Testimony on the Fiscal Year 2018 Budget Request
of the U.S. Securities and Exchange Commission
by
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Before the
Subcommittee on Financial Services and General Government
Committee on Appropriations
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Chairwoman Capito, Ranking Member Coons, and Members of the Committee:

Thank you for inviting me to testify today, my first appearance before this subcommittee, in support of the President's fiscal year 2018 budget request for the Securities and Exchange Commission (SEC). Before I begin, I would like to congratulate you, Madam Chairwoman, on your new role as head of this subcommittee. I would also like to express my appreciation to the members of this subcommittee for your support of the SEC's important mission in previous budget cycles. Your support has been crucial to the agency's success, and I look forward to working with each of you on the agency's FY 2018 request.

I appreciate the opportunity to discuss with you how the SEC plans to use the $1.602 billion requested for FY 2018. [1] This level, which is essentially the same as our FY 2017 appropriation, will provide the funding necessary for the SEC to continue meeting our important tripartite mission – protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. The requested FY18 budget will provide the agency with the resources necessary to maintain our oversight of the world's safest, deepest, and most liquid capital markets while continuing our efforts to further promote economic growth and protect American investors.

Prior to my confirmation by the U.S. Senate last month, I spent more than two decades in private practice as a securities lawyer. During this time, I had the privilege and opportunity to engage with members of the SEC's exceptional staff on matters ranging from landmark capital-raising IPOs to important matters during the 2008 financial crisis and its aftermath. Now that I have joined the SEC, my experience during my first six weeks has strongly reinforced my view that our talented and committed staff is fundamental to the agency's effectiveness. The staff clearly shares the common belief that we serve the American people best when we promote an environment conducive to capital formation while striving to ensure that our markets and our investors remain well protected.

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[1] The views expressed in this testimony are those of the Chairman of the Securities and Exchange Commission and do not necessarily represent the views of the President, the full Commission, or any Commissioner. In accordance with past practice, the budget justification of the agency was submitted by the Chairman and was not voted on by the full Commission.

The investing public, and Americans more generally, will receive significant value in return for the SEC's $1.602 billion budget. With a workforce of about 4,600 staff, the SEC oversees (1) approximately $75 trillion in securities trading annually on U.S. equity markets; (2) the disclosures of 8,800 public companies including 77 of the world's 100 largest companies; and (3) the activities of over 26,000 registered market participants including investment advisers, mutual funds, exchange traded funds, broker-dealers, and transfer agents. We also engage and interact with the investing public on a daily basis, from our investor education programs and alerts to our SEC.gov portal where, on a typical day, investors and other market participants view or download more than 50 million disclosure documents filed on EDGAR.

Additionally, as this subcommittee is aware, the SEC's funding is deficit-neutral. Whatever amount Congress appropriates to the agency will, by law, be fully offset by transaction fees, and will not impact the deficit or the funding available for other agencies. The current transaction fee rate is just over two cents for every $1,000 in covered securities sales.

The SEC also has been a net contributor to the U.S. Treasury in other ways that are not directly related to our appropriations. By law, companies pay a fee to the SEC at the time they register securities for sale. For FY 2018, the fee rate will be set at a level sufficient to collect $620 million. A small portion of these collections – $50 million – will be put into the Reserve Fund, which the agency devotes to information technology improvements, while the remaining $570 million will be deposited in the general fund of the U.S. Treasury

The FY 2018 request seeks to solidify and maintain SEC progress in key areas. I will now discuss how we propose to use the resources entrusted to us in these areas.

Effective Agency Management

As the agency's senior responsible executive, I am committed to ensuring that the SEC is not only a good steward of the funds that you entrust to our use, but also maximizes the value of those funds to the American investor. I have devoted a significant portion of my first six weeks at the SEC developing a deeper understanding of the agency's internal operations and management, including how the agency's divisions and offices interact with investors, markets, and companies. For FY 2018, the agency will continue to work toward more efficient internal operations, including through automation, streamlined internal processes, and better use of data. For example, we will continue to develop and leverage our capabilities for risk analysis to inform our decision making, including how most efficiently to use staff resources. Given the pace of change in today's capital markets, it is more important than ever that agency operations be nimble so that we can direct resources where they are needed most.

Protecting Investors

The SEC is the first line of defense safeguarding millions of investors, and as Chairman I am committed to protecting and enhancing the most vibrant markets in the world. The FY 2018 budget will enable the SEC to have a robust program to monitor, investigate, and enforce compliance with the federal securities laws. Under our request, more than 50% of the requested resources will be invested in the agency's enforcement and examination programs. These resources enable the agency to root out fraud and wrongdoing in our financial system. They also allow us to evaluate broker-dealers, investment advisers, and other regulated entities that interact with investors for compliance with investor protection rules.

This request will enable the SEC to continue the Division of Enforcement's vigorous efforts to investigate and bring civil charges against violators of the federal securities laws. Successful enforcement actions impose meaningful sanctions on securities law violators, deter future wrongdoing, and result in disgorgement of ill-gotten gains that can be returned to harmed investors. The SEC's enforcement program is led by co-directors Stephanie Avakian, who served as the Enforcement Division's Deputy Director for the past three years, and Steve Peikin, an experienced former Assistant U.S. Attorney who also served as chief of the securities fraud task force for the Southern District of New York. In FY 2018, under their leadership, the SEC will continue to focus resources on key areas where misconduct harms investors, undermines confidence, and impairs market integrity. This includes such critical areas as retail investor fraud and investment professional misconduct, insider trading, market manipulation, and accounting fraud.

Additionally, through our work to enforce the federal securities laws, the Commission regularly obtains orders requiring securities violators to disgorge illegal profits and pay penalties. In FY 2016, these amounts totaled more than $4 billion. Our priority is to distribute these funds to harmed investors wherever reasonably possible.

The request will also enable the SEC's national examination program, led by the Office of Compliance Inspections and Examinations (OCIE), to focus on conducting risk-based examinations of registered entities, including broker-dealers, investment advisers, investment companies, municipal advisors, national securities exchanges, SROs, transfer agents, and clearing agencies to evaluate their compliance with applicable regulatory requirements. This is an example of an area where flexibility is necessary. Registered investment advisers now manage more than $70 trillion in assets, which is more than three times 2001 levels. In 2016, the SEC reassigned approximately 100 staff to the national examination program's investment adviser examination unit. As a result of this shift and the introduction of efficiencies, the SEC is on track to deliver a 20% increase in the number of investment adviser examinations in the current fiscal year. For FY 2018, OCIE anticipates being able to deliver a further 5% increase in the number of investment adviser exams. I expect that for at least the next several years we will need to do more each year to increase the agency's examination coverage of investment advisers in light of continuing changes in the markets.

In the coming fiscal year, OCIE plans to increase the number of inspections to assess compliance with Commission rules designed to ensure that the cybersecurity infrastructure that is critical to the U.S. securities markets is secure and resilient. OCIE also will continue to bolster its risk-based approach to exam selection through the continued development of data analytics tools. These tools help us identify activities that may warrant further examination and efficiently focus our examination efforts.

Facilitating Capital Formation

The SEC performs a critical function for companies seeking to raise capital to grow their businesses. The SEC's efforts in this area contribute to job growth and an expanding economy, as well as help ensure that investors – including Main Street Americans – have access to a broad range of investment choices. The Commission's rules seek to facilitate offerings by large and small companies engaged in all manner of commerce, while also protecting investors and maintaining confidence in the U.S. capital markets.

In recent years, the SEC has carried out this responsibility through a number of key initiatives, including most recently in response to the JOBS Act and FAST Act, with a particular emphasis on expanded capital-raising opportunities for smaller businesses. While much progress has been made, I believe the SEC can and should strive to do more to enhance capital formation particularly (1) for small and emerging companies and (2) in our public capital markets. U.S. capital markets remain the envy of the world, but fewer companies are choosing to enter the public capital markets than in the past, and, as a result, investment opportunities for Main Street investors are more limited. Your support for our FY 2018 budget request will enable the staff to develop and present to the Commission rulemaking initiatives aimed at promoting firms' access to capital markets to generate economic growth while fostering important investor protections. I recently named a new Director of the Division of Corporation Finance, Bill Hinman, who is leading these efforts and working with the staff to develop proposals for consideration. Bill is a recognized leader with more than three decades of experience advising companies of all sizes in capital-raising and acquisitions. We share the view that there is no better architecture for fostering capital formation, providing investment opportunities, and protecting investors than our public company disclosure-based system.

The FY 2018 request also will enable the agency to devote resources to staff the new Office of the Advocate for Small Business Capital Formation. In the near future, the SEC plans to commence a nationwide recruitment effort to identify and hire a Small Business Capital Formation Advocate who will serve as the head of this office. This Office will provide assistance to small businesses and small business investors, conduct outreach to better understand their concerns, and recommend to the Commission ways that the regulatory environment might be improved. Once the Advocate is on board, your support for our budget request will enable the agency to staff this office in FY 2018.

Leveraging Technology

Our capital markets have become increasingly complex, with advances in technology driving significant changes, including (1) the way that companies solicit investors and sell their securities to the public, (2) the channels through which individuals receive investment advice, and (3) the manner in which institutional and retail investors transact on our markets. Indeed, technology has contributed to changes in the fundamental structures of markets themselves.

The FY 2018 budget request will help the SEC to stay on top of these critical developments and promote our mission in an evolving landscape. The SEC has made progress in modernizing our technology systems, with the benefits of increasing our use of data analytics, increasing program effectiveness, and streamlining operations. The $240 million that the SEC plans to spend on information technology in FY 2018 is quite modest, by way of comparison, to the amounts that the major Wall Street firms spend on their own information technology systems. For example, in 2016 one large financial institution alone spent more than $9.5 billion on technology firm-wide, with $3 billion of that dedicated toward new initiatives. Another large financial institution spent $6.6 billion in 2016 on technology initiatives.

The FY 2018 budget request relies on continued access to the Reserve Fund. These funds, which have been dedicated to technology, have been important in our efforts to keep pace with the rapid technology advancements occurring in areas regulated by the SEC, as well as meeting emerging cybersecurity challenges. The continued availability of the Reserve Fund historically has allowed us to commit to critical, long-term technology initiatives that otherwise may have been more difficult for us to execute.

Key technology initiatives that will be supported with our FY 2018 request include:

- Expanding data analytics tools to integrate and analyze the large and ever-increasing volume of financial data we receive, enabling us to detect potential fraud or suspicious behavior earlier and allocate resources more effectively;
- Improving our examination program through risk assessment and surveillance tools that help identify high-risk areas for further examination;
- Increasing investments in cybersecurity, including strengthening our capabilities for monitoring and avoiding advanced persistent threats;
- Enhancing additional systems that support our enforcement program, including applying sophisticated algorithms that foster the detection of potential insider trading and manipulation;
- Improving access and usefulness of information available to the public through our EDGAR electronic filing system; and
- Investing further in business processes automation and enhancements including the retirement of legacy systems.

Leasing

As this subcommittee is aware, the existing SEC Washington, DC headquarters leases expire in the next few years. In addition to the $1.602 billion request for SEC operations, the budget request includes the $245 million that the General Services Administration (GSA) requires in FY 2018 in order to commence a competitive procurement for a successor headquarters lease. None of these funds would be used for SEC operations. Rather, these funds represent potential expenses for build-out costs, IT infrastructure, security equipment, and fees if the outcome of GSA's competitive acquisition process should require the SEC to relocate. To provide the subcommittee with assurances that the funds will not be used for other purposes, the proposed appropriations language submitted as part of the budget request provides a mechanism whereby these funds would be refunded to fee payers in the event they are not needed for relocation.

Conclusion

Thank you again for the opportunity to present the President's FY 2018 budget request. I deeply appreciate the President's and Congress' continued support of the agency. I look forward to working with the subcommittee to ensure that the SEC has the resources needed to fulfill our important responsibilities to investors and our capital markets. I welcome your comment and would be happy to answer any questions.