



Insight beyond the rating.

April 15, 2014

Via Email: PRA_Mailbox@sec.gov

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Re: *Extension: Rule 17g-7; SEC File No. 270-600,
OMB Control No. 3235-0656*

Dear Ms. Pavlik-Simon:

DBRS is pleased to submit these comments on the existing collection of information provided for in Rule 17g-7 under the Securities Exchange Act of 1934 ("Exchange Act").¹ In connection with its request to extend this rule pursuant to the Paperwork Reduction Act ("PRA"), the Commission seeks comment on whether the collection of information under the rule is necessary for the proper performance of the Commission's functions, including whether the information has practical utility. The Commission also requests information on the accuracy of its earlier estimates of the burden imposed by the rule and ways to minimize that burden and enhance the utility of the information collected.

DBRS addressed each of these issues in the comments it filed last December on the SEC's outstanding proposal to fold the current version of Rule 17g-7 into a grossly more expansive version of the rule.² DBRS incorporates these earlier comments into this letter, by reference.

***The Collection of Information Under Rule 17g-7
Is Not Necessary for the Proper Performance
of the Commission's Functions and the
Information Has No Practical Utility***

As DBRS explained in its December Comments, Rule 17g-7 has led to the creation of overwhelming disclosures that users of credit ratings do not read. Two hundred-page 17g-7 reports are not uncommon, and one recent report DBRS produced [available at

¹ SEC, Proposed Collection; Comment Request (February 19, 2014), 79 Fed. Reg. 10847 (February 26, 2014) ("Comment Request").

² Letter in connection with S7-18-11 from Daniel Curry, Chief Executive Officer, DBRS and Mary Keogh, Managing Director, Global Regulatory Affairs, DBRS to Elizabeth M. Murphy, Secretary, SEC (December 5, 2013) (hereafter, the "December Comments").

<http://dbrs.com/research/262865/csmc-trust-2013-ivr5-dbrs-limited-rule-17g-7-disclosure.pdf>] topped 800 pages.

According to the feedback DBRS has received from its institutional clientele, they have neither the time nor the interest to wade through voluminous reports regarding all the representations, warranties and enforcement mechanisms ("RWEMs") involved in asset-backed securities ("ABS") deals rated by NRSROs. An analysis of usage data from the DBRS website tells the same story. For the top-ten, most viewed US ABS and RMBS credit rating reports on dbrs.com during 2013, the corresponding 17g-7 disclosures were accessed by investors, issuers, investment banks and others only 1.67 to 13.04 percent of the time. For eight of the top-ten most viewed ratings, the "hit rate" was in the single digits. There is even less demand for this disclosure in connection with Canadian transactions.³ During 2013, the average hit rate for 17g-7 reports on those transactions was 2.3 percent.

We understand that the staff of the SEC's Office of Credit Ratings ("OCR") has received similar feedback from the rule's intended beneficiaries. We strongly urge the Commission to share that feedback with the Office of Management and Budget in connection with this request under the PRA to extend Rule 17g-7.

***The Burdens of Complying with Rule 17g-7 Are
Substantial and Are Not Justified By the Rule's Benefits***

To date, DBRS has spent more than a million dollars to comply with Rule 17g-7. Although DBRS has devoted substantial resources to automate the RWEM disclosure process, the firm still incurs significant costs in developing, reviewing and updating benchmarks; reviewing all the RWEMs pertaining to an ABS deal; producing the required reports; and performing related compliance tasks.

With regard to this last component, DBRS has crafted and implemented Rule 17g-7 policies and procedures that must be administered on an ongoing basis. These policies and procedures (which were most recently revised in April 2013) and DBRS's compliance therewith are reviewed every year during OCR's Section 15E examinations. Given the significant time expended on these compliance and examination activities, DBRS is surprised that the Commission does not even mention these burdens in its PRA analysis.⁴

³ The DBRS NRSRO is comprised of both a U.S. affiliate (DBRS, Inc.) and a Canadian affiliate (DBRS Limited).

⁴ DBRS also is puzzled by the Commission's assertion in the Comment Request that "Rule 17g-7 potentially applies to each of the 10 NRSROs currently registered with the Commission." By its terms, this rule applies only to ABS ratings. Although at one time 10 NRSROs were registered in the ABS credit rating category, only 7 NRSROs are registered in this category today. The high cost of the existing NRSRO regulatory regime and the potentially explosive increase in cost attributable to additional rules that have been proposed but are not yet adopted are a disincentive to registration. See e.g. Testimony of James H. Gellert, Chairman and CEO, Rapid Ratings International, Inc. before the House Committee on Financial Services, Subcommittee on Oversight and Investigations (July 27,

The PRA and the OMB's implementing rules thereunder indicate that compliance costs should be considered in a PRA analysis.⁵ Furthermore, in articulating a framework for improving the Commission's economic analysis in its rulemaking, the SEC's Division of Risk Strategy and Financial Innovation (now, Division of Economic and Risk Analysis) and the Office of General Counsel also noted the importance of including compliance costs in assessing the economic burdens of SEC rules.⁶ Among the burdens that the Commission should evaluate in determining whether the collection of information required by Rule 17g-7 should be extended are the time, effort and financial resources an NRSRO expends to train personnel on the requirements of the Rule and to review and verify the NRSRO's 17g-7 reports.

Producing voluminous RWEM disclosures imposes a substantial burden on NRSROs, particularly the smaller ones. Given the fact that these reports are largely ignored by their intended beneficiaries, there is no cost justification to extend Rule 17g-7.

Enhancing the Utility and Minimizing the Burden of Rule 17g-7

As DBRS explained in its December Comments, the dual problems of low utility and high cost might both be addressed by limiting the disclosures required under Rule 17g-7 to RWEMs:

- that relate to the asset pool underlying the ABS transaction in question, and
- that the issuer has disclosed in the prospectus, private placement memorandum or other offering document for that transaction.

In order to further increase the likelihood that investors will read the 17g-7 reports and reduce the cost of those reports, DBRS also suggested that the display of the RWEM benchmarks be moved out of the 17g-7 reports and onto a dedicated area of the NRSROs' websites. This would obviate the need to display reams of information about "similar securities" each time an NRSRO issues a credit rating about an ABS transaction. Instead, the NRSRO would update its website in the event a benchmark changed in a material way. A link to the website could then be referenced in the shortened RWEM reports.

2011) at 5 (explaining a credit rating agency's decision not to register as an NRSRO "[u]ntil there are benefits that outweigh the costs").

⁵ See 44 U.S.C. §§ 3506(c) and 3502(2), and 5 C.F.R. 1320.5(e) and 1320.3(b).

⁶ SEC Division of Risk Strategy and Financial Innovation and Office of General Counsel, *Guidance on Economic Analysis in SEC Rulemakings* (March 24, 2012), available at www.sec.gov/divisions/riskfin/rsfi_guidance_econ_analy_secrulemaking.pdf.

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Conclusion

For the reasons addressed above, DBRS submits that the existing collection of information provided for in Rule 17g-7 (a) is not necessary for the proper performance of the Commission's functions; (b) has no practical utility; and (c) is not cost-justified. DBRS respectfully submits that OMB should not extend Rule 17g-7.

Please direct any questions about these comments to the undersigned or to our outside counsel, Mari-Anne Pisarri of Pickard and Djinis LLP. She can be reached at [REDACTED].

Very truly yours,



Daniel Curry
Chief Executive Officer
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Mary Keogh
Managing Director, Global Regulatory Affairs
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