

**SECURITIES AND EXCHANGE COMMISSION**  
**(Release No. 34-105062)**

**ORDER PURSUANT TO SECTION 36 OF THE SECURITIES EXCHANGE ACT OF 1934 DENYING APPLICATION FOR EXEMPTION FROM RULE 17g-5(c)(1) UNDER THE EXCHANGE ACT**

March 23, 2026.

**I. Introduction**

Egan-Jones Ratings Company (“EJR”) is a credit rating agency registered with the U.S. Securities and Exchange Commission (the “Commission”) as a nationally recognized statistical rating organization (“NRSRO”) under Section 15E of the Securities Exchange Act of 1934 (“Exchange Act”) for the classes of credit ratings described in clauses (i), (ii), and (iii) of Section 3(a)(62)(A) of the Exchange Act. This order concerns a request (the “Exemptive Application”) submitted by EJR seeking an exemption pursuant to Section 36 of the Exchange Act from the requirements of Rule 17g-5(c)(1) under the Exchange Act (the “Rule”).

For the reasons discussed below, we are denying the Exemptive Application.

**II. Background**

A. Relevant Regulatory Framework

In 2006, Congress enacted the Credit Rating Agency Reform Act of 2006 (“CRA Reform Act”).<sup>1</sup> The CRA Reform Act sought to balance the goals of fostering accountability, transparency, and competition in the credit rating industry with the objective of improving

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<sup>1</sup> Pub. L. No. 109-291 (2006).

ratings quality.<sup>2</sup> To do so, it amended the Exchange Act by adding Section 15E and establishing a Commission-administered registration and oversight framework for NRSROs. In 2010, Congress enhanced the NRSRO regulatory framework. Specifically, Section 932 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, titled Enhanced Regulation, Accountability, and Transparency of Nationally Recognized Statistical Rating Organizations, amended Section 15E, adding or enhancing requirements related to internal control structures, conflicts of interest, policies and procedures, credit rating performance and histories, and governance.<sup>3</sup>

Section 15E(h)(1) of the Exchange Act requires each NRSRO to establish, maintain, and enforce written policies and procedures reasonably designed, taking into consideration the nature of the business of such NRSRO and affiliated persons and affiliated companies thereof, to address and manage any conflicts of interest that can arise from such business.<sup>4</sup> Section 15E(h)(2) of the Exchange Act directed the Commission to issue rules to prohibit, or require the management and disclosure of, any conflicts of interest relating to the issuance of credit ratings

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<sup>2</sup> *See Report of the Senate Committee on Banking Housing, and Urban Affairs to Accompany S. 3850, Credit Rating Reform Act of 2006*, S. Report No. 109-326, 109<sup>th</sup> Cong., 2d Sess. (Sept. 6, 2006) (the “Senate Report”) (providing background and describing the need for legislation). *See also* 152 Cong. Rec. H7569, 2006 (statement of Rep. Paul Kanjorski) (“The critics of the present designation system have also long raised legitimate concerns about competition. In any legislative effort to increase the quantity of raters, I have long advocated that we should refrain from sacrificing the quality of their ratings. Unlike the bill the House considered earlier this year, S. 3850 has found the right equilibrium on these matters.”).

<sup>3</sup> *See* Pub. L. No. 111-203, §932, 124 Stat. 1376, H.R. 4173 (July 21, 2010).

<sup>4</sup> 15 U.S.C. 78o-7(h)(1).

by an NRSRO, as the Commission deems necessary or appropriate in the public interest or for the protection of investors.<sup>5</sup>

Rule 17g-5<sup>6</sup> generally implements the statutory conflicts of interest framework established in Section 15E(h) of the Exchange Act and identifies several conflicts of interest, some of which, such as the conflict identified in the Rule, are prohibited outright and some of which are prohibited unless they are managed and disclosed. The Rule 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.

Finally, notwithstanding the conflict of interest prohibited under the Rule, the Commission possesses statutory authority to grant exemptions from its rules in appropriate circumstances. Specifically, Section 36(a)(1) of the Exchange Act grants the Commission the authority, with certain limitations, to “conditionally or unconditionally exempt any person, security, or transaction . . . from any provision or provisions of [the Exchange Act] or any rule or regulation thereunder, to the extent that the exemption is necessary or appropriate in the public interest, and is consistent with the protection of investors.”<sup>7</sup>

B. Exemptive Application

On December 12, 2025, EJR filed with the Commission an application for an order for exemptive relief under Section 36 of the Exchange Act, consisting of a letter, dated November 6, 2025, and a memorandum, dated December 12, 2025, supporting its request. EJR indicates in the memorandum that such memorandum should be deemed part of its application for relief. For

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<sup>5</sup> 15 U.S.C. 78o-7(h)(2).

<sup>6</sup> 17 CFR 240.17g-5.

<sup>7</sup> 15 U.S.C. 78mm(a)(1).

purposes of this order, the two submissions are together deemed to constitute the Exemptive Application.

In the Exemptive Application, EJR seeks relief from the prohibited conflict of interest set forth in the Rule. The Exemptive Application projected that revenue from an insurance company client (the “Client”) would exceed 10% of EJR’s net revenue for the fiscal year ending December 31, 2025, due to a request from the Client for EJR to issue a relatively large number of additional ratings by year end.

EJR asserts in the Exemptive Application that an exemption would foster the goals of the CRA Reform Act to improve ratings quality for the protection of investors and in the public interest by fostering accountability, transparency, and competition in the credit rating industry; is in the public interest; and is consistent with investor protection.

### **III. Discussion**

The Commission is denying the Exemptive Application because we are unable to conclude, based on the facts and circumstances presented in the application, that granting the requested relief would be consistent with the protection of investors or in the public interest.

When adopting the Rule, the Commission noted its belief that the 10% threshold for net revenues was a “very high” threshold.<sup>8</sup> The Commission noted further that a person providing 10% or more of the NRSRO’s net revenue would be in a position to exercise substantial influence on the NRSRO, and, consequently, that it would be difficult for an NRSRO to remain impartial given the impact on its income if the person withdrew its business.<sup>9</sup> The Commission disagreed with commenters who thought this conflict should be subject to a requirement that it

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<sup>8</sup> See *Oversight of Credit Rating Agencies Registered as Nationally Recognized Statistical Rating Organizations*, Release No. 34-55857 (June 5, 2007), 72 FR 33564, 33598 (June 18, 2007) (the “2007 Adopting Release”).

<sup>9</sup> See *id.*

be managed rather than prohibited but noted an intent to monitor how the prohibition works in practice, particularly with respect to structured products, which commenters suggested could give rise to special circumstances given repeat issuances by structured products sponsors.<sup>10</sup>

For the reasons discussed below, the Commission does not believe the Exemptive Application identifies special circumstances that would justify relief from the prohibited conflict of interest set forth in the Rule. Instead, the Commission believes that the prohibition is functioning, in the manner intended when it was adopted, to mitigate the risk that the Client will be in a position to exercise substantial influence on EJR.

The current circumstances are materially different from the circumstances where the Commission has granted conditional exemptive relief from the Rule in the past. In 2008, the Commission provided relief to LACE Financial Corp. (“LACE”) and Realpoint, LLC (“Realpoint”) at the time of their initial registration as NRSROs.<sup>11</sup> In each case, the Commission noted that the revenue in question was earned before the credit rating agency submitted its application for registration and before Rule 17g-5 was adopted, which limited the time for the credit rating agency to adjust its activities to conform to the requirements of the rule.

EJR, on the other hand, has been registered as an NRSRO and subject to the Rule since 2007 and therefore should be fully aware of the requirements of the rule and have procedures in place to monitor and avoid the occurrence of such a prohibited conflict of interest. In fact, the Commission issued an order in 2022 (on the basis of an offer of settlement by EJR, without

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<sup>10</sup> *See id.*

<sup>11</sup> *See Order Granting Temporary Exemption of LACE Financial Corp. from the Conflict of Interest Prohibition in Rule 17a-5(c)(1) [sic] of the Securities Exchange Act of 1934*, Release No. 34-57301 (Feb. 11, 2008) available at <https://www.sec.gov/rules/other/2008/34-57301.pdf> and *Order Granting Temporary Exemption of Realpoint LLC from the Conflict of Interest Prohibition in Rule 17a-5(c)(1) [sic] of the Securities Exchange Act of 1934*, Release No. 34-58001 (June 23, 2008) available at <https://www.sec.gov/rules/other/2008/34-58001.pdf>.

admitting or denying the findings in the order) finding EJR to have willfully violated the Rule and ordering that EJR cease and desist from committing or causing any violations and any future violations of the Rule.<sup>12</sup>

The Commission also provided exemptive relief to the successors to LACE and Realpoint, Kroll Bond Rating Agency, Inc. (“KBRA”) and Morningstar Credit Ratings, LLC (“MCR”), respectively, following changes in ownership occurring in 2010.<sup>13</sup> KBRA’s and MCR’s initial exemption requests arose from decisions to expand their businesses away from the subscriber-paid business model of their predecessors and toward an issuer-paid model. They both indicated that the rule would substantially constrain their ability to compete effectively with the large rating agencies offering comparable ratings services. In granting the exemptions, the Commission found that allowing KBRA to enter and MCR to expand in the market for structured finance products on an issuer-paid basis was consistent with the Commission’s goal of improving ratings quality for the protection of investors and in the public interest by fostering accountability, transparency, and competition in the credit rating industry.

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<sup>12</sup> See *In the Matter of Egan-Jones Ratings Company and Sean Egan, Order Instituting Administrative Cease-and-Desist Proceedings Pursuant to Section 15E(d) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and Desist Order*, Release No. 34-95127 (June 21, 2022), available at <https://www.sec.gov/files/litigation/admin/2022/34-95127.pdf>.

<sup>13</sup> The Commission issued temporary conditional orders for exemptive relief to KRBA (now known as Kroll Bond Rating Agency, LLC) in 2011 and MCR (which subsequently was integrated with DBRS, Inc. following the acquisition of DBRS, Inc. by MCR’s parent company in 2019) in 2012. See *Order Granting Temporary Exemption of Kroll Bond Rating Agency, Inc from the Conflict of Interest Prohibition in Rule 17g-5(c)(1) of the Securities Exchange Act of 1934*, Release No. 34-65339 (Sept. 14, 2011) available at <https://www.sec.gov/rules/other/2011/34-65339.pdf> and *Order Granting Temporary Exemption of Morningstar Credit Ratings, LLC from the Conflict of Interest Prohibition in Rule 17g-5(c)(1) of the Securities Exchange Act of 1934*, Release No. 34-66514 (March 5, 2012) available at <https://www.sec.gov/rules/other/2012/34-66514.pdf>.

The Commission extended each of KBRA's and MCR's exemptions twice.<sup>14</sup> In seeking the extensions, each noted its initial focus on issuing ratings in the commercial mortgage-backed securities ("CMBS") market, where the limited number of issuers/arrangers contributed to higher net revenue concentrations of individual CMBS customers. Each of KBRA and MCR also stated an intent to diversify and grow its business beyond CMBS ratings. In granting the exemptions, the Commission found that allowing each of KBRA and MCR time to further diversify its business was consistent with the Commission's goal of improving ratings quality for the protection of investors and in the public interest by fostering accountability, transparency, and competition in the credit rating industry.

Unlike KBRA and MCR, whose concentration in CMBS ratings gave rise to the need for an exemption, EJR appears to already have established a ratings business that covers a diverse range of assets, issuers, and clients. EJR's website<sup>15</sup> highlights its "private placement ratings," holding itself out as "a market leader in private placement ratings, serving clients such as banks, asset managers, and other financial institutions seeking to raise capital in the private credit markets." EJR also lists on its website representative transactions that EJR has rated in a wide range of categories. Further, unlike the CMBS market at the time of the KBRA and MCR

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<sup>14</sup> See *Order Granting Temporary Exemption of Morningstar Credit Ratings, LLC from the Conflict of Interest Prohibition in Rule 17g-5(c)(1) of the Securities Exchange Act of 1934*, Release No. 34-71219 (Dec. 31, 2013) available at <https://www.sec.gov/rules/exorders/2013/34-71219.pdf>; *Order Granting Temporary Exemption of Kroll Bond Rating Agency, Inc. from the Conflict of Interest Prohibition in Rule 17g-5(c)(1) of the Securities Exchange Act of 1934*, Release No. 34-71220 (Dec. 31, 2013) available at <https://www.sec.gov/rules/exorders/2013/34-71220.pdf>; *Order Granting Temporary, Limited, and Conditional Exemption of Kroll Bond Rating Agency, Inc. from the Conflict of Interest Prohibition in Rule 17g-5(c)(1) of the Securities Exchange Act of 1934*, Release No. 34-76129 (Oct. 13, 2015) available at <https://www.sec.gov/rules/exorders/2015/34-76129.pdf>; *Order Granting Temporary, Limited, and Conditional Exemption of Morningstar Credit Ratings, LLC from the Conflict of Interest Prohibition in Rule 17g-5(c)(1) of the Securities Exchange Act of 1934*, Release No. 34-76766 (Dec. 24, 2015) available at <https://www.sec.gov/rules/exorders/2015/34-76766.pdf>.

<sup>15</sup> <https://www.egan-jones.com/>.

exemptions where there was a limited number of issuers/arrangers seeking to obtain ratings, there is a wide array of entities seeking to raise capital or invest in the private credit markets that are the focus of EJR's ratings business.

In the cases of KBRA and MCR, the revenue concentration resulted from repeat issuances by CMBS arrangers—which was the same special circumstance that the Commission acknowledged could make exemptive relief appropriate in the 2007 Adopting Release. Specifically, in such adopting release, the Commission noted that “[i]f the prohibition in paragraph (c)(1) interferes with how NRSROs as a matter of course deal with structured product sponsors, the Commission will evaluate whether ... an exemption would be appropriate.”<sup>16</sup> The circumstances around EJR's request for an exemption, however, appear to have arisen in a context that was not contemplated by the Commission in the 2007 Adopting Release. EJR is not registered as an NRSRO in the issuers of asset-backed securities rating category, nor does it assert in the Exemptive Application that the Client is acting as a structured product sponsor or in a similar capacity. Additionally, EJR claims in the Exemptive Application that the Client's request was “unusual” and the current circumstances are “unique and not likely to reoccur.” As such, the conflict of interest prohibited by the Rule is unlikely to interfere with how EJR deals with its clients as a matter of course or to materially impact EJR's ability to further diversify and grow its business.

The nature of EJR's “private placement” ratings business raises additional considerations regarding transparency and accountability—key underpinnings of the Commission's regulatory

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<sup>16</sup> 2007 Adopting Release at 33598.

oversight framework for NRSROs—that the Commission believes could heighten the risk of undue influence.<sup>17</sup> KBRA’s and MCR’s CMBS ratings and related reports were published and, thus, available to market participants. Additionally, while certain tranches may have been rated by a single NRSRO, it was standard practice in the CMBS market at the time to obtain ratings from multiple NRSROs with respect to a transaction—particularly with respect to the more senior tranches. There is far less transparency in the context of EJR’s “private placement” ratings business, where the ratings and related reports are typically provided only to the client engaging EJR to provide the rating.<sup>18</sup>

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Under the current facts and circumstances, the Commission is unable to conclude that the requested relief is necessary or appropriate in the public interest, and is consistent with the protection of investors, as required for exemptive relief under Section 36(a) of the Exchange Act.

#### **IV. Conclusion**

ACCORDINGLY, pursuant to Section 36 of the Exchange Act,

IT IS HEREBY ORDERED that the Exemptive Application is denied.

By the Commission.

**Vanessa A. Countryman,**  
*Secretary.*

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<sup>17</sup> At the time the regulatory oversight framework was developed, the vast majority of credit ratings were paid for by issuers of debt securities and published on NRSRO websites. Increasingly, however, NRSROs have also been issuing ratings that are not published but instead are provided on a private basis to the NRSRO’s client. Given the lack of relevant public information, it is difficult for market participants (beyond those receiving the rating) to identify and highlight potential concerns with particular ratings or the practices of a particular NRSRO.

<sup>18</sup> EJR’s non-subscription ratings, which are primarily “private placement” ratings, are generated using information provided to EJR from a third party, are provided to users through privately distributed rating reports, and are solicited. See Exhibit 2 to Form NRSRO filed by EJR on August 22, 2025 and available at <https://www.sec.gov/Archives/edgar/data/1651331/000165133125000011/0001651331-25-000011-index.htm>.