

OFFICE OF CREDIT RATINGS

# 2020 Summary Report

ON

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

December 2020

U.S. SECURITIES AND EXCHANGE COMMISSION



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.

# Table of Contents

I.	REGULATORY AND NRSRO OVERVIEW . . . . .	1
A.	Statutory Framework and Rules . . . . .	1
B.	Registered NRSROs . . . . .	4
II.	OFFICE OF CREDIT RATINGS AND EXAMINATION OVERVIEW . . . . .	6
A.	Examinations under Section 15E(p)(3) . . . . .	6
B.	Examination Overview . . . . .	7
III.	SUMMARY OF RESPONSES TO RECOMMENDATIONS FROM PREVIOUS EXAMINATIONS AND NOTABLE IMPROVEMENTS OVER THE COURSE OF THE EXAMINATIONS. . . . .	9
A.	Responses to Recommendations from the 2019 Section 15E Examinations . . . . .	9
B.	Notable Improvements Over the Course of the Examinations . . . . .	10
IV.	SUMMARY OF ESSENTIAL FINDINGS. . . . .	11
A.	Review Area: Adherence to Policies, Procedures, and Methodologies . . . . .	11
B.	Review Area: Management of Conflicts of Interest . . . . .	14
C.	Review Area: Implementation of Ethics Policies . . . . .	15
D.	Review Area: Internal Supervisory Controls . . . . .	15
E.	Review Area: Governance . . . . .	22
F.	Review Area: DCO Activities . . . . .	23
G.	Review Area: Complaints . . . . .	23
H.	Review Area: Post-Employment. . . . .	23
V.	CONCLUSION . . . . .	24

# I. Regulatory and NRSRO Overview

This report (“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”).<sup>1</sup> This is a report of the Staff and, as such, reflects solely the Staff’s views. The U.S. Securities and Exchange Commission (“Commission” or “SEC”) is making this Staff Report public as required by Section 15E(p)(3)(C) of the Exchange Act.

## A. STATUTORY FRAMEWORK AND RULES

Section 15E of the Exchange Act (“Section 15E”) and Exchange Act Rules 17g-1 through 17g-10 govern the registration and oversight program for credit rating agencies that are registered with the Commission as nationally recognized statistical rating organizations (“NRSROs”). This regulatory regime was established by the Credit Rating Agency Reform Act of 2006 (the “Rating Agency Act”)<sup>2</sup> and amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”).<sup>3</sup>

The Dodd-Frank Act mandated the creation of the Office of Credit Ratings (“OCR”), which is responsible for oversight of credit rating agencies registered with the Commission as NRSROs.

Pursuant to the Commission’s regulatory regime for NRSROs, an NRSRO is required to, among other things:

- File with the Commission annual certifications of its Form NRSRO registrations,<sup>4</sup> promptly update its filing in certain circumstances,<sup>5</sup> and make its current Form NRSRO filing and most of its current Form NRSRO Exhibits available on its public website.<sup>6</sup>
- Disclose certain information, including information concerning the NRSRO’s performance measurement statistics and its procedures and methodologies to determine ratings.<sup>7</sup>

---

1 Exchange Act Section 15E(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.  
2 Credit Rating Agency Reform Act of 2006, Pub. L. No. 109-291, 120 Stat. 1327 (2006).  
3 The Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, § 932, 124 Stat. 1376, 1872-83 (2010).  
4 Exchange Act Section 15E(b)(2) and Exchange Act Rule 17g-1(f).  
5 Exchange Act Section 15E(b)(1) and Exchange Act Rule 17g-1(e).  
6 Exchange Act Section 15E(a)(3) and Exchange Act Rule 17g-1(i).  
7 Exchange Act Section 15E(a)(1)(B)(i) and Exchange Act Section 15E(a)(1)(B)(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,<sup>8</sup> and retain records of its internal control structure.<sup>9</sup>
- Consider certain factors with respect to its establishment, maintenance, enforcement, and documentation of an effective internal control structure.<sup>10</sup>
- 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.<sup>11</sup> The report must be accompanied by a signed statement by the NRSRO's chief executive officer or an individual performing similar functions.<sup>12</sup>
- 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.<sup>13</sup>
- 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,<sup>14</sup> 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.<sup>15</sup>
- 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.<sup>16</sup> The information form must disclose certain information with respect to the particular rating action.<sup>17</sup> 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.<sup>18</sup>

---

8 Exchange Act Section 15E(c)(3)(A).

9 Exchange Act Rule 17g-2(b)(12).

10 *See, e.g.*, Exchange Act Rule 17g-8(d)(1) through (4).

11 Exchange Act Rule 17g-3(a)(7)(i).

12 Exchange Act Rule 17g-3(b)(2).

13 *See, e.g.*, Exchange Act Rule 17g-8(a)(2) through (5).

14 Exchange Act Rule 17g-8(b)(1).

15 Exchange Act Rule 17g-8(b)(3).

16 Exchange Act Rule 17g-7(a). Rule 17g-7(a) defines rating action to include an expected or preliminary rating, an initial rating, an upgrade or downgrade of an existing rating (including a downgrade to, or assignment of, default), and an affirmation or withdrawal of an existing rating if the affirmation or withdrawal is the result of the NRSRO's review of the rating using applicable procedures and methodologies for determining credit ratings. Pursuant to Rule 17g-7(a)(3), an NRSRO is exempt from publishing an information disclosure form for a particular rating if: (i) the rated obligor or issuer of the rated security or money market instrument is not a U.S. person; and (ii) the NRSRO has a reasonable basis to conclude that: (A) with respect to any security or money market instrument issued by a rated obligor, all offers and sales by any issuer, sponsor, or underwriter linked to the security or money market instrument will occur outside the United States; or (B) with respect to a rated security or money market instrument, all offers and sales by any issuer, sponsor, or underwriter linked to a security or money market instrument will occur outside the United States.

17 Exchange Act Rule 17g-7(a)(1)(ii)(A)-(N) specifies the information that must be disclosed in the information disclosure form. These required disclosures include: the version of the procedure or methodology used to determine the credit rating; disclosures concerning the uncertainty of the rating, including regarding the reliability, accuracy, quality, and accessibility of data related to the rating; a statement containing an overall assessment of the quality of information available and considered in determining the credit rating for the obligor, security, or money market instrument; and information on the sensitivity of the rating to assumptions made by the NRSRO. In addition, an NRSRO must attach to the information disclosure form any executed Form ABS Due Diligence-15E containing information about the security or money market instrument subject to the rating action that is received by the NRSRO or obtained by the NRSRO through a Rule 17g-5(a)(3) website.

18 Exchange Act 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<sup>19</sup> and records related to its ratings.<sup>20</sup> An NRSRO must promptly furnish to the Commission or its representatives copies of required records, including English translations of those records, upon request.<sup>21</sup>
- 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 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.<sup>22</sup>
- Establish, maintain, and enforce written policies and procedures reasonably designed to address and manage conflicts of interest.<sup>23</sup> Certain conflicts of interest are expressly prohibited,<sup>24</sup> and for other types of conflicts of interest, the NRSRO must disclose the conflicts and have policies and procedures in place to manage them.<sup>25</sup>
- Refrain from engaging in specified unfair, coercive, or abusive practices.<sup>26</sup>
- 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.<sup>27</sup>
- 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.<sup>28</sup>
- 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.<sup>29</sup> 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.<sup>30</sup>

---

19 Exchange Act Rule 17g-2(a)(6).

20 Exchange Act Rule 17g-2(a)(2)(i), (ii), and (iii); Exchange Act Rule 17g-2(b)(2) and (b)(7). 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.

21 Exchange Act Section 15E(a) and (b) and Exchange Act Rule 17g-2(f).

22 Exchange Act Section 15E(g) and Exchange Act Rule 17g-4.

23 Exchange Act Section 15E(h) and Exchange Act Rule 17g-5.

24 Exchange Act Rule 17g-5(c).

25 Exchange Act Rule 17g-5(a)(1) and (a)(2); Exchange Act Rule 17g-5(b). Moreover, Exchange Act Rule 17g-5(a)(3) prohibits an NRSRO from having a conflict of interest related to a rating for a security or money market instrument issued by an asset pool or as part of any ABS transaction unless the NRSRO, among other things, maintains and provides access to a password-protected Internet Web site containing a list of each such security or money market instrument for which it is currently in the process of determining an initial credit rating, and obtains certain written representations from the issuer, sponsor, or underwriter of each such security or money market instrument.

26 Exchange Act Rule 17g-6.

27 Exchange Act Section 15E(a)(1)(B)(v).

28 Exchange Act Section 15E(j)(3).

29 Exchange Act Section 15E(j)(1) and (3).

30 Exchange Act 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.<sup>31</sup> 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.<sup>32</sup>
- 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.<sup>33</sup>
- Establish policies and procedures regarding post-employment activities of certain former personnel.<sup>34</sup>

## B. REGISTERED NRSROs

In 2007, the Commission began granting registrations to credit rating agencies that applied to be registered as an NRSRO. Credit rating agencies seeking to register with the Commission as an NRSRO must file a completed application on Form NRSRO, including related Exhibits.<sup>35</sup> A credit rating agency may apply to be registered with respect to one or more of the following five classes of credit ratings:

- i. Financial institutions, brokers, or dealers (“financial institutions”);
- ii. Insurance companies;
- iii. Corporate issuers;
- iv. Issuers of asset-backed securities (“ABS”); and
- v. Issuers of government securities, municipal securities, or securities issued by a foreign government (“government securities”).<sup>36</sup>

---

31 Exchange Act Section 15E(t)(2).

32 Exchange Act Section 15E(t)(3) and Exchange Act Rule 17g-8(a)(1).

33 Exchange Act Rule 17g-9.

34 Exchange Act Section 15E(h)(4) and (5); Exchange Act Rule 17g-8(c).

35 Exchange Act Section 15E(a) and Exchange Act Rule 17g-1(a) and (b).

36 Exchange Act Section 3(a)(62)(A).

NRSRO	Date of Initial Registration
A.M. Best Rating Services, Inc. (“AMB”)	September 24, 2007
DBRS, Inc. (“DBRS”) <sup>37</sup>	September 24, 2007
Egan-Jones Ratings Company (“EJR”)	December 21, 2007
Fitch Ratings, Inc. (“Fitch”)	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”)	February 11, 2008
Moody’s Investors Service, Inc. (“MIS”)	September 24, 2007
S&P Global Ratings (“S&P”)	September 24, 2007

The nine credit rating agencies registered as NRSROs as of November 30, 2020, and dates of their initial registrations, are listed above. 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.<sup>38</sup>

For purposes of this Report only, we refer to Fitch, MIS, and S&P as “larger NRSROs” and the six other NRSROs (AMB, DBRS, EJR, HR, JCR, and KBRA) as “smaller NRSROs.”

37 On July 2, 2019, Morningstar, Inc., the parent company of Morningstar Credit Ratings, LLC (“MCR”), completed an acquisition of DBRS. On November 15, 2019, MCR furnished a notice of withdrawal from registration to the Commission (which became effective on December 30, 2019), and DBRS filed an update to Form NRSRO to add MCR as a credit rating affiliate. On November 23, 2020, DBRS filed an update to Form NRSRO to remove MCR as a credit rating affiliate.

38 The annual reports can be found under “Summary Examination Reports” in the “Reports and Studies” section of the OCR webpage, available at <https://www.sec.gov/ocr/ocr-reports-and-studies.html>.



## 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 applicable federal securities laws and rules;
- Identify conduct, insufficient policies and procedures, or ineffective internal controls that potentially violate such laws and rules; and
- Encourage remedial action.

To facilitate such remedial action, the Staff sends each NRSRO an examination summary letter that identifies and explains its findings related to that NRSRO and recommends remedial measures. Examinations also serve to inform the Commission and the NRSROs' compliance personnel of regulatory obligations and noteworthy industry developments. When appropriate, OCR staff may refer potential violations of the federal securities laws to the Commission's Division of Enforcement for further investigation. The Division of Enforcement investigates potential violations of the federal securities laws and litigates the Commission's enforcement actions.

Section 15E(p)(3)(B) provides that each NRSRO examination shall include a review of the following eight topic areas ("Section 15E Review Areas"):

- i. Whether the NRSRO conducts business in accordance with its policies, procedures, and rating methodologies;
- ii. Management of conflicts of interest by the NRSRO;
- iii. Implementation of ethics policies by the NRSRO;
- iv. Internal supervisory controls of the NRSRO;
- v. Governance of the NRSRO;
- vi. Activities of the DCO of the NRSRO;
- vii. Processing of complaints by the NRSRO; and
- viii. Policies of the NRSRO governing the post-employment activities of its former staff.

Section 15E(p)(3)(C) requires the Commission to make available to the public an annual report summarizing:

- i. Essential findings of all Section 15E examinations, as deemed appropriate by the Commission;
- ii. 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.

## B. EXAMINATION OVERVIEW

The 2020 Section 15E examinations generally focused on the NRSROs' activities for the period covering January 1, 2019 through December 31, 2019 (the "Review Period"). Examinations also reviewed certain activities or credit rating actions from outside the Review Period.<sup>39</sup>

The 2020 Section 15E examinations reviewed the Section 15E Review Areas and examined each NRSRO's adherence to Section 15E and Rules 17g-1 through 17g-10. Each of the NRSRO examinations encompassed all of the statutorily required Section 15E Review Areas. Within each of the Section 15E Review Areas, the Staff determined areas of emphasis and issues of focus for each NRSRO 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:

- NRSRO's rating activities and operations;
- Staff's findings, recommendations, and general observations from prior examinations;
- Impact of a potential or actual internal control or compliance failure by the NRSRO;
- Recent industry developments affecting NRSROs and the asset classes in which the NRSRO is registered;
- NRSRO's filings with the Commission and public disclosures;
- NRSRO's self-identified weaknesses; and
- Relevant TCRs received by the Commission.

The 2020 Section 15E examinations also focused on certain subjects and activities that the Staff, through its general risk assessment process, identified as relevant to certain NRSROs, as summarized below.

- **NRSRO Response to COVID-19:** The Staff examined the effects of the pandemic on credit ratings and NRSROs. Specifically, the Staff reviewed: NRSRO methodology changes; changes to macro-economic forecasts and assumptions, including meeting with NRSRO senior economists; and business continuity plans and operational updates, including workflow decisions that NRSROs made. The Staff also examined certain NRSRO methodology deviations, including adherence to relevant policies and procedures, and rating files for NRSRO activities with respect to certain asset classes and rating changes, including rating downgrades from investment-grade to sub investment-grade, also known as "fallen angels."
- **ESG Factors and Products:** Certain NRSROs consider environmental, social, and governance ("ESG") factors in their credit rating analysis. The Staff examined whether such NRSROs incorporated ESG factors into methodologies or took any rating actions specifically on account of ESG factors, as well as sales and marketing practices and conflicts of interests that may arise in connection with the NRSROs' ESG-related activities.
- **Collateralized Loan Obligations ("CLOs"):** The Staff examined certain NRSRO rating files of CLOs backed by broadly syndicated corporate loans and by loans to middle market companies for, among other things, adherence to relevant rating policies, procedures, and methodologies.

---

39 For example, the Staff may review information relating to tips, complaints, and referrals ("TCRs") in a current examination, even if the referenced activities occurred outside of the Review Period.

- **Conflicts Associated with Investor-Paid Ratings:** The Staff reviewed the scope of private and investor-paid ratings activity at certain NRSROs. As appropriate, the Staff also examined for potential conflicts of interests created as a result of investor-paid rating activity at such NRSROs.
- **LIBOR Phase-Out:** The Staff reviewed commentaries from NRSROs, and gathered information on regular calls with NRSROs, related to the pending LIBOR phase-out, including whether assumptions disclosed by NRSROs have changed and whether NRSROs have adjusted any relevant policies, procedures, and methodologies. The Staff also reviewed NRSRO surveillance processes in light of the LIBOR transition.
- **Low-Investment Grade-Rated Corporates:** The Staff examined certain NRSRO rating files for low-investment grade-rated corporates for, among other things, adherence to relevant rating policies, procedures, and methodologies.
- **Potential Marketing Conflicts:** The Staff examined relevant rating files and policies and procedures of NRSROs, including policies and procedures on the separation of sales and marketing from analytics. The Staff also reviewed internal compliance reports and had relevant discussions with compliance staff.

# III. Summary of Responses to Recommendations From Previous Examinations and Notable Improvements Over the Course of the Examinations

## A. RESPONSES TO RECOMMENDATIONS FROM THE 2019 SECTION 15E EXAMINATIONS

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 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.

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.

To assess whether NRSROs appropriately addressed findings from the 2019 Section 15E examinations, the Staff reviewed each NRSRO's written response to the Staff's examination summary letter describing its planned remedial measures, and participated in calls with each NRSRO to discuss its written response.

During the 2020 Section 15E examinations, the Staff assessed each NRSRO's progress in implementing remedial measures such as establishing new or enhancing existing policies or procedures or internal controls, or adding personnel and other resources in areas such as compliance, information technology, or analytics. In assessing the effectiveness of NRSROs' remedial measures, the Staff is cognizant that NRSROs may not be able to fully implement remedial measures before the Staff commences its Section 15E examinations for the subsequent year, and the Staff may not be able to fully assess the effectiveness of these measures in its Section 15E examinations for that subsequent year.

Based on the Staff's 2020 Section 15E examinations, the Staff has determined that all recommendations from the 2019 Section 15E examinations have been appropriately addressed. In general, NRSROs addressed 2019 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.



## **B. NOTABLE IMPROVEMENTS OVER THE COURSE OF THE EXAMINATIONS**

Since they were first conducted in 2010, the Staff's Section 15E examinations have identified certain improvements at one or more of the NRSROs. Generally, NRSRO personnel at all levels of seniority and responsibility have continued to display greater awareness of applicable laws and their obligations as regulated entities. Moreover, the Staff's summary reports covering the Section 15E examinations since 2012 mention specific improvements by certain NRSROs, and the NRSROs generally have maintained or augmented those improvements by further enhancing the measures undertaken and embedding them in their operations and culture.

During the 2020 Section 15E examinations, the Staff observed that most NRSROs have continued to refine, as needed, and maintain, as appropriate, their

policies, procedures, and controls related to NRSRO rules and the Staff's recommendations from Section 15E examinations. The Staff also observed that generally, most NRSROs' personnel have continued to gain and display a better understanding of these rules and the NRSROs' policies, procedures, and controls for implementing these rules.

Additionally, the Staff observed that, in general, most NRSROs continue to improve their compliance monitoring and internal audit functions. In recent years, and continuing in the 2020 Section 15E examinations, the Staff has observed that this improvement has resulted in a number of NRSROs becoming proactive in reporting to the Staff issues or potential issues of non-compliance with legal requirements or weaknesses in policies and procedures that could potentially lead to such non-compliance.

## IV. 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” are Staff findings from the 2020 Section 15E examinations and were included with one or more recommendations in an examination summary letter sent to an NRSRO. “Essential findings” do not include, for example, the Staff’s general observations. In this Report, essential findings are organized by the applicable Section 15E Review Areas. This Report uses the phrases “significant,” “numerous,” “several,” and “some” to describe and distinguish the frequency of conduct or instances underlying certain findings. The particular phrase used generally reflects the number of instances during the Review Period, recognizing that the number of instances may be reflective of a test sample and not necessarily an NRSRO’s comprehensive activities during the Review Period. The Commission has not determined whether any finding discussed in this Report constitutes a “material regulatory deficiency,”<sup>40</sup> but may do so in the future.

In the following Sections of this Report, the numbered headers identify in general terms the Staff’s findings concerning one or more NRSROs, and the paragraph(s) following each numbered header provide additional detail concerning these findings and the Staff’s corresponding recommendations.

### A. REVIEW AREA: ADHERENCE TO POLICIES, PROCEDURES, AND METHODOLOGIES

The Staff reviewed a sample of rating actions of each NRSRO in certain asset classes for which it is registered and for certain issuers and obligors to determine whether the NRSRO operated in accordance with its policies, procedures, and rating methodologies. The Staff also reviewed a sample of rating files and documentation of other ratings-related activities to evaluate whether each NRSRO adhered to recordkeeping requirements. To select rating actions and rating files to review, the Staff used a risk-based sampling process that is consistent with its overall risk assessment approach described in this Report. The Staff also considered factors including, but not limited to, 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, the likelihood of impact on investors if a rating was not determined in accordance with the NRSRO’s methodologies and procedures, news reports and developments concerning the NRSROs or particular asset classes, TCRs, and information the Staff learned during examinations.

The Staff’s essential findings regarding NRSROs conducting ratings-related activities in accordance with their policies, procedures, and rating methodologies are discussed in this Section. The Staff’s

---

40 Exchange Act Section 15E(p)(3)(C)(ii).

essential findings regarding the NRSROs' adherence to policies and procedures related to other Section 15E Review Areas are generally discussed in later Sections of this Report. Instances where policies, procedures, and rating methodologies need to be established or improved are also generally 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. An NRSRO did not appear to adhere to its policies and procedures related to analysts receiving gifts.

A smaller NRSRO received a prohibited gift but did not send a notification regarding the prohibited nature of the gift to the sender of the gift, as the NRSRO's policies and procedures require. The Staff recommended that the NRSRO adhere to such policies and procedures.

2. An NRSRO did not appear to adhere to its policies and procedures related to processing and considering comments when revising rating methodologies.

A larger NRSRO overlooked numerous external written comments that it received in response to published requests for comment on a materially changed methodology and did not consider those comments prior to implementing the methodology, as required by its policies and procedures. The Staff recommended that the NRSRO enhance its internal controls to ensure that it adheres to its policies and procedures for processing and considering comments when revising rating methodologies.

3. Certain NRSROs did not appear to adhere to their policies and procedures related to documentation required in rating files.

A smaller NRSRO's documentation in its rating files pertaining to conflict of interest checks did not appear to adhere to the requirements in the NRSRO's relevant policies and procedures. The Staff recommended that the NRSRO adhere to its policies and procedures for documenting conflict of interest checks in rating files.

A smaller NRSRO did not retain exception memoranda used for some credit ratings in the relevant rating file, as the NRSRO's policies and procedures require. The Staff recommended that the NRSRO enhance its internal controls, including policies and procedures, with respect to retaining and producing required rating file documents.

4. An NRSRO did not appear to comply with the Rule 17g-7(a)(1)(ii)(J)(1) requirements or adhere to its policies and procedures related to the disclosure of an unsolicited credit rating.

A larger NRSRO did not disclose that the NRSRO was not paid to determine an unsolicited rating in the related information disclosure form as required by Rule 17g-7(a)(1)(ii)(J)(1) and the NRSRO's policies and procedures. The NRSRO also did not disclose on its website that such rating was unsolicited as required by the NRSRO's policies and procedures. The Staff recommended that the NRSRO comply with Rule 17g-7(a)(1)(ii)(J)(1) and adhere to its policies and procedures related to the disclosure of unsolicited credit ratings.

5. An NRSRO did not appear to adhere to its policies and procedures related to documenting internal investigations.

A larger NRSRO's outside counsel conducted an investigation in response to an allegation from a former employee of the NRSRO, but did not prepare a final written report as the NRSRO's policies and procedures require. Instead, outside counsel delivered an oral report to the NRSRO. The Staff recommended that the NRSRO adhere to its policies and procedures related to documenting internal investigations.

6. An NRSRO did not appear to make and retain accurate records or adhere to its policies and procedures related to unsolicited credit ratings.

A smaller NRSRO took an unsolicited rating action, but did not appear to adhere to its policies and procedures for such action. Contrary to the NRSRO's unsolicited credit ratings policies and procedures, the rating committee minutes erroneously indicated that the rating was solicited, and the rating press release erroneously stated that the rated entity participated in the rating process and that the NRSRO had access to the entity's accounts and other internal documents. The Staff recommended that the NRSRO make and retain accurate records and adhere to its unsolicited credit ratings policies and procedures to ensure that it correctly discloses the solicitation status and level of the issuer's participation.

7. An NRSRO did not appear to enforce its policies and procedures when providing a draft presale report to an issuer.

A smaller NRSRO's policies and procedures provided for release of preliminary credit ratings to an issuer in a presale report, together with certain pre-publication information, after a primary analyst presents a recommendation to the relevant rating committee. However, the

Staff found that a primary analyst sent to an issuer preliminary rating recommendations, together with an incomplete notice, in a draft presale report on the day before the relevant rating committee. The Staff recommended that the NRSRO enforce, and ensure that employees adhere to, the NRSRO's policies and procedures when sending presale reports to an issuer.

8. An NRSRO did not appear to adhere to its policies and procedures, or the rule requirements, related to the NRSRO promptly publishing on its website notice of a significant error identified in its credit rating procedures or methodologies that may result in a change to current credit ratings.

A smaller NRSRO identified a calculation error in a model that led the NRSRO to review a significant number of outstanding ratings that the error potentially impacted. The NRSRO did not publish notice of the existence of the error on its website as required by Rule 17g-8(a)(4)(ii) and the NRSRO's policies and procedures. The Staff recommended that the NRSRO adhere to its policies and procedures regarding Rule 17g-8(a)(4)(ii) and promptly publish notice of the existence of a significant error identified in a credit rating procedure or methodology that may result in a change to current credit ratings, in accordance with Rule 17g-8(a)(4)(ii).

9. An NRSRO did not appear to adhere to its policies and procedures regarding documentation evidencing the delivery of indicative ratings.

A smaller NRSRO's analysts delivered an oral indicative credit rating to a client, which the NRSRO did not document in the relevant rating file, in violation of the NRSRO's policies and procedures. The Staff recommended that the NRSRO retain documentation evidencing the issuance of indicative ratings, including oral communication, in accordance with its policies and procedures.



10. An NRSRO's adherence to its policies and procedures appeared to have weaknesses relating to Rule 17g-9(a) and the periodic testing requirements in Rule 17g-9(c)(1).

A smaller NRSRO did not appear to administer compliance testing to employees in several instances, or appropriate remedial training to an employee who failed a test, as the NRSRO's policies and procedures require. The Staff recommended that the NRSRO adhere to its policies and procedures adopted to comply with the requirements in Rule 17g-9(a) and Rule 17g-9(c)(1).

## **B. REVIEW AREA: MANAGEMENT OF CONFLICTS OF INTEREST**

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

1. An NRSRO's identified conflicts of interest relating to the issuance of credit ratings appeared to be inconsistent with the NRSRO's policies and procedures to address and manage conflicts of interest.

A smaller NRSRO identified a certain conflict of interest relating to the issuance of credit ratings in Form NRSRO Exhibit 6 and provided policies and procedures to address and manage that conflict of interest in Form NRSRO Exhibit 7. However, such policies and procedures did not apply with respect to private credit ratings. The Staff recommended that the NRSRO identify conflicts of interest relating to the issuance of private credit ratings consistently with the NRSRO's policies and procedures to address and manage conflicts of interest.

2. Certain NRSROs' policies and procedures did not appear to be reasonably designed to address prohibited conflicts of interest.

A smaller NRSRO's policies and procedures appeared to permit the NRSRO to grant certain exceptions that would allow NRSRO personnel to engage in activities that Rule 17g-5(c)(7) and Rule 17g-5(c)(8) prohibit. The Staff recommended that the NRSRO revise its policies and procedures to eliminate such weakness.

A smaller NRSRO, despite the specified prohibition of Rule 17g-5(c)(8), had a person who participated in multiple capacities in determining credit ratings and developing and approving procedures and methodologies used for determining credit ratings. It also appeared that the person's involvement in rating activities was accompanied by sales and marketing activities. The Staff recommended that the NRSRO establish, maintain, enforce, and document policies and procedures reasonably designed to ensure compliance with, and effective internal controls to identify and prevent, the conflict of interest described in Rule 17g-5(c)(8).

3. An NRSRO did not appear to enforce its policies and procedures to address and manage the conflict of interest set forth in Rule 17g-5(b)(6), as required by Rule 17g-5(a).

A smaller NRSRO had, in some instances, missing or inconsistent documentation related to personal financial account statements for persons associated with the NRSRO, as required by the NRSRO's policies and procedures. The Staff recommended that the NRSRO enforce its policies and procedures to address and manage the conflict of interest set forth in Rule 17g-5(b)(6).

4. An NRSRO's policies and procedures did not appear to be reasonably designed to detect and prevent the prohibited conflicts of interest identified in Rule 17g-5(c)(6) and Rule 17g-5(c)(8).

A smaller NRSRO's policies and procedures appeared to have unclear and inconsistent procedures for addressing circumstances in which analysts are exposed to fee information, and, in fact, analysts were exposed to fee information in several instances. The Staff recommended that the NRSRO ensure that its policies and procedures are reasonably designed to detect and prevent the prohibited conflicts of interest identified in Rule 17g-5(c)(6) and Rule 17g-5(c)(8).

### C. REVIEW AREA: IMPLEMENTATION OF ETHICS POLICIES

Each NRSRO has implemented written ethics policies and procedures. The Staff reviewed each NRSRO's ethics policies and procedures. Much of the content of these policies and procedures addresses other related Review Areas. The Staff did not make any findings and recommendations based solely on an NRSRO's implementation of ethics policies and procedures.

### D. REVIEW AREA: INTERNAL SUPERVISORY CONTROLS

The Staff reviewed each NRSRO's overall control structure, including the internal control structure related to determining credit ratings.

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

1. An NRSRO did not appear to have effective internal controls related to its practice of allowing an analyst to inform a client of the analyst's rating recommendation before a rating committee has determined the client's rating.

A smaller NRSRO's analysts regularly informed clients of a rating recommendation before the proposed rating was presented to a rating committee, and the NRSRO's policies and procedures did not include a requirement for the analysts to inform the clients that the recommendation is subject to the outcome of the rating committee process and determination, which would be consistent with the NRSRO's policies and procedures. The Staff recommended that the NRSRO strengthen its policies and procedures governing its practice of allowing an analyst to inform a client of the analyst's rating recommendation prior to determination of the rating by a committee.

2. An NRSRO's standards of training, experience, and competence for credit analysts did not appear to include a Rule 17g-9(c) requirement.

A smaller NRSRO's policies and procedures that establish its standards of training, experience, and competence for credit analysts did not require that at least one individual with an appropriate level of experience in performing credit analysis, but not less than three years, participates in the determination of a credit rating as Rule 17g-9(c)(2) requires. The Staff recommended that the NRSRO's policies and procedures include the requirement specified in Rule 17g-9(c)(2).

3. An NRSRO did not appear to verify when certain credit ratings should be discontinued and did not maintain accurate ratings per its policies and procedures.

A larger NRSRO prematurely discontinued certain ratings because it was improperly informed that the entire issuances had been redeemed or repaid. In fact, the issuances had only been partially redeemed or repaid. The NRSRO did not always reinstate the improperly discontinued ratings in a timely manner, and the reinstatement typically only

followed an inquiry from an outside party. The NRSRO also may have improperly discontinued additional ratings. The Staff recommended that the NRSRO improve certain internal controls to avoid the improper discontinuance of credit ratings and to promptly detect ratings that were erroneously discontinued.

4. An NRSRO did not appear to maintain adequate internal controls within a certain ratings group to detect long-standing errors and maintain accurate credit ratings.

A larger NRSRO made several errors relating to applying incorrect criteria for certain credit ratings. The NRSRO did not detect the errors for several years before correcting them, resulting in credit ratings outstanding that did not accurately reflect the credit risk during that time. Correcting the errors resulted in one rating downgrade and some rating upgrades. The Staff recommended that the NRSRO enhance its internal control structure to ensure that it accurately determines and maintains credit ratings, including controls designed to identify and correct inaccurate credit ratings, in accordance with its policies, procedures, and methodologies.

5. An NRSRO did not appear to have policies and procedures that were reasonably designed with respect to a prohibited conflict of interest.

A smaller NRSRO did not have reasonably designed policies and procedures to systematically determine whether entities that it rates are persons associated with the NRSRO. The Staff noted facts and circumstances that raised concerns about a potential control relationship between a particular rated entity and the NRSRO, and the NRSRO's

policies and procedures did not consider that entity's potential status as a person associated with the NRSRO. The Staff recommended that the NRSRO ensure that it does not issue or maintain ratings subject to the Rule 17g-5(c)(3) prohibited conflict of interest and conduct an analysis to ensure that its rating on such entity, or any other related entity, is not subject to that conflict of interest.

6. Certain NRSROs did not appear to comply with Rule 17g-7(a) information disclosure form requirements when taking certain credit rating actions.

A larger NRSRO did not require the publication of an information disclosure form for all rating actions as Rule 17g-7(a) requires. The NRSRO's policies and procedures did not require the production of such form upon the issuance of a private rating, and the NRSRO did not require the publication of the form for certain other ratings actions. The Staff recommended that the NRSRO adhere to the Rule 17g-7(a) disclosure requirements.

A smaller NRSRO did not provide an information disclosure form with respect to private credit ratings as Rule 17g-7(a) requires. The Staff recommended that the NRSRO comply with Rule 17g-7(a) disclosure requirements when taking private rating actions.

A smaller NRSRO's policies and procedures stated that a Rule 17g-7(a) information disclosure form is not required with respect to certain credit ratings in contravention of Rule 17g-7(a). The Staff recommended that the NRSRO's policies and procedures ensure compliance with the Rule 17g-7(a) disclosure requirements.

A smaller NRSRO published an information disclosure form for several rating actions that did not include information required by Rule 17g-7(a)(1)(ii)(A) and (B) the attestation required by Rule 17g-7(a)(1)(iii). Such form also did not specify the information that Rule 17g-7(a)(1)(ii)(L) requires. Second, the NRSRO published an information disclosure form for a credit rating downgrade that contained incorrect information that Rule 17g-7(a)(1)(ii)(J) requires. Third, the NRSRO did not publish an information disclosure form in accordance with Rule 17g-7(a), and its own policies and procedures, when downgrading a different credit rating. The Staff recommended that the NRSRO comply with the Rule 17g-7(a) disclosure requirements, and its own policies and procedures, when taking credit rating actions and have sufficient internal controls to ensure such compliance.

A smaller NRSRO produced certain credit ratings that appeared in substance to be expected credit ratings but failed to provide information disclosure forms for such ratings, as required by Rule 17g-7(a). The Staff recommended that the NRSRO produce information disclosure forms for expected or preliminary credit ratings, as Rule 17g-7(a) requires.

7. An NRSRO did not appear to have documented policies and procedures for utilizing the Rule 17g-5(a)(3)(iv) and Rule 17g-7(a)(3) exemptions.

A smaller NRSRO relied on the exemptions described in Rule 17g-5(a)(3)(iv) and Rule 17g-7(a)(3) for some transactions without having policies and procedures related to applying those exemptions. Without policies and procedures for

applying the exemptions, it is not clear how the NRSRO established the “reasonable basis” required for the exemptions to apply. The Staff recommended that the NRSRO establish policies and procedures related to applying the Rule 17g-5(a)(3)(iv) and Rule 17g-7(a)(3) exemptions.

8. Certain NRSROs appeared to file with the Commission an inaccurate or incomplete annual financial report that Rule 17g-3(a)(5) requires.

A smaller NRSRO filed with the Commission a report required by Rule 17g-3(a)(5) that did not include all required information. Since the report included certain entries that appeared to be underwriters, the report should have included more than 20 entries. However, the report listed only 20 entries and did not identify whether the NRSRO included each entry as an: (1) issuer or subscriber; or (2) obligor or underwriter. The Staff recommended that the NRSRO adhere to the requirements of Rule 17g-3(a)(5) and provide complete information when filing with the Commission the unaudited financial report required by the rule.

A smaller NRSRO filed with the Commission a report required by Rule 17g-3(a)(5) that contained inaccurate information. Such report did not include certain entities, including the NRSRO’s largest client for the fiscal year, and misstated the net revenue for certain listed entities. The Staff recommended that the NRSRO ensure the accuracy of Rule 17g-3(a)(5) financial reports filed with the Commission and file updated reports to correct any existing inaccuracies.

9. An NRSRO's internal controls with respect to using model inputs in the rating process appeared to contain weaknesses.

A larger NRSRO's analysts made certain model input errors for several CLO ratings, and secondary reviewers did not identify the errors. The Staff recommended that the NRSRO enhance its internal controls, including with respect to analytical training and the committee review process, to ensure the accuracy of model inputs used in determining ratings.

10. An NRSRO appeared to have weak internal controls with respect to conducting periodic compliance reviews of private credit ratings.

A larger NRSRO did not include private credit ratings in the sample of ratings actions that a compliance monitoring group used to test analyst adherence to the NRSRO's policies and procedures and that a credit policy control group used in quarterly random testing samples. The Staff recommended that the NRSRO enhance its internal controls with respect to conducting periodic compliance reviews of private credit ratings.

11. An NRSRO's internal controls appeared to contain weaknesses with respect to assigning certain corporate credit ratings.

A larger NRSRO did not have any documented policies and procedures governing its practices with respect to assigning a certain type of corporate credit ratings. The Staff recommended that the NRSRO enhance its internal controls with respect to assigning such ratings.

12. An NRSRO's internal controls appeared to contain weaknesses with respect to oversight of certain process documents related to determining credit ratings.

A larger NRSRO did not have a framework for ensuring that the NRSRO's compliance and control functions have a full inventory of, and proper oversight over, certain process documents which could be integral to the NRSRO's credit rating process and address certain regulatory requirements. The Staff recommended that the NRSRO evaluate its internal controls framework to ensure that it appropriately incorporates such documents.

13. An NRSRO's internal controls with respect to disclosing methodology adjustments appeared to be weak.

A smaller NRSRO incorrectly stated in a presale report certain methodology adjustments that the NRSRO made. The Staff recommended that the NRSRO enhance its internal controls, including policies and procedures, for disclosing methodology adjustments.

14. Regarding internal controls, certain NRSROs did not appear to follow requirements related to, or did not have, certain credit rating policies, procedures, or methodologies.

A smaller NRSRO determined credit ratings for securities issued after previously rated securities, but did not have written policies or procedures for determining those ratings. The Staff recommended that the NRSRO establish and maintain written policies and procedures for determining, and ensure that it properly documents, credit ratings for subsequently issued securities.

A smaller NRSRO's repeated and widespread use of exceptions memoranda effectively modified the NRSRO's established and published methodologies by replacing defined methodology processes with more subjective approaches that the NRSRO did not publish or subject to its internal controls for methodology updates as, respectively, required by Rule 17g-8(a)(4)(i) and Rule 17g-8(d)(1)(i) and (ii). The NRSRO also did not subject exceptions memoranda to its policies and procedures for methodology approval by the Board, consistent application of methodology changes, or disclosure of the methodology version used when taking a rating action, as required by, respectively, Rule 17g-8(a)(1), Rule 17g-8(a)(3)(i), and Rule 17g-7(a)(1)(ii)(B). The Staff recommended that the NRSRO use exceptions memoranda in accordance with its policies, procedures, and internal controls for modifying methodologies, or limit the use of exceptions memoranda so that such use does not effectively modify the NRSRO's methodologies and complies with its policies and procedures. The Staff also recommended that the NRSRO include in information disclosure forms all methodologies used to determine credit ratings, in accordance with Rule 17g-7(a)(1)(ii)(B).

A smaller NRSRO issued several private ratings without a documented methodology or sufficient documentation to permit an after-the-fact review or audit to analyze analyst adherence to the NRSRO's methodologies. The NRSRO also did not maintain in several rating files complete and current records documenting the established methodologies used to determine ratings as Rule 17g-2(a)(6) requires, and factors cited in the rating files as part of the rating rationale frequently did not appear in the applicable methodology. The Staff recommended that the NRSRO: (1) maintain a complete and current

record documenting its established credit rating procedures and methodologies; (2) enhance its internal control structure governing the implementation of and adherence to credit rating policies, procedures, and methodologies; and (3) consider adopting controls reasonably designed to ensure that credit analysts adhere to relevant procedures and methodologies and document the steps taken in developing ratings with sufficient detail to permit an after-the-fact review or internal audit of rating files to analyze whether an analyst adhered to the NRSRO's procedures and methodologies.

A smaller NRSRO used a newly developed credit rating tool to, for the first time, raise a credit rating for a client after the client provided a written complaint to the NRSRO about the original rating. The NRSRO did not refer to such rating tool in its credit rating procedures or methodologies, and it did not have documentation as to the analytical basis for using the tool, which did not comply with Rule 17g-2(a)(6). The NRSRO's Board also did not review or approve such rating tool in accordance with Rule 17g-8(a)(1) and the NRSRO's policies and procedures, and the NRSRO did not review, validate, and approve the tool as the NRSRO's policies and procedures require, resulting in non-compliance with Rule 17g-8(a)(2). The Staff recommended that the NRSRO: (1) make and retain a complete and current record documenting its established credit rating procedures and methodologies; (2) ensure that its Board approves the NRSRO's credit rating procedures and methodologies, including qualitative and quantitative data and models; and (3) ensure that the NRSRO develops and modifies its credit rating procedures and methodologies, including qualitative and quantitative data and models, in accordance with its policies and procedures.



A smaller NRSRO did not, in several instances, use the version of a model that was in effect on the relevant date, and several rating files included multiple model versions with no indication of which version was used to assess the rating. The NRSRO also used more than one model to determine certain corporate credit ratings, but did not have policies or procedures, training materials, or other written documentation to instruct analysts on which model to use for a particular corporate rating. The Staff recommended that the NRSRO establish, maintain, enforce, and document effective internal controls, including policies and procedures, to ensure that the NRSRO applies a current version of its applicable credit rating model when determining ratings and that the NRSRO uses the correct credit rating model to determine a particular corporate rating.

15. An NRSRO did not appear to comply with Rule 17g-5(c)(1) by issuing and maintaining credit ratings solicited by an entity that provided more than 10% of the NRSRO's total net revenue for a fiscal year, the NRSRO delayed recognizing revenue and filed inaccurate Rule 17g-3(a) financial reports in order to appear compliant with Rule 17g-5(c)(1), and the NRSRO did not have effective internal controls related to its revenue recognition practices.

A smaller NRSRO altered its billing practices to split the fee billing and revenue recognition for a client between two consecutive fiscal years and, as

a result, decrease the recognized net revenue from the client to below 10% of the NRSRO's total net revenue for the relevant fiscal year. The NRSRO's improper revenue deferral also resulted in the NRSRO filing incorrect information with the Commission in two annual Rule 17g-3(a) financial reports. The Staff recommended that the NRSRO: (1) establish, maintain, and enforce policies and procedures, including with respect to its revenue recognition practices, reasonably designed to ensure that it does not issue or maintain ratings subject to the Rule 17g-5(c)(1) prohibited conflict of interest; (2) maintain and enforce an effective internal control structure governing the implementation of policies and procedures to identify, acknowledge, and remediate potential violations of statutes or rules; and (3) file accurate Rule 17g-3(a) financial reports.

16. An NRSRO did not appear to promptly file a Form NRSRO registration update to designate a DCO.

A smaller NRSRO delayed more than one month after its DCO resigned and the firm designated a successor DCO before reflecting that change on Form NRSRO Item 4 and Exhibit 9. The Staff recommended that the NRSRO designate a DCO on Form NRSRO at all times and promptly amend any materially inaccurate information on Form NRSRO as Section 15E(b)(1) and Rule 17g-1(e) require.

17. An NRSRO did not appear to have effective internal controls governing the models it used to determine credit ratings, including model validation and review, and to ensure that the NRSRO's rating models are consistent with its rating procedures and methodologies, and the NRSRO's standards of training, experience, and competence for the individuals it employs to participate in ratings determination are not reasonably designed.

A smaller NRSRO's rating model appeared to contain formulas producing numerous erroneous results. The model also was inconsistent with the NRSRO's methodology related to random sampling and rating assumptions, and the model provided instructions that were inaccurate or incomplete and based on prior model versions. The model contained internal notes indicating that certain sections needed to be updated, and the model had base assumptions and formulas that were not adequately safeguarded from inadvertent errors. There were also inconsistencies between a model and relevant methodology provisions. The Staff recommended that the NRSRO enhance its internal controls governing its rating models and ensure that the models accurately reflect the NRSRO's rating procedures and methodologies. The Staff also recommended that the NRSRO maintain standards of training, experience, and competence for the individuals it employs to participate in the determination of credit ratings that sufficiently consider

the technical expertise necessary to understand any models and model inputs that are a part of the procedures and methodologies.

18. An NRSRO appeared to have weak internal controls governing the timely receipt of documents used to form the basis of a credit rating.

A smaller NRSRO issued credit ratings without receiving and retaining certain documentation used to form the basis of the rating and which was requested by the NRSRO's relevant rating committee. The Staff recommended that the NRSRO enhance its internal controls governing the timely receipt of documents used to form the basis of a credit rating, including documents that a rating committee requests.

19. An NRSRO did not appear to have policies and procedures to address its business continuity risks to ensure an effective internal control structure.

A smaller NRSRO did not have policies and procedures, to address its business continuity risks to ensure an effective internal control structure. The Staff recommended that the NRSRO establish, maintain, enforce, and document policies and procedures to address its business continuity risks and ensure an effective internal control structure governing the implementation of and adherence to policies, procedures, and methodologies for determining credit ratings.

20. An NRSRO did not appear to establish, maintain, enforce, and document an effective internal control structure and did not describe in the report that it filed with the Commission under Rule 17g-3(a)(7) the material weaknesses in its internal control structure governing the implementation of and adherence to credit rating policies, procedures, and methodologies.

A smaller NRSRO did not have effective internal controls related to: (1) compliance with Rule 17g-5(c)(8); (2) the implementation of and adherence to policies, procedures, and methodologies for determining credit ratings; (3) the receipt on a timely basis of documents used to form the basis of a credit rating, including documents requested by a rating committee; (4) analysts fully documenting their ratings analysis in internal records; (5) the NRSRO's Board approving credit rating procedures and methodologies; (6) developing credit rating procedures and methodologies in accordance with its policies and procedures; (7) the models used to determine credit ratings; (8) reasonable standards of training, experience, and competence of its analysts and adherence to its policies and procedures adopted to comply with the requirements in Rule 17g-9(a) and Rule 17g-9(c)(1); and (9) ensuring the establishment, maintenance, enforcement, and documentation of policies and procedures to address business continuity risks. Notwithstanding such internal control weaknesses, the NRSRO filed with the Commission an internal controls report under Rule 17g-3(a)(7) concluding that its internal control structure was effective as of the relevant fiscal year end and did not describe any material weaknesses in its internal control structure. The report was accompanied by a signed statement of the NRSRO's CEO to the effect that,

to the individual's best knowledge, the report fairly presents, in all material respects, an assessment by management of the effectiveness of the internal control structure during the fiscal year. The Staff recommended that the NRSRO: (1) establish, maintain, enforce, and document an effective internal control structure governing the implementation of and adherence to credit rating policies, procedures, and methodologies; (2) identify any material weaknesses in its internal control structure and include in its annual reports under Rule 17g-3(a)(7) a description of each such material weakness identified during the fiscal year and a description, if applicable, of how the NRSRO addressed each identified material weakness.

## E. REVIEW AREA: GOVERNANCE

The Staff interviewed each NRSRO's Board, including independent directors. The Staff also reviewed minutes and other documentation related to the activities of each NRSRO's Board.

The Staff's essential finding relating to corporate governance and compliance with Section 15E(t) is as follows:

1. An NRSRO did not appear to adhere to the Rule 17g-8(a)(1) requirements related to Board approval of procedures used to determine credit ratings.

A larger NRSRO's Board did not approve certain procedures the NRSRO uses to determine credit ratings, such as procedures related to rating committees and rating withdrawal procedures. The Staff recommended that the NRSRO adhere to the Rule 17g-8(a)(1) requirements related to the approval of procedures used to determine credit ratings.

## F. REVIEW AREA: DCO ACTIVITIES

Each NRSRO has designated an individual to serve as the NRSRO's DCO. The Staff reviewed the role and activities of each NRSRO's DCO and interviewed each DCO. Much of the content of these reviews and interviews relates to other Review Areas. As such, any Staff findings and recommendations related to an NRSRO's DCO activities are addressed in other sections of this Report.<sup>41</sup>

## G. REVIEW AREA: COMPLAINTS

All of the NRSROs have written policies and procedures to address complaints generally. The Staff's essential finding regarding complaints is as follows:

1. An NRSRO appeared to have inconsistent policies and procedures concerning complaints.

A smaller NRSRO's policies and procedures contained inconsistencies related to the circumstances under which a complaint must be reported to senior management and/or the Board and inconsistencies in whether analysts are required to distinguish between normal course conversations with, and a complaint by, a rated entity. Also, for a complaint to be registered, the NRSRO's policies and procedures required analysts to instruct outside parties to repeat their complaint to a compliance officer. The Staff recommended that the NRSRO revise its complaints policies and procedures so that they are consistent and so that the NRSRO adequately addresses all complaints.

## H. REVIEW AREA: POST-EMPLOYMENT

The Staff reviewed whether each NRSRO's "look-back" policies and procedures satisfy the applicable statutory and rule requirements. The Staff's essential findings regarding NRSROs' look-back policies and procedures are as follows:

1. An NRSRO's look-back review policies and procedures did not appear to address all of the required Rule 17g-7(a)(1)(ii)(J)(3) disclosures.

A smaller NRSRO's policies and procedures did not address the requirements to disclose, for rating revisions and affirmations, a description of the impact a conflict had on the prior rating actions and, for rating affirmations, an explanation of why no rating action was taken to revise the credit rating notwithstanding the presence of the conflict. The Staff recommended that the NRSRO ensure that its look-back review policies and procedures are consistent with Rule 17g-7(a)(1)(ii)(J)(3).

2. An NRSRO did not appear to enforce its policies and procedures when completing look-back reviews.

A larger NRSRO generated reports incorrectly stating that NRSRO personnel completed look-back reviews without referring the matters for further review to a certain ratings review group and/or officer as the NRSRO's relevant policies and procedures require. The Staff also observed several instances where the NRSRO did not complete look-back reviews within the time period that such policies and procedures require. The Staff recommended that the NRSRO enforce its policies and procedures for conducting look-back reviews and enhance its internal controls to ensure that it conducts and documents look-back reviews in accordance with those policies and procedures.

---

41 See, e.g., Section IV.D.16.

## V. Conclusion

This Report summarizes the essential findings and recommendations for the NRSROs. In future examinations, the Staff will continue to assess the NRSROs' responses to recommendations from the 2020 Section 15E examinations. The Staff will continue to evaluate its risk assessment process

to review compliance with laws and regulations and to identify emerging risk areas. The Staff will also continue to evaluate examination techniques to assess and test the NRSROs' compliance with applicable laws and rules.





U.S. SECURITIES AND EXCHANGE COMMISSION

*Washington, DC*