
**2013 SUMMARY REPORT OF COMMISSION STAFF'S EXAMINATIONS OF
EACH NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION**

As Required by Section 15E(p)(3)(C)
of the Securities Exchange Act of 1934



This is a report of the Staff of the U.S. Securities and Exchange Commission.

**The Commission has expressed no view regarding the analysis, findings, or conclusions
contained herein.**

December 2013

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I. REGULATORY AND NRSRO OVERVIEW

This report summarizes the examinations conducted by staff from the U.S. Securities and Exchange Commission (the “Staff”) under Section 15E(p)(3) of the Securities Exchange Act of 1934 (“Exchange Act”).¹ This is a report of the Staff and, as such, reflects solely the Staff’s views. The U.S. Securities and Exchange Commission (“Commission”) is making this Staff report public as required by Section 15E(p)(3)(C) of the Exchange Act.

A. Statutory Framework and Rules

On September 29, 2006, President George W. Bush signed into law the Credit Rating Agency Reform Act of 2006 (the “Rating Agency Act”).² Section 4 of the Rating Agency Act added Section 15E to the Exchange Act (“Section 15E”), which provided authority for the Commission to implement registration, recordkeeping, financial reporting, and oversight rules with respect to those credit rating agencies that register with the Commission as nationally recognized statistical rating organizations (“NRSROs”). The Rating Agency Act also amended Section 17 of the Exchange Act to provide the Commission with recordkeeping, reporting, and examination authority over registered NRSROs.³ Significantly, Section 15E(c)(2) expressly prohibits the Commission from regulating “the substance of credit ratings or the procedures and methodologies by which any [NRSRO] determines credit ratings.”⁴

In 2007, the Commission implemented the NRSRO registration and oversight program created by the Rating Agency Act by adopting Rules 17g-1 through 17g-6 and Form NRSRO.⁵ Pursuant to these rules, registered NRSROs must, among other things, make certain public disclosures, make and retain certain records, furnish certain financial reports to the Commission, establish and enforce procedures to manage the handling of material non-public information, and disclose and manage conflicts of interest. These rules also prohibit an NRSRO from having certain conflicts of interest and engaging in certain unfair, coercive, or abusive practices. The Commission amended several of these rules in February 2009 and December 2009 with the goals of further increasing the transparency of NRSRO rating methodologies; strengthening the disclosures of rating performance; prohibiting NRSROs from engaging in certain unfair, coercive, or abusive practices; and enhancing NRSRO record keeping.⁶

¹ 15 U.S.C. § 78o-7(p)(3)(C). Unless otherwise noted, all Section and Rule references in this report are to the Exchange Act and rules under the Exchange Act. *See* 15 U.S.C § 78o-7; 15 U.S.C. § 78q (a) & (b); 17 CFR 240.17g-1 through 17g-7.

² Credit Rating Agency Reform Act of 2006, Pub. L. No. 109-291, 120 Stat. 1327 (2006).

³ *See* Sections 17(a) and 17(b) of the Exchange Act.

⁴ 15 U.S.C. § 78o-7(c)(2).

⁵ *See* Oversight of Credit Rating Agencies Registered as Nationally Recognized Statistical Rating Organizations, Exchange Act Release No. 55857 (Jun. 5, 2007), 72 FR 33564 (Jun. 18, 2007).

⁶ *See* Amendments to Rules for Nationally Recognized Statistical Rating Organizations, Exchange Act Release No. 59342 (Feb. 2, 2009), 74 FR 6456 (Feb. 9, 2009) and Amendments to Rules for Nationally

On July 21, 2010, President Barack Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which, among other things, amended Section 15E to enhance the regulation and oversight of NRSROs by imposing new reporting, disclosure, and examination requirements.⁷ The Dodd-Frank Act mandated the creation of the Office of Credit Ratings (“OCR”), which was established in June 2012 with the appointment of its Director, Thomas J. Butler. OCR is responsible for oversight of credit rating agencies registered with the Commission as NRSROs.

The Dodd-Frank Act directed the Commission to adopt rules to implement a number of provisions related to NRSROs. In January 2011, the Commission adopted new Rule 17g-7.⁸ As of the date of this report, the Commission has adopted the following rules applicable to NRSROs:⁹

Exchange Act Rules Applicable to NRSROs	
Rule 17g-1	Requires a credit rating agency to apply for NRSRO status and issue credit ratings for various classes of securities by filing a Form NRSRO with the Commission, and prescribes how an NRSRO must keep its registration up-to-date and file an annual certification. Additionally, an NRSRO must make its current Form NRSRO and information and documents submitted in Exhibits 1 through 9 to Form NRSRO publicly available.
Rule 17g-2	Requires an NRSRO to make and retain certain types of business records and publicly disclose certain ratings history data.
Rule 17g-3	Requires an NRSRO to file certain audited and unaudited annual financial reports and reports of the number of credit rating actions with the Commission.
Rule 17g-4	Requires an NRSRO to establish and enforce written policies and procedures designed to address specific areas in which material, non-public information could be inappropriately disclosed or used.
Rule 17g-5	Identifies a series of conflicts of interest arising from the business of determining credit ratings. Some of these conflicts must be disclosed and managed, while others are expressly prohibited.

Recognized Statistical Rating Organizations, Exchange Act Release No. 61050 (Nov. 23, 2009), 74 FR 63832 (Dec. 4, 2009).

⁷ The Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, § 932, 124 Stat. 1376, 1872-83 (2010).

⁸ See Disclosure for Asset-Backed Securities Required by Section 943 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Securities Act of 1933 Release No. 9175; Exchange Act Release No. 63741 (Jan. 20, 2011), 76 FR 4515 (Jan. 26, 2011).

⁹ The table includes summaries of certain provisions of the rules. For the specific and complete requirements of the rules, see 17 CFR 240.17g-1 through 17g-7.

Rule 17g-6	Prohibits NRSROs from engaging in certain unfair, abusive, or coercive practices.
Rule 17g-7	Requires NRSROs to include information regarding the representations, warranties, and enforcement mechanisms available to investors in an asset-backed securities offering in any report accompanying a credit rating issued in connection with such offering, including a preliminary credit rating, as well as how those representations, warranties, and enforcement mechanisms differ from those in similar offerings.

In addition, the Commission has proposed new rules to implement certain provisions of the Dodd-Frank Act concerning the following areas:

- filing annual reports on internal controls;¹⁰
- addressing conflicts of interest with respect to sales and marketing concerns;¹¹
- conducting “look-back” reviews of ratings in which former NRSRO employees participated to determine whether employment opportunities with a rated entity, issuer, underwriter, or sponsor influenced the rating;¹²
- disclosing information relating to initial credit ratings and subsequent changes to credit ratings to track the performance of an NRSRO’s credit ratings;¹³
- requiring an NRSRO to have certain policies and procedures governing the way an NRSRO determines credit ratings;¹⁴
- publishing a standard form with each credit rating disclosing, among other things, the assumptions underlying the methodology used to determine the credit rating;¹⁵
- disclosing information concerning third-party due diligence reports for asset-backed securities;¹⁶
- establishing professional standards for training credit rating analysts;¹⁷ and
- requiring the consistent application of rating symbols and definitions.¹⁸

¹⁰ Section 15E(c)(3)(B).

¹¹ Section 15E(h)(3)(A).

¹² Section 15E(h)(4)(A).

¹³ Section 15E(q)(1).

¹⁴ Section 15E(r).

¹⁵ Section 15E(s)(1).

¹⁶ Section 15E(s)(4)(C).

¹⁷ Dodd-Frank Act, § 936, 124 Stat. 1884-85.

¹⁸ Dodd-Frank Act, § 938(a), 124 Stat. 1376, 1885.

B. Registered NRSROs

In 2007, following the adoption of its first set of NRSRO rules, the Commission began granting registrations to credit rating agencies that applied to be registered as an NRSRO. A credit rating agency may apply to be registered with respect to one or more of the following five classes of credit ratings: (1) financial institutions, brokers, or dealers (“financial institutions”); (2) insurance companies; (3) corporate issuers; (4) issuers of asset-backed securities (“asset-backed securities”); and (5) issuers of government securities, municipal securities, or securities issued by a foreign government (“government securities”).¹⁹

The ten credit rating agencies registered as NRSROs, as of [the date of this report] and dates of their initial registrations are listed below:

NRSRO ²⁰	Date of Registration
A.M. Best Company, Inc. (“AMB”)	September 24, 2007
DBRS, Inc. (“DBRS”)	September 24, 2007
Egan-Jones Ratings Company (“EJR”)	December 21, 2007
Fitch Ratings, Inc. (“Fitch”) ²¹	September 24, 2007
HR Ratings de México, S.A. de C.V. (“HR”)	November 5, 2012
Japan Credit Rating Agency, Ltd. (“JCR”)	September 24, 2007
Kroll Bond Rating Agency, Inc. (“KBRA”) ²²	February 11, 2008
Moody’s Investors Service, Inc. (“Moody’s”)	September 24, 2007
Morningstar Credit Ratings, LLC (“Morningstar”) ²³	June 23, 2008
Standard & Poor’s Ratings Services (“S&P”)	September 24, 2007

More information on NRSRO registration applications and the state of competition, transparency, and conflicts of interest among NRSROs is included in the Annual Report to Congress under Section 6 of the Rating Agency Act (December 2013), available on the Commission’s website: <http://www.sec.gov/about/offices/ocr.shtml>.

¹⁹ See Section 3(a)(62)(A) of the Exchange Act.

²⁰ Orders granting registration can be found at: <http://www.sec.gov/about/offices/ocr.shtml>. Paragraph (i) of Rule 17g-1 requires an NRSRO to make its current Form NRSRO and Exhibits 1 through 9 to Form NRSRO publicly available on its website, or through another comparable, readily accessible means within 10 business days after the date the Commission grants an initial application for registration as an NRSRO or registration for an additional class of credit ratings, and within 10 business days after updating its registration, furnishing its annual certification, or withdrawing from registration.

²¹ Effective January 10, 2013, Fitch, Inc. changed its name to Fitch Ratings, Inc. Exhibit 4 to the 2013 Form NRSRO for Fitch Ratings, Inc., p. 4. http://www.fitchratings.com/web_content/nrsro/nav/NRSRO_Exhibit-4.pdf.

²² Formerly known as LACE Financial Corp.

²³ Formerly known as Realpoint LLC.

II. OFFICE OF CREDIT RATINGS AND EXAMINATION OVERVIEW

A. Examinations under Section 15E(p)(3)

Generally, the purpose of NRSRO examinations is to monitor compliance with federal securities laws and rules, identify potential violations of such laws and rules, and encourage remedial action. Examinations also serve to inform the Commission and the Staff of NRSROs' compliance with their regulatory obligations and noteworthy industry developments. If the examination staff identifies potential violations of federal securities laws or rules during an NRSRO examination, the Staff may refer the matter to the Commission's Division of Enforcement, which is responsible for further investigation of these potential violations.

Section 15E(p)(3)(A) requires OCR to conduct an examination of each NRSRO at least annually. Section 15E(p)(3)(B) provides that the examination shall include a review of the following eight topic areas ("Section 15E Review Areas"): (i) whether the NRSRO conducts business in accordance with the policies, procedures, and rating methodologies of the NRSRO; (ii) the management of conflicts of interest by the NRSRO; (iii) the implementation of ethics policies by the NRSRO; (iv) the internal supervisory controls of the NRSRO; (v) the governance of the NRSRO; (vi) the activities of the designated compliance officer ("DCO") of the NRSRO; (vii) the processing of complaints by the NRSRO; and (viii) the policies of the NRSRO governing the post-employment activities of former staff of the NRSRO.

Section 15E(p)(3)(C) requires the Commission to make publicly available an annual report summarizing: (i) the essential findings of all Section 15E examinations, as deemed appropriate by the Commission; (ii) the NRSROs' responses to any material regulatory deficiencies identified by the Commission; and (iii) whether the NRSROs have appropriately addressed the recommendations of the Commission contained in previous annual reports on examinations.²⁴

B. Examination Overview

The subject of the instant report began in October 2012 (the "2013 examinations"). The 2013 examinations generally focused on NRSRO activities for the period covering October 1, 2011 through December 31, 2012 (the "Review Period").

The 2013 examinations included a review of the Section 15E Review Areas and examined how each NRSRO adhered to Section 15E and Rules 17g-1 through 17g-7. For the 2013 examinations, each NRSRO was subjected to an individualized risk assessment, an enhancement from prior examination cycles. The individualized risk assessments took into account a number of factors, including, the types of ratings and services offered by the NRSRO, findings and observations from prior examinations, the impact of an internal control or compliance failure by the NRSRO, recent developments affecting NRSROs generally and the rating classes in which

²⁴ This report does not cover examinations or reviews that may be conducted outside the scope of Section 15E.

they are registered, and relevant tips, complaints, and referrals received by the Commission. As a result of these individualized risk assessments, each 2013 examination included a review of each of the Section 15E Review Areas, while also being tailored to the specific risk profile of each NRSRO.

For purposes of this report only, we will refer to Fitch, Moody's, and S&P as larger NRSROs and the seven other NRSROs (AMB, DBRS, EJR, JCR, KBRA, HR, and Morningstar) as smaller NRSROs.

III. SETTLEMENT OF PUBLIC ADMINISTRATIVE PROCEEDING

In April 2012, the Commission instituted administrative proceedings against EJR and Sean Egan, EJR's founder, President, owner, and primary analyst.²⁵ In the Order Instituting Proceedings, the Commission alleged that EJR and Mr. Egan committed numerous violations of Sections 15E and 17(a) and the rules thereunder.

In January of 2013, EJR and Egan consented to an SEC order, without admitting or denying the findings therein, finding, among other things, that EJR made willful and material misstatements and omissions when registering with the SEC to become an NRSRO for asset-backed securities and government securities. Under the settlement, EJR agreed to be barred from rating asset-backed and government securities issuers as an NRSRO, with the right to re-apply for registration in these classes after 18 months. Egan was barred from association with any NRSRO registered in these two classes for the same period. The settlement further required EJR and Egan to complete a comprehensive review of EJR's policies and to correct the issues identified in that review as well as the issues identified in the Order and the 2012 summary letter. The settlement also required that EJR submit a report detailing the steps it took to address these issues. EJR has submitted the report, which describes several amendments to EJR's policies, procedures, and internal controls for issuing ratings, to correct the issues identified in the settlement order and 2012 examination summary letter. The order is available on the Commission's website: <http://www.sec.gov/litigation/admin/2013/34-68703.pdf>.

IV. SUMMARY OF RESPONSES TO RECOMMENDATIONS FROM PREVIOUS REPORTS AND NOTED INSTANCES OF REMEDIAL ACTION

The Staff's determination that an NRSRO appropriately addressed a recommendation does not constitute the Staff's endorsement of that NRSRO or its policies, procedures, or operations. In a future examination, the Staff may continue to review and make additional recommendations concerning the NRSRO or its policies, procedures, and operations related to a recommendation that was previously deemed by the Staff to be appropriately addressed, or to the general subject matter of that recommendation. The Staff's assessment of whether an NRSRO has appropriately

²⁵ *In the Matter of Egan-Jones Ratings Company and Sean Egan*, Release No. 66854 (April 24, 2012).

addressed a recommendation reflects solely the Staff's view and does not necessarily reflect the views of the Commission.

The Staff's assessment of whether an NRSRO has appropriately addressed a recommendation depends on the specific facts and circumstances of each recommendation including the promptness of the NRSRO's response, the severity of the conduct at issue, and whether the remedial action undertaken by the NRSRO is likely to fully resolve the Staff's concerns.

Based on the Staff's 2013 examinations, the Staff has determined that no 2012 recommendations have not been appropriately addressed. NRSROs responded to the 2012 recommendations with remedial measures such as adopting new or revising existing procedures, enhancing or implementing new internal controls, implementing new software systems, and conducting compliance and analytical training. Further, NRSROs have added, or have begun to add, compliance resources, both in the form of experienced compliance personnel and in software systems and information technology infrastructure. NRSROs have also improved oversight by boards of directors or governing committees to which oversight duties have been assigned under Section 15E(t)(4) (hereinafter, a "Board" or "Boards").

In particular, the Staff notes five general areas of improvement among NRSROs:

- (i) Enhanced documentation, disclosure, and Board oversight of criteria and methodologies. The Staff has observed that many NRSROs have developed and publicly disclosed ratings criteria and methodologies that better describe ratings inputs and processes. Some NRSROs have also increased Board oversight of rating processes and methodologies.
- (ii) Investment in software or computer systems. The Staff found that some NRSROs have made investments in software and information technology infrastructure by, for example, implementing systems for electronic recordkeeping and for monitoring employee securities trading. One NRSRO has implemented systems that enable it to operate in a nearly paperless environment, so as to minimize the inadvertent dissemination of confidential information and to ensure preservation of all records required by Rule 17g-2.
- (iii) Increased prominence of the role of the DCO within NRSROs. The Staff has found that the role of the DCO has taken on more prominence within many NRSROs. The Staff has noticed that certain DCOs have increased reporting obligations to, and more interaction with, the NRSRO's Board. At these NRSROs, the DCO meets with the Board to discuss compliance matters, quarterly or more frequently.
- (iv) Implementation or enhancement of internal controls. The Staff has recognized that all NRSROs have added or improved internal controls over the rating process. More NRSROs are using audits and other testing to verify compliance with federal securities law, and NRSROs have generally improved employee training on compliance matters.
- (v) Adherence to internal policies and procedures. The Staff has noticed a general improvement in NRSROs' adherence to internal rating policies and procedures, which improvement appears to be attributable, in part, to improvements in the internal control structure at NRSROs.

The end result of these improvements has been a noticeable positive shift in the compliance culture of NRSROs. Since the Section 15E examinations first began in 2010, NRSROs have devoted more resources and attention to compliance with federal securities laws. The 2013 Examinations revealed continuing improvement in compliance with federal securities laws, as NRSROs begin to import compliance personnel and practices from other regulated industries.

V. SUMMARY OF ESSENTIAL FINDINGS

Section 15E(p)(3)(C)(i) requires this report to contain a summary of the essential findings of the annual examinations, as deemed appropriate by the Commission.

For purposes of this report, “essential findings” include the Staff’s most notable observations and concerns arising from the examinations. These essential findings are not findings of the Commission, and the Staff’s inclusion of an issue does not necessarily mean that the Staff has reached a definitive conclusion about that issue. Essential findings are organized by the Section 15E Review Areas.

The Commission has not determined whether any finding discussed in this report constitutes a “material regulatory deficiency,” but may do so in the future. If the Commission determines that any finding of a Section 15E examination does constitute a “material regulatory deficiency,” the Staff will include the relevant NRSRO’s response to such deficiency in a future summary report.

A. Review Area: Adherence to Policies, Procedures, and Methodologies

Section 15E and Commission rules require that NRSROs maintain and enforce various written policies and procedures. Rule 17g-2(a)(6) requires NRSROs to make and retain a record documenting the procedures and methodologies used by the NRSRO to determine credit ratings. A general description of these procedures and methodologies must be included in Exhibit 2 to Form NRSRO. Section 15E(c)(3)(A) requires NRSROs to 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.

The Staff’s review of whether each NRSRO conducted business in accordance with its policies, procedures, and methodologies focused on reviewing the documentation of ratings activity for a selected number of issuers to determine whether the NRSRO had followed its procedures in each case. In selecting rating files for review, the Staff employed a risk-based sampling process taking into account issues such as the significance of the rated asset class to the financial markets, the NRSRO’s activity in the rated asset class, and the likelihood of market harm if the rating were not produced in accordance with the NRSRO’s procedures and methodologies. The Staff’s reviews of the eight mandated review areas also involved testing whether each NRSRO conducted business in accordance with its policies, procedures, and methodologies. The Staff’s essential findings in those other areas are discussed in later sections of this report. Instances where policies, procedures, and methodologies needed to be established or improved are also discussed in later sections of this report.

The Staff's essential findings regarding whether each NRSRO has conducted its business in accordance with its policies, procedures and methodologies are as follows:

1. At one larger and five smaller NRSROs, the Staff found some instances where rating procedures and methodologies were not followed.

The Staff reviewed, for each NRSRO, the internal controls governing the rating process, including policies and procedures. The Staff found that some NRSROs, at times, did not follow certain aspects of their rating procedures.

The Staff found that one larger NRSRO did not adhere to its procedures requiring analysts to seek managerial approval of certain changes to a draft press release. In this instance, the NRSRO incorporated changes suggested by an issuer without obtaining the requisite managerial approval. This same NRSRO, when asked by the Staff to produce the rating file related to this press release pursuant to Rule 17g-2(f), which requires an NRSRO to promptly furnish the Commission with the copies of the records required to be retained under Rule 17g-2, initially declined on the grounds that the NRSRO had a practice of asking for consent of certain issuers before producing their documents to the Commission and that this particular issuer did not provide such consent. The NRSRO ultimately furnished the file to the Staff.

The Staff recommended that the larger NRSRO ensure that it complies with Rule 17g-2.

The Staff also found that four smaller NRSROs did not consistently conduct surveillance within the timeframes set forth in their procedures, and one smaller NRSRO did not follow its procedures for disclosing whether an issuer participated in an unsolicited rating.

The Staff recommended that each of the smaller NRSROs conduct surveillance reviews within the timeframe required by their procedures or improve public disclosures on Form NRSRO.

2. One larger NRSRO did not follow its rating criteria development policies and procedures in some instances.

Procedures for which a record must be made pursuant to Rule 17g-2(a)(6) include procedures related to the development of substantive ratings criteria and methodologies. The Staff reviewed NRSROs' criteria development policies and procedures and tested those procedures to ensure that rating criteria and methodologies were being developed in a manner consistent with their procedures. This review revealed weaknesses with regard to adhering to established procedures regarding development of criteria.

The Staff found that one larger NRSRO did not consistently follow certain policies and procedures when it revised significant structured finance criteria. Some of the required documentation was not maintained in a manner specified in the procedures, and some meetings of the criteria committee were not held with the frequency required by the procedures.

The Staff recommended that the NRSRO enhance its internal controls to ensure compliance with its criteria development policies and procedures.

3. All of the larger NRSROs and six of the smaller NRSROs had certain weaknesses in following their procedures for maintaining records related to rating actions.

The Staff requested rating files from each NRSRO to evaluate compliance with its recordkeeping procedures and with Rule 17g-2. The Staff observed weaknesses in NRSROs' record retention and recordation of rating actions and committee procedures.

The Staff's review revealed instances at all larger NRSROs where documents required by Rule 17g-2 or by the NRSRO's recordkeeping procedures to be kept were not being consistently retained. Though mostly clerical in nature, the recordkeeping issues identified included inconsistent recording of voting and non-voting attendees of rating committees, inconsistent retention of communications that relate to the issuance of a credit rating letter, and one instance where a voting record was not retained in the rating file.

At six of the smaller NRSROs, the Staff observed similar instances of not adhering to recordkeeping procedures. For example, the Staff observed an instance where a smaller NRSRO rated certain bonds, yet a review of the relevant rating records revealed that there had been no mention of two tranches of these bonds in the rating committee records. Among the other recordkeeping issues identified with the smaller NRSROs were not maintaining complete records of rating committee files, not maintaining vote counts or participants in the rating committees, and not retaining records of all communications that related to the determination of credit ratings.

The Staff recommended that these NRSROs retain all records required by Rule 17g-2 and their record retention policies and procedures. Further, the Staff recommended that the smaller NRSROs enhance oversight of the rating process and document retention.

B. Review Area: Management of Conflicts of Interest

Section 15E(h)(1) requires an NRSRO to establish, maintain, and enforce written policies and procedures reasonably designed to address and manage conflicts of interest. The types of conflicts of interest relating to the issuance of credit ratings and material to the NRSRO must be disclosed in Exhibit 6 to Form NRSRO, and the written policies and procedures to address and manage these conflicts must be disclosed in Exhibit 7 to Form NRSRO. Rule 17g-5(b) lists certain conflicts of interest that are prohibited for an NRSRO unless, under Rule 17g-5(a), the type of conflict is disclosed in Exhibit 6 to Form NRSRO and the NRSRO establishes, maintains, and enforces written policies and procedures to address and manage the conflict, and Rule 17g-5(c) lists certain other conflicts of interest that are strictly prohibited.

The Staff's essential findings regarding the management of conflicts of interest are as follows:

1. Four smaller NRSROs did not have sufficient procedures and controls for separating business and analytical functions or for preventing rating analysts from being involved in fee discussions and from having access to rating fee information.

Rule 17g-5(c)(6) prohibits an NRSRO from issuing a rating where the fee paid for the rating was "negotiated, discussed, or arranged" by a person within the NRSRO who had "responsibility for

participating in determining credit ratings....” To ensure compliance with this Rule, many NRSROs establish controls to separate business development and analytical functions.

The Staff found that at one smaller NRSRO, the separation of business and analytical functions needed improvement. A review of rating files and related communications revealed that rating analysts, at the instance of management, had a significant role in the business development and marketing efforts of the NRSRO. Moreover, it was discovered that at this NRSRO, two analysts had preliminary fee discussions with underwriters. It was also found that an analyst at this NRSRO discussed rating expenses with an underwriter in contravention of the NRSRO’s procedures.

Similarly, at another smaller NRSRO, the Staff noted instances where third parties inadvertently emailed rating analysts fee information regarding ratings to which the analysts were assigned. The NRSRO identified the conduct at issue and took corrective action, including initiating development of new communication protocols to prevent further inadvertent fee disclosures to analysts.

The Staff also found weaknesses in the separation of business and analytical functions at two other smaller NRSROs.

The Staff recommended a number of corrective actions, including revising procedures, modifying the office floor plan, improving controls, and hiring additional staff.

2. One larger NRSRO did not disclose the largest users of its credit rating services in accordance with the instructions for Exhibit 10 of Form NRSRO.

Rule 17g-5(c)(1) prohibits an NRSRO from issuing or maintaining a credit rating for an entity that contributed 10% or more of an NRSRO’s net revenue in the most recently ended fiscal year. The Staff monitors compliance with this provision, in part, by reviewing the NRSRO’s annual financial report under Rule 17g-3, which, under Rule 17g-3(a)(5), must include the 20 largest issuers and subscribers that used credit rating services provided by the NRSRO and any obligor or underwriter if the net revenue attributable to the obligor or underwriter equaled or exceeded the net revenue attributable to the 20th largest issuer or subscriber. The net revenue amount must be included for each person on the list.

The Staff found that one of the larger NRSROs did not provide fully accurate disclosure under Rule 17g-3(a)(5). The NRSRO attributed this disclosure issue to a shortcoming in its accounting system. While the Staff does not have reason to believe that any issuer or subscriber accounts for more than 10% of the net revenue of this NRSRO, the Staff has reiterated its recommendation that prompt action be taken to ensure that the NRSRO provides the requisite disclosures.

3. One larger NRSRO and five smaller NRSROs had weaknesses in procedures and controls governing certain prohibited acts and conflicts of interest, including employee securities ownership.

One conflict of interest that an NRSRO may not have is set forth in Rule 17g-5(c)(2), which prohibits an NRSRO from issuing or maintaining a rating with respect to a person where the NRSRO, a credit analyst that participated in determining a rating, or a person responsible for approving a rating, directly owns securities of, or has any other direct ownership in, the person that is subject to the credit rating.

NRSROs are also prohibited from engaging in certain unfair, coercive, or abusive practices set forth in Rule 17g-6. The Staff reviewed and tested NRSROs' procedures and controls governing conflicts of interest and prohibited practices and found certain weaknesses.

The Staff found that one larger NRSRO and five smaller NRSROs needed to improve management of the conflict of interest associated with employee securities ownership. At the larger NRSRO, the Staff found that there were no formal written procedures requiring pre-clearance of certain securities trading. At this NRSRO, the Staff also found that three analysts were not in compliance with the NRSRO's securities trading policy and that two employees submitted inaccurate certifications of securities holdings. One of these smaller NRSROs had no pre-clearance process for securities ownership, no periodic securities disclosure requirement, and had insufficient procedures and controls for preventing employees and their family members from owning interests in issuers or obligors subject to a rating. Another smaller NRSRO exempts independent directors from its securities ownership policies. At a third smaller NRSRO, new employees were not required to report securities holdings when they begin employment, and at a fourth smaller NRSRO employees are required to submit brokerage statements to compliance each quarter only if they have traded during that quarter. Another smaller NRSRO was found to have a weakness in its controls for adding securities to the list of securities employees are prohibited from owning.

The Staff also found that three smaller NRSROs did not have procedures to manage other conflicts of interest of the NRSRO and its employees and that two smaller NRSROs did not disclose certain conflicts of interest on their Forms NRSRO. The Staff further found that a smaller NRSRO's procedures did not address all prohibited acts and practices set forth in Rule 17g-6.

The Staff has recommended corrective action for these NRSROs, including recommendations to strengthen policies, procedures, and controls for monitoring employee securities trading and ownership; to enhance disclosure of conflicts on Form NRSRO; and to review the NRSRO's conflicts of interest to determine whether any additional conflicts of interest should be disclosed on Form NRSRO.

C. Review Area: Implementation of Ethics Policies

Section 15E(a)(1)(B)(v) requires that an application for registration as an NRSRO include information regarding whether or not the NRSRO has in effect a code of ethics, and if not, the reasons it does not. An NRSRO must provide a copy of the written code of ethics it has in effect or a statement of the reasons it does not have such a code in Exhibit 5 to Form NRSRO. Each NRSRO has implemented written ethics policies and procedures, and the Staff reviewed those policies and procedures and their implementation as part of the 2013 examinations. Much of the content of these policies and procedures addresses other related mandatory review areas under

Section 15E(p)(3)(B). As such, to the extent that the Staff made essential findings related to ethics policies, those findings are addressed in other sections of this report.

With regard to ethics policies, the Staff identified an essential finding at one smaller NRSRO. At this NRSRO, Board members are required to certify the Code of Conduct every six months, but a Staff review determined that the certifications had not been made as required.

The Staff recommended that the NRSRO ensure that Board members certify the Code of Conduct.

D. Review Area: Internal Supervisory Controls

Section 15E(c)(3)(A) requires that each NRSRO 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. The Staff reviewed each NRSRO's overall control structure, including the internal control structure related to determining credit ratings. Rule 17g-2(a)(6) further provides that NRSROs must make and retain a record documenting the procedures and methodologies used to determine credit ratings.

Section 15E(g)(1) requires an NRSRO to establish, maintain, and enforce written policies and procedures reasonably designed to prevent the misuse of material, non-public information by the NRSRO or any person associated with the NRSRO. Rule 17g-4(a)(3) provides that these written policies and procedures must include policies and procedures reasonably designed to prevent 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.

The Staff's essential findings regarding internal supervisory controls are as follows:

1. The Staff identified weaknesses in some of the procedures and supervisory controls governing the rating process at two larger NRSROs.

The Staff found that a larger NRSRO did not maintain written procedures for certain key aspects of the rating process as required by Rule 17g-2(a)(6). The NRSRO did not maintain written procedures governing ratings placed under review and did not have adequate controls for timely updating certain ratings after an initial surveillance review. With regard to ratings placed under review, the NRSRO informally tracked ratings, but the Staff found that the NRSRO did not have documented policies and procedures governing timely review of these ratings. Consequently, in one instance, a rating was under review for approximately ten months and market participants did not receive guidance as to the timing of an expected resolution. Similarly, this larger NRSRO lacked procedures governing timely updating of ratings following an initial surveillance review. The Staff found that in one instance, this larger NRSRO identified a rating as requiring revision, but no rating action was taken for three months. When this rating was ultimately revised, a rating committee downgraded the rating five notches, from investment grade to below investment grade. The Staff also found that at this NRSRO, numerous dependent transactions were not immediately downgraded upon the downgrade of the entity providing credit support. This NRSRO did not have documented procedures as to the timing of rating changes for dependent ratings.

At another larger NRSRO, the Staff noted that incorrect ratings for eight bond offerings by a major financial institution were posted on the NRSRO's website until the error was detected by an investor. According to the NRSRO, the bonds were entered into their system under an incorrect payment priority level and resulted in the ratings being incorrectly published as one notch higher than the NRSRO's methodology would have dictated.

The Staff recommended that these NRSROs improve controls to ensure that the rating process is conducted consistent with NRSRO procedures and federal securities law.

2. The Staff identified weaknesses in criteria development and disclosure at two larger and four smaller NRSROs.

At one smaller NRSRO, a senior executive was found to have tried to influence the analytical staff to violate policies for ratings and criteria development. The Staff did not uncover evidence that the senior executive was successful in the attempts to influence the criteria, although certain public communications were influenced. In particular, this executive caused the NRSRO to announce that certain ratings services were being provided when in fact they were not. The Staff notes that this NRSRO took corrective action, and the senior executive's employment at the NRSRO has ended.

At another smaller NRSRO, the Staff found that there was no prohibition on allowing business interests to influence criteria development. The Staff determined that without policies limiting the influence of commercial interests on criteria development, the registrant may not be adequately managing the issuer-pay conflict.

The Staff also identified some instances where the public disclosures of established criteria at two larger NRSROs could have been more fulsome. At one larger NRSRO, a rating was assigned to an international development bank without reference to a published methodology. This NRSRO's policies require that credit ratings are assigned with reference to published methodologies unless the issuer is sufficiently unique that no outstanding methodology would apply. The Staff learned, however, that this NRSRO routinely rates a number of similar entities and, therefore, this type of entity could not be deemed to be new or unique. The Staff also noted inconsistencies between this NRSRO's internal documentation and its published commentary regarding how methodologies were used for this rating. Similarly, the Staff noted that another larger NRSRO issued ratings of a certain type of asset-backed security for which it had no specific, publicly-disclosed criteria. When rating these securities, this larger NRSRO applied criteria for similar asset-backed securities but nearly none of the press releases of these asset-backed security ratings made reference to the criteria being used.

Two smaller NRSROs also had weaknesses in public disclosures of established criteria. The Staff found that for two of the smaller NRSROs, the general description of rating methodology found in their Forms NRSRO was not sufficiently detailed to provide users of credit ratings with an understanding of the rating process. At one of these NRSROs, it was also determined that there was no internal rating methodology to provide analysts with adequate instructions on how

to rate a security. Furthermore, the Staff found that at this NRSRO, changes to the rating model were not consistently documented.

The Staff found other instances where NRSROs could have improved criteria disclosures, criteria development procedures and adherence thereto, model development, and documentation.

The Staff made a number of recommendations to these NRSROs, including a recommendation to improve public disclosures about the rating process and to improve supervisory controls governing the development and use of rating methodology and criteria.

3. One larger NRSRO and four smaller NRSROs had weaknesses in certain rating procedures or in certain public disclosures of those policies and procedures.

NRSROs are required to maintain records documenting internal procedures they use to determine credit ratings, pursuant to Rule 17g-2(a)(6), and are also required to publicly disclose a general description of the ratings process, pursuant to the instructions to Exhibit 2 of Form NRSRO.²⁶ The Staff made observations with respect to the internal rating policies and procedures of one larger NRSRO and three smaller NRSROs and with the public disclosure of the ratings process for four smaller NRSROs.

The Staff found that certain aspects of the rating procedures for one larger NRSRO and three smaller NRSROs needed to be strengthened. A larger NRSRO lacked policies and procedures for the committees it uses to pre-screen certain structured finance transactions. One smaller NRSRO's internal policies and procedures governing the rating process and the monitoring of ratings and model use were not sufficiently detailed. A second smaller NRSRO did not document the guidelines for composing an industry group for rating purposes, and the policies and procedures of this smaller NRSRO did not include a requirement to document the point at which rating decisions are considered to be finalized for dissemination. A third smaller NRSRO was found to have insufficient policies and procedures regarding certain ratings definitions, processes, and procedures.

The Staff also found weaknesses in public disclosures of the rating process at another smaller NRSRO, and at three smaller NRSROs, the Staff found there was a lack of sufficient detail as to certain aspects of the procedures governing the rating process or as to certain terms to describe rating actions.

Among the additional weaknesses observed at one larger and two smaller NRSROs were the need for better documentation of changes to rating processes, the need for better communication of those changes to employees, and the need for a review of the effectiveness of the rating committee process.

²⁶ Rule 17g-2(a)(6) provides that an NRSRO must document the "established procedures and methodologies used by the [NRSRO] to determine credit ratings." The instructions to Exhibit 2 of Form NRSRO provide that an NRSRO must publicly disclose a general description of its rating procedures and methodologies. This description "must be sufficiently detailed to provide users of credit ratings with an understanding of the processes employed by the [NRSRO] in determining credit ratings."

The Staff made a number of recommendations to these NRSROs, including recommendations to improve public disclosures about the rating process and to improve controls governing the development of rating methodology and criteria.

4. One larger and one smaller NRSRO did not have adequate disclosures distinguishing NRSRO from non-NRSRO ratings.

The Staff found that a larger NRSRO routinely displayed NRSRO ratings and non-NRSRO ratings side-by-side on its website and did not provide sufficient disclosure that certain ratings were non-NRSRO ratings.

The Staff also observed that a smaller NRSRO issued non-NRSRO ratings in an asset class for which it was not registered to issue NRSRO ratings. Certain advertising materials for this NRSRO, however, did not disclose that it is not registered to issue NRSRO ratings for this asset class.

The Staff recommended that these NRSROs improve disclosures to better distinguish NRSRO ratings from non-NRSRO ratings.

5. The Staff observed weaknesses in one larger and four smaller NRSROs' internal controls over the handling of material non-public information, including pending rating actions.

Rule 17g-4 provides that NRSROs must establish, maintain, and enforce policies and procedures to prevent the misuse of material non-public information. This rule further provides that these procedures must be reasonably designed to prevent inappropriate dissemination of material non-public information, including pending rating actions, both within and outside the NRSRO and to prevent a person within the NRSRO from trading on material non-public information. The Staff observed weaknesses in these procedures and controls at one larger and four smaller NRSROs.

At a larger NRSRO, the Staff observed weaknesses in the information technology systems designed for the dissemination of ratings, causing instances of ratings being released to subscribers before the public. The Staff also found that procedures and controls at this NRSRO did not prevent analysts from accessing material non-public information on issuers whose securities analysts were permitted to trade.

At one smaller NRSRO, the Staff found a need for better documentation of its practices and improvement of its policies and procedures for communicating ratings to issuers and for the release of ratings. The Staff further found that at this same NRSRO, many practices concerning publication of ratings were not accurately codified in procedures; for example, the procedures did not accurately describe the NRSRO's process for posting ratings to its website and distributing ratings to media organizations.

The Staff found that a second smaller NRSRO maintained policies and procedures for handling confidential information that were not reasonably designed to limit independent directors' access

to material non-public information and that procedures prohibiting the use of personal email for the transmission of material non-public information were not consistently followed.

The Staff recommended that these NRSROs improve their procedures and controls for handling confidential information.

6. The Staff found that certain improvements were needed in the internal audit or testing programs at one larger and five smaller NRSROs.

Section 15E(c)(3)(A) provides that each NRSRO must “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....” The Staff noted that many NRSROs relied on a testing or internal audit program as an internal supervisory control.

At two smaller and one larger NRSRO, the Staff found weaknesses with respect to the testing program for rating criteria and models. The audit department and compliance department were not adequately monitoring the larger NRSRO’s criteria function to ensure its independence from business and market share considerations. The Staff also noted weaknesses with this larger NRSRO’s model quality review process, including lack of communication between criteria and model quality review functions and inadequate follow-up on model quality review recommendations. Similarly, at two smaller NRSROs, the Staff found insufficient procedures for rating model validation and testing.

The Staff identified a number of weaknesses in the compliance testing or internal audit regimes at four smaller NRSROs. At one smaller NRSRO, there was a lack of coordination between the compliance function and the internal audit function such that the compliance department was not always provided with copies of internal audit reports with direct impact on the compliance program. At this same NRSRO it was found that there was insufficient testing of employee access to confidential information available on the NRSRO’s network. At three other smaller NRSROs, the Staff found that processes for internal compliance reviews should be better documented, including the development of a plan and a review schedule.

The Staff recommended that these NRSROs improve and better document their testing and audit programs.

7. Four smaller NRSROs require improvements to their programs for training employees on compliance policies and procedures.

Section 15E(c)(3)(A) provides that each NRSRO must “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....” The Staff noted that many NRSROs relied on a compliance or analytical training program as an internal supervisory control.

The Staff found that four smaller NRSROs had training programs that needed improvement. Among the issues observed by the Staff were a lack of mandatory compliance training, little analytical staff training, no formal employee training on securities trading policies, and low effectiveness of past training sessions.

The Staff made a number of recommendations, including recommendations to host regular mandatory compliance or analytical training.

E. Review Area: Governance

The Staff's 2013 examinations involved an analysis of the NRSROs' compliance with Section 15E(t), with particular focus on the oversight function performed by NRSRO Boards.

The Staff's essential findings relating to the NRSROs' compliance with the governance provisions of Section 15E(t) are as follows:

1. Documentation of Board meetings at three smaller NRSROs does not sufficiently evidence that the Board is discharging its obligations under Section 15E(t).

Section 15E(t)(3) provides that in addition to the overall responsibilities of the Board, the Board must oversee: the establishment, maintenance, and enforcement of policies and procedures for determining credit ratings and to address, manage, and disclose any conflicts of interest; the effectiveness of internal controls for determining ratings; and compensation and promotion policies and practices. As part of the assessment of compliance with this Section, the Staff reviewed the minutes of meetings of the Board of each NRSRO and interviewed members of the Board.

Based on this review, the Staff concluded that at three of the smaller NRSROs, Board execution of its Section 15E(t)(3) duties was not sufficiently evidenced.

The Staff advised each of these NRSROs to improve documentation of Board meetings to evidence sufficient Board oversight.

2. The Staff found that Board composition or oversight was in need of improvement at one larger NRSRO and four smaller NRSROs.

The Staff interviewed members of the Boards of each NRSRO and reviewed the charter or governing documents for each Board. The Staff found that many Boards did not meet certain requirements with respect to composition or needed improvement in the execution of their Section 15E(t) duties.

At one larger NRSRO, Board meetings may need additional safeguards to ensure Board independence. Consistent with Section 15E(t)(2)(A), at least half of this larger NRSRO's Board was composed of independent directors, and a portion of the independent directors must include users of ratings from the NRSRO. However, this NRSRO allowed the attendance of non-independent, non-voting shareholder representatives at Board meetings. The Staff found issues

with Board composition at a smaller NRSRO, where the Board did not record having a “user” of credit ratings as required by Section 15E(t)(2)(A).

The Staff made further findings with respect to the conduct of Board meetings, noting that the Boards of three smaller NRSROs demonstrated insufficient engagement in executing their Section 15E(t) duties. These findings included a lack of preparedness to discharge duties at Board meetings and a lack of command of the details of key compliance issues facing the NRSRO. Additionally, the Staff noted that the Board of another smaller NRSRO was not required by its governing charter to oversee compensation and promotion practices as required by Section 15E(t)(3)(D).

The Staff made a variety of recommendations to these NRSROs, including recommendations to amend Board governing documents and to ensure that the structure of their Boards are consistent with Section 15E(t).

F. Review Area: DCO Activities

Section 15E(j)(1) requires each NRSRO to designate an individual responsible for administering the policies and procedures established to prevent the misuse of material non-public information and address and manage conflicts of interest and for ensuring compliance with the securities laws. Under Section 15E(j)(2), the DCO is prohibited from engaging in certain activities, including performing credit ratings or participating in the development of ratings methodologies or models, performing marketing or sales functions, or participate in establishing compensation levels, other than for individuals working for the DCO. Under Section 15E(j)(3), the DCO is responsible for establishing procedures for the receipt, retention, and treatment of complaints. Section 15E(j)(4) requires that the DCO be compensated in a manner not linked to the financial performance of the NRSRO and must be arranged to ensure the DCO’s independence. Under Section 15E(j)(5), 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.

The Staff considers the DCO role to be a critical element in helping to ensure an NRSRO’s compliance with securities laws. The Staff expects the DCO at each NRSRO to have sufficient resources, institutional support, and independence to effectively carry out the DCO’s statutory obligations. The Staff reviewed the role and activities of each NRSRO’s DCO. This review included interviews with each DCO.

The Staff’s essential findings regarding DCOs are as follows:

1. The Staff found that at one larger NRSRO and two smaller NRSROs, the duties of the compliance staff could be more clearly defined and the role of compliance within the organization could be strengthened.

The Staff found that at one larger NRSRO, compliance in regional offices needs to be strengthened with additional compliance personnel in certain regions and additional resources to ensure visibility, credibility, and effectiveness of the compliance function globally.

At a smaller NRSRO, the Staff observed that a complaint regarding analytical integrity and model development was not timely handled due to a lack of communication between the compliance staff of the NRSRO and the NRSRO's parent company. Also at this NRSRO, the DCO does not have the ability to conduct email searches relating to complaints or otherwise without involvement of the DCO's supervisor. At a second smaller NRSRO, the procedures governing the role of the DCO did not reflect the duties under Section 15E(j).

The Staff recommended a number of remedial measures including revising procedures and adding compliance resources.

G. Review Area: Complaints

Section 15E(j)(3) states that an NRSRO's DCO must establish procedures for the receipt, retention, and treatment of (i) complaints regarding credit ratings, models, methodologies, and compliance with the securities laws and the NRSRO's policies and procedures developed under Section 15E; and (ii) confidential, anonymous complaints by employees or users of credit ratings. Rule 17g-2(b)(8) requires an NRSRO to retain any written complaints received from persons not associated with the NRSRO about the performance of a credit analyst in initiating, determining, maintaining, monitoring, changing, or withdrawing a credit rating. Rule 17g-2(c) requires that such communications be retained for a period of three years after the date the record is made or received. Rule 17g-2(d) concerns the manner of retention and Rule 17g-2(e) governs the use of third party custodians for retention. The Staff reviewed each NRSRO's policies and procedures for complaints and tested the policies and procedures.

The Staff found that all the NRSROs have written policies and procedures generally to address these requirements, but some specific requirements were not covered. The Staff made recommendations to the NRSROs regarding the identified weaknesses.

The Staff's essential findings regarding complaints are as follows:

1. One larger and three smaller NRSROs were found to have weaknesses in either their complaints procedures or in the handling of complaints.

The Staff found that the procedures of one larger and one smaller NRSRO did not fully address the handling of complaints as required by Section 15E(j)(3). The larger NRSRO was determined to have insufficient written policies and procedures for handling both complaints by employees and confidential and anonymous complaints. This larger NRSRO also did not adhere to its procedures in the handling of third-party complaints. The Staff found that a smaller NRSRO had procedures that were confusing, difficult to apply, and that compliance personnel conceded were in need of improvement.

At two smaller NRSROs, the Staff noted weaknesses in the policies and procedures governing complaints. For instance, the procedures did not address all categories of complaints enumerated in Section 15E(j)(3) and in particular did not address complaints by employees or users of credit ratings. Another smaller NRSRO did not have an established process for the submission of

complaints, anonymous or otherwise, and the complaint log did not contain adequate information regarding the nature of the complaints. In addition, this NRSRO lacked procedures governing the investigation and resolution of complaints.

The Staff reviewed a sample of complaint files from each NRSRO and found that one larger and one smaller NRSRO did not consistently follow their procedures for handling complaints.

The Staff recommended that these NRSROs improve procedures and controls governing complaints.

H. Review Area: Post-Employment

Section 15E(h)(4)(A) requires an NRSRO to establish, maintain, and enforce policies and procedures reasonably designed to ensure that the firm will review a former employee's involvement in the determination of credit ratings for a person or an issuer, underwriter, or sponsor of a security or money market instrument if the former employee is now employed by such person or entity to determine whether any conflicts of interest of the employee influenced the rating. The Staff reviewed each NRSRO's "look-back" policies and procedures and tested those procedures.

The Staff found that all of the NRSROs had established written policies and procedures to address the look-back requirement.

The Staff's essential findings regarding NRSRO look-back policies and procedures are as follows:

1. Two larger and six smaller NRSROs did not consistently conduct adequate look-back searches or did not have adequate procedures governing the searches.

At one larger and one smaller NRSRO, look-back reviews were not being conducted in a manner reasonably designed to determine the employer of departed employees. The larger NRSROs' practice of ascertaining the current employment of former employees was determined to consist only of rating committee chairs asking the committee if analysts are aware of any former employees of the NRSRO being employed by the issuer. The Staff also found that a smaller NRSRO did not have a record of the senior officers and supervisors who worked on particular ratings, thus, look-back reviews conducted for these employees would not show which ratings they had worked on. At this smaller NRSRO, it was also noted that there were no specific requirements for documenting look-back reviews and no person who was made responsible for reporting departed employees to the Commission.

The Staff also found that one larger and five smaller NRSROs required improvement in their look-back procedures. Two smaller NRSROs required only minimal information gathering measures and do not require the NRSRO to take any action to independently verify the current or former employer of the employee. The look-back procedures of another NRSRO did not include some of the actions routinely taken by the DCO to research the employment of former analysts. The procedures for a smaller NRSRO did not specify the timeframe within which look-back

reviews must be conducted. The look-back procedures of another smaller NRSRO lacked sufficient detail about the look-back review process.

At a larger NRSRO, look-back procedures (i) did not address employees who voluntarily terminate employment and who do not notify the NRSRO of their next employer or do not have a new employer upon leaving and (ii) were not followed in certain instances.

The Staff made recommendations to the NRSROs regarding these weaknesses.

VI. CONCLUSION

The Staff has identified findings and recommendations for the NRSROs. The Staff acknowledges that NRSROs have implemented compliance improvements and have taken steps toward improving compliance since Section 15E exams began in 2010. For future examinations, the Staff will continue to refine its risk assessment to ensure a balance between verifying compliance with key laws and regulations and identifying and examining emerging risk areas.