U.S. Securities and Exchange Commission
Office of Credit Ratings

Staff Report

ON

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATIONS

FEBRUARY | 2024

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

CONTENTS

CHARTS

I. INTRODUCTION

The Staff of the U.S. Securities and Exchange Commission (Commission) provides this Report regarding nationally recognized statistical rating organizations (NRSROs) pursuant to Section 6 of the Credit Rating Agency Reform Act of 2006 (Rating Agency Act)[1] and Section 15E(p)(3)(C) of the Securities Exchange Act of 1934 (Exchange Act).[2]

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.

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.

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

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 See "Reports and Studies" section of the OCR webpage, available at https://www.sec.gov/about/divisions-office/office-credit-ratings/reports-and-studies. Prior to 2021, OCR published two separate annual reports: an Annual Report to Congress pursuant to Section 6 of the Rating Agency Act and a Summary Examination Report pursuant to Section 15E(p)(3)(C) of the Exchange Act. In 2021, OCR began publishing a single annual report to present the requirements under both Section 6 of the Rating Agency Act and Section 15E(p)(3) of the Exchange Act.

II. 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;[4]
(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, 2023, there were ten credit rating agencies registered as NRSROs.[6] Chart 1 below lists each NRSRO registered with the Commission as of such date, 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]

Solely for purposes of this Report: Fitch, Moody's, and S&P are categorized as "large NRSROs;" AMB, DBRS, and KBRA are categorized as "medium NRSROs;" and Demotech, EJR, HR, and JCR are categorized as "small NRSROs." These categorizations are based on revenue.[8]

In accordance with the Exchange Act, the Commission grants registration as an NRSRO if it finds the requirements of Section 15E are

4 "Asset-backed securities" has the meaning set forth in 17 CFR 229.1101(c), as in effect on September 29, 2006 (the date of enactment of the Rating Agency Act).
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 paragraphs (e) and (f) of Rule 17g-1, and each NRSRO must make its current Form NRSRO publicly and freely available on its website pursuant to paragraph (i) of Rule 17g-1. 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.
8 Collectively, the three large NRSROs account for approximately 91.1% of the aggregate revenue reported by all NRSROs for the 2022 fiscal year in accordance with Rule 17g-3(a)(3); the three medium NRSROs collectively account for approximately 7.3% of such aggregate revenue; and the four small NRSROs collectively account for approximately 1.6% of such aggregate revenue. *See infra* Section IV.A.1.c, Chart 12.

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.
Demotech, Inc. (Demotech)	(ii)	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, LLC (KBRA)	(i) through (v)	U.S.
Moody's Investors Service, Inc. (Moody's)	(i) through (v)	U.S.
S&P Global Ratings (S&P)	(i) through (v)	U.S.

satisfied and so long as it does not find: (1) that the applicant does not have adequate financial and managerial resources to produce credit ratings with integrity, to materially comply with its procedures and methodologies for determining credit ratings disclosed on Form NRSRO, and to materially comply with provisions of Section 15E related to the prevention of the misuse of non-public information, management of conflicts of interest, prohibited conduct, and designation of a compliance officer; or (2) that, if the applicant were to be registered, its registration would be subject to suspension or revocation.[9]

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.[10] 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.[11] In addition, a credit rating agency may choose to apply for registration as an NRSRO in one or more rating categories.[12] 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.

9 Section 15E(a)(2)(C).

10 *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.

11 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.

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

In calendar year 2023, no applications for initial registration as an NRSRO, or applications for registration by a current NRSRO in additional rating categories, were filed with the Commission.

The SEC oversees and, as discussed below, examines NRSROs. The Commission is prohibited by statute, however, from regulating the substance of credit ratings or the procedures and methodologies the NRSROs use to determine credit ratings.[13] Methodologies include, among other things, the quantitative and qualitative models used to determine credit ratings.

13 *See* Section 15E(c)(2).

III. EXAMINATIONS AND MONITORING

A. OVERVIEW

In accordance with Section 15E(p)(3), the Staff conducts examinations of each NRSRO at least annually.[14] Generally, the purpose of these annual examinations is to promote compliance with applicable federal securities laws and rules by identifying potential instances of non-compliance by NRSROs with their statutory and regulatory obligations and recommending remedial action. Information obtained during an examination can also inform Staff of 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, Staff may refer findings to the Commission's Division of Enforcement for investigation.

Section 15E(p)(3)(B) provides that each NRSRO examination (Section 15E examinations) 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.

This Section III discusses the annual examinations pursuant to Section 15E(p)(3) that commenced in late 2022 and concluded in late September 2023 (2023 Section 15E examinations).

B. RISK ASSESSMENT

The 2023 Section 15E examinations encompassed all of the statutorily required Section 15E Review Areas. The Staff also determined areas of emphasis and issues of focus for each examination 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;

14 Pursuant to Section 17, the Staff can conduct examinations of NRSROs that supplement the Section 15E 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;
- Relevant Tips, Complaints, and Referrals (TCRs) received by the Commission; and
- Risks identified in a risk assessment process.

Through its risk assessment process in connection with the 2023 Section 15E examinations, the Staff identified a number of potential risks for consideration in the NRSRO-specific risk assessments and incorporation into the examinations, as appropriate. The risks identified include:

- **Effect of Higher Interest Rates:** The Staff observed that the sustained rise in interest rates in 2022 had increased debt service payments of highly leveraged companies, putting them under increased financial pressure. Given the potential impact on the creditworthiness of such companies, the Staff identified NRSRO surveillance of low-rated companies as an area for examination. NRSRO surveillance of collateralized loan obligations and securitizations backed by consumer assets and auto loans were also identified as potential areas for examination, given the Staff's view that higher interest rates could impact the credit quality of such issuances.
- **Rental Income Securitizations:** Large institutions have sharply increased their investments in single-family rental properties in certain regions and have securitized rental income from those properties as a source of funding. The House Committee on Appropriations commented on transparency and rating requirements and procedures in the rental income securitization market that might contribute to financial or housing price instability.[15] Given these comments, the Staff identified ratings of such securitizations as an area for examination.
- **Distinguishing Analytical Tools from Models:** NRSROs must establish policies and procedures regarding the development of and approval by its board of directors, or a body performing a function similar to that of a board of directors, of the quantitative models used to determine credit ratings. In addition to models, some NRSROs may also use analytical tools to perform quantitative calculations that they do not consider to be models. The Staff identified as areas for examination the process by which an NRSRO distinguishes between analytical tools and models, how NRSROs utilize analytical tools, and how approval processes may differ for analytical tools and models.

C. MONITORING

To help inform its risk assessment process and examination program, the Staff in 2023 monitored credit rating activity, industry trends and developments, NRSRO operational developments and plans, and relevant capital market, economic, and financial news and events. The Staff's monitoring activities include communications with NRSROs and reviewing sources such as NRSRO publications, news reports, trade publications, academic papers, industry conference information, and government reports.

15 *See* Report from the Committee on Appropriations on the Financial Services and General Government Appropriations Bill, 2023, 117th Congress (June 28, 2022), available at https://www.congress.gov/117/crpt/hrpt393/CRPT-117hrpt393.pdf.

For example, the Staff gathered information on the potential credit impacts of the unsettled commercial real estate market. NRSROs reported that they are actively monitoring the potential credit impacts of higher interest rates and soft commercial real estate demand across their rated portfolios, including with regard to CMBS and REITs. NRSROs also published research and commentaries regarding commercial real estate, examples of which are discussed in Section IV.B of this Report.

The Staff also continued to monitor NRSRO rating activity related to crypto assets, including so-called decentralized finance (DeFi), distributed ledger technologies, and smart contracts. Although rating activity in this area remains limited, one example is S&P's and Moody's ratings of Coinbase Global Inc., a crypto-asset trading platform.[16] Another example is Moody's credit ratings of blockchain-backed bonds issued by the European Investment Bank (EIB); Moody's view is that the ultimate credit risk remains with EIB because they are obligated to make payments on the bonds independent of any risk introduced by the new technology features.[17] Additionally, both S&P and Moody's rate MicroStrategy Inc., a software company with significant Bitcoin holdings.[18]

In 2023, 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] Each college engaged in periodic discussions during 2023 regarding supervisory activities related to the credit rating agencies. The Staff also conducted additional discussions with foreign regulators, as appropriate.

D. 2023 SECTION 15E(p)(3) EXAMINATIONS

1. Overview

The 2023 Section 15E examinations generally focused on the NRSROs' activities for the period covering January 1, 2022, through December 31, 2022 (the Review Period). The examinations also reviewed certain activities or credit rating actions from outside the Review Period, as appropriate.[20]

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16 S&P's and Moody's current ratings of Coinbase may be found, respectively, at the following links: https://disclosure.spglobal.com/ratings/en/regulatory/org-details/sectorCode/FI/entityId/690877 and https://www.moodys.com/credit-ratings/Coinbase-Global-Inc-credit-rating-867853012/summary.

17 *See* Moody's rates EIB's first-ever green digital bond Aaa, Moody's (Jul 3, 2023) available at https://www.moodys.com/research/Moodys-rates-EIBs-first-ever-green-digital-bond-Aaa-Rating-Action--PR_477956; *see also* Moody's assigns Aaa rating to EIB's third digital bond, Moody's (Feb 28, 2023) available at https://www.moodys.com/research/Moodys-assigns-Aaa-rating-to-EIBs-third-digital-bond-Rating-Action--PR_473857; *see also* Moody's assigns Aaa rating to EIB's second digital bond, Moody's (Nov 29, 2022) available at https://www.moodys.com/research/Moodys-assigns-Aaa-rating-to-EIBs-second-digital-bond-Rating-Action--PR_471665.

18 S&P's and Moody's current ratings of MicroStrategy Inc. may be found, respectively, at the following links: https://disclosure.spglobal.com/ratings/en/regulatory/org-details/sectorCode/CORP/entityId/683025 and https://www.moodys.com/credit-ratings/MicroStrategy-Incorporated-credit-rating-823373715/summary.

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 college for S&P and the Staff represents the SEC in this regard. The European Securities and Markets Authority serves as chair of the college for Fitch, and the Financial Conduct Authority serves as chair of the college for Moody's.

20 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.

The 2023 Section 15E examinations included a review of the Section 15E Review Areas and examination of each NRSRO's compliance with 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.[21]

2. Terms Used in This Report

This Report contains a summary of, respectively, the essential findings of the Staff's annual examinations, the NRSROs' responses to any material regulatory deficiencies, and whether the NRSROs have appropriately addressed the recommendations contained in previous reports.[22]

For purposes of this Report, the Staff considers an "essential finding" to be any instance identified by the Staff 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. The essential findings described in this Report reflect the Staff's conclusions following examination of the NRSROs. The essential findings are not findings or conclusions of the Commission and have not been subject to adjudication.

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 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

21 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.

22 *See* Section 15E(p)(3)(C)(i)-(iii). In this Report, essential findings are organized by NRSRO within the applicable large, medium, and small groups.

NRSRO is expected to fully resolve the Staff's concerns. In addition, 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.

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

For purposes of the Report, the Staff grouped the essential findings by each large NRSRO, medium NRSRO, and small NRSRO in a random ordering.[23]

a. Large NRSRO #1

(1) The NRSRO's policies and procedures did not require reviews in connection with the departure of employees holding certain positions, notwithstanding that individuals in such positions are eligible to participate in rating committees. The Staff recommended that the NRSRO revise or supplement its policies and procedures related to post-employment review requirements to ensure that such reviews are conducted for all applicable former employees who participated in determining credit ratings, as required by Section 15E(h)(4)(A). The Staff also recommended that the NRSRO identify post-employment reviews that should have been conducted but were not and conduct those reviews.

(2) The Staff reviewed the underlying information with respect to certain rating transitions disclosed on Exhibit 1 to Form NRSRO and observed a number of instances where, contrary to the instructions to the form, multiple ratings for a single entity were included in the underlying information. The Staff recommended that the NRSRO modify its approach for determining which credit ratings to include in its performance measurement statistics in accordance with the instructions to Form NRSRO.

b. Large NRSRO #2

(1) The NRSRO did not publish an information disclosure form for rating actions with respect to a certain type of private credit rating. The Staff recommended that the NRSRO provide information disclosure forms for such rating actions to the same persons who can receive or access ratings of this type in accordance with the requirements of Rule 17g-7(a). The Staff also recommended that the NRSRO revise its policies and procedures to reflect the requirement to publish information disclosure forms with respect to such ratings.

c. Large NRSRO #3

(1) The NRSRO did not appear to require a sufficient record to be made and retained with respect to certain determinations made during surveillance reviews. The Staff reviewed documentation related to a surveillance review but, due to the lack of a documented rationale, was not able to determine whether the decision that the rating was at an appropriate rating level was made in accordance with the applicable methodology. The Staff recommended that the NRSRO improve its internal control structure required by Section 15E(c)(3)(A), including by making and retaining appropriate documentation of qualitative considerations, to allow for after-the-fact verification that surveillance decisions were consistent with the applicable methodologies.

23 The annual examination of one of the small NRSROs did not identify any essential findings.

(2) With regard to two ratings, a member of an analytical team who chaired the rating committees exerted pressure on other analytical team members and rating committee participants to assign higher ratings. Records of statements made by this individual reflect a focus on gaining business and, with respect to one of the issuers, a desire to make accommodations to please the issuer. Contrary to the NRSRO's policies and procedures, this individual participated in sales and marketing activities and appears to have been influenced by sales and marketing considerations. The individual also participated in the determination of the credit ratings by acting as chair of the rating committees, and, as such, the NRSRO appeared to issue and maintain credit ratings notwithstanding the existence of a prohibited conflict of interest. The Staff recommended that, consistent with the requirements of Section 15E(h) and Rule 17g-5(c)(8), the NRSRO enhance enforcement of its policies and procedures to prevent persons within the NRSRO who participate in determining credit ratings from also participating in sales or marketing or being influenced by sales or marketing considerations.

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

In its response, the NRSRO noted that it conducted an internal investigation of the matter after an employee had anonymously reported the actions of the individual in question by means of the NRSRO's dedicated reporting hotline. The NRSRO also noted that, following its investigation, it took remedial action by terminating the individual's employment and that it subsequently self-reported the matter to the Staff. In addition, based on its internal investigation and an internal independent credit review, the NRSRO concluded that each of the two credit ratings was at an appropriate rating level in accordance with the applicable methodologies and had not been affected by the individual's conduct. Although the NRSRO stated that it believes its applicable procedures and controls are robust and functioning well, the NRSRO indicated that it is reviewing its policies, procedures, and controls to consider if any enhancements are warranted to help prevent such conduct from occurring in the future.

(3) In some instances, analysts inadvertently sent emails with confidential pending rating action information to persons outside the NRSRO. Contrary to the NRSRO's policies and procedures, in most of the instances, the NRSRO's compliance department was not promptly notified of the inappropriate dissemination of material non-public information. The Staff recommended that the NRSRO enforce its policies and procedures to prevent the misuse of material, nonpublic information, as required by Section 15E(g)(1), and consider whether additional controls are needed. The Staff also recommended that the NRSRO take measures to ensure that NRSRO personnel understand their obligation to promptly report to the NRSRO's compliance department instances where non-public information has been inappropriately disclosed.

(4) In assigning certain credit ratings, the NRSRO used a model that contained both prepopulated data fields and data fields that required the analyst to enter appropriate values. The NRSRO assigned certain ratings that were higher than they should have been because a prepopulated value in a model was incorrect for the issuer and the analyst did not recognize or correct the error prior to determining

the rating. The Staff recommended that the NRSRO enhance its internal control structure required by Section 15E(c)(3)(A) as it pertains to adherence to its methodologies and the calculation of certain metrics.

(5) The NRSRO did not disclose complete and correct credit rating histories in its Rule 17g-7(b) disclosures. For a particular month, the NRSRO posted a disclosure that did not include a significant number of withdrawn credit ratings that were required to be disclosed. For a different month, the subclass designation of a significant number of ratings was misclassified, and the file contained duplications of some rating information. Further, the NRSRO did not include a particular rating in the NRSRO's credit rating history disclosures for approximately 18 months. The Staff recommended that the NRSRO implement appropriate procedures or controls to ensure the accurate creation and maintenance of its credit rating history disclosures.

d. Medium NRSRO #1

(1) In several instances, the NRSRO provided inaccurate or incomplete records in response to requests from the Staff. The Staff recommended that the NRSRO implement appropriate controls to ensure that it maintains accurate records and promptly provides complete copies of all relevant documents in its productions to the Staff, as required by Rule 17g-2(f).

(2) Some information disclosure forms contained a link purporting to provide the historical performance disclosure required by Rule 17g-7(a). However, clicking on the link did not retrieve the required information. The Staff recommended that the NRSRO ensure that its information disclosure forms contain the required information for all rating actions.

e. Medium NRSRO #2

(1) The NRSRO did not appear to require a sufficient record to be made and retained with respect to certain qualitative adjustments made by analysts in the course of conducting surveillance reviews. The Staff reviewed documentation related to a surveillance review but, due to the lack of a documented rationale, was not able to determine whether certain adjustments were made in accordance with the applicable methodology. The Staff recommended that the NRSRO improve its internal control structure required by Section 15E(c)(3)(A), including by making and retaining appropriate documentation of qualitative considerations, to allow for after-the-fact verification that surveillance decisions were consistent with the applicable methodologies.

(2) Although a process for users of credit ratings to submit complaints anonymously exists at this NRSRO, it is not apparent or intuitive how to do so. The difficulty in submitting complaints anonymously may discourage users of credit ratings from communicating bona fide complaints to the NRSRO. The Staff recommended that the NRSRO establish effective procedures for the receipt, retention, and treatment of confidential, anonymous complaints by users of credit ratings, consistent with the requirements of Section 15E(j)(3).

(3) The Staff reviewed the underlying information with respect to certain rating transitions disclosed on Exhibit 1 to Form NRSRO and observed three errors inconsistent with the instructions to the form—the inclusion of a withdrawn rating, the inclusion of an indicative rating, and the inclusion of a debt rating when an obligor rating was available. The Staff recommended that the NRSRO ensure that the

performance measurement statistics disclosed in Exhibit 1 to Form NRSRO are accurate and consistent with the instructions to the form.

f. Medium NRSRO #3

(1) The NRSRO's policy regarding securities holdings generally requires employees to report their holdings to the compliance department. Certain accounts, however, were excluded from this requirement. Since the exclusion was not limited to indirect ownership interests, the NRSRO's policy did not appear to be reasonably designed, given the lack of monitoring of holdings that could result in a conflict of interest under Rule 17g-5(b)(6) or Rule 17g-5(c)(2). The Staff recommended that, consistent with the requirements of Section 15E(h)(1), the NRSRO establish, maintain, and enforce written policies and procedures reasonably designed to address and manage conflicts of interest with respect to directly owned securities held in the excluded accounts and review past account statements for such accounts to identify any instances where a credit analyst participated in determining a credit rating or had responsibility for approving a rating while directly owning securities of the rated entity.

(2) The NRSRO did not enforce its policies and procedures regarding conflict of interest reviews following the departure of employees who participate in determining credit ratings and the submission of employment transition reports to the Commission with respect to former employees who obtain employment at an entity rated by the NRSRO. In one instance, the NRSRO did not conduct a conflict of interest review within 30 days of learning that a former employee had joined a rated entity, as required by its policies and procedures; and instead conducted the review eight months later. In another instance, although the NRSRO conducted the conflict of interest review in accordance with its policies and procedures, it did not submit an employment transition report to the Commission for over nine months. In addition, the NRSRO's written procedures did not require monitoring of all departed employees for five years as necessary to comply with the employment transition reporting requirements of Section 15E(h)(5)(A). The Staff recommended that the NRSRO conduct conflict of interest reviews for departed employees in accordance with its policies and procedures and as required by Section 15E(h)(4)(A). The Staff also recommended that the NRSRO evaluate and revise its policies and procedures for submitting employment transition reports to the Commission to ensure compliance with the requirements of Section 15E(h)(5)(A).

f. Small NRSRO #1

(1) The NRSRO maintained a system to measure credit rating analyst productivity based on the number of rating actions an analyst was able to complete on a weekly basis. With respect to the initial determination of a credit rating, an analyst only received credit under the system if the credit rating was actually issued. In the Staff's view, this system established incentives for analysts to produce ratings as quickly as possible, without regard to rating quality, and the presence of such incentives made it difficult or impossible for the NRSRO to manage conflicts of interest related to how the NRSRO is paid for credit ratings. Furthermore, the system appeared to be designed to achieve sales and marketing objectives and to result in analytical employees being influenced by sales and marketing considerations. The Staff recommended that the NRSRO eliminate

performance measures for analysts that promote sales and marketing considerations and exacerbate conflicts of interest. The Staff also recommended that the NRSRO maintain adequate resources and utilize those resources to implement and enforce policies, procedures, and controls necessary to consistently produce credit ratings with integrity.

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

In its response, the NRSRO stated its belief that its conflict-related policies and procedures, training, and other controls provide a high measure of assurance regarding the NRSRO's compliance with Rule 17g-5. The NRSRO noted a lack of adverse responses to an annual survey of analysts regarding the presence of conflicts of interest. Nonetheless, the NRSRO indicated that it eliminated the productivity measurement system upon receipt of the Staff's finding and recommendation and that it plans to significantly augment the level of oversight of the firm's compensation and promotion policies and practices by the NRSRO's board of directors. The NRSRO also noted that it plans to perform a review of the adequacy of financial and managerial resources available to consistently produce ratings with integrity and will augment such resources as necessary and appropriate in accordance with the results of the review.

(2) In one instance, a senior manager of the NRSRO prevented the designated compliance officer from enforcing a policy and procedure regarding permitted attendance at a joint meeting of analytical and marketing personnel with clients. The senior manager's interference with the designated compliance officer's enforcement of the policy appeared to inhibit the designated compliance officer's ability to fulfill their Section 15E(j)(1) responsibility to administer conflicts of interest policies and procedures and ensure compliance with the securities laws. The Staff recommended that the NRSRO, as required by Section 15E(h)(1), enforce its conflicts of interest policies and procedures and, to facilitate compliance, provide appropriate notice and training on those policies to NRSRO personnel and institute appropriate discipline with regard to personnel who do not follow such policies.

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

In its response, the NRSRO stated that it plans to conduct a training session on its procedure regarding joint analytical and commercial meetings and calls and remind its employees by e-mail of the importance of adhering to such procedure. The NRSRO also indicated that it will perform a review of its discipline procedures, with a view toward strengthening disciplinary measures taken in response to intentional noncompliance with compliance obligations.

(3) The NRSRO did not appear to adhere to the policies and procedures it adopted pursuant to Section 15E(j)(3) to establish procedures for the receipt, retention, and treatment of complaints regarding credit ratings, models, and methodologies. In one instance, an analyst notified management about errors related to the incorporation of new information into a model used in the rating process. Although the analyst's emails appeared to constitute a complaint under the NRSRO's definition of that term, the NRSRO did not follow its policies and procedures regarding the receipt, retention, and treatment of complaints. The Staff recommended that the NRSRO adhere to its

complaints policies and procedures and ensure that its employees understand what types of communications constitute a complaint under such policies and procedures.

(4) In 2022, the NRSRO did not conduct surveillance reviews for a significant number of ratings within the time frame required by its policies and procedures, demonstrating that the NRSRO's internal controls surrounding adherence to its policies and procedures for determining credit ratings were not effective. The Staff recommended that the NRSRO implement effective controls promoting adherence to the surveillance review requirements set forth in its policies and procedures, as required by Section 15E(c)(3)(A).

(5) The NRSRO's policy regarding securities holdings generally requires employees to report their holdings to the compliance department. Certain accounts, however, were excluded from this requirement. Since the exclusion was not limited to indirect ownership interests, the NRSRO's policy did not appear to be reasonably designed, given the lack of monitoring of holdings that could result in a conflict of interest under Rule 17g-5(b)(6) or Rule 17g-5(c)(2). The Staff recommended that, consistent with the requirements of Section 15E(h)(1), the NRSRO establish, maintain, and enforce written policies and procedures reasonably designed to address and manage conflicts of interest with respect to directly owned securities held in the excluded accounts and review past account statements for such accounts to identify any instances where a credit analyst participated in determining a credit rating or had responsibility for approving a rating while directly owning securities of the rated entity.

i. Small NRSRO #2

(1) The Staff observed an instance where the NRSRO changed its rating analysis at the behest of a client in order to provide the client with a higher rating that was determined inconsistently with the NRSRO's policies, procedures, and methodologies for determining credit ratings. The NRSRO's internal control structure was ineffective in identifying inconsistencies between the client's suggestion and the NRSRO's methodology. Specifically, oversight by the rating committee appears to have been ineffective in this case. Based on a review of committee minutes and discussions with committee members, the Staff concluded that the committee did not appropriately scrutinize the change in analytical approach. Further, the circumstances under which the NRSRO changed its rating analysis demonstrate that analytical personnel were influenced by sales and marketing considerations, and, as such, the NRSRO issued and maintained the credit rating notwithstanding the existence of a prohibited conflict of interest. The Staff recommended that the NRSRO enhance its internal control structure required by Section 15E(c)(3)(A) and consider subjecting rating outcomes changed at a client's request to enhanced scrutiny. The Staff also recommended that the NRSRO review and, if appropriate, revise, any credit ratings that were determined using a similar analytical approach and, more broadly, any credit ratings that were determined using an analytical approach recommended by a client.

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

In its response, the NRSRO stated that it plans to modify the relevant methodology to clarify the NRSRO's analytical approach in situations such as those underlying the Staff's finding. The NRSRO also indicated that it will enhance controls regarding the evaluation of additional information provided by an entity after a rating has been determined. The enhanced controls identified by the NRSRO include requiring documentation related to the analysis of the information and memorializing related rating committee discussions. The NRSRO further stated that it will conduct a review of outstanding credit ratings in connection with the implementation of its contemplated methodology changes and that it will prepare a special report for discussion by its methodology development committee.

(2) The NRSRO did not appear to have effective internal controls to ensure that models were adequately evaluated and validated prior to use. With respect to one model, although a review was conducted and the model validated, such process did not discover apparent inconsistencies between the model and the governing methodology. The Staff recommended that, consistent with the requirements of Section 15E(c)(3)(A), the NRSRO implement controls reasonably designed to ensure that newly developed or updated models are adequately evaluated and validated prior to being put in use. The Staff also recommended that the NRSRO conduct a review of and, where appropriate, revise credit ratings that were determined using financial metrics that were calculated in a manner inconsistent with the methodology.

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

In its response, the NRSRO expressed disagreement with the Staff's conclusion that the model was inconsistent with the governing methodology and indicated that it plans to amend the methodology to provide clarity regarding its intended analytical approach. The NRSRO also indicated that it plans to document detailed minutes of board of directors discussions in connection with the approval of methodologies and models.

(3) The Staff observed an instance where the NRSRO did not retain a record of a model output that determined a model-implied rating used in the rating analysis. The Staff recommended that the NRSRO retain all internal records used to form the basis of a credit rating, as required by Rule 17g-2.

(4) The NRSRO made disclosures that implied it was registered as an NRSRO in certain asset classes in which it was not registered. In light of the Section 15E(f)(2) prohibition on a credit rating agency stating that it is an NRSRO when it is not registered as such, the Staff recommended that the NRSRO revise its existing disclosures and public filings, so they do not contain misleading information regarding the classes of credit ratings in which the NRSRO is registered.

(5) In certain instances, analysts used a messaging application to conduct analytical discussions pertaining to the determination of credit ratings. However, the NRSRO had limited access to message histories and, as a result, did not retain the communications for three years, as required by Rule 17g-2(c). Further, the NRSRO did not have policies and procedures governing the use of the messaging application, and the NRSRO's procedures governing document retention did not address communications on

the messaging application. The Staff recommended that the NRSRO retain all external and internal communications relating to initiating, determining, maintaining, monitoring, changing, or withdrawing a credit rating, as required by Rule 17g-2(b)(7), and establish appropriate controls to monitor communications to ensure compliance with its policies and procedures and applicable rules and statutes.

(6) The NRSRO published an information disclosure form that did not include all the information required to be disclosed under Rule 17g-7(a). Specifically, the NRSRO omitted from the form a disclosure regarding payment during the most recently ended fiscal year for non-credit rating services by a person that paid the NRSRO to determine a credit rating. The Staff recommended that, when applicable, the NRSRO state in the information disclosure form that it was also paid for services other than determining credit ratings by a person that paid it to determine the credit ratings.

(7) The Staff reviewed the underlying information with respect to certain rating transitions disclosed on Exhibit 1 to Form NRSRO and observed several instances where, contrary to the instructions to the form, multiple ratings for a single entity were included in Exhibit 1. The NRSRO indicated to Staff that it includes all credit ratings in its performance measurement statistics. The Staff recommended that the NRSRO modify its approach for determining the credit ratings to include in its performance measurement statistics in accordance with the instructions to Form NRSRO.

j. Small NRSRO #3

(1) The Staff identified instances where the NRSRO did not appear to store documents containing confidential information in a manner that would prevent unauthorized access, as required by the NRSRO's policies and procedures. In addition, the NRSRO's policies and procedures appeared to lack sufficient guidance regarding the handling of physical documents, creating the potential for inappropriate dissemination of material, non-public information and exposing analytical staff to sales and marketing considerations. The Staff recommended that the NRSRO establish, maintain, and enforce policies and procedures reasonably designed to safeguard physical documents to prevent the misuse of material non-public information and to prevent analytical staff from being influenced by sales or marketing considerations, as required by Section 15E(g)(1) and Section 15E(h)(1), respectively.

Additionally, one of the NRSROs appeared to not comply with certain requirements in a Commission order. The Staff recommended that the NRSRO comply with these requirements.

In total, the Staff communicated 29 essential findings to the NRSROs at the conclusion of the 2023 Section 15E examinations and identified five of these essential findings as material regulatory deficiencies. The essential findings can be grouped thematically as follows:

- nine related to issues addressing or managing conflicts of interest, implicating Sections 15E(h)(1), (4) and (5), and Rule 17g-5;[24]

24 One of these findings also implicated material, non-public information and another implicated internal controls. Each such finding is double counted within the list as a result.

- eight related to disclosure or reporting issues, implicating Section 15E(f)(2), Rule 17g-7(a), Rule 17g-7(b), and Form NRSRO;
- six related to internal control issues, implicating Section 15E(c)(3)(A);[25]
- three related to the retention and/or production of records, implicating Rule 17g-2;
- two related to issues regarding the prevention of misuse of material, non-public information, implicating Section 15E(g)(1);[26]
- two related to procedures for the receipt, retention, and treatment of complaints, implicating Section 15E(j)(3); and
- one related to compliance with a prior Commission order.

4. Responses to Recommendations from the 2022 Section 15E Examinations

To assess whether NRSROs appropriately addressed recommendations from the 2022 Section 15E examinations, the Staff reviewed each NRSRO's written response describing its planned remedial measures, participated in calls with each NRSRO to discuss its written response, and requested additional documentation, as appropriate. The Staff also continued to assess remedial measures taken to address recommendations from prior Section 15E examinations that had not previously been determined to have been appropriately addressed.

During the 2023 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/or that the Staff may not be able to fully assess the effectiveness of these measures during the 2023 Section 15E examinations.

The Staff determined all recommendations from the 2022 Section 15E examinations and, to the extent they had not previously been determined to have been appropriately addressed, prior Section 15E examinations, have been appropriately addressed, except as noted below. NRSROs generally addressed the recommendations from the 2022 Section 15E examinations 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.

In one instance, the Staff determined that a small NRSRO had attempted certain remedial efforts, but that such efforts did not appropriately address the corresponding recommendation. In 2022, the Staff found that the small NRSRO did not appear to acquire and analyze all material analytical facts when determining a credit rating. The Staff recommended that the NRSRO enhance its internal controls governing the implementation of and adherence to its policies, procedures, and methodologies for determining credit ratings as they pertain to data quality control, transaction vetting, and acquisition of information about its issuers. The Staff determined that the NRSRO did not appropriately address the 2022 recommendation because the NRSRO's remediation did not enhance its internal controls around data quality,

25 One of these findings also implicated conflicts of interest. This finding is double counted within the list as a result.
26 One of these findings also implicated conflicts of interest. This finding is double counted within the list as a result.

vetting new transactions, or acquiring information about its issuers in a way that would prevent future ratings from being issued despite a lack of consideration and understanding of all material analytical facts.

In another instance, the Staff determined that a small NRSRO had completed its remedial efforts, but that such efforts did not appropriately address the corresponding recommendation. In 2022, the Staff found that several information disclosure forms published by the small NRSRO did not appear to include disclosures required under Rule 17g-7(a). The Staff recommended that the NRSRO ensure that its information disclosure forms contain all required disclosures. While the Staff observed in the 2023 examination that the NRSRO made efforts to address the previous recommendation, the Staff determined that the NRSRO did not appropriately address the 2022 recommendation because the Staff identified a continued failure to disclose one of the required items that was the subject of the 2022 finding.

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, it also shows that the small and medium NRSROs continue to compete with the large NRSROs in certain rating categories. For instance, the information shows that AMB has the greatest number of ratings outstanding in the insurance category and that DBRS and KBRA have maintained a meaningful ratings share in the asset-backed securities category.[27]

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.[28] This information, for the calendar year ending December 31, 2022, is summarized in Charts 2 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 2 depicts the number of credit ratings each NRSRO had outstanding, as of December 31, 2022, in each rating category for which it was registered.
- Chart 3 depicts the percentage of each NRSRO's outstanding credit ratings of the total credit ratings outstanding in each category and overall.
- Chart 4 illustrates the relative size of each rating category based on the aggregate number of ratings reported outstanding by all NRSROs.
- Chart 5 illustrates the percentage of ratings each NRSRO had outstanding across all rating categories.

27 As discussed in Section IV.A.2 of this Report, information available on the websites of *Commercial Mortgage Alert* and *Asset-Backed Alert* also shows that DBRS and KBRA have achieved significant market shares in specific asset-backed securities rating subcategories over the past few years.

28 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 6 illustrates the percentage of ratings each NRSRO had outstanding across all rating categories other than the government securities category.
- Chart 7 depicts the percentage of ratings each NRSRO had outstanding in the government securities category.
- Chart 8 depicts the change in the number of non-government ratings outstanding for each NRSRO over the prior five years.
- Chart 9 depicts the change in the number of non-government ratings outstanding for each small and medium NRSRO over the prior five years.
- Chart 10 depicts the change in the number of asset-backed securities ratings outstanding for each NRSRO over the prior five years.

While comparing the number of ratings *outstanding* among NRSROs provides a cumulative view on the state of competition over time,[29] comparing the number of ratings *issued* by such NRSROs in a given period provides a more current picture of competition among NRSROs. Consequently, the information described in Charts 8 through 10 (which show changes in ratings outstanding over a five-year period) may provide an indication of how NRSROs have been competing in recent years. Additionally, 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 2021, may provide additional insight regarding the current competitive landscape 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.[30] 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.[31]

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.[32]

Chart 2 provides the number of outstanding credit ratings reported by each NRSRO in its annual certification for the calendar year ending December 31, 2022, in each of the five rating categories identified in Section 3(a)(62)(A) for

29 The ratings counts disclosed on Item 7A of Form NRSRO include outstanding credit ratings, regardless of when they were issued. As such, they reflect the rating activity of NRSROs over a period of years.

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

31 An NRSRO identifies its credit rating affiliates on Item 3 of Form NRSRO.

32 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 rating count disclosures 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 with respect to Item 7 of Form NRSRO).

Chart 2. Number of Outstanding Credit Ratings as of December 31, 2022, by Rating Category

NRSRO	Financial Institutions	Insurance Companies	Corporate Issuers	Asset-Backed Securities	Government Securities	Total Ratings	Year-Over-Year Change in Total Ratings (2021 to 2022)
AMB	N/R	7,373	979	7	N/R	8,359	1.10%
DBRS	8,179	190	2,515	18,712	33,009	62,605	1.66%
Demotech	N/R	439	N/R	N/R	N/R	439	N/A
EJR	6,020	626	8,673	N/R	N/R	15,319	8.75%
Fitch	33,890	3,219	20,485	34,091	170,291	261,976	-2.50%
HR	810	N/R	597	N/R	452	1,859	3.16%
JCR	923	99	3,296	N/R	369	4,687	3.72%
KBRA	1,880	219	527	21,830	9,898	34,354	13.92%
Moody's	35,643	2,702	32,554	51,826	548,837	671,562	-1.65%
S&P	56,773	6,924	55,009	37,338	908,740	1,064,784	-2.31%
Total	**144,118**	**21,791**	**124,635**	**163,804**	**1,671,596**	**2,125,944**	**-1.69%**

N/R indicates that the NRSRO was not registered in the applicable rating category as of the reporting date.
As Demotech was not registered as an NRSRO in 2021, year-over-year data is not available.
Percentages have been rounded to the nearest one-hundredth of one percent.
Sources: NRSRO annual certifications for the 2021 and 2022 calendar years, Item 7A on Form NRSRO.

Chart 3. Percentage by Rating Category of Each NRSRO's Outstanding Credit Ratings of the Total Outstanding Credit Ratings of all NRSROs as of December 31, 2022

NRSRO	Financial Institutions	Insurance Companies	Corporate Issuers	Asset-Backed Securities	Government Securities	Total Ratings	Percentage Point Change in Total Ratings from 2021 to 2022
AMB	N/R	33.84%	0.79%	<0.01%	N/R	0.39%	0.01%
DBRS	5.68%	0.87%	2.02%	11.42%	1.97%	2.94%	0.10%
Demotech	N/R	2.01%	N/R	N/R	N/R	0.02%	N/A
EJR	4.18%	2.87%	6.96%	N/R	N/R	0.72%	0.07%
Fitch	23.52%	14.77%	16.44%	20.81%	10.19%	12.33%	-0.10%
HR	0.56%	N/R	0.48%	N/R	0.03%	0.09%	<0.01%
JCR	0.64%	0.45%	2.64%	N/R	0.02%	0.22%	0.01%
KBRA	1.30%	1.01%	0.42%	13.33%	0.59%	1.62%	0.22%
Moody's	24.73%	12.40%	26.12%	31.64%	32.83%	31.59%	0.01%
S&P	39.39%	31.77%	44.14%	22.79%	54.36%	50.08%	-0.32%

N/R indicates that the NRSRO was not registered in the applicable rating category as of the reporting date.
As Demotech was not registered as an NRSRO in 2021, year-over-year data is not available.
Percentages have been rounded to the nearest one-hundredth of one percent.
Sources: NRSRO annual certifications for the 2021 and 2022 calendar years, Item 7A on Form NRSRO.

which the NRSRO was registered as of December 31, 2022, as applicable, as well as the percentage change in total ratings for each NRSRO from 2021 to 2022. Chart 3 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, 2022, as well as the percentage increase or decrease in total ratings from 2021 to 2022.[33]

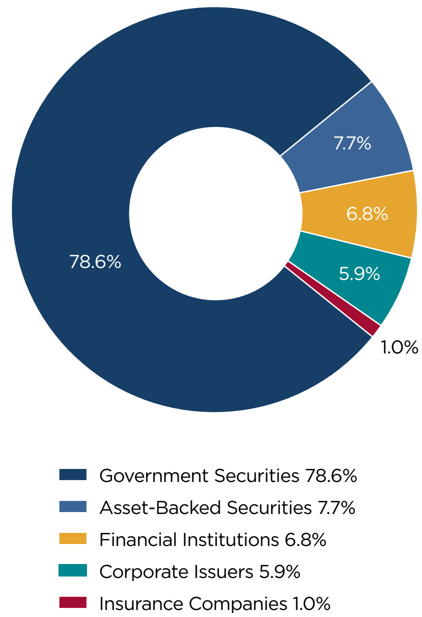
The large NRSROs accounted for 94.0% of all the ratings outstanding as of December 31, 2022—slightly lower than their 94.4% share as of December 31, 2021.[34]

Charts 2 and 3 also show that AMB, a medium NRSRO, had the most credit ratings outstanding in the insurance category. In each of the past nine years, AMB reported that it had the most credit ratings outstanding in the insurance category.[35]

Chart 4 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, 2022.

As illustrated by Chart 4, the largest proportion of the aggregate credit ratings reported to be

Chart 4. Breakdown of Ratings Reported Outstanding by Rating Category as of December 31, 2022



Percentages have been rounded to the nearest one-tenth of one percent.
Sources: NRSRO annual certifications for the 2022 calendar year, Item 7A on Form NRSRO.

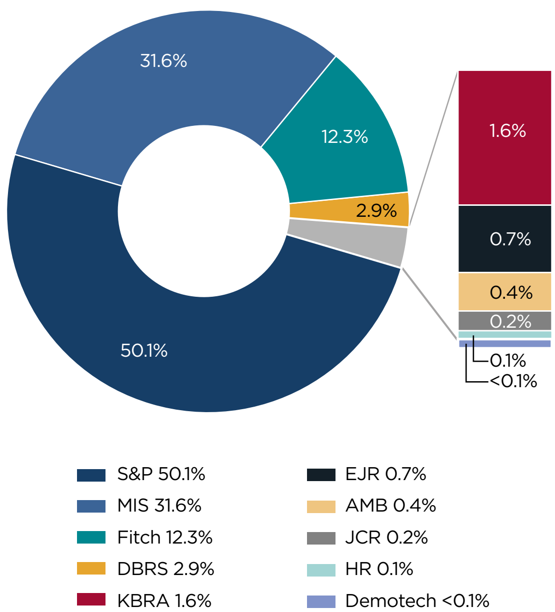
outstanding were in the government securities category, which may be attributable to the large number of government bond issuers (e.g., issuers of municipal securities) and their multiple debt offerings. The government securities category accounted for 78.6% of the total number of

33 For example, according to Chart 2, AMB reported that it had 7,373 insurance company credit ratings, and the total of the credit ratings in that category reported by all NRSROs was 21,791. Therefore, the percentage of NRSRO insurance company ratings attributable to AMB was approximately 33.84% (i.e., 7,373 divided by 21,791, expressed as a percentage), as shown on Chart 3.

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

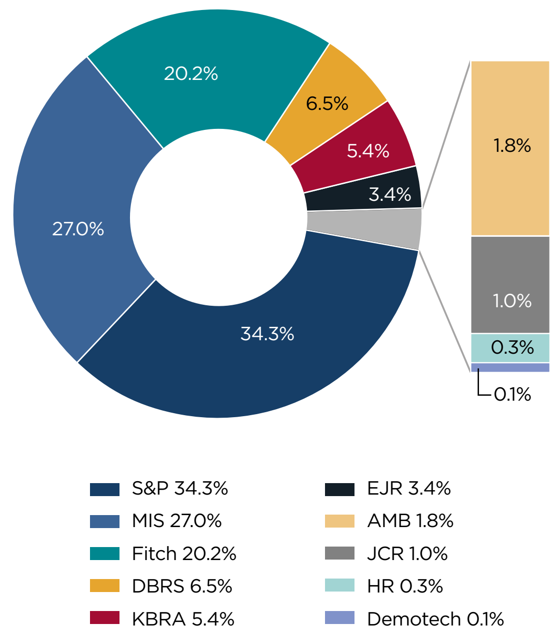
35 *See* 2021 and 2022 Staff Report on NRSROs, which can be found under "Staff Reports on Nationally Recognized Statistical Rating Organizations" and the Annual Reports to Congress and the Summary Examination Reports for prior years, which can be found under "Annual Reports to Congress" in the "Reports and Studies" section of the OCR webpage, available at https://www.sec.gov/about/divisions-office/office-credit-ratings/reports-and-studies.

Chart 5. Breakdown of Ratings Reported Outstanding by NRSRO as of December 31, 2022



Percentages have been rounded to the nearest one-tenth of one percent.
Sources: NRSRO annual certifications for the 2022 calendar year, Item 7A on Form NRSRO.

Chart 6. Breakdown of Non-Government Securities Ratings Reported Outstanding by NRSRO as of December 31, 2022



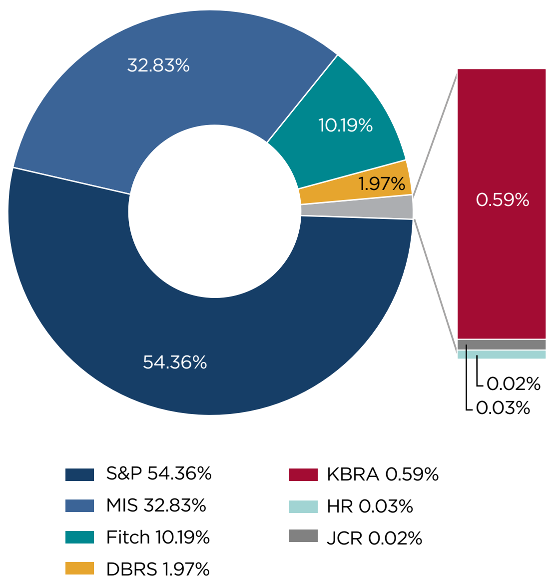
Percentages have been rounded to the nearest one-tenth of one percent.
Sources: NRSRO annual certifications for the 2022 calendar year, Item 7A on Form NRSRO.

credit ratings reported across all categories and, as shown on Chart 3 and Chart 7, is also the most concentrated rating category, with the large NRSROs accounting for 97.4% of all outstanding government securities ratings.

Chart 5 depicts the percentages of the credit ratings outstanding that are attributable to each NRSRO over all the rating categories; Chart 6 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; and Chart 7 depicts the percentages of the credit ratings outstanding that are attributable to each applicable NRSRO in the government securities category, in each case, as reported by each NRSRO in its annual certification for the calendar year ending December 31, 2022.

A comparison of Chart 5 to Chart 6 illustrates that there is less concentration in the non-government securities rating categories. S&P's and Moody's percentage share of all outstanding ratings declines by 15.8 and 4.6 percentage points, respectively, when government securities are excluded. Fitch's percentage share of outstanding ratings, on the other hand, increases by 7.9 percentage points when government securities are excluded. The percentage share for all the remaining NRSROs also increases when government securities are excluded. The government securities category accounted for 78.6% of the total number of credit ratings reported across all categories and,

Chart 7. Breakdown of Government Securities Ratings Reported Outstanding on December 31, 2022



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.
Sources: NRSRO annual certifications for the 2022 calendar year, Item 7A on Form NRSRO.

as shown on Chart 3 and Chart 7, is also the most concentrated rating category, with the large NRSROs accounting for 97.4% of all outstanding government securities ratings.

Further, it is difficult to graphically represent the relative rating shares of EJR, AMB, HR, JCR, and Demotech given that they, in the aggregate, comprise only 1.4% of all outstanding ratings when government securities are included. 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 6.

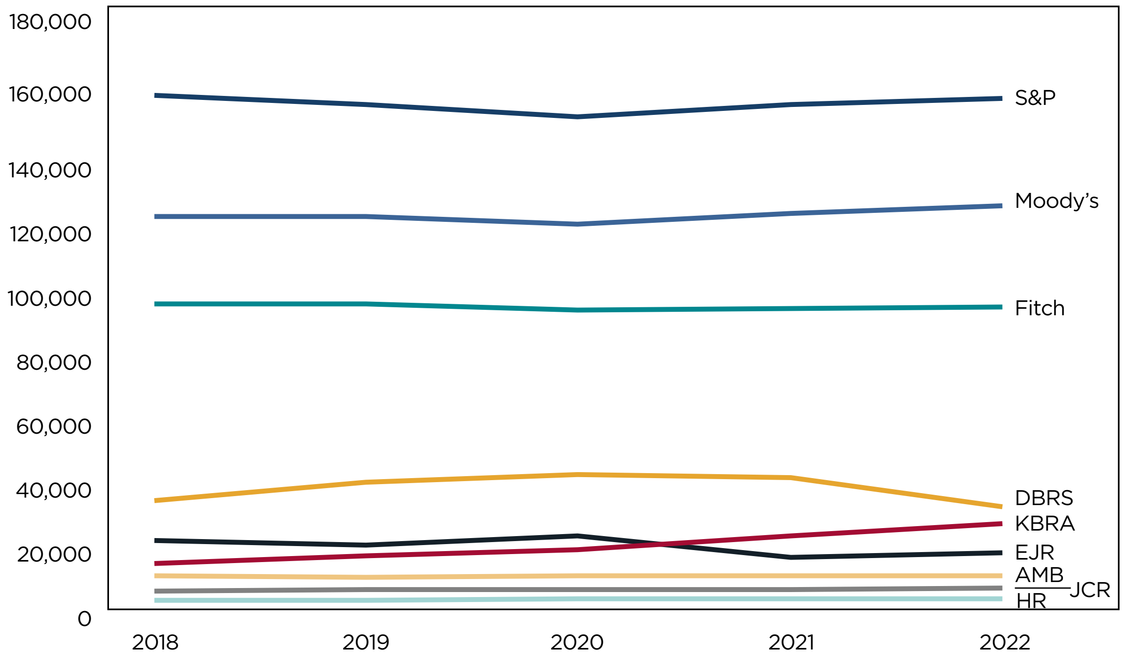
Chart 8 depicts the change in ratings outstanding over a period of five years for all ratings other than ratings in the government securities category reported outstanding by NRSROs, as reported by each NRSRO in its annual certifications for the calendar years ending December 31, 2018, through December 31, 2022.[36]

As illustrated in Chart 8, reported non-government ratings outstanding have remained mostly steady across all NRSROs over the past five years and, consistent with the information shown in Chart 3 for the year ending December 31, 2022, the larger NRSROs have significantly more ratings outstanding than the medium and small NRSROs. While modest on the scale of ratings outstanding by the large NRSROs, Chart 8 shows a steady increase in ratings for KBRA over the past five years, a recent decrease in ratings for DBRS and EJR, and a modest increase in ratings for the other medium and small NRSROs. The changes in outstanding ratings over time for these NRSROs is more apparent when viewing changes in ratings outstanding on a scale that includes only the medium and small NRSROs, as illustrated in Chart 9.[37]

36 Information for Demotech outstanding ratings is not included in Charts 8 and 9. As a recently registered NRSRO, Demotech first filed its annual certification for the year ending December 31, 2022, and year-over-year data is not available.

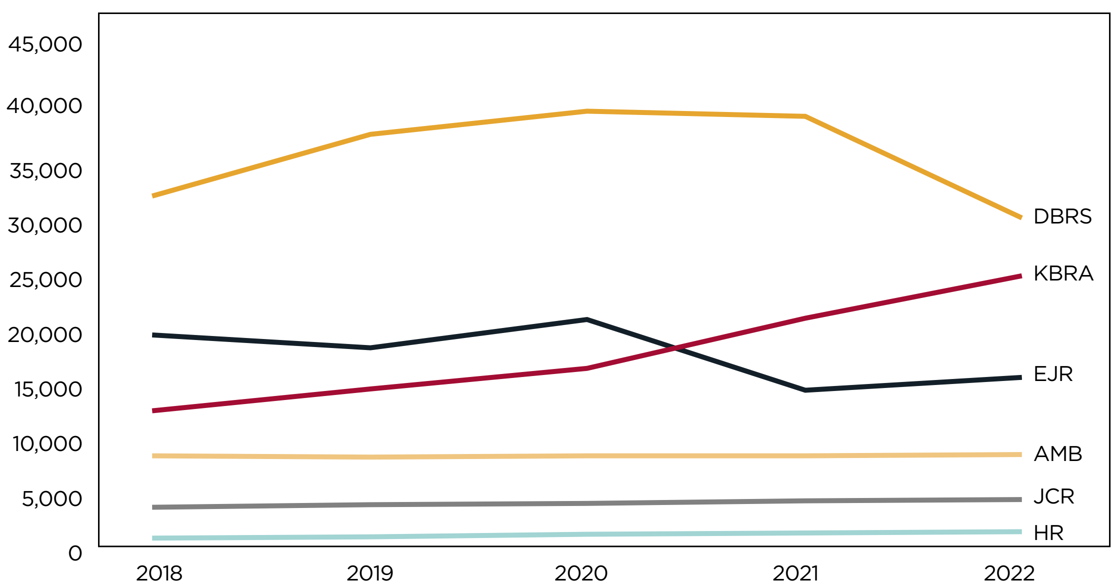
37 A comparison of Chart 6 in this Report with Chart 6 in Section IV.A.1 of the 2022 Staff Report on NRSROs (available at https://www.sec.gov/files/2023-ocr-staff-report.pdf) shows that, other than DBRS, each small and medium NRSRO's total non-government securities ratings share as of December 31, 2022, remained constant or increased compared to the ratings shares as of December 31, 2021. The largest percentage share changes were KBRA, whose percentage share increased by 0.9%, and DBRS, whose percentage share declined by 2.0%.

Chart 8. Total Non-Government Ratings Issued by All NRSROs (2018-2022)



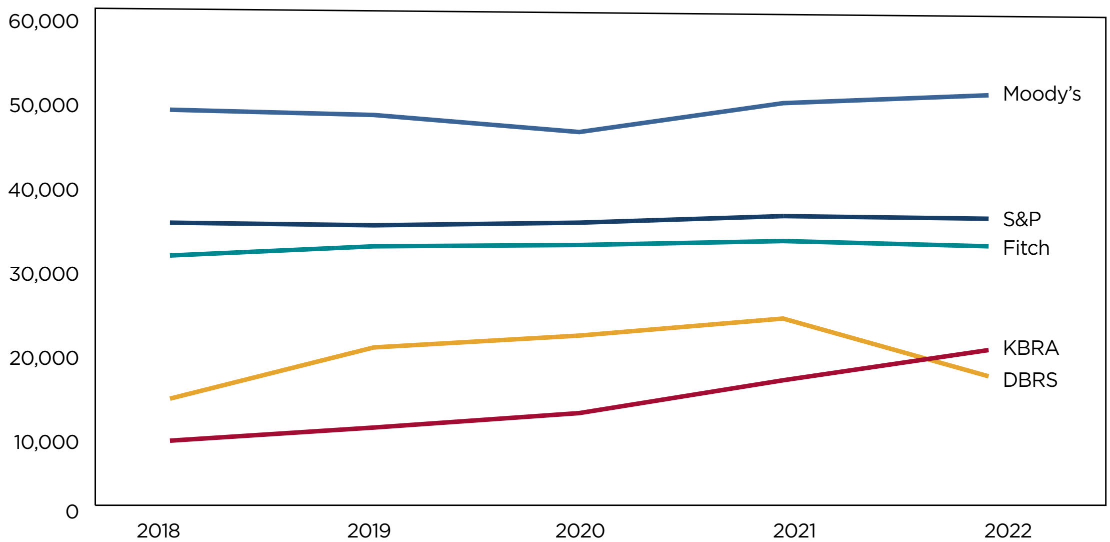
Sources: NRSRO annual certifications for the 2018-2022 calendar years, Item 7A on Form NRSRO.

Chart 9. Total Non-Government Ratings Issued by Medium and Small NRSROs (2018-2022)



Sources: NRSRO annual certifications for the 2018-2022 calendar years, Item 7A on Form NRSRO.

Chart 10. Total ABS Ratings Issued by All NRSROs (2018-2022)



Sources: NRSRO annual certifications for the 2018-2022 calendar years, Item 7A on Form NRSRO.

Chart 10 depicts the change in ratings outstanding over a period of five years for all ratings in the asset-backed securities rating class reported outstanding by NRSROs.[38]

As discussed in more detail in Section IV.A.2, medium NRSROs have been able to make inroads in the asset-backed securities rating class. Chart 10 provides a graphic representation of changes in ratings outstanding in this rating class since 2018. Both DBRS and KBRA have increased or maintained the number of ratings reported outstanding over the past five years. During this same period, the ratings counts for Fitch and S&P have remained fairly steady. The number of outstanding ratings for Moody's has not changed significantly in total, but Moody's has shown an increase in ratings outstanding in the past two years.

b. NRSRO Analytical Staffing Levels

Chart 11 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.[39]

The large NRSROs report employing 4,754 credit analysts (including supervisors), which is approxi-

38 Demotech, 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 2, it only has seven outstanding asset-backed securities ratings as of December 31, 2022. For these reasons, Chart 10 only includes data from DBRS, Fitch, KBRA, Moody's, and S&P.

39 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).

Chart 11. NRSRO Credit Analysts and Credit Analyst Supervisors

NRSRO	Credit Analysts (Including Credit Analyst Supervisors)	Credit Analyst Supervisors
AMB	160	48
DBRS	584	157
Demotech	4	1
EJR	26	14
Fitch	1,372	333
HR	66	11
JCR	61	27
KBRA	242	55
Moody's	1,796	243
S&P	1,586	133
Total	**5,897**	**1,022**

Sources: Exhibit 8 to Form NRSRO, in effect as of each NRSRO's annual certification for the 2022 calendar year filed on or before March 31, 2023.

mately 80.6% of the total number employed by all of the NRSROs. The small and medium NRSROs, in the aggregate, employ approximately 19.4% of all credit analysts employed by NRSROs.[40] Total NRSRO analytical staff increased by about 6% compared to the information reported in the prior year annual certifications.

Chart 12. NRSRO Fiscal Year Revenue as a Percentage of Aggregate Reported Revenue

	2022	2021	2020	2019
Large NRSROs	91.1%	93.2%	94.1%	93.3%
Medium NRSROs	7.3%	5.6%	5.1%	5.9%
Small NRSROs	1.6%	1.1%	0.8%	0.8%

Percentages have been rounded to the nearest one-tenth of one percent.
Sources: Financial reports filed with the Commission under Rule 17g-3(a)(3) for fiscal years ended 2019 through 2022. 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.

c. NRSRO Revenue

Chart 12 shows the percentage of total NRSRO revenues attributable to the large, medium, and small NRSROs since 2019.[41] Changes to the composition of certain registered NRSROs and the registration of an additional NRSRO in recent years may limit the comparability of the revenue distribution across the years.[42] Nonetheless, observations of changes to the distribution of revenue may provide some insight into the overall competitive landscape. Following a small increase in fiscal year 2020, the percentage of aggregate NRSRO revenue reported by the large NRSROs

40 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, 17.0% of all NRSRO analysts in 2019, 16.3% of all NRSRO analysts in 2020, and 18.4% of all NRSRO analysts in 2021.

41 Pursuant to Rule 17g-3(a)(3), each NRSRO is required to file annually with the Commission an unaudited revenue report, which includes revenue received from determining and maintaining credit ratings, subscribers and subscription services, granting licenses or rights to publish credit ratings, and other services and products. NRSROs are not required to make these revenue reports publicly available.

42 Following its acquisition of DBRS in July 2019, Morningstar, Inc. began to integrate the businesses of DBRS and Morningstar Credit Ratings, LLC (MCR), which at the time was also registered as an NRSRO. Effective December 30, 2019, MCR withdrew its registration as an NRSRO. MCR continued to operate as a credit rating affiliate of DBRS until November 23, 2020. Additionally, as a recently registered NRSRO, Demotech first filed the financial report required under Rule 17g-3(a)(3) for the fiscal year ended in 2022 and is not included in prior years.

has fallen below the level reported for fiscal year 2019. The revenue share of the medium NRSROs has increased from 2021, reaching a new high of 7.3% in 2022. The small NRSROs' share of overall NRSRO revenue has also increased this year, growing by 0.5 percentage points in fiscal year 2022 compared with 2021.

Further revenue information is available for NRSROs that are owned by public companies. The following information is from the 2022 annual reports of public companies with an ownership interest in an NRSRO:

- Moody's Corporation, which is Moody's parent company, reported $2.7 billion in Moody's external revenue for 2022, a 29% decrease from 2021. This decrease, according to the report, was due to muted credit market activity across all sectors given ongoing market volatility and central bank actions. The corporate finance group, financial institutions group, public, project and infrastructure finance group, and structured finance group of Moody's each had a decrease in revenue compared to 2021 results.[43]
- S&P Global Inc., which is S&P's parent company, reported $3.1 billion in S&P's revenue for 2022, a 26% decrease from 2021. This decrease, according to the report, was due to lower corporate bond ratings revenue, bank loan ratings revenue, and structured finance revenue. Non-transaction revenue decreased primarily due to an unfavorable impact of foreign exchange rates, a decrease in entity credit ratings revenue, and lower revenue from S&P's Ratings Evaluation Service, an analytical tool for entities that are considering strategic or financial initiatives that could impact their creditworthiness.[44]
- Morningstar, Inc., which is DBRS's parent company, reported $236.9 million in revenue from DBRS, a 12.6% decrease in revenue from 2021. This decrease, according to the report, was due to a sharp decrease in credit issuance in the second half of the year, along with significant declines in commercial and residential mortgage-backed securities ratings. Transaction-based revenue from one-time, transaction-based fees for ratings on newly-issued securities decreased 11% in 2022.[45]

Recent regulatory filings show a decline in revenues at Moody's and DBRS and a slight increase in revenue at S&P in the first half of 2023 compared to the same period in 2022. Moody's Corporation reported $1.5 billion in Moody's external revenue for the first half of 2023, a 3% decrease compared with the same period in 2022. This decrease, according to the report, was due to declines in bank loan and structured finance issuance resulting from market volatility relating to macroeconomic uncertainties, higher borrowing costs, and the Russia-Ukraine conflict. This decrease in external revenue was partially offset by an increase in

43 *See* Moody's Corporation, Annual Report on Form 10-K for the year ended December 31, 2022, available at https://www.sec.gov/Archives/edgar/data/1059556/000105955623000016/mco-20221231.htm.

44 *See* S&P Global Inc., Annual Report on Form 10-K for the year ended December 31, 2022, available at https://www.sec.gov/ix?doc=/Archives/edgar/data/64040/000006404023000058/spgi-20221231.htm.

45 *See* Morningstar, Inc., Annual Report on Form 10-K for the year ended December 31, 2022, available at https://www.sec.gov/ix?doc=/Archives/edgar/data/1289419/000128941923000005/morn-20221231.htm. Transaction-based revenue from one-time, transaction-based fees for ratings on newly-issued securities represented 57.6% of the revenue generated by DBRS, with the remainder classified as transaction related revenue or revenue generated by annual fees tied to surveillance, research, and other services.

investment grade corporate debt issuance compared to suppressed activity in 2022.[46]

S&P Global Inc. reported $1.7 billion in revenue at S&P for the first half of 2023, a 1% increase compared with the same period in 2022. This increase, according to the report, was due to growth in corporate bond ratings revenue driven by increased investment-grade and high-yield issuance volumes due to higher refinancing activity. According to the report, the increase in revenue was partially offset by lower bank loan ratings revenue driven by decreased issuance volumes.[47]

Morningstar, Inc. reported $101.0 million in DBRS revenue for the first half of 2023, a 24.9% decrease compared with the same period in 2022. This decrease, according to the report, primarily resulted from a sharp drop in revenue from commercial mortgage-backed securities ratings. Additionally, revenue from financial institutions and sovereigns also declined but were partially mitigated by growth in revenue from asset-backed securities ratings, corporate credit ratings, and revenue related to data products.[48]

2. 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. The market share data discussed in this Section IV.A.2[49] provides information about ratings issued in 2021, 2022, and the first half of 2023 and shows that DBRS and KBRA have achieved meaningful market share percentages in recent years with respect to certain types of asset-backed securities.[50]

Section IV.A.2.a and 2.b below discuss NRSRO market share information with respect to certain asset-backed securities, based on information from the databases available on the *Commercial Mortgage Alert* and *Asset-Backed Alert* websites.[51]

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46 *See* Moody's Corporation, Quarterly Report on Form 10-Q for the period ended June 30, 2023, available at https://www.sec.gov/ix?doc=/Archives/edgar/data/0001059556/000105955623000052/mco-20230630.htm.

47 *See* S&P Global Inc., Quarterly Report on Form 10-Q, for the period ended June 30, 2023, available at https://www.sec.gov/ix?doc=/Archives/edgar/data/64040/000006404023000159/spgi-20230630.htm.

48 *See* Morningstar, Inc., Quarterly Report on Form 10-Q for the period ended June 30, 2023, available at https://www.sec.gov/ix?doc=/Archives/edgar/data/0001289419/000128941923000015/morn-20230630.htm.

49 Unless noted otherwise, all market share percentages in this Section IV.A.2 are based on dollar amounts of issuance.

50 DBRS and KBRA are the only medium or small NRSROs that actively rate asset-backed securities. Demotech, 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 2, it only has seven outstanding asset-backed securities ratings as of December 31, 2022. For these reasons, this section only discusses observations related to DBRS, Fitch, KBRA, Moody's, and S&P, which are the five NRSROs registered in the asset-backed securities category with current asset-backed securities rating activity.

51 *See Commercial Mortgage Alert* website, available at https://www.greenstreet.com/news/commercial-mortgage-alert and *Asset-Backed Alert* website, available at https://www.greenstreet.com/news/asset-backed-alert. The information in Charts 13 through 16 is based on information from the *Commercial Mortgage Alert's* CMBS database as of July 28, 2023, and the information in Charts 17 through 19 and the accompanying discussion is based on information from the *Asset-Backed Alert's* ABS database as of July 28, 2023. Although analysis of the information from the databases 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.

a. CMBS

Charts 13 through 16 provide information concerning U.S.[52] CMBS[53] ratings by NRSROs, based on information from the *Commercial Mortgage Alert* database. NRSRO market share varies between the conduit CMBS and single-borrower CMBS segments,[54] the two segments that account for most of the non-agency[55] U.S. CMBS transactions rated by NRSROs. The charts include reported market share information for total non-agency U.S. CMBS transactions,[56] U.S. conduit CMBS transactions, U.S. single-borrower CMBS transactions, and agency CMBS transactions[57] for the first half of calendar year 2023 and calendar years 2022 and 2021.[58]

Chart 13. Rating Agency Market Shares for Total Non-Agency U.S. CMBS Issued in 2021, 2022, and First Half of 2023

1H-2023 Rank	NRSRO	1H-2023 Issuance ($Mil.	No. of deals	Market Share % ($)/(#)	2022 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)	2021 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)
1	Fitch	10,638	15	78.0/71.4	38,114	37	54.3/45.7	57,361	60	51.9/42.3
2	Moody's	7,747	12	56.8/57.1	46,275	51	65.9/63.0	38,342	45	34.7/31.7
3	KBRA	7,663	11	56.2/52.4	28,249	28	40.2/34.6	46,466	47	42.0/33.1
4	S&P	4,293	6	31.5/28.6	17,589	21	25.0/25.9	17,589	55	15.9/38.7
5	DBRS	2,650	4	19.4/19.0	26,126	27	37.2/33.3	56,655	71	51.2/50.0
Total Rated Market		**13,638**	**21**		**70,231**	**81**		**110,557**	**142**	

Source: *Commercial Mortgage Alert's* CMBS database as of July 28, 2023.

52 Based on information about the databases available on the *Asset-Backed Alert* and *Commercial Mortgage Alert* websites, 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.

53 Based on information about the database available on the *Commercial Mortgage Alert* website, the "CMBS" category is comprised of transactions secured by a static pool of mortgages or leases on income producing properties, either commercial or multi-family.

54 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.

55 "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.

56 Total U.S. CMBS transactions include single-borrower CMBS, conduit CMBS, and other types of CMBS, such as large loan and small-balance/legacy conduit CMBS transactions.

57 Only agency CMBS transactions with a rating from one or more NRSROs are included for determining NRSRO market share in the agency CMBS category.

58 The market share percentages for each NRSRO in Charts 13 through 16 reflect the amount rated by the NRSRO as a percentage of the total amount rated by one or more NRSRO. Market share percentages are provided based on both dollar amounts of issuance and number of deals rated. Because it is typical for more than one NRSRO to rate a particular transaction, the sum of the market share percentages may exceed 100% and the sum of the amounts attributed to each NRSRO may exceed the total rated amount. The source of the data for these charts is the *Commercial Mortgage Alert's* CMBS database as of July 28, 2023.

Chart 14. Rating Agency Market Shares for U.S. Conduit CMBS Issued in 2021, 2022, and First Half of 2023

1H-2023 Rank	NRSRO	1H-2023 Issuance ($Mil.	No. of deals	Market Share % ($)/(#)	2022 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)	2021 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)
1	Fitch	6,989	9	100.0/100.0	23,750	25	100.0/100.0	31,428	32	100.0/100.0
1	KBRA	6,989	9	100.0/100.0	17,015	18	71.6/72.0	25,809	26	82.1/81.3
2	Moody's	3,597	5	51.5/55.6	13,615	14	57.3/56.0	6,771	7	21.5/21.9
3	S&P	3,393	4	48.5/44.4	9,646	10	40.6/40.0	22,906	22	72.9/68.8
4	DBRS	0	0	0.0/0.0	8,889	9	37.4/36.0	6,984	7	22.2/21.9
Total Rated Market		**6,989**	**9**		**23,750**	**25**		**31,428**	**32**	

Source: *Commercial Mortgage Alert's* CMBS database as of July 28, 2023.

Chart 15. Rating Agency Market Shares for U.S. Single-Borrower CMBS Issued in 2021, 2022, and First Half of 2023

1H-2023 Rank	NRSRO	1H-2023 Issuance ($Mil.	No. of deals	Market Share % ($)/(#)	2022 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)	2021 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)
1	Moody's	4,150	7	62.4/58.3	32,383	36	70.1/65.5	31,571	38	39.9/34.5
2	Fitch	3,649	6	54.9/50.0	14,364	12	31.1/21.8	25,933	28	32.8/25.5
3	DBRS	2,650	4	39.9/33.3	17,237	18	37.3/32.7	49,671	64	62.8/58.2
4	S&P	900	2	13.5/16.7	7,943	11	17.2/20.0	22,979	33	29.0/30.0
5	KBRA	674	2	10.1/16.7	10,957	9	23.7/16.4	20,657	21	26.1/19.1
Total Rated Market		**6,649**	**12**		**46,204**	**55**		**79,128**	**110**	

Source: *Commercial Mortgage Alert's* CMBS database as of July 28, 2023.

Chart 16. Rating Agency Market Shares for Agency CMBS Issued in 2021, 2022, and First Half of 2023

1H-2023 Rank	NRSRO	1H-2023 Issuance ($Mil.	No. of deals	Market Share % ($)/(#)	2022 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)	2021 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)
1	KBRA	5,615	5	87.5/83.3	15,690	13	64.8/65.0	7,538	7	31.8/35.0
2	Fitch	4,570	4	71.2/66.7	14,240	12	58.8/60.0	22,469	19	94.9/95.0
3	Moody's	1,847	2	28.8/33.3	9,989	8	41.2/40.0	1,216	1	5.1/5.0
4	DBRS	802	1	12.5/16.7	8,539	7	35.2/35.0	16,147	13	68.2/65.0
Total Rated Market		**6,417**	**6**		**24,229**	**20**		**23,685**	**20**	

Source: *Commercial Mortgage Alert's* CMBS database as of July 28, 2023.

Charts 13 through 16 show that in 2021, 2022, and the first half of 2023 the large NRSROs generally held a large percentage of the market shares in rating U.S. CMBS rated transactions, but DBRS and KBRA achieved significant market shares as well.

As illustrated in Chart 13, in the first half of 2023, KBRA had the third-highest market share in the non-agency U.S. CMBS segment. In 2022, KBRA and DBRS had the third- and fourth-highest market shares, respectively. In 2021, DBRS was closely behind Fitch for the second-highest market share measured by issuance amount, and KBRA had the third-highest market share by both issuance amount and number of deals. KBRA has consistently attained a market share over 40% by issuance amount since 2021, and in 2021 KBRA obtained a higher market share than Moody's and S&P.

Since 2021, Fitch has maintained the highest market share in the U.S. conduit CMBS segment, rating all rated transactions. However, as illustrated in Chart 14, KBRA has maintained the second-highest market share in the U.S. conduit CMBS segment since 2021. Additionally, as of the first half of 2023, KBRA has rated all U.S. conduit CMBS rated transactions, and in 2020 and 2021 DBRS rated over 20% of these transactions.

As illustrated in Chart 15, DBRS achieved significant market share in this segment, achieving the highest market share in 2021, the second-highest for 2022, and the third-highest for the first half of 2023. Additionally, KBRA rated nearly 25% of the issuance amount in 2022 and over 25% of the issuance amount in 2021.

As illustrated in Chart 16, KBRA had the highest market share in the agency CMBS segment during the first half of 2023 and in 2022. Additionally, DBRS had the second-highest market share in 2021.

b. ABS/MBS/CLO

Charts 17 through 19 provide information concerning U.S. ABS,[59] U.S. MBS,[60] and U.S. CLO[61] ratings by NRSROs, based on information from the *Asset-Backed Alert* database. The charts include reported market share information for these transactions for the first half of calendar year 2023 and calendar years 2022 and 2021.[62]

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59 Based on information about the database available on the *Asset-Backed Alert* website, the "ABS" category is comprised of securities that are collateralized by assets other than the following: CMBS; MBS; CLOs; collateral debt obligations collateralized primarily by other securities; issuances by municipalities; tax exempt issues; issues that are fully retained by an affiliate of the deal sponsor or sold to a commercial paper-conduit operated by an affiliate of the sponsor; commercial paper and other continuously offered securities such as medium-term notes; and refinancing of previously offered securities.

60 Based on information about the database available on the *Asset-Backed Alert* website, the "MBS" category is comprised of registered securities backed by U.S. first-lien residential properties (typically jumbo mortgages that would otherwise meet the criteria of Fannie Mae and Freddie Mac) and Alt-A home loans.

61 Based on information about the database available on the *Asset-Backed Alert* website, the "CLO" category is comprised of deals that take the form of collateralized loan obligations (exclusive of collateralized debt obligations collateralized primarily by other securities). In the period reviewed, these consisted of deals involving corporate loan arbitrage, small business/SME loans, and commercial real estate loans.

62 The market share percentages for each NRSRO in Charts 17 through 19 reflect the amount rated by the NRSRO as a percentage of the total amount rated by one or more NRSRO. Market share percentages are provided based on both dollar amounts of issuance and number of deals rated. Because it is typical for more than one NRSRO to rate a particular transaction, the sum of the market share percentages may exceed 100% and the sum of the amounts attributed to each NRSRO may exceed the total rated amount. The source of the data for these charts is the *Asset-Backed Alert's* ABS database as of July 28, 2023.

Chart 17. Rating Agency Market Shares for U.S. ABS Issued in 2021, 2022, and First Half of 2023

1H-2023 Rank	NRSRO	1H-2023 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)	2022 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)	2021 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)
1	S&P	79,177	108	59.0/49.3	144,924	182	56.3/42.7	162,345	217	55.1/47.1
2	Fitch	73,543	86	54.8/39.3	116,645	145	45.3/34.0	102,453	102	34.8/22.1
3	Moody's	65,782	85	49.0/38.8	130,187	161	50.6/37.8	146,191	154	49.6/33.4
4	KBRA	26,394	69	19.7/31.5	56,005	153	21.8/35.9	73,391	188	24.9/40.8
5	DBRS	19,210	45	14.3/20.5	35,078	84	13.6/19.7	68,983	137	23.4/29.7
Total Rated Market		**134,120**	**219**		**257,420**	**426**		**294,687**	**461**	

Source: *Asset-Backed Alert's* ABS database as of July 28, 2023.

Chart 18. Rating Agency Market Shares for U.S. MBS Issued in 2021, 2022, and First Half of 2023

1H-2023 Rank	NRSRO	1H-2023 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)	2022 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)	2021 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)
1	Fitch	21,395	63	70.8/68.5	48,257	113	43.9/42.3	65,263	149	40.1/41.0
2	DBRS	15,142	43	50.1/46.7	39,010	100	35.5/37.5	62,200	115	38.2/31.7
3	KBRA	8,865	25	29.3/27.2	57,810	124	52.6/46.4	63,376	143	38.9/39.4
4	S&P	4,012	13	13.3/14.1	22,106	58	20.1/21.7	25,492	76	15.6/20.9
5	Moody's	2,168	6	7.2/6.5	37,000	72	33.6/27.0	79,738	140	48.9/38.6
Total Rated Market		**30,220**	**92**		**109,984**	**267**		**162,937**	**363**	

Source: *Asset-Backed Alert's* ABS database as of July 28, 2023.

Chart 19. Rating Agency Market Shares for U.S. CLOs Issued in 2021, 2022, and First Half of 2023

1H-2023 Rank	NRSRO	1H-2023 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)	2022 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)	2021 Issuance ($Mil.)	No. of deals	Market Share % ($)/(#)
1	S&P	30,652	71	56.9/55.5	65,408	140	42.0/41.2	254,633	532	56.1/54.3
2	Moody's	29,273	69	54.3/53.9	93,372	202	59.9/59.4	225,675	506	49.7/51.7
3	Fitch	22,769	53	42.2/41.4	75,505	158	48.4/46.5	76,710	158	16.9/16.1
4	KBRA	740	3	1.4/2.3	3,590	10	2.3/2.9	16,342	32	3.6/3.3
5	DBRS	0	0	0.0/0.0	1,047	4	0.7/1.2	3,227	4	0.7/0.4
Total Rated Market		**53,896**	**128**		**155,890**	**340**		**453,835**	**979**	

Source: *Asset-Backed Alert's* ABS database as of July 28, 2023.

Chart 17 shows that DBRS and KBRA have achieved and maintained meaningful U.S. ABS rating market shares, although their relative shares have declined since 2021. S&P, Moody's, and Fitch have consistently achieved the highest market shares based on issuance amount. KBRA has maintained market share of approximately 20% or higher since 2021 and DBRS approximately 14% or higher.

Chart 17 presents an overview of NRSRO market share for ABS overall, but an analysis of the data underlying the chart shows that the market shares vary considerably across various types of ABS products. For example, DBRS and KBRA have gained significant market share in some newer or less traditional types of asset-backed securities. They 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 2021, 2022, and the first half of 2023, with each rating between 42.7% to 56.6% of the issuance amount of the rated transactions during this period. Comparatively, Moody's, S&P, and Fitch each rated less than 30% of the issuance amount over the same time period.[63]

There are additional examples of market share gains achieved by a medium NRSRO in discrete asset classes. For instance, KBRA rated 85.6% and 100% of the issuance amount of aircraft-lease receivables transactions during 2021 and 2022, respectively, while Moody's, S&P, and Fitch each rated less than 55% of the issuance amount over the same time period.[64] KBRA also had the second-highest market share for whole-business securitizations in 2021, and the highest market share in 2022 and the first half of 2023, rating 60.2%, 92.1% and 100%, respectively, of the issuance amount of such transactions.[65] DBRS and KBRA had the two highest market shares for small business loan transactions in 2021, 2022, and the first half of 2023, with each rating between 32.6% to 78.7% during this period. Comparatively, Moody's, S&P, and Fitch each rated less than 12.8% of the issuance amount over the same time period.[66]

DBRS and KBRA have been able to gain market share rating certain more traditional types of ABS as well. For example, DBRS rated 90.2%, 94.1%, and 82.3% of the issuance amount of student loan transactions during 2021, 2022, and the first half of 2023, respectively, which represented the first- or second-highest market share.[67]

Both DBRS and KBRA have maintained a significant market share in certain auto-related asset-

63 *Asset-Backed Alert's* ABS database indicates that 74 unsecured consumer loan transactions totaling $27.7 billion were issued in 2021, 75 unsecured consumer loan transactions totaling $26.1 billion were issued in 2022, and 26 unsecured consumer loan transactions totaling $8.9 billion were issued during the first half of 2023.

64 *Asset-Backed Alert's* ABS database indicates that 16 aircraft-lease receivable transactions totaling $9.2 billion were issued during 2021, and two aircraft-lease receivable transactions totaling $1.1 billion were issued during 2022.

65 *Asset-Backed Alert's* ABS database indicates that 19 whole-business securitization transactions totaling $13.9 billion were issued during 2021, 14 whole-business securitization transactions totaling $6.3 billion were issued during 2022, and three whole business securitization transactions totaling $1.6 billion were issued during the first half of 2023.

66 *Asset-Backed Alert's* ABS database indicates that 13 small business loan transactions totaling $2.1 billion were issued in 2021, 17 small business loan transactions totaling $7.5 billion were issued in 2022, and nine small business loan transactions totaling $1.2 billion were issued during the first half of 2023.

67 *Asset-Backed Alert's* ABS database indicates that 50 student loan transactions totaling $32.3 billion were issued in 2021, 11 student loan transactions totaling $7.5 billion were issued in 2022, and eight student loan transactions totaling $4.7 billion were issued during the first half of 2023.

backed securities. In 2021, 2022, and the first half of 2023, DBRS rated 33.1%, 30.6%, and 30.4% of subprime auto loan transactions, respectively. KBRA also maintained a significant market share; in 2021, 2022, and the first half of 2023, KBRA rated 35.1%, 37.8%, and 40.0% of the issuance amount of subprime auto loan transactions.[68]

Chart 18 shows that the U.S. MBS segment remains competitive. DBRS's market share by issuance amount went from 38.2% in 2021 to 35.5% in 2022 to 50.1% in the first half of 2023, while KBRA's market share by issuance amount went from 38.9% in 2021 to 52.6% in 2022 to 29.3% in the first half of 2023. DBRS and KBRA have, however, achieved notable market share in certain types of ABS related to the residential housing market, but not considered to be MBS under the *Asset-Backed Alert* database's criteria and therefore included within the data shown in Chart 17. For example, in 2021, 2022, and the first half of 2023, DBRS rated 79.5%, 85.0%, and 95.1% of the issuance amount of re-performing mortgage transactions, respectively, which represented the first- or second-highest market share.[69] Additionally, KBRA and DBRS have maintained a significant market share in subprime mortgage transactions and risk transfer transactions. For subprime mortgage transactions from 2021 to the first half of 2023, KBRA rated between 34.5% and 52.4% and DBRS rated between 26.6% and 34.9% of the issuance amount; for risk transfer transactions, KBRA rated between 26.1% and 61.3% and DBRS rated between 26.7% and 50.0% of the issuance amount.[70]

Finally, as shown in Chart 19, although DBRS and KBRA have attained a foothold in the U.S. CLO segment, their individual market shares have decreased. In comparison, S&P, Moody's, and Fitch have maintained the highest market shares since 2021.

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 is that 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 require the use of ratings of specified NRSROs.[71] The effect of these requirements can

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68 *Asset-Backed Alert's* ABS database indicates that 68 subprime auto loan transactions totaling $43.5 billion were issued in 2021, 63 subprime auto loan transactions totaling $33.5 billion were issued in 2022, and 41 subprime auto loan transactions totaling $19.7 billion were issued during the first half of 2023.

69 *Asset-Backed Alert's* ABS database indicates that 32 re-performing mortgage transactions totaling $19.8 billion, were issued in 2021, 29 re-performing mortgage transactions totaling $14.4 billion were issued in 2022, and ten re-performing mortgage transactions totaling $4.7 billion were issued during the first half of 2023.

70 *Asset-Backed Alert's* ABS database indicates that 93 subprime mortgage transactions totaling $29.3 billion, and 37 risk transfer transactions totaling $23.5 billion were issued during 2021, 104 subprime mortgage transactions totaling $37.9 billion, and 26 risk transfer transactions totaling $23.1 billion were issued during 2022, and 43 subprime mortgage transactions totaling $14.7 billion, and 10 risk transfer transactions totaling $5.9 billion were issued during the first half of 2023.

71 *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.

be to increase the demand for and liquidity of securities bearing the ratings of specified rating agencies, which may provide an incentive for issuers to obtain ratings from the specified agencies. Historically, many of these guidelines refer to the ratings from the large NRSROs by name (i.e., Fitch, Moody's, and S&P). Despite reports that investors are increasingly changing their guidelines to allow for investments in securities rated by a wider group of NRSROs,[72] investment guidelines continue to be identified as a factor impacting the selection of NRSROs to rate certain transactions.[73]

The inclusion requirements of some fixed income indices may pose a similar barrier to entry. To be included in certain of these indices, securities must be rated by specified NRSROs.[74] Certain investment companies try to closely track the performance of the indices by purchasing the securities included in them (index funds). Index funds have grown as a share of the fund market, and they can increase the demand for securities bearing the ratings of particular NRSROs.[75] For instance, in 2018, 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.[76] Similarly, KBRA testified that many companies benchmark to such indices for investment purposes and thus will not purchase bonds that are index ineligible and not rated by particular NRSROs.[77]

Market participants and academics have identified various other barriers to entry in the credit rating industry, including economic and regulatory barriers.[78] For instance, when the Commission proposed new rules and rule amendments (the NRSRO Amendments) in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act)[79] commenters expressed concerns that certain of the proposed

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

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

74 *See*, *e.g.*, Bloomberg Fixed Income Index Methodology, *Bloomberg Fixed Income Indices*, August 24, 2021; FTSE Fixed Income Index Guide, *FTSE Russell an LSEG Business*, June 2023.

75 *See*, *e.g.*, Rating Firms Seek Changes to Index, *Asset-Backed Alert*, May 26, 2017; *see also* Investment Company Institute, 2022 Investment Company Fact Book (2022), at 29, available at https://www.icifactbook.org/ (index funds made up 21% of assets in long-term funds at the end of 2011 and 43% at the end of 2021).

76 *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.

77 *See* Written Testimony of Angela Liang, General Counsel and Executive Committee Member, 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 (May 11, 2022), available at https://www.congress.gov/117/meeting/house/114740/witnesses/HHRG-117-BA16-Wstate-LiangA-20220511.pdf.

78 *See*, *e.g.*, Section IV.C of the March 2012 Annual Report, available at https://www.sec.gov/divisions/marketreg/ratingagency/nrsroannrep0312.pdf. As discussed in the March 2012 Report, economic barriers to entry include issuers and market participants favoring well-established NRSROs due to their reputation, and economies of scale which may allow larger NRSROs to offer advantageous services or pricing. Academic literature has continued to identify these as barriers to entry. *See*, *e.g.*, Sangiorgi, F. and Spatt, C., The Economics of Credit Rating Agencies, Foundations and Trends in Finance, 12, 1-116 (2017), available at https://ssrn.com/abstract=3055889.

79 Pub. L. No. 111-203, § 932, 124 Stat. 1376, 1872-83 (2010).

requirements would be burdensome for smaller NRSROs to implement and could raise barriers to entry for credit rating agencies to seek to register as NRSROs.[80] 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.[81]

At the same time, the Commission recognized substantial benefits associated with the NRSRO Amendments implementing Title IX, Subtitle C of the Dodd-Frank Act, which was designed to address the causes of certain market failures that may impair the integrity and transparency of NRSRO credit ratings.[82] For instance, certain provisions of the NRSRO Amendments were designed primarily to enhance the integrity of how NRSROs determine credit ratings by improving internal governance of NRSROs, managing potential principal-agent problems and conflicts of interest in the credit rating process, and promoting adherence to the procedures and methodologies for determining credit ratings.[83] Other provisions of the NRSRO Amendments were designed mainly to enhance the transparency of NRSRO credit ratings by increasing disclosure and reducing information asymmetries that may adversely affect users of credit ratings.[84]

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.[85]

Additionally, there are provisions for exemptions built into several rules and statutory provisions if the Commission deems that these requirements may impose an unreasonable burden on the NRSRO. NRSROs may also request exemptions under Section 36 to Exchange Act rules or provisions.[86]

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

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80 *See* 2014 Adopting Release, 79 FR 55078 (Sept. 15, 2014) at 55090, 55154, 55161, and 55254-55, available at https://www.govinfo.gov/content/pkg/FR-2014-09-15/pdf/2014-20890.pdf, *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.

81 *See* 2014 Adopting Release, 79 FR at 55254.

82 *See id.* at 55091; *see also* Section 931 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376, H.R. 4173 (July 21, 2010) (articulating the findings of Congress, including that the activities and performance of credit rating agencies are matters of national public interest and that certain market failures necessitate increased accountability on the part of credit rating agencies).

83 *See* 2014 Adopting Release, 79 FR at 55091.

84 *See id.*

85 *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.

86 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 board of directors 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/about/divisions-offices/office-credit-ratings/commission-orders.

the credit rating agency industry."[87] 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;[88]
- Consolidated information about credit rating histories;[89]
- Information about material changes and significant errors in the procedures and methodologies used to determine credit ratings;[90]
- Information about specific rating actions;[91] and
- Clear definitions of each symbol, number, or score in the rating scale used by the NRSRO.[92]

NRSROs must also disclose certain information in connection with each rating action.[93] Such information includes, among other things, the version of the procedure or methodology used to determine the credit rating, a description of the types of data that were relied upon for purposes of determining the credit 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.[94]

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.[95] 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.[96]

NRSROs may also provide transparency to the extent they publish commentaries or research.

87 *See* the preamble to the Rating Agency Act.
88 *See* Instructions for Exhibit 1 to Form NRSRO.
89 *See* Rule 17g-7(b).
90 *See* Rule 17g-8(a)(4).
91 *See* Rule 17g-7(a).
92 *See* Rule 17g-8(b)(2).
93 *See* Rule 17g-7(a).
94 *See* Rule 17g-7(a)(1)(ii).
95 The reports accompanying a rating action are frequently available on a paid subscription basis, although some NRSROs provide access to such reports at no cost.
96 Further transparency may be realized if NRSROs seek public comment for proposed new or changed methodologies. Rule 17g-8(d)(1)(ii) provides that NRSROs must consider implementing controls reasonably designed to ensure that new or updated methodologies are disclosed to the public for consultation prior to their being employed.

NRSROs publish commentaries and research that generally include data, analyses, or projections on market sectors and economic outlooks.[97] These publications may be helpful to investors to understand industry trends and the NRSROs' credit views.

For example, following the failure of Silicon Valley Bank and other regional banks, NRSROs published commentaries and research that provided their credit perspectives on banks and the banking system more generally. They also published U.S. bank-related commentaries on economic and market trends. KBRA published a report examining the loan portfolios of U.S. community and regional banks, noting that bank earnings in this sector have decreased due to net interest margin compression.[98] A DBRS report noted that U.S. banks performed well in the second quarter of 2023, with deposit outflows having stabilized while asset quality and capital metrics remained very strong, and that it does not expect a significant amount of changes to its bank ratings in the near term.[99]

NRSROs have continued publishing commentaries regarding their credit views on the application and utilization of so-called decentralized finance. Fitch cited cybersecurity and software risks, market and liquidity risks, and legal certainty, among other factors, as considerations for current and prospective rated issuers' exposure to crypto assets and so-called decentralized finance.[100] The application of blockchain-based platforms by municipal bond offerings were viewed by Moody's as enhancing transparency and auditability and offering potential cost benefits, but also introducing cyber and regulatory risks.[101] S&P published research presenting its view on certain operational risks that could influence the credit quality of issuers exposed to the sector, such as onboarding risk, bridge and transfer risk, and storage risk.[102]

NRSROs have also provided their views on commercial real estate (CRE) related credit risks. For example, DBRS published a report noting that commercial mortgage-backed securities loans backed by office properties have suffered due to a prolonged post-pandemic return to office and corporate cost-cutting, but that factors including property age, rolling leases, and location affect loan performance.[103] In a research report, KBRA found that rising interest rates have contributed to a rise in commercial mortgage-backed securities loan delinquencies and special servicing volumes that it

97 NRSROs may also make market and economic data separately available.

98 *See* KBRA, *U.S. Community and Regional Bank Loan Portfolio Evolution and Performance: Historical Perspective and Context* (Aug 29, 2023), available at https://www.kbra.com/publications/DMrRSrhS/u-s-community-and-regional-bank-loan-portfolio-evolution-and-performance-historical-perspective-and-context?format=file.

99 *See* DBRS, *U.S. Banks 2Q23: Steady Results in an Unusual Environment; Asset Quality Deterioration Risks Remain* (Jul 27, 2023), available at https://www.dbrsmorningstar.com/research/417746/us-banks-2q23-steady-results-in-an-unusual-environment-asset-quality-deterioration-risks-remain.

100 *See* Fitch Ratings, *Primer on DeFi: Risks and Regulations* (Feb 15, 2022), available at https://www.fitchratings.com/research/banks/primer-on-defi-risks-regulations-15-02-2022.

101 *See* Moody's, *Blockchain offers prospects for efficiencies, financial benefits in public finance* (Mar 23, 2023), available at https://www.moodys.com/research/Local-Government-US-Blockchain-offers-prospects-for-efficiencies-financial-benefits-Sector-In-Depth--PBC_1356311.

102 *See* S&P, *How DeFi's Operational Risks Could Influence Credit Quality* (Jun 7, 2023), available at https://www.spglobal.com/_assets/documents/ratings/research/101578108.pdf.

103 *See* DBRS, *Modern Office Buildings Built Since 2000 May Benefit as About $11.5 billion in Loans Mature Through 2024* (Sep 20, 2023), available at https://www.dbrsmorningstar.com/research/420839/modern-office-buildings-built-since-2000-may-benefit-as-about-dollar115-billion-in-loans-mature-through-2024.

anticipates will continue in the short term, although CRE performance will vary between and within metropolitan areas.[104] Fitch noted that commercial mortgage-backed securities' exposure to lower quality offices in 2023, especially those with significant upcoming rollover and located in high vacancy submarkets, has been a key determinant of negative rating actions.[105]

Several of the Staff's findings and recommendations in connection with the 2023 Section 15E examinations related to transparency issues. These findings included disclosure and reporting issues implicating Rule 17g-7(a), Rule 17g-7(b), and Form NRSRO. A description of these findings can be found in Section III.D.3 of this report.

C. CONFLICTS OF INTEREST

NRSROs operate under one or more business models, each having conflicts of interest. The primary business model of the NRSROs is the "issuer-pay" model, which is subject to a 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 an NRSRO's ratings. This model is also subject to 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 may obtain higher yields if the bonds were to have lower ratings.

In addition to being paid by issuers and subscribers, some NRSROs are paid to determine ratings by investors. Frequently these engagements contemplate the issuance of the credit rating on a private basis. In these cases, the NRSRO provides the credit rating directly to its client but does not publish (or make available to all its subscribers) the credit rating or a report detailing its credit analysis (although such a report may be provided to the client with the rating). This business model is subject to conflicts of interest, which are dependent on the objectives of the client for obtaining the rating. For example, an NRSRO may be aware that an investor client intends to use a credit rating to establish regulatory capital requirements and could benefit from receiving a higher credit rating on an investment it holds.

Section 15E and the related Commission rules address conflicts of interest.[106] For example, Rule 17g-5 identifies certain conflicts of interest that are prohibited under all circumstances[107] and other conflicts of interest that are prohibited unless an NRSRO has publicly disclosed the existence of the conflict and has implemented policies and proce-

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104 *See* KBRA, *Metro-Level CRE Loan Distress: Location Still Matters* (Sep 11, 2023), available at https://www.kbra.com/publications/HkFKXhBh/metro-level-cre-loan-distress-location-still-matters?format=file.

105 *See* Fitch Ratings, *U.S. Office CRE Performance to Worsen Amid Rising Market Pressures* (Jul 12, 2023) available at https://www.fitchratings.com/research/structured-finance/us-office-cre-performance-to-worsen-amid-rising-market-pressures-12-07-2023.

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

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

dures reasonably designed to address and manage such conflict.[108]

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 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.[109]

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.[110] Other statutory provisions and Commission rules address conflicts of interest that may arise when a credit analyst seeks employment outside the NRSRO. Section 15E(h)(4) 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.[111] 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 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.[112]

A number of the Staff's findings and recommendations in connection with the 2023 Section 15E examinations related to conflict of interest issues. Among other things, these findings identified certain instances of lack of separation between commercial activities and rating determinations and weaknesses related to policies and procedures to address and manage conflicts of interest. A description of these findings and the related recommendations of the Staff can be found in Section III.D.3 of this report.

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108 *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.

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

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

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

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

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 in calendar year 2023:

- *In re DBRS, Inc.*, Release No. 34-98636 (Sept. 29, 2023).[113] The Commission instituted settled administrative and cease-and-desist proceedings against DBRS finding violations of Exchange Act Section 15E(c)(3)(A) and Rules 17g-7(a)(1)(ii)(B) and 17g-8(a)(1) and (2). The order finds that DBRS had an ineffective internal control structure governing implementation of and adherence to its published procedures and methodologies for determining credit ratings for certain multi-borrower CMBS transactions. Specifically, DBRS made systematic adjustments to credit enhancement levels implied by its quantitative predictive model in a manner not guided or described by DBRS's published procedures and methodologies. The order also finds that DBRS failed to accurately identify the rating methodology it used to rate certain single-asset/single-borrower CMBS transactions and failed to enforce its policies and procedures requiring credit ratings to be determined and issued based on approved methodologies.
- *In re DBRS, Inc.*, Release No. 34-98638 (Sept. 29, 2023).[114] The Commission instituted settled administrative and cease-and-desist proceedings against DBRS finding violations of Exchange Act Section 17(a)(1) and Rule 17g-2(b)(7). The violations were in connection with DBRS's failure to retain employee text messages that included discussions of initiating or determining credit ratings.
- *In re Kroll Bond Rating Agency, LLC*, Release No. 34-98654 (Sept. 29, 2023).[115] The Commission instituted settled administrative and cease-and-desist proceedings against KBRA finding violations of Exchange Act Section 17(a)(1) and Rule 17g-2(b)(7). The violations were in connection with KBRA's failure to retain employee text messages that included discussions of initiating, determining, maintaining, changing, or withdrawing credit ratings.
- *Order Granting Temporary Conditional Exemption for Japan Credit Rating Agency, Ltd. From Certain 15E(t) Requirements of the Securities Exchange Act of 1934*, Release No. 34-98590 (Sept. 28, 2023).[116] On September 28, 2023, the Commission granted JCR a temporary, conditional exemption from certain corporate governance requirements under Exchange Act Section 15E(t). The exemption expires on October 30, 2026.

113 Available at https://www.sec.gov/files/litigation/admin/2023/34-98636.pdf.
114 Available at https://www.sec.gov/files/litigation/admin/2023/34-98638.pdf.
115 Available at https://www.sec.gov/files/litigation/admin/2023/34-98654.pdf.
116 Available at https://www.sec.gov/files/rules/other/2023/34-98590.pdf.

- *Removal of References to Credit Ratings From Regulation M, Release No. 34-97657* (June 7, 2023), 88 FR 39962 (June 20, 2023).[117] The Commission adopted rule changes to remove and replace references to credit ratings from existing exceptions provided in Rule 101 and Rule 102 of Regulation M, a set of rules that prohibits activities that could artificially influence the market for an offered security.

B. STAFF PUBLICATION

The Staff issued the following publication relating to NRSROs or credit ratings in general in calendar year 2023:

- *Staff Report on Nationally Recognized Statistical Rating Organizations*, dated February 2023 (the 2022 Staff Report), as required by Section 6 of the Rating Agency Act and Section 15E(p)(3)(C).[118] The 2022 Staff Report addresses the matters described in the second paragraph under Section II of this Report for the period January 1, 2022, through December 31, 2022, and summarizes the essential findings of the examinations conducted by the Staff under Section 15E(p)(3)(C) for the review period January 1, 2021, to December 31, 2021.

117 Available at https://www.sec.gov/files/rules/final/2023/34-97657.pdf.
118 Available at https://www.sec.gov/files/2023-ocr-staff-report.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[119] and amended by the Dodd-Frank Act.[120]

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.[121]

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,[122] promptly update its filing in certain circumstances,[123] and make its current Form NRSRO filing and most of its current Form NRSRO Exhibits available on its public website.[124]
- Disclose certain information, including information concerning the NRSRO's performance measurement statistics and its procedures and methodologies to determine ratings.[125]
- 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,[126] and retain records of its internal control structure.[127]
- Consider certain factors with respect to its establishment, maintenance, enforcement, and

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

documentation of an effective internal control structure.[128]

- 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.[129]
- 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.[130] The report must be accompanied by a signed statement by the NRSRO's chief executive officer or an individual performing similar functions.[131]
- 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,[132] 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.[133]
- 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.[134] The information form must disclose certain information with

128 *See*, *e.g.*, Rule 17g-8(d)(1)–(4).
129 *See*, *e.g.*, Rule 17g-8(a)(2)–(5).
130 Rule 17g-3(a)(7)(i).
131 Rule 17g-3(b)(2).
132 Rule 17g-8(b)(1).
133 Rule 17g-8(b)(3).
134 Rule 17g-7(a).

respect to the particular rating action.[135] 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.[136]

- Make and retain, or retain, certain records, including a record documenting its established procedures and methodologies used to determine credit ratings[137] and records related to its ratings.[138] An NRSRO must promptly furnish to the Commission or its representatives copies of required records, including English translations of those records, upon request.[139]
- 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.[140]
- Establish, maintain, and enforce written policies and procedures reasonably designed to address and manage conflicts of interest.[141] Certain conflicts of interest are expressly prohibited,[142] and for other types of conflicts of interest, the NRSRO must disclose the conflicts and have policies and procedures in place to manage them.[143]
- Refrain from engaging in specified unfair, coercive, or abusive practices.[144]
- 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.[145]
- 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.[146]
- 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

135 Rule 17g-7(a)(1)(ii)(A)-(N) specifies the information that must be disclosed in the information disclosure form.
136 Rule 17g-7(a)(1)(iii).
137 Rule 17g-2(a)(6).
138 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).
139 Section 15E(a) and (b) and Rule 17g-2(f).
140 Section 15E(g) and Rule 17g-4.
141 Section 15E(h) and Rule 17g-5. *See also* Section IV.C of this Report.
142 Rule 17g-5(c). *See also* Section IV.C of this Report.
143 Rule 17g-5(a)(1) and (a)(2); Rule 17g-5(b).
144 Rule 17g-6.
145 Section 15E(a)(1)(B)(v).
146 Section 15E(j)(3).

employees or users of credit ratings.[147] 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.[148]

- Have a board of directors or similar governing body (collectively, the Board), certain of whose members must be independent from the NRSRO.[149] 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.[150]
- 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.[151]
- Establish policies and procedures regarding post-employment activities of certain former personnel.[152]

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

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