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Office of Credit Ratings

Staff Report

ON

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATIONS

JANUARY | 2025

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



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I. INTRODUCTION

The Staff of the U.S. Securities and Exchange Commission (Commission or SEC) 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 under "[Reports and Studies](#)."

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

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.

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;³
- (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.

Section 15E(a) sets out registration procedures for a credit rating agency to voluntarily apply to be registered with the Commission as an NRSRO. As of December 31, 2024, there were ten credit rating agencies registered as NRSROs. 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.

For the most current information disclosed by each NRSRO, refer to such NRSRO's current Form NRSRO. NRSROs are required to file an annual certification on Form NRSRO, which includes updates to certain information, such as the number of ratings outstanding and performance measurement statistics. They are also required to file updates to Form NRSRO promptly if any information becomes materially inaccurate. Other than with respect to an initial application for registration, Form NRSRO filings are available on the Commission's EDGAR system, and each NRSRO is required to make its current Form NRSRO publicly and freely available on its website.

³ "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).

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.

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. For the percentage of total NRSRO revenues attributable to the large, medium, and small NRSROs over the past few years, refer to Chart 12.

Pursuant to Section 15E(a)(2)(C), the Commission grants registration as an NRSRO if it finds the requirements of Section 15E are 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.

Pursuant to Section 15E(a) and Rule 17g-1, 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. In addition, Section 15E(b) requires NRSROs to promptly amend Form NRSRO if any information or document provided therein becomes materially inaccurate. 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. In addition, a credit rating agency may choose to apply for registration as an NRSRO in one or more rating categories. 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.

In calendar year 2024, 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. However, pursuant to Section 15E(c)(2), the Commission is prohibited from regulating the substance of credit ratings or the procedures and methodologies the NRSROs use to determine credit ratings. As a result, OCR does not assess the quality, reliability, or credibility of an NRSRO's methodologies,

models, or ratings in connection with its examinations or otherwise, and registration as an NRSRO is not a Commission “seal of approval.” It is up to users of credit ratings to assess for themselves the quality, credibility, and reliability of an NRSRO’s credit ratings.

III. EXAMINATIONS AND MONITORING

A. Overview

Section 17 authorizes the Staff to conduct examinations of NRSROs. Section 15E(p)(3) requires the Staff to conduct an examination of each NRSRO at least annually (Section 15E examinations). Generally, the purpose of these 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 the Staff’s 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 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 that commenced in late 2023 and concluded in late September 2024 (2024 Section 15E examinations).

B. Risk Assessment

The 2024 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:

- The NRSRO's rating activities and operations;
- Staff's findings, recommendations, and other observations from prior examinations;
- Impact of a potential or actual internal control or compliance failure by the NRSRO;
- Recent industry developments affecting the NRSRO and the asset classes in which the NRSRO is registered;
- The NRSRO's filings with the Commission and public disclosures;
- The NRSRO's self-identified weaknesses and instances of non-compliance;
- 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 2024 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:

- **Methodology and Model Development:** Each NRSRO determines its own methodology and model development, review, and validation practices. The Staff examined the process by which NRSROs assess whether their methodologies are appropriately designed to gauge their view of the relevant credit risks as conditions evolve. Among other things, the Staff examined NRSRO adherence to their policies and procedures regarding the development, maintenance, and validation of methodologies and models.
- **Surveillance Practices for Outstanding Ratings:** NRSROs employ varying approaches to the surveillance of outstanding credit ratings. As part of their surveillance practices, some NRSROs require each outstanding rating to be reviewed by a rating committee on a periodic basis. Other NRSROs instead perform less formal periodic reviews to identify credit ratings that may need to be considered by a committee. The Staff examined the surveillance practices of NRSROs to assess compliance with statutory and rule requirements, such as the requirement to have an effective internal control structure governing adherence to policies, procedures, and methodologies for determining credit ratings.
- **Commercial Real Estate/CMBS:** Many commercial real estate loans that were originated in 2013 and 2014, when lending conditions were generally more favorable than in 2023, were sold into CMBS vehicles. The loans were typically originated with balloon payments due at maturity. Some of these loans come due over the next few years and will need to be either repaid in full or refinanced. In the current interest rate environment, commercial real estate borrowers with maturing loans may need to contribute equity to refinance. Risks in the sector also include increased

vacancy rates in office buildings due to the growth of remote and hybrid work. The Staff reviewed commercial real estate related rating activity of certain NRSROs to examine adherence to their rating methodologies and surveillance requirements.

- **Securities Ownership:** NRSROs generally take similar approaches to address and manage conflicts of interest that can arise from securities ownership. Under their policies and procedures governing securities ownership by employees, NRSROs prohibit employees from having direct interests in issuers or obligors of credit ratings they help determine. NRSROs also typically monitor securities ownership by employees, although the specific processes for doing so can vary. The Staff reviewed the policies and procedures of each NRSRO related to securities ownership by its employees and directors to assess whether such policies and procedures are reasonably designed to address and manage the related potential conflict of interests.

C. Monitoring

To help inform its risk assessment process and examination program, the Staff in 2024 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 included communications with NRSROs and reviewing sources such as NRSRO publications, news reports, trade publications, academic papers, industry conference information, and government reports.

For example, the Staff's discussions with certain NRSROs covered the evolving state of the commercial real estate market and its impact on CMBS ratings. NRSROs reported actively monitoring the sector, noting a deterioration in the commercial real estate office sector due to higher interest rates and vacancy rates. NRSROs conducted rating reviews, updated stress assumptions, and issued downgrades, as the refinancing of office loans became more challenging and, in some instances, loans defaulted. NRSROs indicated that they expected delinquencies to peak at high single digits, assuming reduced interest rates and the absence of a significant recession. Additionally, while office building valuations have generally been lower due to higher vacancy rates, some NRSROs noted that there have been few office building sales which could help establish valuations. There was agreement among NRSROs that the sector outlook will remain unclear until rents and vacancies stabilize.

The Staff also discussed with certain NRSROs their activities in the private credit market, including the launching of certain related initiatives and additions to staff.⁴ These NRSROs noted that private credit permeates across the rating business. They reported rating a variety of instruments backed by collateral originated in the private credit market, including with respect to private credit funds, business development companies, and collateralized loan obligations. Some of these NRSROs also indicated that they rate certain companies, such as alternative asset

⁴ See, e.g., Moody's Corporation, [Moody's creates new private credit analytical franchise, appoints Ana Arsov to lead](#) (Nov. 6, 2023); KBRA, [KBRA Deepens Its Funds and Private Credit Teams With Three Senior-Level Hires](#) (Sept. 9, 2024).

managers, that are active in the private credit markets, as well as debt extended to individual companies through direct lending efforts of non-bank lenders.

The increased activity in the private credit markets has also contributed to the proliferation of private ratings, which are common in the context of private debt. Private ratings are credit ratings that are communicated by the NRSRO to an issuer or a specified investor or group of investors but that are not publicly disclosed on the NRSRO's website or included in its broadly disseminated data feeds.

Insurance companies are prominent users of private ratings. They commonly use NRSRO ratings, including private ratings, to determine risk-based capital charges for eligible investments. The National Association of Insurance Commissioners (NAIC) has noted that the use of private ratings by insurance companies has grown considerably and that over 80% of the private ratings on insurer investments are issued by small and medium NRSROs.⁵ The Staff has observed that EJR and KBRA issue the majority of these private ratings, followed by DBRS. HR also issues private ratings of this type. Although it issues significantly fewer such ratings than EJR, KBRA, or DBRS, these ratings represent the overwhelming majority of HR's business in the U.S.

More broadly, the NAIC has been engaged in efforts to reassess the way in which it uses credit ratings (both published ratings and private ratings) for regulatory purposes. In August 2024, the NAIC Valuation of Securities Task Force adopted changes to the Purposes and Procedures Manual of the NAIC Investment Analysis Office to provide a process for determining whether an NRSRO credit rating is a "reasonable assessment of investment risk of the security" for the purpose of determining capital charges.⁶ The NAIC is also considering developing a due diligence program with respect to the ongoing use of credit rating agencies for regulatory purposes. In a request for proposal released in November 2024,⁷ the NAIC recognized that, given the statutory limitation on the SEC's authority to regulate the substance of credit ratings, the NAIC's current process for recognizing credit rating agencies that can be used for risk-based capital requirement purposes (which includes no criteria other than registration with the SEC as an NRSRO) may result in "blind reliance" on credit ratings without any process to assess whether such ratings are reasonable. Reducing or eliminating such "blind reliance" is an objective of the due diligence program identified in the request for proposal. As discussed in Section II of this Report, given the statutory limitation on the SEC's authority, it is up to users of credit ratings to assess for themselves the quality, credibility, and reliability of an NRSRO's credit ratings before choosing to use them.

⁵ See National Association of Insurance Commissioners, [Growth in Private Ratings Among U.S. Insurer Bond Investments and Credit Rating Differences](#) (Jan. 2022). In a recent publication discussing U.S. insurers and private credit, Fitch noted that the percentage was reported to be almost 86%. See [Fitch Ratings, US Insurers and Private Credit: Not All Private Ratings are the Same](#) (Dec. 2024).

⁶ See National Association of Insurance Commissioners, [Valuation of Securities \(E\) Task Force Memorandum](#) (July 30, 2024) (detailing the process by which a credit rating can be replaced with an assessment by the NAIC Investment Analysis Office).

⁷ See National Association of Insurance Commissioners, [RFP #2097 Credit Rating Provider Due Diligence](#) (Nov. 22, 2024).

In 2024, the Staff continued to participate in meetings that involved rating agency regulators globally. This includes meetings of the supervisory colleges that were formed to enhance communication among credit rating agency regulators globally with respect to examinations of the largest, internationally active credit rating agencies.⁸ 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. Each college engaged in periodic discussions during 2024 regarding supervisory activities related to the credit rating agencies. The Staff also conducted additional discussions with foreign regulators, as appropriate.

D. 2024 Section 15E(p)(3) Examinations

1. Overview

The 2024 Section 15E examinations generally focused on the NRSROs' activities for the period covering January 1, 2023, through December 31, 2023 (the Review Period). The examinations also reviewed certain activities or credit rating actions from outside the Review Period, as appropriate. 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 2024 Section 15E examinations included a review of the Section 15E Review Areas as well as 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 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. As part of this review, the Staff uses a risk-based sampling process based upon its overall risk assessment approach described in this Report to select rating actions and rating files to review. The process may include factors such as 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, and the likelihood of impact on investors if a rating was not determined in accordance with the NRSRO's methodologies and procedures.

2. Terms Used in This Report

Pursuant to Section 15E(p)(3)(C)(i)-(iii), 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.

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.

⁸ See The Board of the International Organization of Securities Commissions, [Supervisory Colleges for Credit Rating Agencies, Final Report](#) (July 2013).

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 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 of the 2024 Section 15E examinations by each applicable large NRSRO, medium NRSRO, and small NRSRO in a random ordering. The 2024 Section 15E examinations did not identify any essential findings for one small NRSRO and one medium NRSRO. Accordingly, the following list includes a summary of essential findings with respect to eight NRSROs.

a. Large NRSRO #1

- (1) The NRSRO did not enforce certain of its policies and procedures designed to address and manage conflicts of interest related to securities ownership, resulting in several instances where analysts continued to own securities that they were required to divest under such policies. In one of these instances, an analyst participated in determining a credit rating by voting in the rating committee, notwithstanding that the analyst owned securities of the obligor whose credit rating was being determined. Participating in determining a credit rating under such circumstances gives rise to a prohibited conflict of interest pursuant to Rule

17g-5(c)(2). The Staff recommended that the NRSRO enhance its procedures and controls, established pursuant to Section 15E(h)(1), to address and manage conflicts of interest related to securities holdings.

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

In its response, the NRSRO stated that, upon discovering that an analyst had voted in a committee for credit ratings of an issuer while owning securities of the issuer, it self-reported the issue to the Staff and took prompt remedial actions, including convening a new committee and suspending, and ultimately terminating, the analyst. It also stated that it conducted a review of the securities holdings and trading of rating analysts hired in 2022 and 2023 and a sample of analysts who transferred between practice groups in 2022. Further, it reviewed all committee participation of individuals who had securities holdings that overlapped with the individuals' area of practice and did not identify any other analyst who voted in a committee while owning shares of the company under review. The NRSRO stated that it has enhanced its procedures and controls to address and manage conflicts of interest related to securities holdings, including by implementing automated tools, hiring additional compliance personnel, updating notices sent to employees regarding divestment requirements, revising its applicable policy, and updating related employee training.

- (2) A non-independent director did not preclear three securities transactions or subject their related brokerage accounts to monitoring by the NRSRO, both as required by the NRSRO's policies. The transactions involved shares of stock of entities rated by the NRSRO. The Staff recommended the NRSRO establish, maintain, and enforce written policies and procedures, as required by Section 15E(h)(1), reasonably designed to address and manage conflicts of interest with respect to securities ownership by directors.

b. Large NRSRO #2

- (1) The NRSRO's independent directors used their personal email accounts to conduct NRSRO business, which included the transmission of nonpublic information, including potentially material nonpublic information. Such use of personal email accounts occurred despite the directors having been provided with NRSRO email addresses and despite the NRSRO's policies prohibiting such personal email use. The Staff recommended that the NRSRO implement controls and procedures, including for monitoring, to enforce its policies and procedures to prevent the misuse of material nonpublic information, as required by Section 15E(g)(1).
- (2) Prior to convening a rating committee, an analyst sent a draft rating report to an issuer that inadvertently disclosed a contemplated rating action. Such disclosure was contrary to the NRSRO's policy regarding the treatment of confidential information and its practice to redact material nonpublic information, including contemplated rating actions, when providing draft reports to an issuer. The Staff recommended that the NRSRO establish additional procedures reasonably

designed to prevent misuse of material nonpublic information, as required by Section 15E(g)(1).

- (3) The NRSRO did not disclose complete and correct credit rating histories in its Rule 17g-7(b) disclosures. For several years, the NRSRO posted disclosures that did not include a significant number of credit ratings of a particular rating category. Further, for several months, the NRSRO's posted disclosures did not include a significant number of credit ratings of another rating category. The Staff recommended that the NRSRO implement procedures or controls to enable the accurate creation, maintenance, and monitoring of its credit rating history disclosures.

c. Large NRSRO #3

- (1) The NRSRO did not make and retain a record of the rationale for the material difference between the credit rating it assigned to a security issued as part of an asset-backed securities transaction and the credit rating implied by a model that was a substantial component in the process of determining the credit rating, as required by Rule 17g-2(a)(2)(iii). Although the NRSRO requires records of this type to be made and retained, and has internal control processes designed to help the NRSRO comply with such requirement, it did not do so in this instance. In addition, an internal review of documentation of other credit rating committees conducted by the NRSRO found other instances of documentation shortfalls of varying types. The Staff recommended that the NRSRO take measures, such as providing additional training, designed to ensure that analysts provide all documents required for rating committees.
- (2) The NRSRO's policies and procedures did not require that it promptly publish on its website notice of the existence of a significant error identified in a procedure or methodology used to determine credit ratings that may result in a change to current credit ratings, as required by Rule 17g-8(a)(4)(ii). Although the NRSRO had an error procedure that covered errors involving the information used by a rating committee in determining a credit rating, including errors in the application of methodologies and use of models and scorecards, the procedure did not address all types of errors covered by the rule and did not provide for prompt publication on the NRSRO's website of notice of such errors, as required by the rule. The Staff recommended that the NRSRO establish, maintain, enforce, and document the policies and procedures required by the rule.

d. Medium NRSRO #1

- (1) Although the NRSRO established a process for users of credit ratings to submit complaints anonymously, it was not apparent or intuitive how to do so. The difficulty in submitting complaints anonymously may discourage users of credit ratings from communicating complaints to the NRSRO. The Staff recommended that the NRSRO establish clear and effective procedures for the submission and receipt of confidential, anonymous complaints from users of credit ratings, consistent with the requirements of Section 15E(j)(3).

- (2) The NRSRO did not enforce a policy designed to ensure adequate records are made and retained to allow for an effective after-the-fact review of a rating action. Although the policy required its personnel to maintain written records reflecting the steps and values used in the application of the NRSRO's analytical methodology and containing sufficient details to permit an after-the-fact review, the NRSRO did not enforce this control in connection with the rating action. In particular, the NRSRO did not document an explanation or rationale for an adjustment to a quantitative factor made during the credit rating process that was outside the range specified in the published rating methodology. The Staff recommended that the NRSRO, consistent with its requirements under Section 15E(c)(3)(A), enforce its policy regarding credit rating documentation requirements.
- (3) The NRSRO's board of directors did not approve the entirety of a methodology, contrary to the policies and procedures established by the NRSRO pursuant to Rule 17g-8(a)(1). In the course of approving a particular methodology, the NRSRO's board did not approve a quantitative tool that appears to be used in applying the methodology and to have a significant impact on rating outcomes. The Staff recommended that the NRSRO implement procedures or controls to ensure that complete versions of all new or amended methodologies are approved by its board of directors in accordance with its procedures.
- (4) The NRSRO did not make and retain a record of the rationale for the material difference between the credit rating it assigned to a security issued as part of an asset-backed securities transaction and the credit rating implied by a model that was a substantial component in the process of determining the credit rating, as required by Rule 17g-2(a)(2)(iii). Although the NRSRO took the view that the model used in the credit rating process was not a substantial component of the determination process, it appeared to the Staff, based on its review of the credit rating related documentation and its interviews with NRSRO analysts involved in the credit rating determination, that the model was, in fact, a substantial component of the credit rating determination process. The Staff recommended that the NRSRO implement controls, such as by defining when a model constitutes a substantial component of the rating process and providing appropriate guidance and training to analysts, designed to ensure that it makes and retains records required by the rule.

e. Medium NRSRO #2

- (1) The NRSRO did not apply all applicable methodologies when determining an entity's credit rating. The NRSRO did not detect its error over the course of approximately five years, despite convening multiple rating committees to assess the entity's credit rating during this period. The NRSRO also published an information disclosure form that did not identify the version of all methodologies used, as required by Rule 17g-7(a). The Staff recommended that the NRSRO enhance its internal controls required by Section 15E(c)(3)(A) that are designed to ensure it applies all applicable methodologies when determining credit ratings.

The Staff also recommended that the NRSRO enhance its procedures that are designed to ensure that it discloses in its information disclosure forms the versions of the methodologies used to determine credit ratings.

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

In its response, the NRSRO noted that the issue was identified by the chair of the rating committee held in 2023 in accordance with its error correction policy and self-reported to the Staff. The NRSRO also indicated that it has enhanced its internal controls in a number of ways, including designating a senior analytical person to explicitly attest to the completeness of materials to be provided to the relevant ratings committees and implementing an enhanced controls-checklist for use by relevant ratings committees. Further, it revised materials used in rating committees to standardize the process for recording the list of methodologies and criteria used to determine the credit rating and the rationale for the choice of relevant methodologies and criteria and to call for the review of information disclosure forms by the rating committee chair. In addition, the NRSRO stated that, for the affected analytical areas, it has mandated enhanced training for employees who vote in rating committees and amended an applicable procedure to increase the minimum number of voting participants in rating committees to provide for a larger number of analysts reviewing rating committee materials. The NRSRO also indicated that it has disciplined certain individuals involved in the applicable rating process.

- (2) An independent director of the NRSRO used a personal email account to conduct NRSRO business, including to send and receive emails containing sensitive information, including potentially material nonpublic information. This occurred despite the director having been provided with an NRSRO-issued electronic device and email account and the director having agreed to be subject to an NRSRO policy prohibiting the use of personal email for NRSRO business. The Staff recommended that the NRSRO enforce its policies and procedures, as required by Section 15E(g)(1), to ensure its independent directors comply with the requirement to protect material nonpublic information.
- (3) In assigning certain credit ratings, the NRSRO did not conduct all analyses required under its methodologies. The error occurred because NRSRO employees did not properly identify and categorize the instruments to be rated. The Staff recommended that the NRSRO enhance its internal controls, as required by Section 15E(c)(3)(A), that are designed to ensure that it properly identifies the type of security or instrument to be rated and uses the appropriate methodology.
- (4) The NRSRO's complaints policies and procedures did not adequately address the receipt, retention, and treatment of employee complaints regarding credit ratings, models, and methodologies, as required by Section 15E(j)(3)(A). The Staff recommended that the NRSRO amend its policies and procedures to address the receipt, retention, and treatment of these types of complaints.

f. Small NRSRO #1

- (1) The NRSRO did not appear to enforce its policy to withdraw ratings when it did not receive required surveillance information. In one instance, financial information needed for monitoring the ratings was not provided to the NRSRO for three financial quarters, a period of time beyond what was permissible under the NRSRO's practice for the rating to be maintained. The Staff recommended that, in accordance with the requirements of Section 15E(c)(3)(A), the NRSRO clarify the operation of its policy and implement appropriate procedures or controls to enforce the policy.
- (2) The NRSRO did not appear to have effective internal controls to ensure that annual surveillance reviews were conducted on a timely basis. Staff observed instances where, contrary to the NRSRO's policies and procedures for surveilling outstanding credit ratings, surveillance reviews were not conducted within the required annual timeframe. The Staff recommended that, in accordance with the requirements of Section 15E(c)(3)(A), the NRSRO establish, maintain, enforce, and document effective controls governing adherence to its policies and procedures for conducting annual surveillance reviews.

g. Small NRSRO #2

- (1) A senior employee who participated in the sales and marketing of the NRSRO's ratings discussed with a credit rating analyst the need to take certain rating actions with regard to numerous ratings. In apparent response to the discussion, a previously unscheduled rating committee meeting was convened on an expedited basis to take actions on the ratings. By seeking to influence ratings, the senior employee who participated in sales and marketing activities participated in determining the ratings, which is a prohibited conflict of interest under Rule 17g-5(c)(8). The Staff recommended that the NRSRO enhance its controls to monitor interactions between employees involved in sales and marketing activities and analytical employees and consider whether enhancements to its policies are necessary to avoid inappropriate participation in the determination or monitoring of credit ratings.

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

In its response, the NRSRO disagreed that the senior employee's communication with the credit rating analyst was an attempt to influence ratings. However, the NRSRO acknowledged that communications of this type could give rise to, at least, an appearance of impermissible conduct. The NRSRO stated that, following an investigation conducted by outside counsel, the independent directors of the NRSRO put in place certain compliance and governance enhancements, including issuing a warning letter to the senior employee, administering additional training to the senior employee and others, enhancing the NRSRO's relevant policies and procedures, and increasing compliance/risk staffing and resources. The NRSRO said it would continue to monitor diligently

controls designed and intended to prevent inappropriate participation in the determination of credit ratings.

- (2) The NRSRO's independent directors were permitted to attend, and did attend, some of the NRSRO's rating committees. However, the NRSRO's policies and procedures did not contemplate that independent directors would be involved in the day-to-day operations of the NRSRO and, as a result, were not reasonably designed to address and manage the corresponding conflicts of interest that can arise or to prevent the misuse of material nonpublic information. The Staff recommended that the NRSRO establish, maintain, document, and enforce policies and procedures for its independent directors which are reasonably designed, taking into account the extent of the involvement of the independent directors in the day-to-day operations of the NRSRO, to address and manage conflicts of interest and to prevent the misuse of material nonpublic information.
- (3) The NRSRO omitted responsive records from a request for records made by the Staff. Instead of producing the actual records of model outputs used in determining certain credit ratings retained by the NRSRO, the NRSRO generated a summary report to provide to the Staff. In other instances, the NRSRO produced records that did not contain all relevant information or were inaccurate. The Staff recommended that the NRSRO promptly provide complete and current copies of all records responsive to Staff requests, as required by Rule 17g-2(f), and improve its recordkeeping practices, such as by instituting appropriate controls, to minimize instances of incomplete or inaccurate records.
- (4) Although the NRSRO had a procedure that required rating analysts to deliver internal attestations as to the absence of conflicts of interest, the procedure did not apply to all NRSRO personnel who participated in the determination of credit ratings. All personnel who participate in the determination of credit ratings can influence the outcome of rating decisions. As a result, the NRSRO's procedure did not appear to be reasonably designed to address and manage conflicts of interest that can arise from the NRSRO's business, as required by Section 15E(h)(1). The Staff recommended that the NRSRO amend its policies and procedures designed to address and manage conflicts of interest so that they apply to all persons who participate in determining a credit rating.
- (5) Information disclosure forms accompanying certain rating actions did not adhere to the requirements of Rule 17g-7(a)(1), resulting in them being in a format that was not easy to use and helpful for users of credit ratings to understand the information contained in them. For example, items disclosed in some of the forms were not in the order required by Rule 17g-7(a)(1)(i)(A) and, in some of the forms, disclosure items were included multiple times and were inconsistent from one another. In some instances, the disclosures did not comprehensively address all the requirements in Rule 17g-7(a)(1)(ii) and contained errors such as including the wrong assigned rating and the wrong rated entity name. The Staff recommended that the NRSRO implement and/or enhance controls, such as by requiring an appropriate review of the forms before their release, reasonably

designed to ensure that the information therein is accurate, is presented clearly, and adheres to Rule 17g-7(a).

- (6) The NRSRO did not appear to adhere to the procedures it adopted pursuant to Section 15E(j)(3) for the receipt, retention, and treatment of complaints regarding credit ratings, models, methodologies, and compliance with the securities laws and policies and procedures developed under Section 15E. Specifically, the NRSRO did not document in its complaint log two complaints that were required to be documented under its procedures. The Staff recommended that the NRSRO adhere to its policies and procedures for the receipt, retention, and treatment of complaints, clarify its definition of complaints, and conduct appropriate training to facilitate compliance with its policies and procedures.

h. Small NRSRO #3

- (1) The NRSRO's board of directors did not conduct a review of the NRSRO's compensation policies and practices on an annual basis, as required under the NRSRO's policies. The Staff recommended that the NRSRO should enforce its policies to ensure the board of directors fulfills its oversight responsibilities under Section 15E(t)(3) regarding the NRSRO's compensation and promotion policies and practices.
- (2) The NRSRO did not disclose complete and correct credit rating histories in its Rule 17g-7(b) disclosures. For two consecutive months, the NRSRO posted a disclosure that did not include numerous credit ratings that were required to be disclosed. The Staff recommended that the NRSRO implement appropriate procedures or controls to ensure complete and accurate credit rating history disclosures.

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.

4. Responses to Recommendations from Prior Section 15E Examinations

To assess whether NRSROs appropriately addressed recommendations from the 2023 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.

NRSROs generally addressed the recommendations by taking remedial measures such as adopting new or enhancing existing policies or procedures, internal controls, or systems and processes, and by adding personnel and other resources in areas such as compliance, information technology, or analytics. During the 2024 Section 15E examinations, the Staff assessed each NRSRO's progress in implementing remedial measures. The Staff took 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 2024 Section 15E examinations.

The Staff determined that most recommendations from prior Section 15E examinations have been appropriately addressed. The recommendations that have not yet been appropriately addressed are described below.

In one instance, the Staff determined that the remedial efforts taken by a small NRSRO with respect to a recommendation from the Staff's 2022 Section 15E examination 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, 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. Despite being informed of the Staff's determination in the examination summary letter provided to the NRSRO following the Staff's 2023 Section 15E examination, the NRSRO had not undertaken any additional remedial efforts as of the conclusion of the 2024 Section 15E examination.

The instance described above is the only remaining recommendation from examinations prior to the 2023 Section 15E examinations where the Staff has not yet determined its recommendation has been appropriately addressed. With respect to the recommendations from the 2023 Section 15E examinations, there were several instances where the Staff was unable to determine whether its recommendations have been appropriately addressed either because the NRSRO's remediation is ongoing or because additional information is necessary to assess the remediation. These instances relate to the following findings and recommendations from the 2023 Section 15E examinations:

- An NRSRO appeared to not comply with certain requirements of a Commission order, and the Staff recommended that the NRSRO comply with these requirements. While this NRSRO did implement certain changes to related policies and procedures, the Staff is continuing to evaluate whether these changes have appropriately addressed the Staff's recommendation.
- A large NRSRO did not disclose complete and current credit rating histories in its Rule 17g-7(b) disclosures, and the Staff recommended that the NRSRO implement appropriate procedures or controls to ensure the accurate creation and maintenance of such disclosures. In response to this recommendation, the NRSRO implemented additional procedures to validate the content of its required disclosures. The Staff's review of the effectiveness of the new procedures is ongoing.
- A medium NRSRO's policies and procedures for addressing and managing conflicts of interest related to securities holdings did not appear to be reasonably designed given the exclusion of certain types of accounts from monitoring. The Staff

recommended that the NRSRO establish, maintain, and enforce reasonably designed policies and procedures to address such conflicts of interest and that the NRSRO review past account statements for the previously excluded accounts to identify any instances where a prohibited conflict of interest may have existed. The NRSRO implemented new procedures with respect to the previously excluded accounts in the first quarter of 2024 and completed its review of past account statements in the third quarter of 2024. The review of past account statements identified one instance where an analyst participated in multiple rating committees, including committees held after the implementation of the new procedures, while owning securities of the issuer. The Staff's review of the effectiveness of the new procedures is ongoing.

- A small NRSRO maintained a performance measurement system which, in the Staff's view, established incentives for analysts to produce ratings as quickly as possible, without regard to rating quality, and that such incentives made it difficult or impossible for the NRSRO to manage certain conflicts of interest. The Staff also found that 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 that promote sales and marketing considerations and exacerbate conflicts of interest and that the NRSRO maintain adequate resources and utilize those resources to implement and enforce policies, procedures, and controls necessary to produce credit ratings with integrity. The NRSRO eliminated the specific performance measurement system in question and indicated that its board of directors would assume a more active role in the assessment of needed resources. While the Staff did observe an increased focus on these issues at the board level that is ongoing, the Staff also continued to observe apparent deficiencies in processes and controls that could impact the production of credit ratings with integrity.

The Staff will continue to assess the remedial efforts of the respective NRSROs with respect to these findings and recommendations in its 2025 Section 15E examinations.

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.

a. NRSRO Credit Ratings Outstanding

Pursuant to Rule 17g-1(f), each NRSRO must file with the Commission an annual certification on Form NRSRO within 90 days of the end of each calendar year. Such filings are publicly available on EDGAR and are also required to be made publicly available without cost on each NRSRO's website pursuant to Rule 17g-1(i).

Each NRSRO reports in Item 7A of the NRSRO's annual certification on Form NRSRO the number of outstanding credit ratings, as of the end of the preceding calendar year, for each rating category for which it is registered. This information, for the calendar year ending December 31, 2023, is summarized in Charts 2 through 7 below, and Charts 8 through 10 illustrate how the number of ratings outstanding at each NRSRO have changed over the past five years. This information 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 and overall.

While comparing the number of ratings *outstanding* among NRSROs provides a cumulative view on the state of competition over time, 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) 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. For example, AMB has traditionally focused on rating insurance companies and their affiliates. Also, the reported information does not reflect any credit ratings being issued by NRSROs in rating categories in which they are not registered with the Commission, nor does it reflect ratings issued by an affiliate of an NRSRO unless the affiliate is identified as a credit rating affiliate on Item 3 of Form NRSRO.

Further, when reporting its outstanding ratings, each NRSRO makes its own determination of the applicable rating category into which each of its ratings falls. The classification of ratings into the five rating categories is not necessarily consistent across NRSROs.

Chart 2 provides the number of outstanding credit ratings reported by each NRSRO in its annual certification for the calendar year ending December 31, 2023, in each of the five rating categories identified in Section 3(a)(62)(A) for which the NRSRO was registered as of December 31, 2023. 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, 2023.

Chart 2. Number of Outstanding Credit Ratings as of December 31, 2023, by Rating Category

NRSRO	Financial Institutions	Insurance Companies	Corporate Issuers	Asset-Backed Securities	Government Securities	Total Ratings	Year-Over-Year Change in Total Ratings (2022 to 2023)
Demotech	N/R	432	N/R	N/R	N/R	432	-1.59%
EJR	5,078	817	8,354	N/R	N/R	14,249	-6.98%
HR	797	N/R	732	N/R	469	1,998	7.48%
JCR	948	106	3,466	N/R	401	4,921	4.99%
Total Small	6,823	1,355	12,552	N/R	870	21,600	
AMB	N/R	7,357	984	8	N/R	8,349	-0.12%
DBRS	9,232	229	3,125	42,751	8,100	63,437	1.33%
KBRA	1,657	182	455	18,315	9,548	30,157	-12.22%
Total Medium	10,889	7,768	4,564	61,074	17,648	101,943	
Fitch	37,383	3,245	21,073	36,382	165,140	263,223	0.48%
Moody's	39,543	2,707	32,669	51,256	544,445	670,620	-0.14%
S&P	61,360	6,967	54,545	37,720	895,230	1,055,822	-0.84%
Total Large	138,286	12,919	108,287	125,358	1,604,815	1,989,665	
Total	155,998	22,042	125,403	186,432	1,623,333	2,113,208	-0.60%

N/R indicates that the NRSRO was not registered in the applicable rating category as of the reporting date. Percentages have been rounded to the nearest one-hundredth of one percent.

Sources: NRSRO annual certifications for the 2022 and 2023 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, 2023

NRSRO	Financial Institutions	Insurance Companies	Corporate Issuers	Asset-Backed Securities	Government Securities	Total Ratings
Demotech	N/R	1.96%	N/R	N/R	N/R	0.02%
EJR	3.26%	3.71%	6.66%	N/R	N/R	0.67%
HR	0.51%	N/R	0.58%	N/R	0.03%	0.09%
JCR	0.61%	0.48%	2.76%	N/R	0.02%	0.23%
Total Small	4.37%	6.15%	10.01%	N/R	0.05%	1.02%
AMB	N/R	33.38%	0.78%	<0.01%	N/R	0.40%
DBRS	5.92%	1.04%	2.49%	22.93%	0.50%	3.00%
KBRA	1.06%	0.83%	0.36%	9.82%	0.59%	1.43%
Total Medium	6.98%	35.24%	3.64%	32.76%	1.09%	4.82%
Fitch	23.96%	14.72%	16.80%	19.51%	10.17%	12.46%
Moody's	25.35%	12.28%	26.05%	27.49%	33.54%	31.73%
S&P	39.33%	31.61%	43.50%	20.23%	55.15%	49.96%
Total Large	88.65%	58.61%	86.35%	67.24%	98.86%	94.15%

N/R indicates that the NRSRO was not registered in the applicable rating category as of the reporting date. Percentages have been rounded to the nearest one-hundredth of one percent.

Sources: NRSRO annual certifications for the 2022 and 2023 calendar years, Item 7A on Form NRSRO.

The large NRSROs accounted for 94.15% of all the ratings outstanding as of December 31, 2023—virtually unchanged from their share as of December 31, 2022. For comparison, in 2007, the year when NRSROs began reporting outstanding ratings on Form NRSRO, the large NRSROs accounted for 98.8% of all outstanding ratings.

Charts 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 ten years, AMB reported more credit ratings outstanding in the insurance category than any other NRSRO.

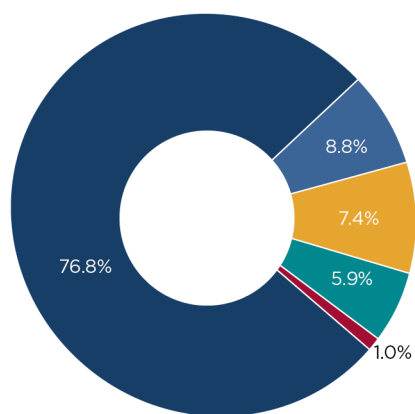
Also of note, when compared to the corresponding information as of December 31, 2022, is the significant increase in the number of DBRS' ratings outstanding in the asset-backed securities rating category and the similarly-sized decrease in the government securities rating category. These changes are largely attributable to a change in the classification of certain ratings by DBRS.

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, 2023.

As illustrated by Chart 4, the largest proportion of the aggregate credit ratings reported to be outstanding were in the government securities category, which may be attributable to the large number of government bond issuers (e.g., issuers of municipal securities) and their multiple debt offerings. The government securities category accounted for 76.8% of the total number of 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 98.7% of all outstanding government securities ratings.

Chart 5 depicts the percentages of the credit ratings outstanding that are attributable to each NRSRO; Chart 6 depicts the percentages of the credit ratings outstanding that are attributable to each NRSRO other than those in 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, 2023.

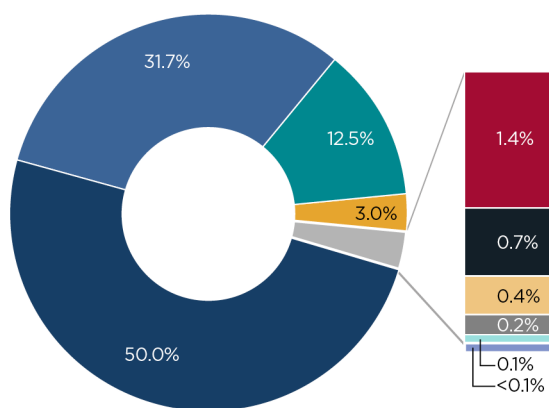
Chart 4. Breakdown of Ratings Reported Outstanding by Rating Category as of December 31, 2023



■ Government Securities 76.8%
 ■ Asset-Backed Securities 8.8%
 ■ Financial Institutions 7.4%
 ■ Corporate Issuers 5.9%
 ■ Insurance Companies 1.0%

Percentages have been rounded to the nearest one-tenth of one percent.
 Sources: NRSRO annual certifications for the 2023 calendar year, Item 7A on Form NRSRO.

Chart 5. Breakdown of Ratings Reported Outstanding by NRSRO as of December 31, 2023

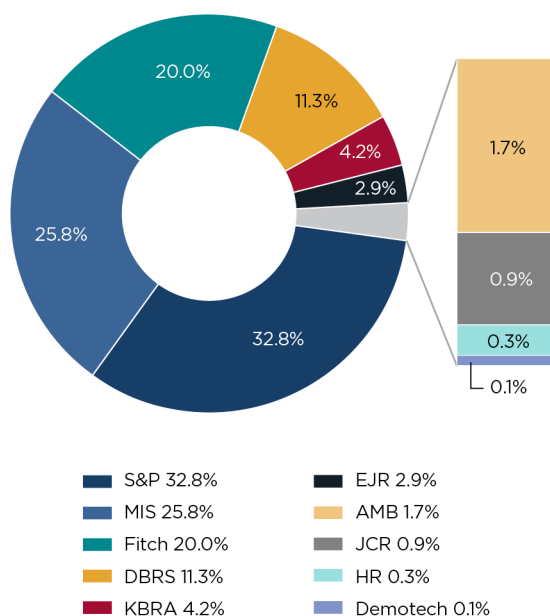


■ S&P 50.1%
 ■ MIS 31.7%
 ■ Fitch 12.5%
 ■ DBRS 3.0%
 ■ KBRA 1.4%
 ■ EJR 0.7%
 ■ AMB 0.4%
 ■ JCR 0.2%
 ■ HR 0.1%
 ■ Demotech <0.1%

Percentages have been rounded to the nearest one-tenth of one percent.
 Sources: NRSRO annual certifications for the 2023 calendar year, Item 7A on Form NRSRO.

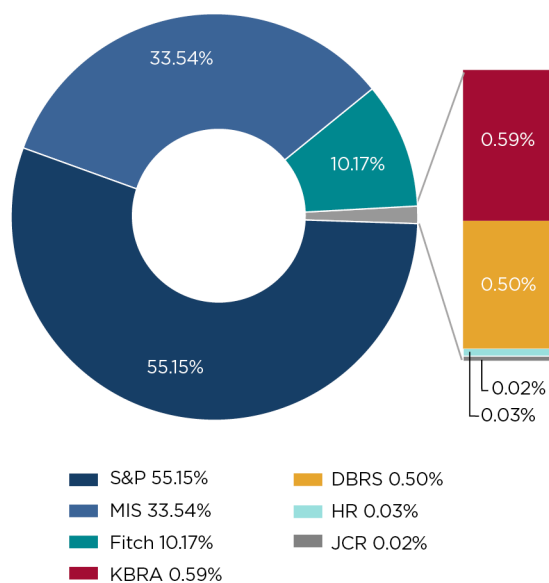
A comparison of Chart 5 to Chart 6 illustrates that there is less concentration in the non-government securities rating categories. S&P's and Moody's percentage share of all outstanding ratings declines by 17.2 and 5.9 percentage points, respectively, when government securities are excluded. Fitch's percentage share of outstanding ratings, on the other hand, increases by 7.5 percentage points when government securities are excluded. The percentage share for all the remaining NRSROs also increases when government securities are excluded.

Chart 6. Breakdown of Non-Government Securities Ratings Reported Outstanding by NRSRO as of December 31, 2023



Percentages have been rounded to the nearest one-tenth of one percent.
Sources: NRSRO annual certifications for the 2023 calendar year, Item 7A on Form NRSRO.

Chart 7. Breakdown of Government Securities Ratings Reported Outstanding on December 31, 2023

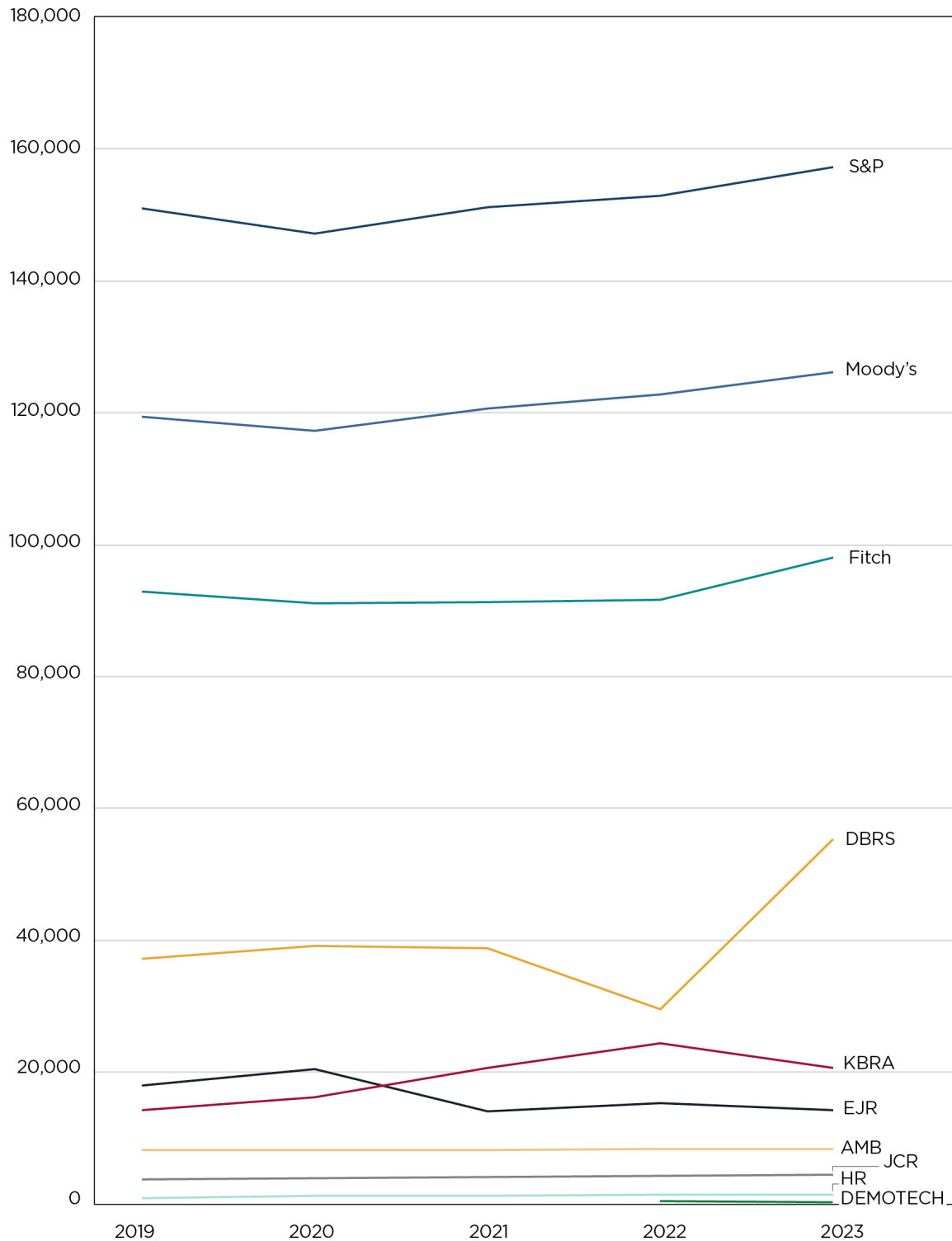


Percentages have been rounded to the nearest one-hundredth of one percent.
This chart only includes the NRSROs that are registered in the government securities category.
Sources: NRSRO annual certifications for the 2023 calendar year, Item 7A on Form NRSRO.

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 less than 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, 2019, through December 31, 2023.

Chart 8. Total Non-Government Ratings Issued by All NRSROs (2019-2023)

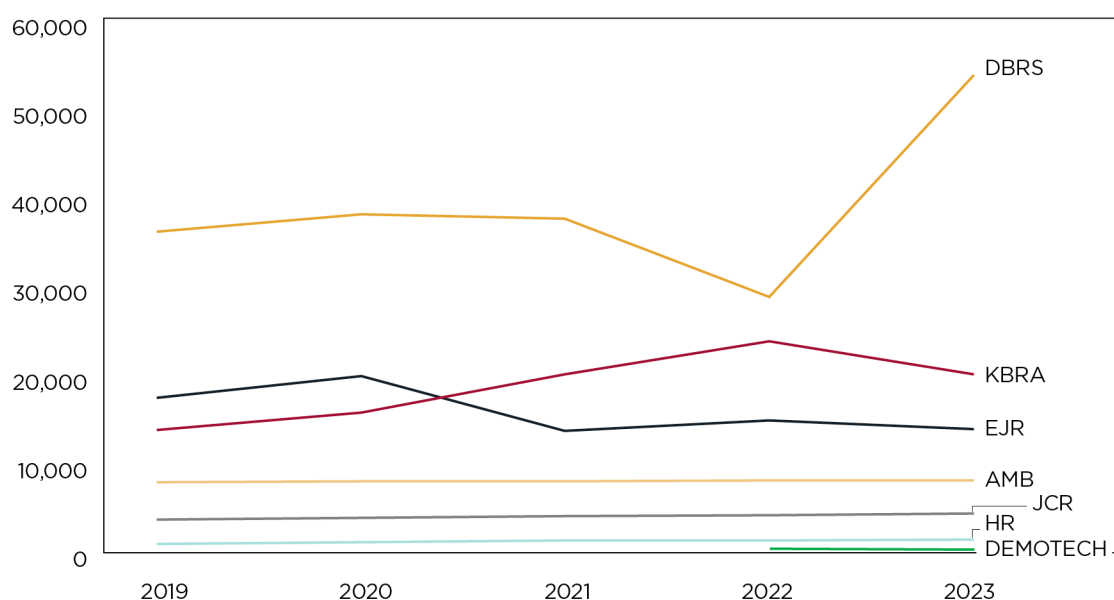


Sources: NRSRO annual certifications for the 2019-2023 calendar years, Item 7A on Form NRSRO.
Demotech was registered as an NRSRO on July 11, 2022, and filed its first annual certification for the year ending December 31, 2022. Year-over-year data is only available since 2022.

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, 2023, the larger NRSROs have significantly more ratings outstanding than the medium and small NRSROs. Chart 8 shows relatively stable rating levels at AMB, Demotech, HR, and JCR. The chart also shows that EJR's rating level appears to have stabilized following a decrease in 2021, that KBRA's rating levels decreased this year following several years of increases, and that DBRS had a sharp increase in ratings outstanding in 2023. However, the large increase in ratings for DBRS is attributable to a change made by DBRS in how it classifies certain ratings. A significant number of ratings that had been categorized as part of the government securities rating category are now categorized as part of the asset-backed securities category. Moreover, the total number of DBRS ratings (including government ratings) did not significantly change from the previous year.

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.

Chart 9. Total Non-Government Ratings Issued by Medium and Small NRSROs (2019-2023)



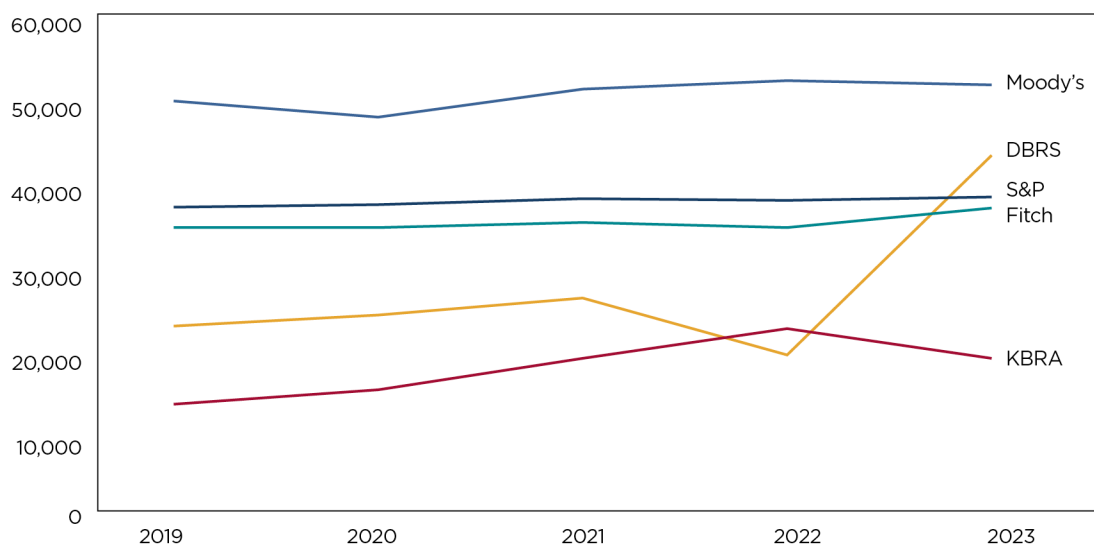
Sources: NRSRO annual certifications for the 2019-2023 calendar years, Item 7A on Form NRSRO.

Demotech was registered as an NRSRO on July 11, 2022, and filed its first annual certification for the year ending December 31, 2022. Year-over-year data is only available since 2022.

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 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 eight outstanding asset-

backed securities ratings as of December 31, 2023. For these reasons, Chart 10 only includes data from DBRS, Fitch, KBRA, Moody's, and S&P.

Chart 10. Total ABS Ratings Issued by All NRSROs (2019-2023)



Sources: NRSRO annual certifications for the 2019-2023 calendar years, Item 7A on Form NRSRO.

As discussed in more detail in Section IV.A.2, medium NRSROs have been able to gain market share in the asset-backed securities rating class. Chart 10 provides a graphic representation of changes in ratings outstanding in this rating class since 2019. The chart illustrates that KBRA had been steadily increasing the number of ratings reported outstanding, but experienced a decrease during the most recent year. During this same period, the ratings count for S&P has remained fairly steady. While Moody's and Fitch had more variation than S&P, their ratings counts have also remained relatively stable. Compared to last year, Fitch has increased the number of ratings and Moody's has experienced a slight decrease. As discussed in more detail above, the large increase in DBRS' ABS ratings includes the impact of a reclassification of ratings that had previously been considered to be in the government securities rating category but are now treated as ABS ratings.

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.

Chart 11. NRSRO Credit Analysts and Credit Analyst Supervisors

NRSRO	Credit Analysts (Including Credit Analyst Supervisors)	Credit Analyst Supervisors
Demotech	3	1
EJR	20	9
HR	60	9
JCR	65	30
Total Small	148	49
AMB	156	47
DBRS	505	145
KBRA	238	61
Total Medium	899	253
Fitch	1,133	339
Moody's	1,644	243
S&P	1,636	130
Total Large	4,413	712
TOTAL	5,460	1,014

Sources: Exhibit 8 to Form NRSRO, in effect as of each NRSRO's annual certification for the 2023 calendar year filed on or before March 31, 2024.

The large NRSROs report employing 4,413 credit analysts (including supervisors), which is approximately 80.8% of the total number employed by all of the NRSROs. The small and medium NRSROs, in the aggregate, employ approximately 19.2% of all credit analysts employed by NRSROs. The percentage of credit analysts employed by the small and medium NRSROs has increased steadily since 2014 when it was approximately 11.4% of all NRSRO analysts. Total NRSRO analytical staff decreased by about 7.4% compared to the information reported in the prior year annual certifications.

c. NRSRO Revenue

Chart 12 shows the percentage of total NRSRO revenues attributable to the large, medium, and small NRSROs since 2020. The percentage of aggregate NRSRO revenue reported by the large NRSROs increased in 2023 but remains below the levels reported for fiscal year 2020 and 2021. Likewise, the revenue share of the medium NRSROs has increased from 2020, reaching a high of 7.3% in 2022, before decreasing to 6.7% in 2023. The small NRSROs' share of overall NRSRO revenue has also increased since 2020 but experienced a small decrease in 2023, falling by 0.1 percentage points in fiscal year 2023 compared with 2022.

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

	2023	2022	2021	2020
Large NRSROs	91.9%	91.1%	93.2%	94.1%
Medium NRSROs	6.7%	7.3%	5.6%	5.1%
Small NRSROs	1.5%	1.6%	1.1%	0.8%

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

Sources: Nonpublic financial reports filed with the Commission under Rule 17g-3(a)(3) for fiscal years ended 2020 through 2023. 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.

Further revenue information is available for NRSROs that are owned by public companies. The following discussion summarizes information described in the respective Annual Reports on Form 10-K for the year ended December 31, 2023:⁹

- Moody's Corporation, which is Moody's parent company, reported \$2.9 billion in Moody's external revenue for 2023, a 6% increase from 2022. This increase was attributed to increased investment grade corporate debt issuance coupled with higher infrastructure finance issuance relative to activity in the prior year. The corporate finance group, financial institutions group, and public, project and infrastructure finance group each had an increase in revenue compared to 2022 results. The structured finance group had a decrease in revenue compared to the 2022 results.
- S&P Global Inc., which is S&P's parent company, reported \$3.3 billion in S&P's revenue for 2023, a 9% increase from 2022. This increase, according to the report, was primarily due to growth in transaction revenue from corporate bond ratings and bank loan ratings attributed to higher refinancing activity. Non-transaction revenue also increased in 2023. The report identifies an increase in surveillance revenue as a key contributor to this increase but also notes that the increase was tempered by lower new entity credit rating revenue. Revenue also benefited from improved contract terms across product categories and a favorable impact from foreign exchange rates.
- Morningstar, Inc., which is DBRS' parent company, reported \$215.4 million in revenue in 2023 from its Morningstar Credit reportable segment that includes DBRS, a 9.1% decrease in revenue from 2022. This decrease, according to the report, was primarily due to a sharp decline in CMBS ratings revenue, driven by ongoing softness in the U.S. CMBS ratings activity. Additionally, and to a lesser extent, declines in residential mortgage-backed securities related revenue also contributed to the decrease

⁹ See the following reports for further information:

- (1) Moody's Corporation, [Annual Report on Form 10-K for the year ended December 31, 2023](#);
- (2) S&P Global Inc., [Annual Report on Form 10-K for the year ended December 31, 2023](#); and
- (3) Morningstar, Inc., [Annual Report on Form 10-K for the year ended December 31, 2023](#).

in revenue. These declines were partially offset by an increase in asset-backed securities ratings revenues and modest gains in corporate ratings revenues.

Regulatory filings show an increase in revenues at Moody's, DBRS, and S&P in the first half of 2024 compared to the same period in 2023.¹⁰ Moody's Corporation reported \$2.0 billion in Moody's external revenue for the first half of 2024, a 35% increase compared with the same period in 2023. This increase, according to the report, reflects issuance growth across all lines of businesses due to tightening credit spreads and issuance ahead of potential market volatility later in the year.

S&P Global Inc. reported \$2.2 billion in revenue at S&P for the first half of 2024, a 31% increase compared with the same period in 2023. Transaction revenue increased, according to the report, due to growth in corporate bond ratings revenue and bank loan ratings revenue driven by increased issuance volumes due to higher refinancing activity. According to the report, an increase in structured finance revenue driven by increased CLO issuance also contributed to transaction revenue growth. Non-transaction revenue increased due to an increase in surveillance revenue and new entity credit ratings revenue and higher revenue driven by scenario testing and credit rating profile evaluations.

Morningstar, Inc. reported \$137.9 million in revenue in the first half of 2024 for its Morningstar Credit reportable segment, a 36.5% increase compared with the same period in 2023. This increase, according to the report, was supported by ratings-related revenue increasing across asset classes and geographies.

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 provides information about ratings issued in 2022, 2023, and the first half of 2024 and shows that DBRS and KBRA have achieved meaningful market share percentages in recent years with respect to certain types of asset-backed securities. Unless noted otherwise, all market share percentages in this Section IV.A.2 are based on dollar amounts of issuance. Additionally, 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.

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 Green

¹⁰ See the following reports for further information:

- (1) Moody's Corporation, [Quarterly Report on Form 10-Q for the period ended June 30, 2024](#);
- (2) S&P Global Inc., [Quarterly Report on Form 10-Q, for the period ended June 30, 2024](#); and
- (3) Morningstar, Inc., [Quarterly Report on Form 10-Q for the period ended June 30, 2024](#).

Street’s website.¹¹ 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 and counts an NRSRO as having rated the entire transaction even if the NRSRO rated only a portion of it (e.g., the NRSRO may have rated only the most senior tranche, yet is treated as having rated all of them).

a. CMBS

Charts 13 through 16 provide information concerning U.S. CMBS ratings by NRSROs. NRSRO market share varies between the conduit CMBS and single-borrower CMBS segments, the two segments that account for most of the non-agency U.S. CMBS transactions rated by NRSROs. The charts include reported market share information for total non-agency U.S. CMBS transactions, U.S. conduit CMBS transactions, U.S. single-borrower CMBS transactions, and agency CMBS transactions for the first half of calendar year 2024 and calendar years 2023 and 2022. Market share percentages are calculated for the charts using both dollar amounts of issuance and numbers of deals.¹²

Chart 13. Rating Agency Market Shares for Total Non-Agency U.S. CMBS Issued in 2022, 2023, and First Half of 2024

1H-2024 Rank	NRSRO	1H-2024 Issuance (\$Mil.)	No. of deals	Market Share % (\$)/(#)	2023 Issuance (\$Mil.)	No. of deals	Market Share % (\$)/(#)	2022 Issuance (\$Mil.)	No. of deals	Market Share % (\$)/(#)
1	Fitch	25,594	32	62.5/54.2	27,047	38	68.8/62.3	38,114	37	54.3/45.7
2	Moody’s	21,335	26	52.1/44.1	19,623	30	49.9/49.2	46,275	51	65.9/63.0
3	KBRA	19,711	25	48.1/42.4	24,957	34	63.4/55.7	28,249	28	40.2/34.6
4	S&P	9,597	15	23.4/25.4	14,976	22	38.1/36.1	14,976	21	21.3/25.9
5	DBRS	9,181	15	22.4/25.4	7,737	13	19.7/21.3	26,126	27	37.2/33.3
Total Rated Market		40,959	59		39,333	61		70,231	81	

Source: Commercial Mortgage Alert CMBS database as of August 30, 2024.

¹¹ Green Street publishes *Asset-Backed Alert* and *Commercial Mortgage Alert* and maintains the related ABS database and CMBS database. The information in Charts 13 through 16 is based on information from the Commercial Mortgage Alert CMBS database as of August 30, 2024, and the information in Charts 17 through 19 and the accompanying discussion is based on information from the Asset-Backed Alert ABS database as of August 30, 2024. For more information on the databases, including inclusion and categorization criteria, see [Asset-Backed Alert ABS Database Methodology](#) and [Commercial Mortgage Alert CMBS Database Methodology](#).

¹² Because it is typical for more than one NRSRO to rate a particular transaction, the sum of the market share percentages exceeds 100% and the sum of the amounts attributed to each NRSRO exceed the total rated market amount.

Chart 14. Rating Agency Market Shares for U.S. Conduit CMBS Issued in 2022, 2023, and First Half of 2024

1H-2024 Rank	NRSRO	1H-2024 Issuance (\$Mil.)	No. of deals	Market Share % (\$)/(#)	2023 Issuance (\$Mil.)	No. of deals	Market Share % (\$)/(#)	2022 Issuance (\$Mil.)	No. of deals	Market Share % (\$)/(#)
1	Fitch	11,412	13	100.0/100.0	19,748	26	100.0/100.0	23,750	25	100.0/100.0
2	KBRA	10,221	12	89.6/92.3	19,748	26	100.0/100.0	17,015	18	71.6/72.0
3	Moody's	5,768	6	50.5/46.2	9,636	13	48.8/50.0	13,615	14	57.3/56.0
4	S&P	5,643	7	49.5/53.8	10,111	13	51.2/50.0	9,646	10	40.6/40.0
5	DBRS	1,191	1	10.4/7.7	0	0	0.0/0.0	8,889	9	37.4/36.0
Total Rated Market		11,412	13		19,748	26		23,750	25	

Source: Commercial Mortgage Alert CMBS database as of August 30, 2024.

Chart 15. Rating Agency Market Shares for U.S. Single-Borrower CMBS Issued in 2022, 2023, and First Half of 2024

1H-2024 Rank	NRSRO	1H-2024 Issuance (\$Mil.)	No. of deals	Market Share % (\$)/(#)	2023 Issuance (\$Mil.)	No. of deals	Market Share % (\$)/(#)	2022 Issuance (\$Mil.)	No. of deals	Market Share % (\$)/(#)
1	Moody's	15,566	20	52.7/43.5	9,986	17	51.0/48.6	32,383	36	70.1/65.5
2	Fitch	14,182	19	48.0/41.3	7,299	12	37.3/34.3	14,364	12	31.1/21.8
3	KBRA	9,491	13	32.1/28.3	5,209	8	26.6/22.9	10,957	9	23.7/16.4
4	DBRS	7,989	14	27.0/30.4	7,737	13	39.5/37.1	17,237	18	37.3/32.7
5	S&P	3,954	8	13.4/17.4	4,865	9	24.8/25.7	7,943	11	17.2/20.0
Total Rated Market		29,547	46		19,585	35		46,204	55	

Source: Commercial Mortgage Alert CMBS database as of August 30, 2024.

Chart 16. Rating Agency Market Shares for Agency CMBS Issued in 2022, 2023, and First Half of 2024

1H-2024 Rank	NRSRO	1H-2024 Issuance (\$Mil.)	No. of deals	Market Share % (\$)/(#)	2023 Issuance (\$Mil.)	No. of deals	Market Share % (\$)/(#)	2022 Issuance (\$Mil.)	No. of deals	Market Share % (\$)/(#)
1	KBRA	1,917	2	50.6/33.3	11,898	11	78.1/57.9	15,690	13	63.0/59.1
1	Fitch	1,917	2	50.6/33.3	8,224	8	54.0/42.1	14,240	12	57.1/54.5
2	S&P	1,868	4	49.4/66.7	5,159	9	33.9/47.4	696	2	2.8/9.1
3	DBRS	1,127	1	29.8/16.7	1,797	2	11.8/10.5	8,539	7	34.3/31.8
4	Moody's	0	0	0.0/0.0	1,847	2	12.1/10.5	9,989	8	40.1/36.4
Total Rated Market		3,785	6		15,230	19		24,925	22	

Source: Commercial Mortgage Alert CMBS database as of August 30, 2024.

Charts 13 through 16 show that in 2022, 2023, and the first half of 2024 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 2024, KBRA had the third-highest market share in the non-agency U.S. CMBS segment. In 2023, KBRA had the second-highest market share, and in 2022, KBRA and DBRS had the third- and fourth-highest market shares, respectively. KBRA has consistently attained a market share over 40% by issuance amount since 2022, and in 2023 KBRA obtained a higher market share than each of Moody's and S&P.

Since 2022, 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 also rated all U.S. conduit CMBS rated transactions in 2022, and KBRA had the second-highest market share in the U.S. conduit CMBS segment in 2022 and the first half of 2024.

As illustrated in Chart 15, DBRS achieved significant market share in the U.S. single-borrower CMBS segment, achieving the second-highest market share in 2022 and 2023. DBRS has consistently maintained a market share in this segment over 25% since 2022.

As illustrated in Chart 16, KBRA had the highest market share in the agency CMBS segment in 2022 and 2023, and is tied for the highest market share in the first half of 2024.

b. ABS/MBS/CLO

Charts 17 through 19 provide information concerning U.S. ABS, U.S. MBS, and U.S. CLO ratings by NRSROs, based on information from the Asset-Backed Alert ABS database. The charts include reported market share information for these transactions for the first half of calendar year 2024 and calendar years 2023 and 2022. Market share percentages are calculated for the charts using both dollar amounts of issuance and numbers of deals.¹³

Chart 17. Rating Agency Market Shares for U.S. ABS Issued in 2022, 2023, and First Half of 2024

1H-2024 Rank	NRSRO	1H-2024 Issuance (\$Mil.)	No. of deals	Market Share % (\$)/(#)	2023 Issuance (\$Mil.)	No. of deals	Market Share % (\$)/(#)	2022 Issuance (\$Mil.)	No. of deals	Market Share % (\$)/(#)
1	S&P	98,337	125	54.5/45.3	146,354	206	55.2/47.2	146,119	183	56.9/43.5
2	Moody's	94,457	117	52.4/42.4	135,167	183	50.9/42.0	131,383	162	51.1/38.5
3	Fitch	88,626	101	49.1/36.6	146,841	171	55.3/39.2	116,645	145	45.4/34.4
4	KBRA	36,182	87	20.1/31.5	50,740	141	19.1/32.3	54,849	149	21.3/35.4
5	DBRS	23,254	47	12.9/17.0	35,147	80	13.2/18.3	33,688	79	13.1/18.8
Total Rated Market		180,387	276		265,336	436		257,000	421	

Source: Asset-Backed Alert ABS database as of August 30, 2024.

¹³ Because it is typical for more than one NRSRO to rate a particular transaction, the sum of the market share percentages exceeds 100% and the sum of the amounts attributed to each NRSRO exceed the total rated market amount.

Chart 18. Rating Agency Market Shares for U.S. MBS Issued in 2022, 2023, and First Half of 2024

1H-2024 Rank	NRSRO	1H-2024 Issuance (\$Mil.)	No. of deals	Market Share % (\$)/(#)	2023 Issuance (\$Mil.)	No. of deals	Market Share % (\$)/(#)	2022 Issuance (\$Mil.)	No. of deals	Market Share % (\$)/(#)
1	Fitch	36,383	94	62.6/60.6	43,533	121	70.0/65.4	47,508	105	43.1/39.9
2	DBRS	26,693	69	46.0/44.5	27,412	84	44.1/45.4	40,633	106	36.9/40.3
3	KBRA	24,659	65	42.5/41.9	25,639	72	41.2/38.9	58,505	127	53.1/48.3
4	S&P	8,567	19	14.8/12.3	7,011	22	11.3/11.9	21,638	57	19.6/21.7
5	Moody's	7,475	18	12.9/11.6	4,547	13	7.3/7.0	37,050	72	33.6/27.4
Total Rated Market		58,078	155		62,211	185		110,190	263	

Source: Asset-Backed Alert ABS database as of August 30, 2024.

Chart 19. Rating Agency Market Shares for U.S. CLOs Issued in 2022, 2023, and First Half of 2024

1H-2024 Rank	NRSRO	1H-2024 Issuance (\$Mil.)	No. of deals	Market Share % (\$)/(#)	2023 Issuance (\$Mil.)	No. of deals	Market Share % (\$)/(#)	2022 Issuance (\$Mil.)	No. of deals	Market Share % (\$)/(#)
1	S&P	94,675	229	54.4/53.9	74,521	184	57.2/57.0	64,815	139	41.9/41.2
2	Moody's	82,669	201	47.5/47.3	65,333	157	50.2/48.6	92,633	200	59.9/59.3
3	Fitch	71,361	165	41.0/38.8	54,563	131	41.9/40.6	74,767	156	48.4/46.3
4	KBRA	1,266	4	0.7/0.9	1,963	7	1.5/2.2	3,590	10	2.3/3.0
5	DBRS	0	0	0.0/0.0	0	0	0.0/0.0	1,047	4	0.7/1.2
Total Rated Market		174,035	425		130,274	323		154,558	337	

Source: Asset-Backed Alert ABS database as of August 30, 2024.

Chart 17 shows that DBRS and KBRA have consistently achieved and maintained meaningful U.S. ABS rating market shares. 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 2022, while DBRS has maintained market share of over 10% during the same period.

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.¹⁴ DBRS and KBRA have maintained a competitive position with regards to consumer loans, achieving the two highest market shares in this category in 2022

¹⁴ The Asset-Backed Alert ABS database indicates that 75 unsecured consumer loan transactions totaling \$26.1 billion were issued in 2022, 62 unsecured consumer loan transactions totaling \$23.1 billion were issued in 2023, and 43 unsecured consumer loan transactions totaling \$20.3 billion were issued during the first half of 2024.

and 2023, with each rating between 42.7% to 55.1% of the issuance amount of the rated transactions during this period. Comparatively, Moody's, S&P, and Fitch each rated less than 25.5% of the issuance amount over the same time period. For the first half of 2024, DBRS has maintained the highest market share, rating 46.9% of the issuance amount of the rated transactions during this period. Moody's and Fitch have gained market share during the first half of 2024, rating 43.3% and 40.9% of the total issuance amount, respectively. Relative to 2022 and 2023, KBRA lost market share, rating 26.0% of total issuance amount in the first half of 2024. Another example is KBRA's market share for rating whole business securitizations. KBRA had the highest market share for these transactions in 2022, 2023, and the first half of 2024,¹⁵ rating 92.1%, 100%, and 100%, respectively, of the issuance amount of such transactions.

DBRS and KBRA have been able to gain market share rating some types of traditional ABS as well. For example, DBRS rated 94.1%, 88.0%, and 94.2% of the issuance amount of student loan transactions during 2022, 2023, and the first half of 2024, respectively, which represented the highest market share during each time period.¹⁶

Both DBRS and KBRA have maintained a significant market share rating subprime auto loan transactions.¹⁷ In 2022, 2023, and the first half of 2024, DBRS rated 30.6%, 32.2%, and 26.2% of subprime auto loan transactions, respectively. KBRA also maintained a significant market share; in 2021, 2022, and the first half of 2023, KBRA rated 37.8%, 32.6%, and 31.7% of the issuance amount of subprime auto loan transactions.

Chart 18 shows that the U.S. MBS segment remains competitive. DBRS' market share by issuance amount went from 36.9% in 2022 to 44.1% in 2023 and 46.0% in the first half of 2024, while KBRA's market share by issuance amount decreased from 53.1% in 2022 to 41.2% in 2023 and 42.5% in the first half of 2024. DBRS and KBRA have also 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 ABS database's criteria and therefore included within the data summarized in Chart 17. For example, in 2021, 2022, and the first half of 2023, DBRS rated 85.0%, 97.1%, and 75.7% of the issuance amount of re-performing mortgage transactions,¹⁸ respectively, which represented the first- or second-highest market share in this category. Additionally, KBRA and DBRS have maintained a significant market share in

¹⁵ The Asset-Backed Alert ABS database indicates that 14 whole-business securitization transactions totaling \$6.3 billion were issued during 2022, 7 whole-business securitization transactions totaling \$3.2 billion were issued during 2023, and 10 whole business securitization transactions totaling \$6.7 billion were issued during the first half of 2024.

¹⁶ The Asset-Backed Alert ABS database indicates that 11 student loan transactions totaling \$7.5 billion were issued in 2022, 17 student loan transactions totaling \$8.2 billion were issued in 2023, and 13 student loan transactions totaling \$7.3 billion were issued during the first half of 2024.

¹⁷ The Asset-Backed Alert ABS database indicates that 63 subprime auto loan transactions totaling \$33.5 billion were issued in 2022, 71 subprime auto loan transactions totaling \$34.2 billion were issued in 2023, and 42 subprime auto loan transactions totaling \$22.8 billion were issued during the first half of 2024.

¹⁸ The Asset-Backed Alert ABS database indicates that 29 re-performing mortgage transactions totaling \$14.4 billion were issued in 2022, 17 re-performing mortgage transactions totaling \$7.8 billion were issued in 2023, and 17 re-performing mortgage transactions totaling \$7.5 billion were issued during the first half of 2024.

subprime mortgage transactions¹⁹ and risk transfer transactions.²⁰ For subprime mortgage transactions from 2022 to the first half of 2024, KBRA rated between 32.3% and 51.9%, and DBRS rated between 17.6% and 31.4% of the issuance amount; for risk transfer transactions, KBRA rated between 50.6% and 69.7% and DBRS rated between 22.7% and 37.0% of the issuance amount.

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 2022.

3. Barriers to Entry

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

The long history of investor acceptance and global nature of the largest NRSROs can serve as impediments to new entrants.²¹ Investor acceptance has been raised as a potential barrier to entry by certain NRSROs in the context of the investment management contracts of institutional fund managers and the investment guidelines of fixed income mutual fund managers, pension plan sponsors, and endowment fund managers. Specifically, it is common for these types of contracts and guidelines to require the use of ratings of specified NRSROs.²² The effect of these requirements can 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).

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.²³ Certain investment companies (index funds) try to closely track the performance of the indices by purchasing the securities included in them. Index funds have grown as a share of the fund market, and they can increase the demand for securities bearing the ratings of particular

¹⁹ The Asset-Backed Alert ABS database indicates that 93 subprime mortgage transactions totaling \$32.5 billion were issued during 2022, 74 subprime mortgage transactions totaling \$23.2 billion were issued during 2023, and 50 subprime mortgage transactions totaling \$17.3 billion were issued during the first half of 2024.

²⁰ The Asset-Backed Alert ABS database indicates that 36 risk transfer transactions totaling \$24.3 billion were issued during 2022, 31 risk transfer transactions totaling \$11.0 billion were issued during 2023, and 13 risk transfer transactions totaling \$6.0 billion were issued during the first half of 2024.

²¹ See Fitch Ratings, [Fitch Affirms S&P's Long-Term IDR at 'A-'; Outlook Stable](#) (Apr. 12, 2024).

²² 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); see also [Letter from KBRA to the Commission](#) (Aug. 19, 2014).

²³ See, e.g., Bloomberg Fixed Income Index Methodology, *Bloomberg Fixed Income Indices* (Aug. 24, 2021); FTSE Fixed Income Index Guide, *FTSE Russell an LSEG Business* (June 2023).

NRSROs.²⁴ 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.²⁵ 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.²⁶

Market participants and academics have identified various other barriers to entry in the credit rating industry, including economic and regulatory barriers.²⁷ 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),²⁸ commenters expressed concerns that certain of the proposed 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.²⁹ 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.³⁰

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

²⁴ 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 (index funds made up 21% of assets in long-term funds at the end of 2011 and 43% at the end of 2021).

²⁵ 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 [Rules Changes for the Bloomberg Barclays Canada Aggregate Index Announced](#) (Apr. 17, 2018).

²⁶ 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).

²⁷ See, e.g., Section IV.C of the [March 2012 Annual Report](#). 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).

²⁸ Pub. L. No. 111-203, § 932, 124 Stat. 1376, 1872-83 (2010).

²⁹ See [Nationally Recognized Statistical Rating Organizations, Release No. 34-72936](#) (Aug. 27, 2014), 79 FR 55078, 55220-22 (Sept. 15, 2014) (2014 Adopting Release) at 55090, 55154, 55161, and 55254-55; see also [Comments on Proposed Rules for Nationally Recognized Statistical Rating Organizations, Release No. 34-64514](#); File No. S7-18-11.

³⁰ See 2014 Adopting Release, 79 FR at 55254.

transparency of NRSRO credit ratings.³¹ 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 NRSRO's procedures and methodologies for determining credit ratings.³² 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.³³

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.³⁴

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. 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. The Commission's orders granting exemption requests can be found under "Exemption Orders" in the "[NRSRO Orders and Notices](#)" section of the OCR website.

B. Transparency

The Rating Agency Act's preamble states that it is intended to improve ratings quality for the protection of investors and in the public interest "by fostering accountability, transparency, and competition in the credit rating agency industry." 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.

NRSROs are required to disclose:

- Standardized performance statistics as Exhibit 1 to Form NRSRO;

³¹ See *id.* at 55091; see also Section 931 of the Dodd-Frank Act (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).

³² See 2014 Adopting Release, 79 FR at 55091.

³³ See *id.*

³⁴ See Section IV.C of the [December 2015 Annual Report](#).

- A general description of the procedures and methodologies used to determine credit ratings as Exhibit 2 to Form NRSRO;
- Consolidated information about credit rating histories pursuant to Rule 17g-7(b);
- Information about material changes and significant errors in the procedures and methodologies used to determine credit ratings pursuant to Rule 17g-8(a)(4);
- Information about specific rating actions pursuant to Rule 17g-7(a); and
- Clear definitions of each symbol, number, or score in the rating scale used by the NRSRO pursuant to Rule 17g-8(b)(2).

In addition to the required disclosure on Exhibit 2, it is standard practice for NRSROs to disclose their methodologies for determining credit ratings on their websites, providing additional transparency into their current approach to assessing creditworthiness. From time-to-time, NRSROs also publish revisions and updates to their methodologies and commonly seek public comment on proposed updates before they are adopted. NRSROs 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.

Pursuant to Rule 17g-7(a), NRSROs must also disclose specified information in connection with each rating action. 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. NRSROs are required to make this information available to the same persons who can receive or access the related credit rating. As a result, there is broad market transparency with respect to published ratings, but the required disclosures are made to a limited group of investors in the case of private ratings and therefore are not generally available for public review.

In addition to or in connection with required disclosures, NRSROs often issue press releases and reports at the time of a published rating action to describe the rationale behind such rating action. The reports accompanying a published rating action are frequently available on a paid subscription basis, although some NRSROs provide access to such reports at no cost. 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. While such reports are typically generated with respect to private ratings, they are provided to a limited audience and therefore are not generally available for public review.

NRSROs also provide transparency to the extent they publish commentaries or research. NRSRO commentaries and research typically include data, analyses, or projections on market sectors and economic outlooks, and may also make market and economic data separately available. These publications may be helpful to investors to understand industry trends and the NRSROs' credit views.

For example, NRSROs published commentaries and research that provided their credit perspectives on banks and the banking system. Fitch reported a ‘deteriorating’ outlook for the U.S. banking sector, citing ongoing challenges for banks adjusting to a prolonged period of higher interest rates.³⁵ Other contributing factors include ongoing risks associated with weakened commercial real estate (CRE) office loan performance, which it attributes to sustained higher interest rates, slower economic growth in the U.S., and a secular decline in office demand.³⁶ A DBRS report noted that despite the adverse impact of CRE valuations due to higher interest rates, vacancies, and operating cuts, its U.S. banks credit ratings are expected to remain mostly stable given the staggered nature of CRE loan maturities and sound asset quality metrics.³⁷ KBRA also published a report noting that despite select regional bank failures in 2023 and an increasing focus on banks with significant exposure to CRE, which has resulted in a wave of stock price and debt instrument volatility, it expects the majority of its bank ratings to remain largely unchanged.

NRSROs have continued publishing commentaries regarding the growing use of private credit, the performance of private credit funds, and risks to private credit fund ratings. Moody’s has attributed the growth of the private credit market to multiple factors, including private equity and alternative asset firms’ acquisition of insurance companies.³⁸ The recent expansion of private markets was viewed by Moody’s as offering potential benefits of increased portfolio diversification and higher yielding investments, but also introducing risks and limitations due to its inherently opaque nature, making it difficult to assess underlying credit risks such as liquidity risk and the growing deterioration of asset quality.³⁹ Fitch has anticipated a challenging environment for private credit due to elevated defaults, including a greater number of restructurings, increased deal origination volumes and pressure on funds to deploy capital.⁴⁰ While origination and repayment activity is predicted to increase due to the stabilization of interest rates, Fitch noted that growing competition, particularly from banks and syndicated loan purchasers in the upper middle market, costly debt refinancing, and a rise in non-accruals may impact the use of private credit.⁴¹ S&P published research presenting its view that although rising global defaults in corporate and middle-market credit may challenge the asset quality of private funds, it anticipated that most ratings on private credit funds will withstand such weakening asset quality and valuations.⁴²

³⁵ See Fitch Ratings, [Lingering Questions for U.S. Banks During ‘The Calm After the Storm’](#) (July 11, 2024).

³⁶ See Fitch Ratings, [US Commercial Real Estate Office Performance Will Worsen through 2025](#) (June 7, 2024).

³⁷ See DBRS, [Commercial Real Estate Rekindles Market Volatility at U.S. Regional Banks, but a Slow Burn Most Likely](#) (Feb. 15, 2024).

³⁸ See Moody’s, [Private credit rapidly evolving as regulators stay on the sidelines, at least for now](#) (July 11, 2024).

³⁹ *Id.*

⁴⁰ See Fitch Ratings, [What Investors Want to Know: U.S. Private Credit Growth and Challenges](#) (Mar. 28, 2024).

⁴¹ *Id.*

⁴² See S&P, [Rising Global Defaults Will Test Private Credit Funds In 2024](#) (May 1, 2024).

Several of the Staff's findings and recommendations in connection with the 2024 Section 15E examinations related to transparency issues. These findings included disclosure and reporting issues implicating Rule 17g-7(a) and Rule 17g-7(b). 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 interest. 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, it is becoming increasingly common for NRSROs to be paid to determine ratings by investors. Frequently these engagements contemplate the issuance of the credit rating on a private basis. Private ratings can also be solicited by an issuer in order to be provided to specific investors or a specific class of investors. 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 the client intends to use the credit rating to establish regulatory capital requirements for itself or its investors and would benefit from receiving a higher credit rating.

The conflicts of interest associated with NRSRO business models could potentially be aggravated by the process of “rating shopping,” which occurs when an issuer or user of credit ratings seeks the highest credit rating available from multiple credit rating agencies. Rating shopping has been raised as a concern by market participants and other market observers. In a recent example, the NAIC identified the potential for rating shopping as a concern, noting growing discrepancies between credit ratings of different NRSROs on the same security.⁴³ In the past, academics have also identified rating shopping and the so called “race-to-the-bottom”

⁴³ See National Association of Insurance Commissioners, [Letter from Chlora Lindley-Myers, President, National Association of Insurance Regulators, et al., to The Honorable Rep. Warren Davidson, Member of Congress, et al.](#) (July 25, 2023) (“Keeping in mind that the better the rating, the less capital an insurer is required to hold, the potential for ‘rating shopping’ is a real concern and one with historical precedent. Indeed, because of such discrepancies for residential and commercial mortgage-backed securities, revealed during the Great Financial Crisis, we developed a separate credit analysis process for those securities that continues to this day.”)

competitive pressures it may foster as concerns.⁴⁴ The Staff believes that these competitive pressures are more acute in the context of private ratings given a lack of transparency to the broader market and the corresponding lack of outside scrutiny.

Section 15E and the related Commission rules address conflicts of interest, such as those identified above.⁴⁵ The Rating Agency Act added Section 15E to the Exchange Act, including Section 15E(h), which required NRSROs to establish, maintain, and enforce written policies and procedures reasonably designed to address and manage any conflicts of interest that can arise from their business and provided the Commission express authority to adopt related rules. In 2007, the Commission adopted Rule 17g-5(c), which identifies certain conflicts of interest that are prohibited under all circumstances and other conflicts of interest that are prohibited unless an NRSRO has publicly disclosed the existence of the conflict and has implemented policies and procedures reasonably designed to address and manage such conflict.⁴⁶

In 2014, the Commission amended its rules applicable to NRSROs to implement provisions of the Dodd-Frank Act. In part, these amendments were designed 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 and compliance with laws and regulations.⁴⁷ Specifically, with respect to its conflict of interest rules, the Commission added paragraph (c)(8) to Rule 17g-5 to implement a requirement of the Dodd-Frank Act.⁴⁸ Under Rule 17g-5(c)(8), 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.⁴⁹

Other conflicts of interest identified in Rule 17g-5 involve individual credit analysts or other employees of an NRSRO. For example, an NRSRO is prohibited from issuing or

⁴⁴ See, e.g., John M. Griffin, Jordan Nickerson, Dragon Yongjun Tang, *Rating Shopping or Catering? An Examination of the Response to Competitive Pressure for CDO Credit Ratings*, Rev. Fin. St. 2270–2310 (2013) (positing that rating shopping may cause credit rating agencies to not strictly adhere to their standards in order to match more lenient competitors); Patrick Bolton, Xavier Freixas, and Joel Shapiro, *The Credit Ratings Game*, 67(1) J. of Finance 85–111 (2012) (finding that competition can reduce efficiency by facilitating rating shopping).

⁴⁵ See, e.g., Section 15E(h) and Rule 17g-5.

⁴⁶ 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.

⁴⁷ 2014 Adopting Release, 79 FR at 55091.

⁴⁸ See Section 15E(h)(3)(A) (requiring the Commission to issue rules to prevent sales and marketing considerations of an NRSRO from influencing the production of credit ratings by the NRSRO).

⁴⁹ When adopting the rule, the Commission noted that the prohibition is designed to insulate credit analysts from sales and marketing concerns and pressures that may arise from any channel, and that this could enhance the integrity and quality of credit ratings. 2014 Adopting Release, 79 FR at 55116.

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.⁵⁰

Another statutory provision and related Commission rules address conflicts of interest that may arise when a credit analyst seeks employment outside the NRSRO. Section 15E(h)(4)(A) 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. 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.

A number of the Staff’s findings and recommendations in connection with the 2024 Section 15E examinations related to conflict of interest issues. Among other things, these findings identified certain 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.

V. ACTIVITIES RELATING TO NRSROs

A. Commission Orders

The Commission instituted settled administrative and cease-and-desist proceedings against multiple NRSROs finding violations of Exchange Act Section 17(a)(1) and Rule 17g-2(b)(7). The violations were in connection with the NRSROs failure to retain internal and external electronic communications that included discussions of initiating, determining, maintaining, monitoring, changing, or withdrawing credit ratings:

- [*In the Matter of A.M. Best Rating Services, Inc.*](#), Release No. 34-100902 (Sept. 3, 2024);
- [*In the Matter of Demotech, Inc.*](#), Release No. 34-100905 (Sept. 3, 2024);
- [*In the Matter of Fitch Ratings, Inc.*](#), Release No. 34-100903 (Sept. 3, 2024);
- [*In the Matter of HR Ratings de México, S.A. de C.V.*](#), Release No. 34-100904 (Sept. 3, 2024);
- [*In the Matter of Moody's Investors Service, Inc.*](#), Release No. 34-100906 (Sept. 3, 2024); and
- [*In the Matter of S&P Global Ratings*](#), Release No. 34-100907 (Sept. 3, 2024).

⁵⁰ See Rule 17g-5(c)(2) and Rule 17g-5(c)(4).

B. Staff Publication

The Staff issued the following publication relating to NRSROs or credit ratings in general in calendar year 2024:

- [*Staff Report on Nationally Recognized Statistical Rating Organizations*](#), dated February 2024 (the 2023 Staff Report), as required by Section 6 of the Rating Agency Act and Section 15E(p)(3)(C). The 2023 Staff Report addresses the matters described in the second paragraph under Section II of this Report for the period January 1, 2023, through December 31, 2023, and summarizes the essential findings of the examinations conducted by the Staff under Section 15E(p)(3)(C) for the review period January 1, 2022, to December 31, 2022.

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, Pub. L. No. 109-291, 120 Stat. 1327 (2006), and amended by the Dodd-Frank Act, Pub. L. No. 111-203, § 932, 124 Stat. 1376, 1872-83 (2010).

The Dodd-Frank Act mandated the creation of the OCR, which is responsible for oversight of credit rating agencies registered with the Commission as NRSROs. OCR's Staff includes professionals with knowledge of and expertise in a variety of areas that relate to its regulatory mission, such as corporate, municipal, and structured debt finance, pursuant to Section 15E(p)(2).

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, pursuant to Section 15E(b)(2) and Rule 17g-1(f), promptly update its filing in certain circumstances, pursuant to Section 15E(b)(1) and Rule 17g-1(e), and make its current Form NRSRO filing and most of its current Form NRSRO Exhibits available on its public website, pursuant to Section 15E(a)(3) and Rule 17g-1(i).
- Disclose certain information, including information concerning the NRSRO's performance measurement statistics and its procedures and methodologies to determine ratings, pursuant to Sections 15E(a)(1)(B)(i) and (ii).
- 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, pursuant to Section 15E(c)(3)(A), and retain records of its internal control structure, Rule 17g-2(b)(12).
- Consider certain factors with respect to its establishment, maintenance, enforcement, and documentation of an effective internal control structure, pursuant to Rule 17g-8(d)(1)-(4).

- Establish, maintain, enforce, and document policies and procedures reasonably designed to achieve certain objectives concerning its development and application of, and disclosures related to, methodologies and models, pursuant to Rule 17g-8(a)(2)-(5).
- 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, pursuant to Rule 17g-3(a)(7)(i). The report must be accompanied by a signed statement by the NRSRO's chief executive officer or an individual performing similar functions, pursuant to Rule 17g-3(b)(2).
- 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, pursuant to Rule 17g-8(b)(1), 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, pursuant to Rule 17g-8(b)(3).
- 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, pursuant to Rule 17g-7(a). Rule 17g-7(a)(1)(ii)(A)-(N) specifies the information that must be disclosed in the information disclosure form, and with respect to the particular rating action. 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, pursuant to Rule 17g-7(a)(1)(iii).
- Make and retain, or retain, certain records, including a record documenting its established procedures and methodologies used to determine credit ratings, pursuant to Rule 17g-2(a)(6), and records related to its ratings.⁵¹ An NRSRO must promptly furnish to the Commission or its representatives copies of required records, including English translations of those records, upon request, pursuant to Section 15E(a) and (b) and Rule 17g-2(f).
- 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

⁵¹ 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).

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, pursuant to Section 15E(g) and Rule 17g-4.

- Establish, maintain, and enforce written policies and procedures reasonably designed to address and manage conflicts of interest, pursuant to Section 15E(h) and Rule 17g-5. Certain conflicts of interest are expressly prohibited, pursuant to Rule 17g-5(c), and for other types of conflicts of interest, the NRSRO must disclose the conflicts and have policies and procedures in place to manage them, pursuant to Rule 17g-5(a)(1)-(2) and Rule 17g-5(b).
- Refrain from engaging in specified unfair, coercive, or abusive practices, pursuant to Rule 17g-6.
- 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, pursuant to Section 15E(a)(1)(B)(v).
- 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, pursuant to Section 15E(j)(3).
- Designate a compliance officer (the DCO) responsible for administering policies and procedures related to MNPI and conflicts of interest, ensuring compliance with the securities laws and regulations, and establishing procedures for handling complaints by employees or users of credit ratings, pursuant to Section 15E(j)(1) and (3). 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, pursuant to Section 15E(j)(5).
- Have a board of directors or similar governing body (collectively, the Board), certain of whose members must be independent from the NRSRO, pursuant to Section 15E(t)(2). 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, pursuant to Section 15E(t)(3) and Rule 17g-8(a)(1).
- 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, pursuant to Rule 17g-9.
- Establish policies and procedures regarding post-employment activities of certain former personnel, pursuant to Section 15E(h)(4) and (5), and Rule 17g-8(c).