased in subsequent exam cycles, which indicates the NRSROs' greater awareness of applicable laws and their obligations as regulated entities.

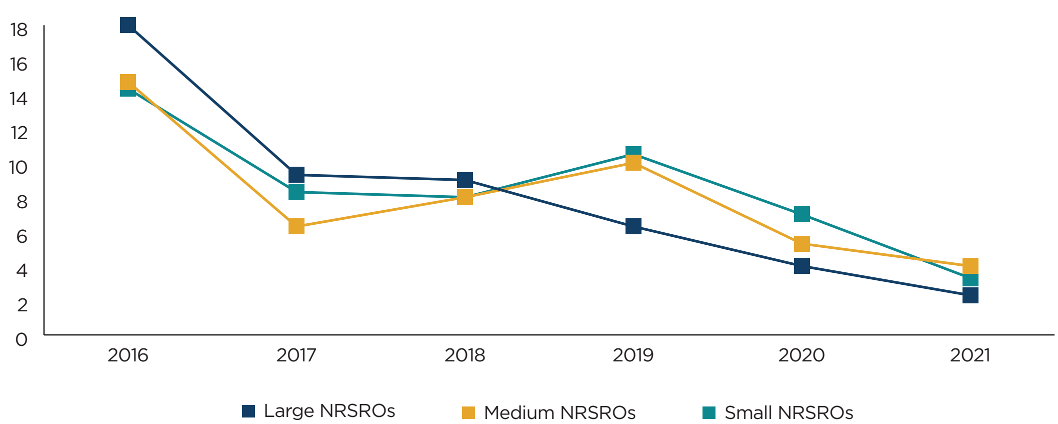
21 *See* note 21.

Chart 3. Number of Essential Findings by Section 15E Review Area: 2016 to 2021



From the Section 15E examinations conducted from 2016 to 2021, there were 147 essential findings for large NRSROs, 145 essential findings for medium NRSROs, and 195 essential findings for small NRSROs.[22] Chart 4 shows the average number of essential findings the large, medium, and small NRSROs for each examination cycle from 2016 to 2021. From 2016 to 2021, the large NRSROs had an average of 8.2 essential findings per exam cycle, the medium NRSROs had an average of 8.1 essential findings per exam cycle, and the small NRSROs had an average of 8.6 essential findings per exam cycle.

Chart 4. Average Number of Essential Findings by Large, Medium, and Small NRSROs: 2016 to 2021



22 The number of essential findings is based on the findings identified in prior summary reports of the Staff's examinations of NRSROs pursuant to Section 15E(p)(3). For purposes of this Section of the Report, MCR is considered a "small NRSRO" for the Section 15E examinations conducted in 2016, 2017, 2018, and 2019.

IV. STATE OF COMPETITION, TRANSPARENCY, AND CONFLICTS OF INTEREST

A. COMPETITION

1. Select NRSRO Statistics

Sections IV.A.1.a through 1.c below summarize and discuss certain information reported by NRSROs on Form NRSRO or pursuant to Rule 17g-3 that provides insight into the state of competition among NRSROs. While this information indicates that the large NRSROs continue to account for the highest percentages of outstanding ratings, the small and medium NRSROs continue to compete with the large NRSROs with each increasing its total number of ratings outstanding as compared to declines among two of the large NRSROs. The information also suggests that some medium NRSROs have gained ratings share in the asset-backed securities category. None of the small NRSROs is registered with the Commission in the asset-backed securities category.[23]

a. NRSRO Credit Ratings Outstanding

Each NRSRO annually reports not later than March 31st the number of credit ratings outstanding, as of the end of the preceding calendar year, in each rating category for which it is registered.[24] This information, for the calendar year ending December 31, 2020, is summarized in Charts 5 through 10 below and can be useful in determining the breadth of an NRSRO's coverage with respect to issuers, obligors, and securities or money market instruments within a particular rating category:

- Chart 5 depicts the number of credit ratings each NRSRO had outstanding in each rating category for which it was registered as of December 31, 2020.
- Chart 6 shows the percentage change of credit ratings outstanding from 2019 to 2020 for each NRSRO.

23 *See* Chart 1. As discussed in Section IV.A.2 of this Report, information available on the websites of *Commercial Mortgage Alert* (https://www.greenstreet.com/news/library/commercial-mortgage-alert) and *Asset-Backed Alert* (https://www.greenstreet.com/news/library/asset-backed-alert) regarding NRSRO market shares in the asset-backed securities category indicates that some of the medium NRSROs have developed significant market shares in such rating category over the past few years. In addition, Section IV.A.2 of this Report provides examples of certain asset classes in which it has been reported that medium NRSROs have gained market share.

24 Annual certifications on Form NRSRO must be filed with the Commission on EDGAR pursuant to Rule 17g-1(f) and made publicly available without cost on each NRSRO's website pursuant to Rule 17g-1(i). The number of outstanding credit ratings for each rating category for which an NRSRO is registered is reported on Item 7A of Form NRSRO.

- Chart 7 illustrates the relative size of each rating category based on the aggregate number of ratings reported outstanding by all NRSROs.
- Chart 8 shows the percentage change of credit ratings outstanding from 2019 to 2020 for large NRSROs compared to small and medium NRSROs across all rating categories.
- Chart 9 depicts the percentage of ratings each NRSRO had outstanding across all rating categories other than the government securities category.
- Chart 10 depicts the percentage of ratings each NRSRO had outstanding in the government securities category.

While comparing the number of ratings *outstanding* among NRSROs (Chart 5) illustrates one dimension of the current state of competition, comparing the number of ratings *issued* by such NRSROs in a given period provides a more real-time picture of competition among NRSROs. For example, certain NRSROs (particularly the large NRSROs) 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.[25] Consequently, the information described in Section IV.A.2 of this Report (relating to recent market share developments in the asset-backed securities rating category), which provides information about ratings issued each year since 2019, may provide additional insight regarding competition among the NRSROs in the asset-backed securities rating category.

There are additional limitations to assessing the state of competition in each rating category and in the aggregate based on the number of outstanding ratings. For instance, some NRSROs have pursued business strategies to specialize in particular rating categories or sub-categories.[26] Also, the reported information does not reflect any credit ratings being issued by NRSROs in rating categories 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, when reporting its outstanding ratings, each NRSRO makes its own determination of the applicable rating category into which each of its ratings falls. The classification of ratings into the five rating categories is not necessarily consistent across NRSROs.[27]

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25 The ratings counts disclosed on Item 7A of Form NRSRO include outstanding credit ratings, 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.

26 For example, AMB has traditionally focused on rating insurance companies and their affiliates.

27 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 were designed to help ensure that disclosures on Item 7A of Form NRSRO are consistent across NRSROs. *See Nationally Recognized Statistical Rating Organizations*, Release No. 34-72936 (Aug. 27, 2014), 79 FR 55078, 55220-22 (Sept. 15, 2014) ("2014 Adopting Release"), available at https://www.govinfo.gov/content/pkg/FR-2014-09-15/pdf/2014-20890.pdf (discussing the clarifying amendments to Item 7A of Form NRSRO). It may be more difficult to draw rating comparisons to rating counts disclosed prior to January 1, 2015.

Chart 5 provides the number of outstanding credit ratings reported by each NRSRO in its annual certification for the calendar year ending December 31, 2020, in each of the five rating categories identified in Section 3(a)(62)(A) for which the NRSRO is registered, as applicable, as well as the percentage change in total ratings for each NRSRO from 2019 to 2020.

Chart 6 provides a visual representation of the year-over-year changes in each firm's percentage share of the aggregate number of NRSRO ratings outstanding from 2019 to 2020.

Chart 5. Number of Outstanding Credit Ratings as of December 31, 2020 by Rating Category

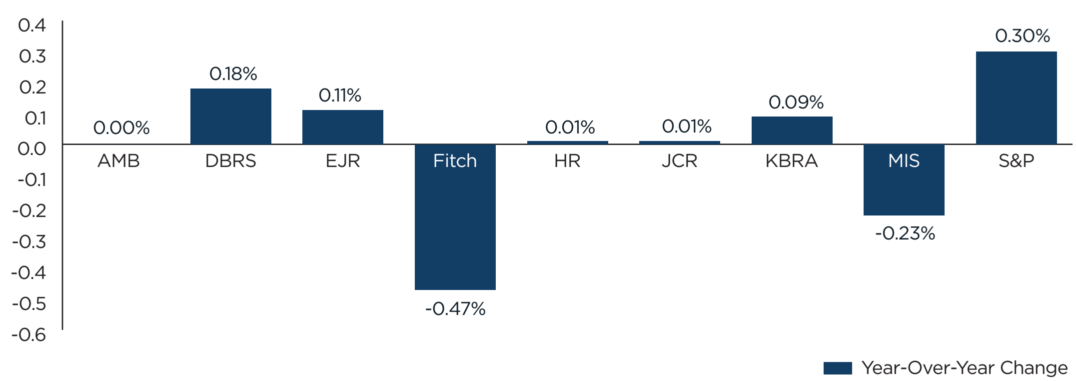
NRSRO	Financial Institutions	Insurance Companies	Corporate Issuers	Asset-Backed Securities	Government Securities	Total Ratings	Year-Over-Year Change in Total Ratings (2019 to 2020)
AMB	N/R	7,251	985	5	N/R	8,241	0.82%
DBRS	11,214	192	4,327	23,482	22,556	61,771	6.76%
EJR	10,119	975	9,339	N/R	N/R	20,433	13.81%
Fitch	33,440	3,198	20,318	34,108	177,665	268,729	-3.42%
HR	796	N/R	396	N/R	469	1,661	19.41%
JCR	950	86	2,971	N/R	348	4,355	4.61%
KBRA	1,326	132	224	14,470	141	16,293	13.52%
MIS	34,540	2,557	32,738	47,411	560,892	678,138	-0.52%
S&P	50,798	6,846	55,758	36,821	927,144	1,077,367	0.79%
Total	**143,183**	**21,237**	**127,056**	**156,297**	**1,689,215**	**2,136,988**	**0.20%**

N/R indicates that the NRSRO was not registered in the applicable rating category as of the reporting date.

Percentages have been rounded to the nearest one-hundredth of one percent.

Source: NRSRO annual certifications for the 2019 and 2020 calendar years, Item 7A on Form NRSRO.

Chart 6. Year-Over-Year Changes in Percentage Share of Total Number of Ratings Outstanding from 2019 – 2020



Percentages have been rounded to the nearest one-hundredth of one percent.

Source: NRSRO annual certifications for the 2019 and 2020 calendar years, Item 7A on Form NRSRO.

Chart 7 displays the percentage of each NRSRO's outstanding credit ratings of the total outstanding credit ratings of all NRSROs, for each rating category in which the NRSRO was registered, as reported by each NRSRO in its annual certification for the calendar year ending December 31, 2020, as well as the percentage increase or decrease in total ratings from 2019 to 2020.[28]

Chart 7. Percentage by Rating Category of Each NRSRO's Outstanding Credit Ratings of the Total Outstanding Credit Ratings of all NRSROs as of December 31, 2020

NRSRO	Financial Institutions	Insurance Companies	Corporate Issuers	Asset-Backed Securities	Government Securities	Total Ratings	Change in % of Total Ratings from 2019 to 2020
AMB	N/R	34.1%	0.8%	0.0%	N/R	0.4%	0.00%
DBRS	7.8%	0.9%	3.4%	15.0%	1.3%	2.9%	0.18%
EJR	7.1%	4.6%	7.4%	N/R	N/R	1.0%	0.11%
Fitch	23.4%	15.1%	16.0%	21.8%	10.5%	12.6%	-0.47%
HR	0.6%	N/R	0.3%	N/R	0.0%	0.1%	0.01%
JCR	0.7%	0.4%	2.3%	N/R	0.0%	0.2%	0.01%
KBRA	0.9%	0.6%	0.2%	9.3%	0.0%	0.8%	0.09%
MIS	24.1%	12.0%	25.8%	30.3%	33.2%	31.7%	-0.23%
S&P	35.5%	32.2%	43.9%	23.6%	54.9%	50.4%	0.30%

N/R indicates that the NRSRO was not registered in the applicable rating category as of the reporting date.

Percentages have been rounded to the nearest one-tenth of one percent and nearest one-hundredth of one percent with respect to the change from 2019 to 2020.

Source: NRSRO annual certifications for the 2019 and 2020 calendar years, Item 7A on Form NRSRO.

The large NRSROs accounted for 94.7% of all the ratings outstanding as of December 31, 2020—slightly lower than their 95.1% share as of December 31, 2019.[29] The share of outstanding credit ratings of the large NRSROs decreased in all five categories, most significantly in the financial institutions, corporate issuers, and asset-backed securities categories, which each decreased by at least 1.5 percentage points.

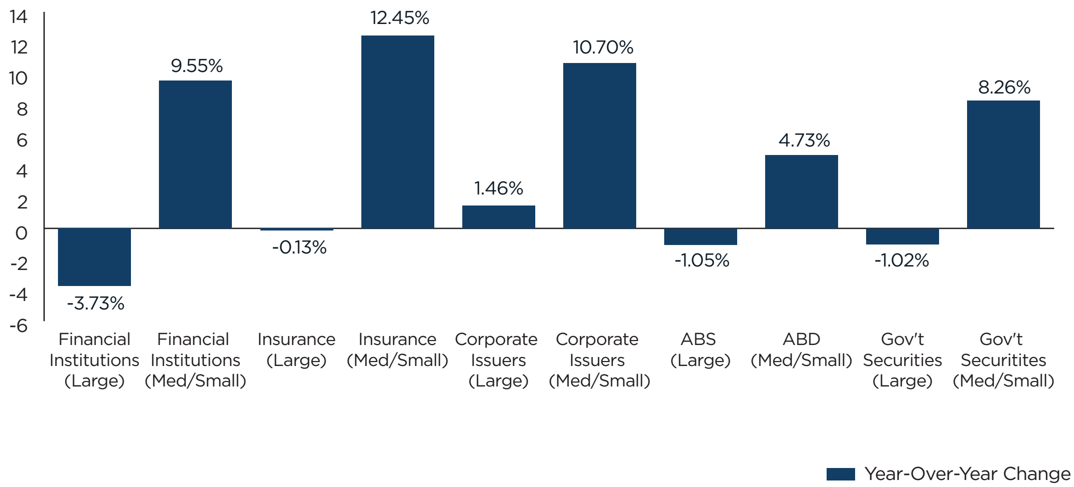
28 For example, according to Chart 5, AMB reported that it had 7,251 insurance company credit ratings, and the total of the credit ratings in that category reported by all NRSROs was 21,237. Therefore, the percentage of NRSRO insurance company ratings attributable to AMB was approximately 34.1% (i.e., 7,251 divided by 21,237, expressed as a percentage), as shown on Chart 7.

29 In 2007, the year when NRSROs began reporting outstanding ratings on Form NRSRO, the large NRSROs accounted for 98.8% of all outstanding ratings.

Charts 5 and 7 also show that AMB, one of the medium NRSROs, had the most credit ratings outstanding in the insurance category. In each of the past seven years, AMB reported that it had the most credit ratings outstanding in the insurance category.[30]

Chart 8 shows the percentage change of total ratings outstanding per asset class from 2019 to 2020 when comparing large NRSROs to small and medium NRSROs.

Chart 8. Percentage Change of Total Ratings Outstanding Per Asset Class 2019 to 2020 – Large NRSROs Compared to Small/Medium NRSROs



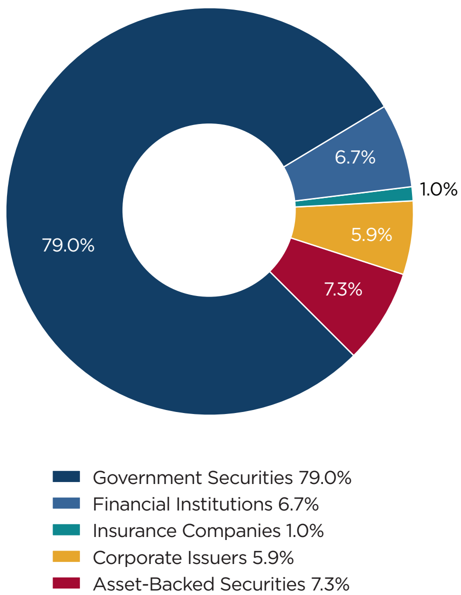
Percentages have been rounded to the nearest one-hundredth of one percent.

Source: NRSRO annual certifications for the 2019 and 2020 calendar years, Item 7A on Form NRSRO.

30 *See* Annual Reports for prior years, which can be found under "Annual Reports to Congress" in the "Reports and Studies" section of the OCR webpage, available at https://www.sec.gov/ocr/ocr-reports-and-studies.html.

Chart 9 depicts the percentages of outstanding credit ratings attributable to each rating category, as reported by the NRSROs in their annual certifications for the calendar year ending December 31, 2020.

Chart 9. Breakdown of Ratings Reported Outstanding by Rating Category as of December 31, 2020



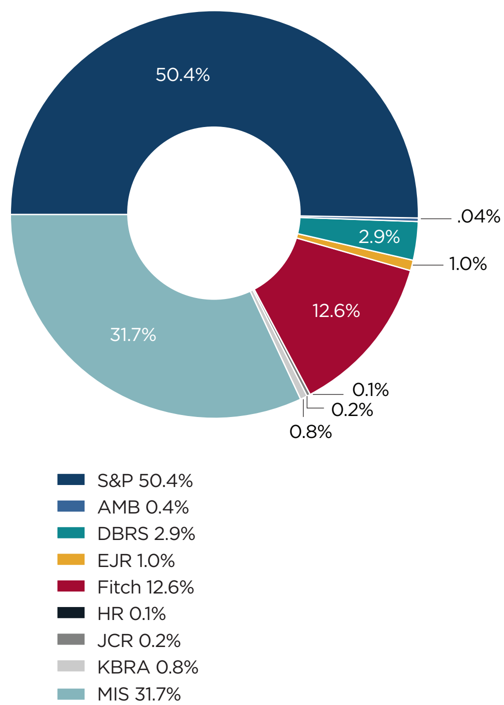
Percentages have been rounded to the nearest one-tenth of one percent.

Source: NRSRO annual certifications for the 2020 calendar year, Item 7A on Form NRSRO.

As illustrated by Chart 9, as of December 31, 2020, the largest proportion 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 (e.g., issuers of municipal securities) and their multiple debt offerings. The government securities category accounted for 79.0% of the total number of credit ratings reported across all categories and, as shown on Chart 7 and Chart 12, is also the most concentrated rating category, with the large NRSROs accounting for 98.6% of all outstanding government ratings.

Chart 10 depicts the percentages of the credit ratings outstanding that are attributable to each NRSRO over all the rating categories, as reported by each NRSRO in its annual certification for the calendar year ending December 31, 2020.

Chart 10. Breakdown of Ratings Reported Outstanding by NRSRO as of December 31, 2020

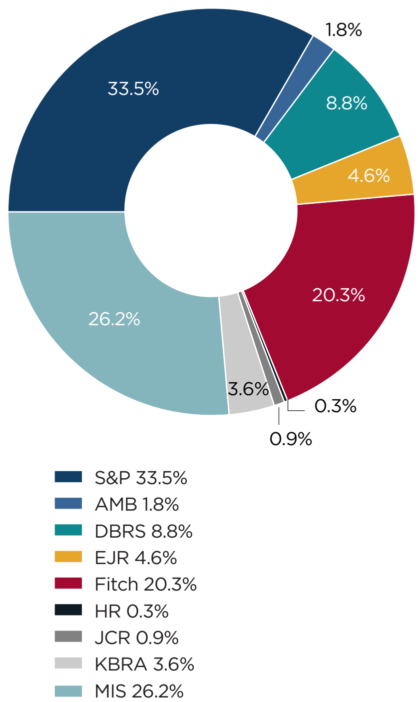


Percentages have been rounded to the nearest one-tenth of one percent.

Source: NRSRO annual certifications for the 2020 calendar year, Item 7A on Form NRSRO.

Chart 11 depicts the percentages of the credit ratings outstanding that are attributable to each NRSRO over all the rating categories other than the government securities category, as reported by each NRSRO in its annual certification for the calendar year ending December 31, 2020.

Chart 11. Breakdown of Non-Government Securities Ratings Reported Outstanding by NRSRO as of December 31, 2020

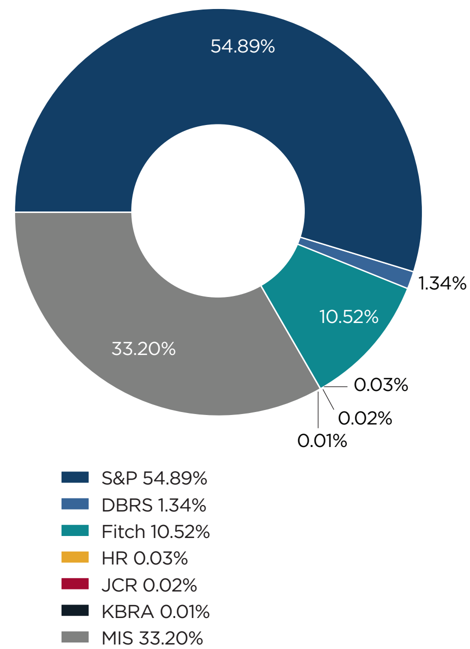


Percentages have been rounded to the nearest one-tenth of one percent.

Source: NRSRO annual certifications for the 2020 calendar year, Item 7A on Form NRSRO.

Chart 12 depicts the percentages of the credit ratings outstanding that are attributable to each applicable NRSRO in the government securities category, as reported by each NRSRO in its annual certification for the calendar year ending December 31, 2020.

Chart 12. Breakdown of Government Securities Ratings Reported Outstanding on December 31, 2020



Percentages have been rounded to the nearest one-hundredth of one percent.

This chart only includes the NRSROs that are registered in the government securities category.

Source: NRSRO annual certifications for the 2020 calendar year, Item 7A on Form NRSRO.

A comparison of Chart 10 to Chart 11 illustrates that there is less concentration in the non-government securities rating categories. S&P's and MIS's percentage share of all outstanding ratings declines by 16.9 and 5.5 percentage points, respectively, when government securities are excluded. Fitch's percentage share of outstanding ratings, on the other hand, increases by 7.8 percentage points when government securities are excluded. The percentage share for all the remaining NRSROs also increases when government securities are excluded. Chart 10 again shows that the government securities category makes up the largest number of credit ratings reported across all categories and is the most concentrated within the three large NRSROs.

Further, when government securities are included in the total calculation, each of the small and medium NRSROs, except for DBRS and EJR, has 1.0% or less of all outstanding ratings, making it difficult to assess their relative rating shares. When government securities are excluded, a clearer picture of the relative percentage shares of the small and medium NRSROs in the categories in which they are active can be observed, as illustrated in Chart 11. The percentage share of each small and medium NRSRO for all rating categories other than government securities as of December 31, 2020 did not change significantly compared to its percentage share as of December 31, 2019.[31]

b. NRSRO Analytical Staffing Levels

Chart 13 reports the number of credit analysts (including credit analyst supervisors) and the number of credit analyst supervisors employed by each of the NRSROs, as reported on Exhibit 8 to Form NRSRO.[32]

Chart 13. NRSRO Credit Analysts and Credit Analyst Supervisors

NRSRO	Credit Analysts (Including Credit Analyst Supervisors)	Credit Analyst Supervisors	% Change in Analytical Staff (Including Supervisors) from 2019 to 2020
AMB	160	62	3.9%
DBRS	428	131	-9.9%
EJR	25	12	8.7%
Fitch	1,301	331	1.9%
HR	63	10	21.2%
JCR	62	30	0.0%
KBRA	176	54	2.3%
MIS	1,830	271	5.7%
S&P	1,560	122	0.1%
Total	**5,605**	**1,023**	**1.8%**

Percentages have been rounded to the nearest one-tenth of one percent.

Source: Exhibit 8 to Form NRSRO, in effect as of each NRSRO's annual certification for the 2020 calendar year filed on or before March 31, 2021.

31 A comparison of Chart 11 in this Report with Chart 5 in Section IV.A.1 of the December 2020 Annual Report (available at https://www.sec.gov/files/2020-annual-report-on-nrsros.pdf) shows that each small and medium NRSRO's total non-government market share as of December 31, 2020 remained constant or increased modestly compared to the market shares as of December 31, 2019.

32 Effective January 1, 2015, the Instructions for Exhibit 8 to 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. *See* 2014 Adopting Release, 79 FR at 55222 (discussing the clarifying amendments to Exhibit 8 of Form NRSRO).

The large NRSROs report employing 4,691 credit analysts (including supervisors), which is approximately 83.7% of the total number employed by all of the NRSROs. The small and medium NRSROs, in the aggregate, employ approximately 16.3% of all credit analysts employed by NRSROs.[33] Some of the small NRSROs have reported significant increases in their analytical staff. Between the 2019 and 2020 calendar years, the number of credit analysts (including credit analyst supervisors) employed by small NRSROs, in the aggregate, increased 9.5%, compared to an increase of 2.7% at the large NRSROs, in the aggregate. Between the 2019 and 2020 calendar years, the number of credit analysts (including credit analyst supervisors) employed by medium NRSROs, in the aggregate, decreased 4.6%.[34]

c. NRSRO Revenue

Chart 14 shows the percentage of total NRSRO revenues since 2017 attributable to the large NRSROs, medium NRSROs, and small NRSROs.[35] With the exception of fiscal year 2020, the percentage of aggregate NRSRO revenue reported by the large NRSROs has gradually declined over this time period and the percentage of total revenue reported by the medium and small NRSROs has correspondingly gradually increased.

Chart 14. NRSRO Fiscal Year Revenue as a Percentage of Aggregate Reported Revenue

	2020	2019	2018	2017
Large NRSROs	94.1%	93.3%	93.5%	94.1%
Medium NRSROs	5.1%	5.9%	5.8%	5.3%
Small NRSROs	0.8%	0.8%	0.7%	0.6%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Percentages have been rounded to the nearest one-tenth of one percent.

Source: Financial reports filed with the Commission under Rule 17g-3(a)(3) for the fiscal years ended 2017 through 2020. For the preparation of this Report, if an NRSRO reported revenue in a foreign currency, the revenue was converted to U.S. dollars using the average exchange rate over all U.S. banking days in the fiscal year of such NRSRO.

33 Based on reports by the NRSROs on their annual certifications for the applicable calendar year, the small and medium NRSROs, in the aggregate, employed approximately 11.4% of all NRSRO analysts in 2014, 12.8% of all NRSRO analysts in 2015, 14.6% of all NRSRO analysts in 2016, 15.2% of all NRSRO analysts in 2017, 15.4% of all NRSRO analysts in 2018, and 17.0% of all NRSRO analysts in 2019.

34 As described in the December 2020 Annual Report, in 2019, DBRS and MCR combined analytical operations following a corporate combination. Prior to the combination, the two NRSROs had reported a total of 515 analysts as of December 31, 2019. At the end of 2019, the combined entity had a total of 475 analysts. At the end of 2020, the combined entity had a total of 428 analysts. The reduction in analytical staff at the combined entity may be the primary driver behind the overall reduction among the medium-sized NRSROs.

35 Under Rule 17g-3(a)(3), each NRSRO is required to file annually with the Commission an unaudited report providing revenue information, including revenue from determining and maintaining credit ratings, revenue from subscribers, revenue from granting licenses or rights to publish credit ratings, and revenue from other services and products. These reports are not required to be made publicly available by the NRSROs.

Further revenue information is available for NRSROs that are owned, in whole or in part, by public companies. The following information is from the 2020 annual reports of public companies with an ownership interest in an NRSRO:

- Moody's Corporation, which is MIS's parent company, reported a 15% increase in external revenue at MIS compared to 2019 results. The increase, according to the report, was largely driven by higher corporate debt issuance (both investment-grade and high-yield) as issuers bolstered liquidity positions in response to COVID-19 uncertainties and issued opportunistically for refinancing needs. The corporate finance group, financial institutions group, and public, project and infrastructure finance group of MIS had an increase in revenue compared to 2019 results. In comparison, the structured finance group of MIS had a decrease in revenue compared to 2019 results.[36]
- S&P Global Inc. (S&P Global), which is S&P's parent company, indicated that revenue at S&P increased by 16% compared to its 2019 results, due to an increase in transaction revenue. S&P Global attributed the increase in S&P's revenue to an increase in corporate bond ratings revenue primarily driven by higher corporate bond issuance in the U.S. mainly resulting from borrowers' need for increased liquidity in light of the COVID-19-related economic downturn, historically low borrowing costs, and central bank lending actions initially announced at the end of the first quarter of 2020. This was partially offset by a decrease in bank loan ratings revenue and structured finance revenues.[37]

36 *See* Moody's Corporation, Annual Report on Form 10-K for the year ended December 31, 2020, available at https://www.sec.gov/ix?doc=/Archives/edgar/data/1059556/000105955621000010/mco-20201231.htm.

37 *See* S&P Global Inc., Annual Report on Form 10-K for the year ended December 31, 2020, available at https://www.sec.gov/ix?doc=/Archives/edgar/data/64040/000006404021000063/spgi-20201231.htm.

- Morningstar, Inc. (Morningstar), which is DBRS's parent company, reported that for the year ended December 31, 2020, DBRS's revenue was $207.3 million, accounting for 14.9% of Morningstar's consolidated revenue. Morningstar reported that its transaction-based revenue grew 49.2% during 2020, primarily driven by the contribution of DBRS—approximately 59.9% of the revenue generated by DBRS came from one-time, transaction-based fees driven by its provision of ratings on newly issued securities, with the remainder comprised of recurring revenue from surveillance, credit research, or other services. Morningstar attributed strong Canadian corporate credit issuances as the primary driver of DBRS's revenue growth for 2020.[38]

Recent regulatory filings also show increases in revenue at MIS and S&P in the first half of 2021. Moody's Corporation reported a 16% increase in MIS external revenue in the first half of 2021, as compared to the first half of 2020, due to strong growth mainly driven by leveraged finance issuance as issuers refinanced existing debt and funded M&A activity, and increased CLO and commercial mortgage-backed securities (CMBS) activity amid favorable market conditions.[39] S&P Global reported a 14% increase in S&P transaction revenue in the first half of 2021, as compared to the first half of 2020, due to an increase in bank loan ratings revenue driven by increased M&A activity and an increase in structured finance revenue primarily driven by increased issuance of U.S. CLOs, partially offset by a decrease in corporate bond ratings revenue driven by decreased investment-grade issuance volumes.[40]

Morningstar, Inc. reported a 29.4% increase in DBRS revenue in the first half of 2021, as compared to the first half of 2020, due to stronger issuance activity in both commercial mortgage-backed and asset-backed securities, which offset lower issuance activity in the Canadian corporate markets. Recurring annual fees tied to surveillance, research, and other transaction-related services represented 36.5% of DBRS's revenue in the first six months of 2021.[41]

38 *See* Morningstar, Inc., Annual Report on Form 10-K for the year ended December 31, 2020, available at https://www.sec.gov/ix?doc=/Archives/edgar/data/1289419/000128941921000039/morn-20201231.htm.

39 *See* Moody's Corporation, Quarterly Report on Form 10-Q for the period ended June 30, 2021, available at https://www.sec.gov/ix?doc=/Archives/edgar/data/0001059556/000105955621000025/mco-20210630.htm.

40 *See* S&P Global Inc., Quarterly Report on Form 10-Q, for the period ended June 30, 2021, available at https://www.sec.gov/ix?doc=/Archives/edgar/data/64040/000006404021000155/spgi-20210630.htm.

41 *See* Morningstar, Inc., Quarterly Report on Form 10-Q for the period ended June 30, 2021, available at https://www.sec.gov/ix?doc=/Archives/edgar/data/1289419/000128941921000186/morn-20210630.htm.

2. Developments in the State of Competition Among NRSROs

a. Market Share Observations in the Asset-Backed Securities Rating Category

As noted in Section IV.A.1.a of this Report, the number of ratings recently issued by NRSROs may give a clearer picture of competition than the number of ratings each NRSRO currently has outstanding. For example, Chart 7 indicates that, as of December 31, 2020, the medium NRSROs collectively had 24.3% of the ratings outstanding in the asset-backed securities rating category. However, the market share data discussed in this Section IV.A.2[42] shows that higher market share percentages have been obtained by medium NRSROs in recent years for ratings issuance with respect to certain types of asset-backed securities.

This market share data continues the growth trend the Staff has observed since 2011 for some medium NRSROs in the asset-backed securities rating category.[43]

Section IV.A.2.a.i and 2.a.ii below discuss NRSRO market share information with respect to certain asset-backed securities, as reported on the *Commercial Mortgage Alert* and *Asset-Backed Alert* websites.[44] *Commercial Mortgage Alert* shares information on one category of asset-backed securities: CMBS.[45] *Asset-Backed Alert* reports NRSRO market share information on three categories of asset-backed securities: (i) ABS;[46] (ii) MBS;[47] and (iii) CLO.[48]

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42 Unless noted otherwise, all market share percentages in this Section IV.A.2 are based on dollar amounts of issuance. The information in this Section IV.A.2 is from the *Asset-Backed Alert*'s ABS database as of July 26, 2021.

43 EJR, HR, and JCR are not registered with the Commission in the asset-backed securities category. *See* Chart 1. While AMB is registered to rate asset-backed securities, as shown in Chart 5, it only has five outstanding asset-backed securities ratings as of December 31, 2020, all of which were issued before 2019. For these reasons, this section only discusses observations related to DBRS, Fitch, KBRA, MIS, and S&P, which are the five NRSROs with current rating activity in the asset-backed securities category.

44 *See Commercial Mortgage Alert* website, available at https://www.greenstreet.com/news/library/commercial-mortgage-alert and *Asset-Backed Alert* website, available at https://www.greenstreet.com/news/library/asset-backed-alert. The information in Charts 15 through 18 is based on the *Commercial Mortgage Alert*'s CMBS database as of July 26, 2021, and the information in Charts 19 through 21 is based on the *Asset-Backed Alert*'s ABS database as of July 26, 2021. Although the information available on these websites may provide insight into recent developments regarding the state of competition among NRSROs in the asset-backed securities rating category, it has certain limitations. For instance, the information treats each transaction as one undivided whole. An NRSRO is counted as having rated a transaction, and the aggregate amount of securities issued, even if the NRSRO rated only a portion of it.

45 The "CMBS" category is comprised of transactions collateralized by mortgages or leases on commercial or multi-family income-producing properties (excluding commercial real estate collateralized debt obligations). *See Commercial Mortgage Alert* website, available at https://www.greenstreet.com/news/library/commercial-mortgage-alert.

46 The "ABS" category is comprised of securities that are collateralized by assets other than the following: CMBS; MBS; Fannie Mae and Freddie Mac issues (other than risk transfer transactions); issuances by municipalities; tax exempt issues; issues that are fully retained by an affiliate of the deal sponsor; commercial paper and other continuously offered securities such as medium-term notes; CLOs and other collateralized debt obligations; and refinancing of previously offered securities. *See Asset-Backed Alert* website, available at https://www.greenstreet.com/news/library/asset-backed-alert.

47 The "MBS" category is comprised of securities secured by U.S. first-lien mortgages on residential properties (excluding Fannie Mae and Freddie Mac issues, securities secured by non-performing or re-performing mortgages, subprime mortgages, or mortgages financing single-family rental businesses, and refinancings of previously offered securities). *See id*.

48 The "CLO" category is comprised of arbitrage collateralized loan obligations secured by broadly syndicated corporate loans and middle market collateralized loan obligations secured by loans to small to medium sized enterprises. *See id*.

i. CMBS

Charts 15 through 18 provide information concerning U.S.[49] CMBS ratings by NRSROs,[50] as reported in *Commercial Mortgage Alert*. NRSRO market share varies between the conduit CMBS and single-borrower CMBS segments,[51] the two segments that account for most of the non-agency[52] U.S. CMBS transactions rated by NRSROs. The charts include reported market share information for total non-agency U.S. CMBS transactions,[53] U.S. conduit CMBS transactions, U.S. single-borrower CMBS transactions, and agency CMBS transactions[54] for calendar year 2019, calendar year 2020, and the first half of calendar year 2021.

49 *See id*. References to "U.S." CMBS, MBS, ABS, and CLO issuance and market shares in this Section IV.A.2 reflect securities issued for sale primarily in the U.S., which include securities issued publicly and those issued under Rule 144A under the Securities Act of 1933 (the "Securities Act"). *Commercial Mortgage Alert* website, available at https://www.greenstreet.com/news/library/commercial-mortgage-alert.

50 For purposes of Charts 15 through 18, all rating activity for pre-integration DBRS, MCR, and DBRS has been aggregated and presented for DBRS for calendar year 2019. Please refer to the December 2020, January 2020, and December 2018 Annual Reports for information for pre-integration DBRS and MCR, which can be found under "Annual Reports to Congress" in the "Reports and Studies" section of the OCR webpage, available at https://www.sec.gov/ocr/ocr-reports-and-studies.html.

51 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 or purchases loans from third party correspondents under standardized underwriting parameters and once sufficient volume has accumulated, pools the loans for sale to investors in the CMBS market. *See* https://www.crefc.org/uploadedFiles/Site_Framework/Industry_Resources/Glossary%20Revised%202014%20-Update.pdf. In contrast, a single-borrower transaction includes commercial mortgage loans made to a single borrower.

52 "Non-agency" CMBS refers to CMBS that are not issued or guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae. "Agency" CMBS generally refers to CMBS that are issued or guaranteed by such entities.

53 Total U.S. CMBS transactions include conduit CMBS, single-borrower CMBS, and other types of CMBS, such as distressed/non-performing CMBS transactions and re-securitizations of CMBS transactions.

54 Only agency CMBS transactions with a rating from one or more NRSROs are included for determining NRSRO market share in the agency CMBS category. *See Commercial Mortgage Alert* website, available at https://www.greenstreet.com/news/library/commercial-mortgage-alert.

Chart 15. Rating Agency Market Share for Total Non-Agency U.S. CMBS Issued in 2019, 2020, and First Half of 2021

1H-2021 Rank	NRSRO	1H-2021 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)	2020 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)	2019 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)
1	Fitch	31,114	27	68.1/45.8	38,037	46	64.2/52.3	56,048	66	57.3/46.2
2	KBRA	23,053	20	50.4/33.9	25,825	32	43.6/36.4	45,924	56	47.0/39.2
3	DBRS	18,350	25	40.1/42.4	21,893	34	36.9/38.6	42,425	56	43.4/39.2
4	MIS	16,409	21	35.9/35.6	25,076	42	42.3/47.7	42,184	55	43.1/38.5
5	S&P	15,927	23	34.8/39.0	23,275	27	39.3/30.7	49,634	70	50.8/49.0
	Total Rated Market	**45,722**	**59**		**59,254**	**88**		**97,767**	**143**	

Chart 15 reflects market share percentages based on dollar amounts of issuance and number of deals rated. The sum of the market share percentages exceeds 100% because more than one NRSRO may rate a particular transaction. Likewise, the aggregate issuance volume and number of deals represented above exceed the Total Rated Market values for each time period.

Source: Based on information from the *Commercial Mortgage Alert*'s CMBS database as of July 26, 2021, available at https://www.greenstreet.com/news/library/commercial-mortgage-alert. For calendar year 2019, the Staff has adjusted the presentation of the information by aggregating individual pre-integration DBRS and MCR information to present the information consistently as a combined entity, DBRS. *See* note 43.

Chart 16. Rating Agency Market Share for U.S. Conduit CMBS Issued in 2019, 2020, and First Half of 2021

1H-2021 Rank	NRSRO	1H-2021 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)	2020 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)	2019 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)
1	Fitch	15,184	16	100.0/100.0	26,953	30	100.0/100.0	49,154	52	100.0/100.0
2	KBRA	12,244	13	80.6/81.3	17,400	20	64.6/66.7	32,755	36	66.6/69.2
3	S&P	11,409	11	75.1/68.8	14,769	14	54.8/46.7	35,582	36	72.4/69.2
4	DBRS	4,305	4	28.4/25.0	9,553	10	35.4/33.3	18,318	18	37.2/34.6
5	MIS	2,560	3	16.9/18.8	11,457	15	42.5/50.0	14,836	17	30.2/32.7
	Total Rated Market	**15,184**	**16**		**26,953**	**30**		**49,154**	**52**	

Chart 16 reflects market share percentages based on dollar amounts of issuance and number of deals rated. The sum of the market share percentages exceeds 100% because more than one NRSRO may rate a particular transaction. Likewise, the aggregate issuance volume and number of deals represented above exceed the Total Rated Market values for each time period.

Source: Based on information from the *Commercial Mortgage Alert*'s database as of July 26, 2021, available at https://www.greenstreet.com/news/library/commercial-mortgage-alert. For calendar year 2019, the Staff has adjusted the presentation of the information by aggregating individual pre-integration DBRS and MCR information to present the information consistently as a combined entity, DBRS. *See* note 43.

Chart 17. Rating Agency Market Share for U.S. Single-Borrower CMBS Issued in 2019, 2020, and First Half of 2021

1H-2021 Rank	NRSRO	1H-2021 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)	2020 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)	2019 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)
1	Fitch	15,930	11	52.2/25.6	8,582	12	36.1/25.5	6,894	14	15.0/16.9
2	DBRS	14,045	21	46.0/48.8	10,108	20	42.5/42.6	23,368	35	50.7/42.2
3	MIS	13,849	18	45.4/41.9	11,388	23	47.9/48.9	26,518	36	57.6/43.4
4	KBRA	10,809	7	35.4/16.3	7,231	9	30.4/19.1	12,506	18	27.2/21.7
5	S&P	4,517	12	14.8/27.9	3,154	8	13.3/17.0	12,638	30	27.4/36.1
	Total Rated Market	**30,537**	**43**		**23,776**	**47**		**46,060**	**83**	

Chart 17 reflects market share percentages based on dollar amounts of issuance and number of deals rated. The sum of the market share percentages exceeds 100% because more than one NRSRO may rate a particular transaction. Likewise, the aggregate issuance volume and number of deals represented above exceed the Total Rated Market values for each time period.

Source: Based on information from the *Commercial Mortgage Alert*'s CMBS database as of July 26, 2021, available at https://www.greenstreet.com/news/library/commercial-mortgage-alert. For calendar year 2019, the Staff has adjusted the presentation of the information by aggregating individual pre-integration DBRS and MCR information to present the information consistently as a combined entity, DBRS. *See* note 43.

Chart 18. Rating Agency Market Share for Agency CMBS Issued in 2019, 2020, and First Half of 2021

1H-2021 Rank	NRSRO	1H-2021 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)	2020 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)	2019 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)
1	Fitch	12,275	10	100.0/100.0	26,820	21	90.9/91.3	16,767	12	59.2/60.0
2	DBRS	8,954	7	72.9/70.0	15,011	12	50.9/52.2	15,995	11	56.5/55.0
3	KBRA	3,322	3	27.1/30.0	14,480	11	49.1/47.8	12,311	9	43.5/45.0
4	MIS	0	0	0.0/0.0	2,671	2	9.1/8.7	5,862	4	20.7/20.0
5	S&P	0	0	0.0/0.0	0	0	0.0/0.0	5,677	4	20.1/20.0
	Total Rated Market	**12,275**	**10**		**29,491**	**23**		**28,306**	**20**	

Chart 18 reflects market share percentages based on dollar amounts of issuance and number of deals rated. The sum of the market share percentages exceeds 100% because more than one NRSRO may rate a particular transaction. Likewise, the aggregate issuance volume and number of deals represented above exceed the Total Rated Market values for each time period.

Source: Based on information from the *Commercial Mortgage Alert's* CMBS database as of July 26, 2021, available at https://www.greenstreet.com/news/library/commercial-mortgage-alert. For calendar year 2019, the Staff has adjusted the presentation of the information by aggregating individual pre-integration DBRS and MCR information to present the information consistently as a combined entity, DBRS. *See* note 43.

Charts 15 through 17 show that in 2019, 2020, and the first half of 2021 the large NRSROs generally held a large percentage of the market shares in rating non-agency U.S. CMBS transactions, but DBRS and KBRA have achieved significant market shares as well.[55]

As illustrated in Chart 15, in the first half of 2021, KBRA and DBRS had the second and third-highest market shares, respectively, in the non-agency U.S. CMBS segment. KBRA has consistently attained a market share of at least 43% in each of 2019, 2020, and the first half of 2021, and DBRS has attained a market share of over 36% during the same time period.

The relative size of the U.S. conduit CMBS segment had been about half of the non-agency U.S. CMBS transactions in 2019 and 2020. In the first half of 2021, the U.S. conduit segment accounted for about a third of all non-agency U.S. CMBS transactions.[56] Fitch has continued to maintain market share in the U.S. conduit CMBS segment.

As illustrated in Chart 16, Fitch had the highest market share, measured by dollar value of issuance, in this segment during 2019, 2020, and the first half of 2021, rating all of the transactions over that period. KBRA had the third-highest market share, measured by dollar value of issuance, in the U.S. conduit CMBS segment in 2019, and the second-highest ranking in 2020 and the first half of 2021. In each of 2017, 2018, 2019, 2020, and the first half of 2021, KBRA has rated more than half of these transactions.

The relative size of the U.S. single-borrower segment was over 40% of the non-agency U.S. CMBS transactions in 2019 and 2020. In the first half of 2021, the U.S. single-borrower segment accounted for about two-thirds of all non-agency U.S. CMBS transactions.[57] DBRS gained market share in this segment, achieving the second highest market share in the first half of 2021, rating twenty-one of the forty-three transactions in the segment.

55 Non-agency U.S. CMBS issuance came to a near halt in March 2020 because of COVID-19. Issuance began to pick-up in the third and fourth quarters of 2020, but overall issuance in 2020 was down nearly 40% from 2019 due to COVID-19 and the resulting economic impact. *See* S&P Loses to Moody's, *Commercial Mortgage Alert*, Jan. 22, 2021; CMBS Issuance Off 27% Year-Over-Year, *Commercial Mortgage Alert*, Oct. 2, 2020. Non-agency U.S. CMBS issuance continued to grow in the first half of 2021, with U.S. conduit CMBS transactions accounting for approximately 33% and U.S. single-borrower transactions accounting for 67%. *See* CMBS, CLO Issuers Prep for Busier 2nd Half, *Commercial Mortgage Alert*, July 9, 2021.

56 U.S. conduit CMBS issuance has resumed, albeit more slowly than other non-agency U.S. CMBS segments, because it takes more time and effort than it did before COVID-19 to aggregate enough collateral for a transaction—investors continue to shy away from offerings that are backed by more than minimal amounts of loans on hotel and retail properties, which have suffered as a result of COVID-19. *See* CMBS, CLO Issuers Prep for Busier 2nd Half, *Commercial Mortgage Alert*, July 9, 2021; Election Day Looms Large for CMBS Issuers, *Commercial Mortgage Alert*, Oct. 2, 2020.

57 U.S. single-borrower sector issuance resumed in the third quarter of 2020 and continued to grow in the first half of 2021 as lenders and investors have been attracted to securitizations of large loans tied to prominent borrowers and/or significant properties and portfolios during COVID-19. *See* CMBS, CLO Issuers Prep for Busier 2nd Half, *Commercial Mortgage Alert*, July 9, 2021; Election Day Looms Large for CMBS Issuers, *Commercial Mortgage Alert*, Oct. 2, 2020.

As illustrated in Chart 18, Fitch has continued to improve its market share in the agency CMBS segment. Fitch had the highest market share in this segment during 2019, 2020, and the first half of 2021. Over the same period, DBRS and KBRA had the second and third-highest market shares, respectively, in the agency CMBS segment.

ii. ABS/MBS/CLO

Charts 19 through 21 provide information concerning U.S. ABS, U.S. MBS, and U.S. CLO ratings by NRSROs,[58] as reported in *Asset-Backed Alert*. The charts include reported market share information for these transactions for calendar years 2019, calendar year 2020, and the first half of calendar year 2021.

Chart 19. Rating Agency Market Shares for U.S. ABS Issued in 2019, 2020, and First Half of 2021

1H-2021 Rank	NRSRO	1H-2021 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)	2020 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)	2019 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)
1	S&P	92,741	148	49.5/45.7	159,396	239	58.3/47.9	193,378	317	57.6/53.9
2	MIS	88,584	97	47.3/29.9	114,383	157	41.8/31.5	143,742	203	42.8/34.5
3	Fitch	63,954	85	34.1/26.2	109,286	151	40.0/30.3	151,090	192	45.0/32.7
4	DBRS	61,933	111	33.1/34.3	76,121	168	27.8/33.7	107,086	201	31.9/34.2
5	KBRA	40,538	108	21.6/33.3	50,228	137	18.4/27.5	64,909	177	19.3/30.1
	Total Rated Market	**187,300**	**324**		**273,360**	**499**		**335,931**	**588**	

Chart 19 reflects market share percentages based on dollar amounts of issuance and number of deals rated. The sum of the market share percentages exceeds 100% because more than one NRSRO may rate a particular transaction. Likewise, the aggregate issuance volume and number of deals represented above exceed the Total Rated Market values for each time period.

Source: Based on information from the *Asset-Backed Alert*'s ABS database as of July 26, 2021, available at https://www.greenstreet.com/news/library/asset-backed-alert. For calendar year 2019, the Staff has adjusted the presentation of the information by aggregating individual pre-integration DBRS and MCR information to present the information consistently as a combined entity, DBRS. *See* note 51.

58 For purposes of Charts 19 through 21, all rating activity for pre-integration DBRS, MCR, and DBRS has been aggregated and presented for DBRS for calendar year 2019. Please refer to the December 2020, January 2020, and December 2018 Annual Reports for information for pre-integration DBRS and MCR, which can be found under "Annual Reports to Congress" in the "Reports and Studies" section of the OCR webpage, available at https://www.sec.gov/ocr/ocr-reports-and-studies.html.

Chart 20. Rating Agency Market Shares for U.S. MBS Issued in 2019, 2020, and First Half of 2021

1H-2021 Rank	NRSRO	1H-2021 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)	2020 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)	2019 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)
1	Fitch	21,920	48	68.1/66.7	14,755	46	48.9/57.5	8,664	29	31.0/38.2
2	MIS	21,861	39	67.9/54.2	14,642	31	48.6/38.8	19,074	44	68.3/57.9
3	KBRA	9,051	22	28.1/30.6	10,576	25	35.1/31.3	13,126	33	47.0/43.4
4	DBRS	3,092	7	9.6/9.7	10,810	24	35.9/30.0	11,679	26	41.8/34.2
5	S&P	2,306	6	7.2/8.3	2,756	8	9.1/10.0	2,433	5	8.7/6.6
	Total Rated Market	**32,203**	**72**		**30,148**	**80**		**27,941**	**76**	

Chart 20 reflects market share percentages based on dollar amounts of issuance and number of deals rated. The sum of the market share percentages exceeds 100% because more than one NRSRO may rate a particular transaction. Likewise, the aggregate issuance volume and number of deals represented above exceed the Total Rated Market values for each time period.

Source: Based on information from the *Asset-Backed Alert*'s ABS database as of July 26, 2021, available at https://www.greenstreet.com/news/library/asset-backed-alert. For calendar year 2019, the Staff has adjusted the presentation of the information by aggregating individual pre-integration DBRS and MCR information to present the information consistently as a combined entity, DBRS. *See* note 51.

Chart 21. Rating Agency Market Shares for U.S. CLO Issued in First Half of 2019, 2020, and First Half of 2021

1H-2021 Rank	NRSRO	1H-2021 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)	2020 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)	2019 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)
1	S&P	56,824	119	66.9/68.0	81,589	193	87.0/86.2	73,791	152	60.1/58.5
2	MIS	31,746	65	37.4/37.1	18,890	45	20.1/20.1	73,538	155	59.9/59.6
3	Fitch	16,878	34	19.9/19.4	32,815	72	35.0/32.1	79,889	166	65.1/63.8
4	KBRA	6,066	12	7.1/609	3,541	10	3.8/4.5	5,678	13	4.6/5.0
5	DBRS	2,588	3	3.0/1.7	330	1	0.4/0.4	3,424	8	2.8/3.1
	Total Rated Market	**84,983**	**175**		**93,785**	**224**		**122,716**	**260**	

Chart 21 reflects market share percentages based on dollar amounts of issuance and number of deals rated. The sum of the market share percentages exceeds 100% because more than one NRSRO may rate a particular transaction. Likewise, the aggregate issuance volume and number of deals represented above exceed the Total Rated Market values for each time period.

Source: Based on information from the *Asset-Backed Alert*'s ABS database as of July 26, 2021, available at https://www.greenstreet.com/news/library/asset-backed-alert. For calendar year 2019, the Staff has adjusted the presentation of the information by aggregating individual pre-integration DBRS and MCR information to present the information consistently as a combined entity, DBRS. *See* note 51.

Chart 19 shows that DBRS and KBRA have built and maintained significant U.S. ABS rating market shares.[59] DBRS has consistently attained a market share of over 27% in each of 2019, 2020, and the first half of 2021, and KBRA has attained a market share of over 18% during the same time period.[60] For example, DBRS has been able to gain market share in rating more traditional types of asset-backed securities (aside from the MBS and CMBS categories). As another example, DBRS rated 95.1% of the transactions backed by student loans that priced during the first half of 2021.[61] DBRS also rated 34.1% of the transactions backed by credit card transactions (one of the larger classes of asset-backed securities) that priced during the first half of 2021.[62] DBRS has also been able to gain market share in auto-related asset-backed securities, rating 55.7% of the auto-fleet lease transactions, 22.2% of the subprime auto loan transactions, 5.6% of the prime auto loan transactions, and 19.0% of the auto lease transactions that priced during the first half of 2021.[63] KBRA has also established a market share in some of these auto-related asset-backed security categories, rating 32% of the subprime auto loan transactions and 3% of the prime auto loan transactions that priced during the first half of 2021.[64] Chart 20 shows that the highest market shares for the U.S. MBS segment have been achieved by two of the large NRSROs. KBRA and DBRS had achieved market shares of over 40% in this segment in 2019, but have since seen their market share decrease in 2020 and the first half of 2021. DBRS and KBRA have, however, achieved notable market share in certain types of residential mortgage-backed securities not included in Chart 20. For example, DBRS rated 69% of the

59 *See also* Section IV.A.2 of this Report for a discussion of additional ABS asset classes where these two NRSROs have reported success in gaining market share.

60 There was a significant reduction in U.S. ABS issuance volume in the second quarter of 2020 as COVID-19 caused vast financial market disruptions. Issuance began to resume in the third quarter of 2020, but overall U.S. ABS issuance in 2020 was down nearly 19% from 2019 due to COVID-19. *See* After Bleak Year, Pros Eye Issuance Rebound, *Asset-Backed Alert*, Jan. 8, 2021; Worldwide Issuance Rebound Falling Flat, Asset-Backed Alert, Oct. 2, 2020. U.S. ABS issuance has been strong in the first half of 2021, with issuance up 52% from a year ago. *See* Second Half Kicking Off on $1 Trillion Tempo, *Asset-Backed Alert*, July 9, 2021; Worldwide Issuance On Pace for Banner Year, *Asset-Backed Alert*, Apr. 9, 2021.

61 *See Asset-Backed Alert*'s ABS database indicates that twenty-three student loan transactions totaling $17.6 billion priced during the first half of 2021.

62 The *Asset-Backed Alert* database lists 12 credit card transactions totaling $5.5 billion that priced during the first half of 2021.

63 *See Asset-Backed Alert*'s ABS database, which indicates that the following transactions were priced during the first half of 2021: 10 auto-fleet lease transactions totaling $8.9 billion, 32 subprime auto loan transactions totaling $20.7 billion, 48 prime auto loan transactions totaling $44.3 billion, and 28 auto lease transactions totaling $25.7 billion.

64 *See id*.

re-performing mortgage transactions that priced in the first half of 2021.[65] Additionally, DBRS and KBRA were active rating securities backed by subprime mortgages and risk transfer securities during the first half of 2021. For securities backed by subprime mortgages, DBRS rated 32% and KBRA rated 28% that priced during the first half of 2021;[66] for risk transfer securities, DBRS rated 50% and KBRA rated 14% that priced during the first half of 2021.[67]

Chart 21 shows that the large NRSROs have the highest, second highest, and third highest market shares in the U.S. CLO segment. However, DBRS and KBRA have attained some market share in the U.S. CLO segment.

b. Market Share Observations in Other Asset-Backed Securities Classes

While the large NRSROs maintain a large market share in some newer or more esoteric asset-backed securities asset classes, DBRS and KBRA have gained significant market share in these areas, as well.

For instance, DBRS and KBRA are significant raters of securities backed by unsecured consumer loans, including consumer loans originated through marketplace lending platforms. DBRS and KBRA had the two highest market shares in this category in the first half of 2021, both rating over 53% of the transactions priced during such period.[68] Comparatively, MIS and S&P each rated less than 30% of these transactions for the same time period.[69]

Another example of market share gains achieved by a medium NRSRO in a discrete asset class is KBRA's rating of securitizations backed by aircraft-lease receivables. KBRA rated 85.0% of the aircraft-lease receivables transactions that priced during the first half of 2021, while MIS and S&P rated 63.4% and 29.1%, respectively, of these transactions for the same time period.[70] KBRA has rated sixty-four of the sixty-six, or 97.0%, of the aircraft-lease receivables transactions issued from December 2015 through the end of the second quarter of 2021.[71]

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65 *See Asset-Backed Alert*'s ABS database, which indicates that fourteen re-performing mortgage-backed securities transactions totaling $8.5 billion priced during the first half of 2021.

66 *See Asset-Backed Alert*'s ABS database, which indicates that forty-two subprime mortgage-backed securities transactions totaling $11.6 billion priced during the first half of 2021.

67 *See Asset-Backed Alert*'s ABS database, which indicates that twenty-one risk transfer transactions totaling $13.0 billion priced during the first half of 2021.

68 *See Asset-Backed Alert*'s ABS database, which indicates that thirty unsecured consumer loan transactions totaling $10.4 billion priced during the first half of 2021.

69 *See id*.

70 *See Asset-Backed Alert*'s ABS database, which indicates that eight aircraft-lease receivables transactions totaling $4.1 billion priced during the first half of 2021.

71 *See id*.

KBRA was also active rating whole-business securitizations during the first half of 2021, rating 45.5% of the issuance amount of such transactions.[72] While MIS had a greater market share for this time period (rating 65% of the transactions), KBRA's gain in the whole-business category is further demonstrated when measured by the number of transactions rather than dollar amounts of issuance; KBRA rated six of the nine transactions priced during the first half of 2021.[73]

3. Barriers to Entry

Barriers to entry continue to exist in the credit ratings industry, presenting competitive challenges for the small and medium NRSROs.

One such potential barrier that has been raised by certain small and medium NRSROs are the investment management contracts of some institutional fund managers and the investment guidelines of some fixed income mutual fund managers, pension plan sponsors, and endowment fund managers, which require the use of ratings of specified rating agencies.[74] The effect of these requirements can be to increase the demand for and liquidity of securities bearing the ratings of specified rating agencies. Historically, many of these guidelines refer to the ratings from the large NRSROs by name (i.e., Fitch, MIS, and S&P). Despite reports in recent years that investors are increasingly changing their guidelines to allow for investments in securities rated by a wider group of NRSROs,[75] investment guidelines continue to be identified as a factor impacting the selection of NRSROs to rate certain transactions.[76]

A related barrier to entry is the inclusion requirements of some fixed income indices. To be included in certain of these indices, securities must be rated by specified NRSROs. Certain investment companies try to closely track the performance of the indices by purchasing the securities included in them, and can thus increase the demand for securities bearing the ratings of particular

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72 *See Asset-Backed Alert*'s ABS database, which indicates that nine whole-business securitization transactions totaling $6.1 billion priced during the first half of 2021. DBRS rated one whole-business securitization transaction representing 7.0% of the issuance amount of such transactions priced during the first half of 2021. Fitch rated 5.9% of the issuance amount of the whole-business transactions during the same time period.

73 *See id*.

74 *See* Statement of Jim Nadler, President and CEO, Kroll Bond Rating Agency, *Bond Rating Agencies: Examining the "Nationally Recognized" Statistical Rating Organizations Hearing Before the Subcommittee on Investor Protection, Entrepreneurship and Capital Markets of the House Committee on Financial Services*, 117th Congress (July 21, 2021), available at https://democrats-financialservices.house.gov/UploadedFiles/HHRG-117-BA16-Wstate-NadlerJ-20210721.pdf; *see also* Letter from KBRA to the Commission (Aug. 19, 2014), available at https://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 a former NRSRO mentioned that, according to a study conducted by the former NRSRO, approximately 42% of open-end fixed income funds with investment guidelines that reference ratings specifically refer to S&P, MIS, or a "major NRSRO." *See* Credit Rating Roundtable, May 14, 2013, available at https://www.sec.gov/spotlight/credit-ratings-roundtable.shtml.

75 *See, e.g.*, Big Investors Accept More Rating Agencies, *Asset-Backed Alert*, May 19, 2017.

76 *See* S&P Vaults Past Moody's in Conduit Sector, *Commercial Mortgage Alert*, Jan. 24, 2020; S&P, Moody's Duke It Out in Fitch's Shadow, *Commercial Mortgage Alert*, Jan. 25, 2019.

NRSROs.[77] For instance, Fitch announced that its ratings had been added to the J.P. Morgan High-Yield Bond Indices, noting that investors rely on such indices to determine which bonds suit their level of credit risk.[78]

Market participants and academics have identified various other barriers to entry in the credit rating industry, including economic and regulatory barriers.[79] Among the regulatory barriers to entry for NRSROs are the potential challenges associated with complying with the statutory provisions included in the Rating Agency Act, such as the requirement in Section 15E(a)(1)(C) to furnish written certifications from qualified institutional buyers, and the costs associated with the Dodd-Frank Act and the related rules and rule amendments adopted by the Commission (the NRSRO Amendments).[80] When the Commission issued the proposed NRSRO Amendments, commenters expressed concerns that certain of the proposed requirements would be burdensome for small NRSROs to implement and could raise barriers to entry for credit rating agencies to seek to register as NRSROs.[81] In connection with the adoption of the NRSRO Amendments, the Commission acknowledged that, despite efforts to limit the impact on small entities, the Dodd-Frank Act contained requirements, including those implemented by the NRSRO Amendments, which impose costs on NRSROs and may consequently create barriers to entry and have negative impacts on competition.[82] The NRSRO Amendments as adopted by the Commission include various changes from the proposed amendments intended to address concerns regarding barriers to entry, including standards allowing NRSROs to tailor particular requirements to their business models, size, and rating methodologies.[83]

77 *See, e.g.*, Rating Firms Seek Changes to Index, *Asset-Backed Alert*, May 26, 2017.
78 *See* Fitch Ratings Joins J.P. Morgan High Yield Bond Indices, Fitch Ratings, June 28, 2017. In a related example, DBRS announced that its ratings would be included in the determination of index credit quality classifications for CAD-denominated securities in the Bloomberg Barclays Canada Aggregate Index and the Global Aggregate Index, resulting in approximately 49 securities being added to the Canadian Aggregate Index. *See* DBRS Bond Ratings to Be Included in the Bloomberg Barclays Canada Aggregate Index, DBRS, Inc., Apr. 19, 2018.
79 *See, e.g.*, Section IV.C of the March 2012 Annual Report, available at https://www.sec.gov/divisions/marketreg/ratingagency/nrsroannrep0312.pdf; Fitch Assigns 'A-' Rating to S&P's Senior Unsecured Notes Offering, Outlook Stable, Fitch Ratings, Aug. 10, 2020; Fitch Assigns 'BBB+' Rating to Moody's Senior Unsecured Notes Offering, Outlook Stable, Fitch Ratings, Aug. 4, 2020.
80 *See* 2014 Adopting Release, 79 FR 55078 (Sept. 15, 2014), available at https://www.govinfo.gov/content/pkg/FR-2014-09-15/pdf/2014-20890.pdf.
81 *See* 2014 Adopting Release, 79 FR at 55090, 55154, 55161, and 55254-55. *See also* comment letters received with respect to the NRSRO Amendments as proposed, available at https://www.sec.gov/comments/s7-18-11/s71811.shtml.
82 *See* 2014 Adopting Release, 79 FR at 55254.
83 *See* Section IV.C of the December 2015 Annual Report, available at https://www.sec.gov/ocr/reportspubs/annual-reports/2015-annual-report-on-nrsros.pdf.

Additionally, there are provisions for exemptions built into several rules and statutes that relate to small and medium NRSROs, if the Commission deems that these requirements may impose an unreasonable burden on the NRSRO. NRSROs may also request exemptions under Section 36 to other rules and statutes that do not have exemptions built into them.[84]

B. TRANSPARENCY

Congress described the Rating Agency Act as an act to improve ratings quality for the protection of investors and in the public interest "by fostering accountability, transparency, and competition in the credit rating agency industry."[85] 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. Under Exchange Act rules, NRSROs are required to disclose:

- Standardized performance statistics;[86]
- Consolidated information about credit rating histories;[87]
- Information about material changes and significant errors in the procedures and methodologies used to determine credit ratings;[88]
- Information about specific rating actions;[89] and
- Clear definitions of each symbol, number, or score in the rating scale used by the NRSRO.[90]

NRSROs must also disclose certain information in connection with each rating action.[91] 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

84 For example, KBRA was granted a temporary conditional exemption from Rule 17g-5(c)(1), which prohibits an NRSRO from issuing or maintaining a credit rating solicited by a person that, in the most recently ended fiscal year, provided the NRSRO with net revenue equaling or exceeding 10% of the total net revenue of the NRSRO for the fiscal year. In another example, the Commission granted JCR a temporary conditional exemption from certain requirements of Section 15E(t), which include provisions regarding the composition and duties of the supervisory board of an NRSRO. The Commission's orders granting exemption requests can be found under "Exemption Orders" in the "Commission Orders" section of the OCR webpage, available at https://www.sec.gov/ocr/ocr-commission-orders.html.

85 *See* the preamble to the Rating Agency Act.

86 *See* Instructions for Exhibit 1 to Form NRSRO.

87 *See* Rule 17g-7(b).

88 *See* Rule 17g-8(a)(4).

89 *See* Rule 17g-7(a).

90 *See* Rule 17g-8(b)(2).

91 *See* Rule 17g-7(a).

that were relied upon for purposes of determining the credit 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.[92]

In addition to or in connection with required disclosures, NRSROs often issue press releases and reports at the time of a rating action to describe the rationale behind such rating action, and make versions of methodologies for determining credit ratings available on their websites.[93] The availability of underlying methodologies, together with a report discussing the analysis supporting the rating action, may provide additional transparency into an NRSRO's credit analysis and credit rating process.

From time-to-time, NRSROs also publish revisions and updates to their methodologies. They may also at times publish revisions to the assumptions that are inputs to their methodologies and rating approaches, including changes to their economic outlooks or default rate assumptions. Revised methodologies and related assumptions may provide additional transparency into changes in the NRSROs' credit views and analyses.

NRSROs may also provide transparency to the extent they publish commentaries or research. NRSROs publish commentaries and research that generally include data, analyses, or projections on market sectors and economic outlooks.[94] These publications may be helpful to investors to understand industry trends and the NRSROs' credit views.

For example, following the emergence of COVID-19 in early 2020, NRSROs began publishing commentaries and research that provide their perspectives on the potential credit and rating impacts of COVID-19 on issuers and debt obligations in different market sectors. They also began publishing COVID-19-related commentaries on economic and market trends. KBRA published research discussing valuation declines in distressed commercial real estate properties in CMBS transactions during COVID-19.[95] A DBRS report examining how the self-storage industry has fared during COVID-19 describes how the self-storage industry had been growing steadily prior to COVID-19 and remained resilient as pandemic related restrictions persisted, in contrast to certain other types of commercial real estate properties, including those in the hotel and non-essential retail sectors.[96]

92 *See* Rule 17g-7(a)(1)(ii).
93 The reports accompanying a rating action are frequently available on a paid subscription basis, although some NRSROs provide access to such reports for free.
94 NRSROs may also make market and economic data separately available.
95 *See* KBRA, *Appraisals for Distressed CRE Continue to Trend Lower in COVID's Wake* (May 18, 2021), available at https://www.kbra.com/documents/report/48884/appraisals-for-distressed-cre-continue-to-trend-lower-in-covid-s-wake.
96 *See* DBRS, *Self-Storage in the Pandemic: People Need Their Space* (Aug. 23, 2021), available at https://www.dbrsmorningstar.com/research/383322/self-storage-in-the-pandemic-people-need-their-space.

NRSROs have also produced research in recent years regarding their views on ESG matters and how they incorporate ESG considerations in their credit rating actions. For example, DBRS published research discussing the potential impact of climate change on portfolios of renewable and gas-based power plants and how, in some power markets, increases in green power generation entails risks, such as power supply volatility due to more frequent weather-related outages caused by climate change.[97] KBRA also published research regarding how it views the consideration of ESG issues in credit analysis and why it does not deploy subjective value-based ESG scoring rubrics. KBRA indicated that it believes that ESG factors that impact credit risk need better disclosure and are best examined through the lens of risk management analysis for corporate, financial institution, and government debt issues and issuers.[98]

Between 2016 and 2021, several of the Section 15E Review Areas discussed in Section III above, including adherence to policies, procedures, and methodologies, conflicts of interest, internal supervisory controls, DCO activities, and post-employment activities, included examination findings that addressed transparency-related issues. In total, there were 172 transparency-related findings, accounting for approximately 39% of all essential findings, in the Section 15E examinations conducted from 2016 to 2021. On average, each Section 15E examination cycle from 2016 to 2021 included 29 transparency-related essential findings. For the 2020 and 2021 examinations specifically, transparency-related essential findings accounted for 16 and 18 essential findings, respectively.

C. CONFLICTS OF INTEREST

NRSROs operate under one or more business models, each having potential conflicts of interest. Most of the NRSROs primarily 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. Another business model is the "subscriber-pay" model, under which investors pay a subscription fee to access

97 *See* DBRS, *Impact of Climate Change on Renewable and Natural Gas-Fired Power Generation Assets* (Oct. 4, 2021), available at https://www.dbrsmorningstar.com/research/385386/impact-of-climate-change-on-renewable-and-natural-gas-fired-power-generation-assets.

98 *See* KBRA, *Credit Ratings Deserve ESG Risk Analysis, Not ESG Scores* (Feb. 3, 2021), available at https://www.kbra.com/documents/report/44260/credit-ratings-deserve-esg-risk-analysis-not-esg-scores.

an NRSRO's ratings. This model is also subject to potential conflicts of interests. For example, an 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 a subscriber invests in newly issued bonds and would obtain higher yields if the bonds were to have lower ratings.

Section 15E and the related Commission rules address conflicts of interest.[99] For example, Rule 17g-5 identifies certain conflicts of interest that are prohibited under all circumstances[100] and other conflicts of interest that are prohibited unless an NRSRO has publicly disclosed the existence of the conflict and has implemented policies and procedures reasonably designed to address and manage such conflict.[101]

Among the conflicts of interest identified in Rule 17g-5 are conflicts involving individual credit analysts or other employees of an NRSRO. For example, an NRSRO is prohibited from issuing or maintaining a credit rating for a person where an employee of the NRSRO that participated in determining, or is responsible for approving, the credit rating directly owns securities of, or is an officer or director of, the person that would be subject to the credit rating.[102]

Rule 17g-5(c)(8) is another example of a prohibited conflict of interest involving persons within an NRSRO. Under the Rule, an NRSRO is prohibited from issuing or maintaining a credit rating where a person within the NRSRO who participates in determining or monitoring the rating, or developing or approving procedures or methodologies used for determining the rating, also (i) participates in sales or marketing activities of the NRSRO or its affiliate, or (ii) is influenced by sales or marketing considerations.[103] In May 2020, the Commission instituted settled administrative proceedings against MCR for issuing or maintaining credit ratings where MCR employees who participated in determining or monitoring the credit ratings also participated in the sales or marketing of a product or service of MCR, in violation of Rule 17g-5(c)(8)(i).[104]

Other statutory provisions and Commission rules address potential conflicts of interest that may arise when a credit analyst seeks employment outside the NRSRO. Section 15E requires each NRSRO to have policies and procedures in place to provide for an internal "look-back" review process in order to determine whether any conflict of interest of a former employee influenced a credit rating in certain instances.[105] Rule 17g-8(c) requires an NRSRO's policies and procedures to address instances in which a "look-back" review determined that a conflict of interest influenced a credit

99 *See, e.g.*, Section 15E(h) and Rule 17g-5.

100 *See* Rule 17g-5(c).

101 *See* Rule 17g-5(a)(1)-(2) and Rule 17g-5(b); Instructions for Exhibits 6 and 7 to Form NRSRO. In addition, Section 15E(t)(3)(B) requires an NRSRO's board of directors to oversee the establishment, maintenance, and enforcement of policies and procedures to address, manage, and disclose any conflicts of interest.

102 *See* Rule 17g-5(c)(2) and Rule 17g-5(c)(4).

103 *See* Rule 17g-5(c)(8).

104 *See* In re Morningstar Credit Ratings, LLC, Exch. Act Rel. No. 88880 (May 15, 2020) (settled action), available at https://www.sec.gov/litigation/admin/2020/34-88880.pdf.

105 *See* Section 15E(h)(4)(A).

rating. Such policies and procedures are required to be reasonably designed to ensure that the NRSRO will 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.[106]

One of the conflict of interest rules concerns the issuer-pay conflict of interest relating to structured finance products. The Commission adopted Rule 17g-5(a)(3) in 2009 to address this conflict of interest. An exemption was in effect for Rule 17g-5(a)(3) with regard to structured finance products issued by non-U.S. issuers in transactions outside the United States until the Commission codified the exemption in August 2019. In the adopting release, the Commission directed the Staff to further evaluate the effectiveness of Rule 17g-5(a)(3) with respect to ratings of structured finance products that are not eligible for relief under the adopted exemption.[107] Towards this end, in a February 2020 speech, then OCR Director Jessica Kane welcomed input and engagement from all interested parties on the effectiveness of Rule 17g-5(a)(3).[108] In the May 26, 2021 hearing before the House Appropriations Subcommittee on Financial Services and General Government, SEC Chair Gary Gensler testified that he has asked the Staff to take a fresh look at the Staff's prior work on the issuer-pay conflict to assess if there are further modifications to be done.[109]

As discussed in Section III.C.5 of this Report, conflicts of interest accounted for 11.5% of all essential findings from the Section 15E examinations conducted from 2016 to 2021. As Chart 3 shows, conflicts of interest accounted for 19 of the essential findings from the 2016 to 2021 examinations.[110] Conflicts of interest have accounted for approximately seven essential findings for each examination, on average, from 2017 to 2021. For the 2020 and 2021 examinations, conflicts of interest accounted for five and four essential findings, respectively.

106 *See* Rule 17g-8(c).

107 *See Amendments to Rules for Nationally Recognized Statistical Rating Organizations*, Release No. 34-86590 (Aug. 7, 2019), 84 FR 40247, 40250 (Aug. 14, 2019) ("2019 Adopting Release"), available at https://www.govinfo.gov/content/pkg/FR-2019-08-14/pdf/2019-17218.pdf.

108 *See* Jessica Kane, Speech, *The SEC's Office of Credit Ratings and NRSRO Regulation: Past, Present, and Future* (Feb. 24, 2020), available at https://www.sec.gov/news/speech/speech-jessica-kane-2020-02-24. OCR then-Director Jessica Kane delivered a speech describing the NRSRO regulatory framework and certain regulatory requirements; OCR's responsibility for administering this regulatory framework; and observed trends in NRSRO compliance. The speech referenced the Commission's 2019 Adopting Release and invited interested parties to provide input on the effectiveness of Rule 17g-5(a)(3).

109 *See Securities and Exchange Commission Oversight Hearing Before the Subcommittee on Financial Services and General Government of the House Committee on Appropriations*, 117th Congress (May 26, 2021), available at https://appropriations.house.gov/events/hearings/securities-and-exchange-commission-oversight-hearing.

110 This was likely related to the new and amended rules that became effective in 2015. *See* note 21.

V. ACTIVITIES RELATING TO NRSROs

A. COMMISSION ORDERS AND RELEASES

The Commission issued the following orders and releases relating to NRSROs or credit ratings in general during the Report Period:

- *In re DBRS, Inc., Exch. Act Rel. No. 92952 (Sept. 13, 2021) (settled action).*[111] The Commission instituted settled administrative proceedings against DBRS concerning violations of Rule 17g-8(b)(1) in connection with rating CLO Combo Notes.[112] The SEC's order finds that DBRS's policies and procedures were not reasonably designed to ensure that it rated CLO Combo Notes in accordance with the terms of those securities.
- *Continuance of Exemption Pursuant to 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.*[113] On August 17, 2018, the Commission granted JCR a temporary, conditional exemption from certain corporate governance requirements under Section 15E(t). On August 20, 2021, the exemption automatically renewed until August 20, 2023.[114]
- *SEC v. Morningstar Credit Ratings, LLC, No. 1:21-cv-1359 (S.D.N.Y. filed Feb. 16, 2021).*[115] The Commission filed a civil action alleging that former credit rating agency Morningstar Credit Ratings, LLC, violated disclosure and internal controls provisions of Section 15E and the rules promulgated thereunder in rating CMBS.[116]

111 Available at https://www.sec.gov/litigation/admin/2021/34-92952.pdf.
112 *See* https://www.sec.gov/enforce/34-92952-s.
113 Release No. 34-83884 (Aug. 17, 2018), available at https://www.sec.gov/rules/exorders/2018/34-83884.pdf.
114 *See id*.
115 Available at https://www.sec.gov/litigation/complaints/2021/comp-pr2021-29.pdf.
116 *See* https://www.sec.gov/news/press-release/2021-29.

B. STAFF PUBLICATIONS

The Staff issued the following publications relating to NRSROs or credit ratings in general during the Report Period:

- *2020 Summary Report of Commission Staff's Examinations of Each Nationally Recognized Statistical Rating Organization*, dated December 2020 (December 2020 Exam Report), as required under Section 15E(p)(3)(C).[117] The December 2020 Exam Report summarizes the essential findings of the examinations conducted by the Staff under Section 15E(p)(3)(C) for the period January 1, 2019 through December 31, 2019.
- *Annual Report on Nationally Recognized Statistical Rating Organizations*, dated December 2020 (December 2020 Annual Report), as required by Section 6 of the Rating Agency Act.[118] The December 2020 Annual Report addresses the matters described in the second paragraph under Section II of this Report for the period June 26, 2019 to June 25, 2020.

C. ADVISORY COMMITTEES

The SEC's Investor Advisory Committee (IAC)[119] has considered the SEC's approach to regulation of the credit rating agency industry. The IAC met five times during the Report Period. At the IAC meeting on March 11, 2021,[120] the IAC approved, for the Commission's consideration, the Market Structure Subcommittee's recommendation for increasing transparency in OCR Staff's annual examination reports of NRSROs.[121]

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117 Available at https://www.sec.gov/files/nrsro-summary-report-2020.pdf.

118 Available at https://www.sec.gov/files/2020-annual-report-on-nrsros.pdf.

119 Section 911 of the Dodd-Frank Act established the IAC to advise the Commission on regulatory priorities, the regulation of securities products, trading strategies, fee structures, the effectiveness of disclosure, and on initiatives to protect investor interests and to promote investor confidence and the integrity of the securities marketplace. The Dodd-Frank Act authorizes the IAC to submit findings and recommendations for review and consideration by the Commission. *See* https://www.sec.gov/spotlight/investor-advisory-committee.shtml; https://www.sec.gov/spotlight/investor-advisory-committee-2012/iac-charter.pdf.

120 *See* Webcast of IAC Meeting, SEC (Mar. 11, 2021), available at https://www.sec.gov/video/webcast-archive-player.shtml?document_id=iac031121. The IAC's Market Structure Subcommittee circulated its draft recommendation ahead of this IAC meeting. *See* https://www.sec.gov/spotlight/investor-advisory-committee-2012/credit-rating-agencies-recommendation-03112021.pdf.

121 *See* Recommendation of the Market Structure Subcommittee of the SEC Investor Advisory Committee Regarding Credit Rating Agencies (Mar. 11, 2021), available at https://www.sec.gov/spotlight/investor-advisory-committee-2012/20210311-credit-rating-agencies-recommendation.pdf.

VI. APPENDIX: SUMMARY OF STATUTORY FRAMEWORK AND RULES

Section 15E and Rules 17g-1 through 17g-10 govern the registration and oversight program for credit rating agencies that are registered with the Commission as NRSROs. This regulatory regime was established by the Rating Agency Act[122] and amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).[123]

The Dodd-Frank Act mandated the creation of the Office of Credit Ratings (OCR), which is responsible for 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.[124]

Pursuant to the Commission's regulatory regime for NRSROs, an NRSRO is required to, among other things:

- File with the Commission an annual certification of its Form NRSRO registration,[125] promptly update its filing in certain circumstances,[126] and make its current Form NRSRO filing and most of its current Form NRSRO Exhibits available on its public website.[127]
- Disclose certain information, including information concerning the NRSRO's performance measurement statistics and its procedures and methodologies to determine ratings.[128]
- Establish, maintain, enforce, and document an effective internal control structure governing the implementation of and adherence to policies, procedures, and methodologies for determining credit ratings,[129] and retain records of its internal control structure.[130]
- Consider certain factors with respect to its establishment, maintenance, enforcement, and documentation of an effective internal control structure.[131]

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122 Pub. L. No. 109-291, 120 Stat. 1327 (2006).
123 Pub. L. No. 111-203, § 932, 124 Stat. 1376, 1872-83 (2010).
124 *See* Section 15E(p)(2) for a description of OCR staffing requirements.
125 Section 15E(b)(2) and Rule 17g-1(f).
126 Section 15E(b)(1) and Rule 17g-1(e).
127 Section 15E(a)(3) and Rule 17g-1(i).
128 Section 15E(a)(1)(B)(i) and Section 15E(a)(1)(B)(ii).
129 Section 15E(c)(3)(A).
130 Rule 17g-2(b)(12).
131 *See, e.g.*, Rule 17g-8(d)(1)–(4).

- Establish, maintain, enforce, and document policies and procedures reasonably designed to: achieve certain objectives concerning its development and application of, and disclosures related to, methodologies and models.[132]
- File an unaudited report containing an assessment by management of the effectiveness during the fiscal year of the NRSRO's internal control structure governing the implementation of and adherence to policies, procedures, and methodologies for determining credit ratings.[133] The report must be accompanied by a signed statement by the NRSRO's chief executive officer or an individual performing similar functions.[134]
- Establish, maintain, enforce, and document policies and procedures that are reasonably designed to: assess the probability that an issuer of a security or money market instrument will default or fail to make required payments to investors,[135] and ensure that it applies any rating symbol, number, or score in a manner that is consistent for all types of obligors, securities, and money market instruments for which the symbol, number, or score is used.[136]
- Publish an information disclosure form when taking a rating action with respect to a rating assigned to an obligor, security, or money-market instrument in a class for which it is registered as an NRSRO.[137] The information form must disclose certain information with respect to the particular rating action.[138] In addition, the NRSRO must attach to the information disclosure form a signed statement by a person within the NRSRO with responsibility for the rating action.[139]

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132 *See, e.g.*, Rule 17g-8(a)(2)–(5).
133 Rule 17g-3(a)(7)(i).
134 Rule 17g-3(b)(2).
135 Rule 17g-8(b)(1).
136 Rule 17g-8(b)(3).
137 Rule 17g-7(a). Rule 17g-7(a) defines rating action to include an expected or preliminary rating, an initial rating, an upgrade or downgrade of an existing rating (including a downgrade to, or assignment of, default), and an affirmation or withdrawal of an existing rating if the affirmation or withdrawal is the result of the NRSRO's review of the rating using applicable procedures and methodologies for determining credit ratings. Pursuant to Rule 17g-7(a)(3), an NRSRO is exempt from publishing an information disclosure form for a particular rating if: (i) the rated obligor or issuer of the rated security or money market instrument is not a U.S. person; and (ii) the NRSRO has a reasonable basis to conclude that: (A) with respect to any security or money market instrument issued by a rated obligor, all offers and sales by any issuer, sponsor, or underwriter linked to the security or money market instrument will occur outside the United States; or (B) with respect to a rated security or money market instrument, all offers and sales by any issuer, sponsor, or underwriter linked to a security or money market instrument will occur outside the United States.
138 Rule 17g-7(a)(1)(ii)(A)-(N) specifies the information that must be disclosed in the information disclosure form. These required disclosures include: the version of the procedure or methodology used to determine the credit rating; disclosures concerning the uncertainty of the rating, including regarding the reliability, accuracy, quality, and accessibility of data related to the rating; a statement containing an overall assessment of the quality of information available and considered in determining the credit rating for the obligor, security, or money market instrument; and information on the sensitivity of the rating to assumptions made by the NRSRO. In addition, an NRSRO must attach to the information disclosure form any executed Form ABS Due Diligence-15E containing information about the security or money market instrument subject to the rating action that is received by the NRSRO or obtained by the NRSRO through a Rule 17g-5(a)(3) website.
139 Rule 17g-7(a)(1)(iii).

- Make and retain, or retain, certain records, including a record documenting its established procedures and methodologies used to determine credit ratings[140] and records related to its ratings.[141] An NRSRO must promptly furnish to the Commission or its representatives copies of required records, including English translations of those records, upon request.[142]
- Establish, maintain, and enforce written policies and procedures reasonably designed to prevent the misuse of material non-public information (MNPI), including the inappropriate dissemination of MNPI both within and outside the NRSRO, the inappropriate trading of securities using MNPI by a person within the NRSRO, and the inappropriate dissemination of pending credit rating actions within and outside the NRSRO before issuing the rating on the Internet or through another readily accessible means.[143]
- Establish, maintain, and enforce written policies and procedures reasonably designed to address and manage conflicts of interest.[144] Certain conflicts of interest are expressly prohibited,[145] and for other types of conflicts of interest, the NRSRO must disclose the conflicts and have policies and procedures in place to manage them.[146]
- Refrain from engaging in specified unfair, coercive, or abusive practices.[147]
- Provide information on whether it has in effect a code of ethics, and if not, the reasons it does not have a code of ethics.[148]
- Establish procedures for the receipt, retention, and treatment of complaints regarding credit ratings, models, methodologies, and compliance with the securities laws and its policies and procedures developed under this regulatory regime, and of confidential, anonymous complaints.[149]

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140 Rule 17g-2(a)(6).

141 The records that an NRSRO must make and retain, or retain, with respect to its ratings include the identity of certain persons who participated in determining or approving the rating, records used to form the basis of a rating, external and internal communications received or sent by the NRSRO and its employees related to a rating, and for ABS ratings, a record of the rationale for any material difference between the final rating assigned and the rating implied by a quantitative model that was a substantial component in determining the rating. Rule 17g-2(a)(2)(i), (ii), and (iii); Rule 17g-2(b)(2) and (b)(7).

142 Section 15E(a) and (b) and Rule 17g-2(f).

143 Section 15E(g) and Rule 17g-4.

144 Section 15E(h) and Rule 17g-5. *See also* Section IV.C of this Report.

145 Rule 17g-5(c). *See also* Section IV.C of this Report.

146 Rule 17g-5(a)(1) and (a)(2); Rule 17g-5(b). Moreover, Rule 17g-5(a)(3) prohibits an NRSRO from having a conflict of interest related to a rating for a security or money market instrument issued by an asset pool or as part of any ABS transaction unless the NRSRO, among other things, maintains and provides access to a password-protected Internet Web site containing a list of each such security or money market instrument for which it is currently in the process of determining an initial credit rating, and obtains certain written representations from the issuer, sponsor, or underwriter of each such security or money market instrument.

147 Rule 17g-6.

148 Section 15E(a)(1)(B)(v).

149 Section 15E(j)(3).

- Designate a compliance officer (the DCO) responsible for administering policies and procedures related to MNPI and conflicts of interest, ensuring compliance with the securities laws and regulations, and establishing procedures for handling complaints by employees or users of credit ratings.[150] The DCO must submit an annual report to the NRSRO on the compliance of the NRSRO with the securities laws and the NRSRO's policies and procedures, and the NRSRO must file the report with the Commission.[151]
- Have a board of directors or similar governing body (collectively, the Board), certain of whose members must be independent from the NRSRO.[152] An NRSRO's Board, or members thereof, are responsible for exercising oversight of specified subjects related to the NRSRO's rating business and for approving the procedures and methodologies, including qualitative and quantitative data and models that the NRSRO uses to determine ratings.[153]
- Establish, maintain, enforce, and document standards of training, experience, and competence for the individuals it employs to participate in the determination of credit ratings that are reasonably designed to achieve the objective that the NRSRO produces accurate credit ratings, and retain a record of these standards.[154]
- Establish policies and procedures regarding post-employment activities of certain former personnel.[155]

150 Section 15E(j)(1) and (3).
151 Section 15E(j)(5).
152 Section 15E(t)(2).
153 Section 15E(t)(3) and Rule 17g-8(a)(1).
154 Rule 17g-9.
155 Section 15E(h)(4) and (5); Rule 17g-8(c).

Washington, DC