

SECURITIES AND EXCHANGE COMMISSION
Release No. 34-78670

August 24, 2016

Order Granting Conditional Exemption of Morningstar Credit Ratings, LLC from a Requirement in Section 15E(a)(1)(C)(iv) of the Securities Exchange Act of 1934 and Item 6C of Form NRSRO

I. Introduction

Section 15E(a)(1)(C)(iv) of the Securities Exchange Act of 1934 (“Exchange Act”) and Item 6C of Form NRSRO require a nationally recognized statistical rating organization (“NRSRO”) applying to register for additional classes of credit ratings to file at least two certifications from qualified institutional buyers (“QIBs”) stating, among other things, that they have used the credit ratings of the applicant in such classes in the course of making some of their investment decisions for at least the three years immediately preceding the date of the certification. Section 36 of the Exchange Act authorizes the Securities and Exchange Commission (“Commission”) to conditionally or unconditionally exempt any person, security, or transaction, or any class or classes of persons, securities, or transactions, from any provision or provisions of the Exchange Act or of any rule or regulation thereunder, to the extent that such exemption is necessary or appropriate in the public interest, and is consistent with the protection of investors.

II. Exemptive Request of Morningstar Credit Ratings, LLC

Morningstar Credit Ratings, LLC (“Morningstar”) is a credit rating agency registered as an NRSRO under the Exchange Act for the asset-backed securities class of credit ratings described in clause (iv) of section 3(a)(62)(A) of the Exchange Act. On July 1, 2016, Morningstar filed with the Commission an application on Form NRSRO to add the classes of credit ratings described in clauses (i) and (iii) of section 3(a)(62)(A) of the Exchange Act (“financial institutions class” and

“corporate issuers class,” respectively). Morningstar filed with its application certifications by QIBs stating that they have used credit ratings of Morningstar’s parent company, Morningstar, Inc. (“MSI”) in the financial institutions class and corporate issuers class. Morningstar has requested an exemption permitting it to submit with its application certifications from QIBs stating that they have used the applicable credit ratings of MSI instead of Morningstar.

III. Discussion

Morningstar states in its exemptive request that ratings in the financial institutions class and corporate issuers class have been issued by MSI through its Corporate Credit Research Group (“CCRG”) since 2010 and 2009, respectively. If Morningstar is granted registration for such classes, CCRG would be transferred to Morningstar shortly thereafter, and the outstanding ratings of CCRG would become ratings of Morningstar. Morningstar requests that it be allowed to submit with its application QIB certifications that address the applicable credit ratings of MSI because Morningstar is a direct, wholly-owned subsidiary of MSI and there will be continuity before and after registration with respect to the applicable credit rating process. Specifically, Morningstar states that the policies, procedures, methodologies, and models that CCRG uses to determine such credit ratings are substantially similar to those that it would use after transferring to Morningstar. Morningstar also states in its exemptive request that all policies, procedures, and methodologies necessary for it to begin issuing NRSRO ratings in the new classes in compliance with NRSRO rules and regulations have been approved.

The Commission believes that a conditional exemption is necessary or appropriate in the public interest and consistent with the protection of investors, and is consistent with the Commission’s goal, as established by the Credit Rating Agency Reform Act of 2006, of improving ratings quality by fostering accountability, transparency, and competition in the credit

rating agency industry.¹ The exemption is appropriate in the public interest since registration in the additional ratings classes may potentially foster additional competition by permitting an additional NRSRO to issue NRSRO ratings in such ratings classes. In view of the relationship between Morningstar and MSI and the similarities described by Morningstar in the ratings process with respect to the applicable credit ratings issued by MSI and to those that will be issued by Morningstar, the QIB certifications provided will be relevant to users of Morningstar's ratings in the additional classes. Further, consistent with the protection of investors, Morningstar is being required as a condition to the requested exemption to deliver certifications from QIBs as to Morningstar's ratings in the applicable classes, as early as three years and no later than four years after registration is granted.

Immediately following the issuance of this order, the Commission is issuing an order pursuant to section 15E(a)(2) of the Exchange Act granting the registration of Morningstar for credit ratings in the financial institutions class and corporate issuers class. The staff of the Commission's Office of Credit Ratings ("OCR") will examine Morningstar with respect to such registration as an integrated part of the applicable annual examinations of NRSROs.²

IV. Conclusion

Accordingly, pursuant to section 36 of the Exchange Act,

IT IS HEREBY ORDERED that Morningstar is exempt from the requirement in section 15E(a)(1)(C)(iv) of the Exchange Act and Item 6C of Form NRSRO that it file with its application to register for the financial institutions class and corporate issuers class certifications

¹ See Report of the Senate Committee on Banking, Housing, and Urban Affairs to Accompany S. 3850, Credit Rating Agency Reform Act of 2006, S. Report No. 109-326, 109th Cong., 2d Sess. (Sept. 6, 2006).

² Section 15E(p)(3)(A) of the Exchange Act, as added by section 932(a)(8) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, requires OCR to conduct an examination of each NRSRO at least annually.

from QIBs stating that they have used the credit ratings of Morningstar in such classes, and, instead, Morningstar may submit, for purposes of its application, certifications from QIBs stating that they have used the applicable credit ratings of Morningstar's parent company, MSI, provided that Morningstar shall file with the Commission, as early as three years and no later than four years after registration for such classes is granted, certifications from QIBs that satisfy the requirements of section 15E(a)(1)(C)(iv) of the Exchange Act and Item 6C of Form NRSRO, including stating that the QIBs have used the credit ratings of Morningstar in such classes.

By the Commission.

Brent Fields
Secretary