Testimony of Gary Gensler
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U.S. Senate Appropriations Committee
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Good afternoon, Chair Van Hollen, Ranking Member Hagerty, and members of the Subcommittee. Thank you for inviting me to testify today on the Securities and Exchange Commission's Fiscal Year (FY) 2025 budget request. As is customary, I'd like to note that my views are my own as Chair of the SEC, and I am not speaking on behalf of my fellow Commissioners or the SEC staff.

The SEC at 90 Years

At the SEC, we had our 90th birthday just one week ago.

After the 1929 market crash, President Franklin Roosevelt signed the first of the federal securities laws in 1933. He followed a year later with the passage of the Securities Exchange Act—making June 6, 1934, our birthday at the SEC.

The SEC was created to ensure that the markets worked free of fraud and manipulation—and that investment advisers carried their duties to the clients they advised.

Congress and Roosevelt understood how important our capital markets are to investors, issuers, and more broadly our economy. Today, the $110-plus trillion U.S. capital markets are the deepest, most liquid in the world. At 40 percent of the world's capital markets,[1] they outpace our roughly 24 percent of the world's economy.[2] The U.S. capital markets also play an integral role in the dollar's dominance.[3]

We cannot, however, take this leadership for granted.

The SEC is a remarkable agency. We serve investors building for a better future and issuers raising money to fund innovation, while overseeing the capital markets where they meet. The essence of this is captured in our three-part mission to protect investors, facilitate capital formation, and maintain fair, orderly, and efficient markets.

The SEC is the cop on the beat watching out for the investing public and issuers. The dedicated staff of this agency does extraordinary work with limited resources.

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[1] *See* Securities Industry and Financial Markets Association, "2023 Capital Markets Fact Book" (July 2023), Page 7, *available at* https://www.sifma.org/wp-content/uploads/2022/07/2023-SIFMA-Capital-Markets-Factbook.pdf.
[2] *See* Carol Bertaut et al., "The International Role of the U.S. Dollar" (June 23, 2023), Figure 1, *available at* https://www.federalreserve.gov/econres/notes/feds-notes/the-international-role-of-the-us-dollar-post-covid-edition-20230623.html.
[3] *See* Gary Gensler, "Exorbitant Privilege: Responsibilities and Challenges" (Dec. 4, 2023), *available at* https://www.sec.gov/news/speech/gensler-prepared-remarks-council-foreign-relations-12042023.

Growth and Change in the Markets

Our limited resources contrast against the tremendous growth and change in our markets.

The U.S. capital markets benefit from significant engagement from everyday investors. About 58 percent of U.S. households own stocks, up from 52 percent in 2016.[4] More than half of American households, representing nearly 121 million individual investors, own registered funds.[5]

The U.S. has long benefitted from robust competition between nonbanks and banks. The Commission plays a key role in overseeing many aspects of the nonbank sector. Each of the registered funds and private funds sectors surpasses the size of the banking sector.

Further, U.S. debt capital markets facilitate 75 percent of debt financing of non-financial corporations. In Europe, the U.K., and Asia, only 12-29 percent is raised in capital markets.[6]

Today, more than 15,400 registered investment advisers advise 57 million clients.[7] This includes advising on more than $32 trillion in registered funds,[8] $30 trillion in private funds,[9] and nearly $50 trillion in separately managed accounts.[10]

At the end of 2016, by comparison, 12,000 registered investment advisers advised 43 million clients.[11]

Let me put this in context. The entire U.S. banking system is $23 trillion.[12] Thus, the capital markets are nearly five times the size of our banking sector.

The Commission has a role in both public and private markets, each of which offer investors and companies opportunities. Our public markets have approximately 7,400 actively reporting issuers, of which more than 4,000 companies list on U.S. exchanges.

We now oversee approximately 40,000 entities—including more than 13,000 registered funds, more than 15,400 investment advisers, more than 3,300 broker-dealers, 24 national securities exchanges, 103 alternative trading systems, 10 credit rating agencies, 33 self-regulatory organizations (SROs), and six active registered clearing agencies, among other external entities.

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[4] *See* Federal Reserve Board, "Changes in U.S. Family Finances from 2019 to 2022" (October 2023), Page 19, *available at* https://www.federalreserve.gov/publications/files/scf23.pdf.

[5] *See* ICI, "2024 Investment Company Fact Book," Page 2, *available at* https://www.icifactbook.org/pdf/2024-factbook.pdf.

[6] *See* SIFMA, "2023 Capital Markets Fact Book" (July 2023), Page 6, *available at* https://www.sifma.org/wp-content/uploads/2022/07/2023-SIFMA-Capital-Markets-Factbook.pdf.

[7] *See* Investment Adviser Statistics (Tables 1.1 and 3.2), *available at* https://www.sec.gov/files/im-investment-adviser-statistics-20240515.pdf.

[8] *See* Securities and Exchange Commission, "Registered Fund Statistics" (Table 2.1), *available at* https://www.sec.gov/files/im-registered-fund-statistics-20240418.pdf, *See also* Securities and Exchange Commission, "Money Market Fund Statistics" Table 2), *available at* https://www.sec.gov/files/investment/mmf-statistics-2024-03.pdf.

[9] Latest numbers are $23.557 trillion reported by RIAs + $6.954 trillion reported by ERAs = $30.511 trillion in private fund gross assets reported on Form ADV, Section 5 of Investment Adviser Statistics.

[10] ADV statistics report (Table 4.1).

[11] *See* Investment Adviser Statistics (Tables 3.2 and 2.1), *available here* https://www.sec.gov/files/im-investment-adviser-statistics-20240515.pdf.

[12] *See* Board of Governors of the Federal Reserve System, "Assets and Liabilities of Commercial Banks in the United States," *available at* https://www.federalreserve.gov/releases/h8/current/default.htm. Total assets of approximately $23 trillion as of week ending May 29, 2024 (Table 2, Line 33).

The SEC oversees the Public Company Accounting Oversight Board (PCAOB), the Financial Industry Regulatory Authority (FINRA), the Municipal Securities Rulemaking Board (MSRB), the Securities Investor Protection Corporation (SIPC), and the Financial Accounting Standards Board (FASB).

Technology is rapidly transforming markets and business models. These changes range from electronic trading and the cloud to artificial intelligence and predictive data analytics, just to name a few. There has been dynamic change in communications to and among investors, from Reddit forums to celebrity influencers. Further, we've seen the Wild West of the crypto markets, rife with noncompliance, where investors have put hard-earned assets at risk in a highly speculative asset class. Many of those investments have disappeared after a crypto platform or service went under due to fraud or mismanagement, leaving investors in line at bankruptcy court.

Today, there are more than 54 million separately managed accounts; in 2018, there were 37 million.[13] Transaction volume in listed equities has doubled in the last five years and tripled in the last 17 years.[14]

Such growth and rapid change also mean more possibility for wrongdoing. We've seen the number of tips, complaints, and referrals we get at the SEC climb from about 16,700 in 2019 to more than 40,000 in 2023. As the cop on the beat, we must be able to meet the match of bad actors.

Despite the increasing workload, the SEC staff again has rated us among the best places to work in the federal government; this year we ranked third among midsized agencies.[15] Our attrition this fiscal year is at historically low levels, so far averaging around 3 percent at an annualized rate.

Budget Request

I am pleased to support the President's FY 2025 request of $2.594 billion for SEC operations in support of 5,621 positions and 5,073 full-time equivalents (FTEs). In addition, we've requested $8.4 million for needs supporting General Services Administration (GSA)-led real estate projects. As this Committee considers this request, it's worth noting the SEC's funding is deficit-neutral; our appropriations are offset by transaction fees.

In the face of significant growth in registrants, complexity, and individual investor engagement in markets, one may have thought that our agency would have grown over the last eight years. Unfortunately, the reverse was the case—the SEC actually shrank between 2016 and 2022. With Congress's help, we were authorized to hire 400 people in FY 2023 to bring us just modestly above where we were in 2016.

While our funding was kept flat for FY 2024, the growth in market activity was anything but flat. We are losing pace with the ever-increasing scale of the capital markets we oversee.

Allow me to put flat funding into the context of the SEC's overall budget. Approximately 70 percent of our budget is for staff, about 15 percent is for technology, 5 percent is for facilities, and 10 percent is for everything else. This agency doesn't give out grants or other programmatic

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[13] Investment Adviser Statistics (Table 3.2).

[14] *See* CBOE "Historical Market Volume Data," *available at* https://www.cboe.com/us/equities/market_statistics/historical_market_volume/.

[15] *See* Partnership for Public Service, "2023 Best Places to Work in the Federal Government" *available at* https://bestplacestowork.org/rankings/detail/?c=SE00.

money. Thus, given year-over-year price and wage increases, flat funding means cutting staffing, technology, and real estate.

At the start of FY 2024, we paused on nearly all job postings and backfilling for departing staff. As a result, we are currently more than 300 positions below the level authorized by Congress for both FY 2023 and FY 2024.

While the agency's rules get outsized attention in the media, it's worthwhile noting that the vast majority of the SEC's staff works on day-to-day oversight of the markets and responding to public and registrant inquiries. We collectively review tens of thousands of filings a year.[16] More than 10 percent of the agency reviews disclosure documents, more than half of the agency is within the Divisions of Enforcement and Examinations, and 13 percent of the agency is in support operations. Shrinking any of these efforts will inevitably mean that the agency will be less responsive to the public and less able to protect the public.

As it relates to technology, we cut IT spending by roughly a quarter in FY 2024. These reductions in technology spending will delay transitions to the cloud, investments in data analytics, modernizations of key systems, and important enhancements to our technology infrastructure. As a result, we are scaling back our technology programs at a time when the markets we oversee are growing more technologically complex with each passing year.

As it relates to facilities, in fiscal years 2021 to 2024, we will have shed 275,000 usable square feet from the SEC's real estate footprint. This includes vacating one of our three headquarters buildings in Washington, D.C., at the end of FY 2023, resulting in approximately $14 million per year in savings. Furthermore, the SEC announced it will close our Salt Lake City office early in FY 2025.

As it relates to other expenses, we also have reduced spending on contracts that support mission critical efforts. An example includes our ability to update and improve the Division of Enforcement's document management and review systems—tools that are critical to reviewing massive document productions during the course of investigations and litigations.

If we are again flat funded, there will be significant further implications on our ability to monitor the markets, maintain SEC programs, adequately resource technology, and meet the agency's critical mission.

Without additional resources, the oversight of markets is at risk. Our ability to find bad actors is at risk. Our responsiveness to market participants is at risk. American capital formation and innovation are at risk as issuers will have to wait longer to hear from us.

The SEC currently has 30 Divisions and Offices across our 11 regional locations[17] and Washington, D.C., headquarters. I'm summarizing below the budget requests for our six Divisions

[16] *See* Securities and Exchange Commission, "Fiscal Year 2025 Congressional Budget Justification" (Tables on Pages 24-33), *available a*t https://www.sec.gov/files/fy-2025-congressional-budget-justification.pdf.
[17] When the Salt Lake City office closes in FY 2025, there will be 10 regional offices.

and will briefly touch on technology and real estate. For further details as well as a review of the other offices of the SEC, please reference the FY 2025 Congressional Budget Justification.[18]

Enforcement and Examinations

As I mentioned, the Divisions of Enforcement and Examinations account for more than half of the SEC's staff. Without examination of our registrants and enforcement of rules and laws when they are broken, we can't instill the trust necessary for our markets to thrive. Stamping out fraud, manipulation, and abuse lowers risk in the system. It means that fewer bad actors will get away with misconduct. It protects investors and reduces the cost of capital. The whole economy benefits from that.

Division of Enforcement

As I noted, in FY 2023, the SEC received more than 40,000 separate tips, complaints, and referrals from whistleblowers and others, a 13 percent increase over FY 2022.

Even with limited resources, the Division brought 784 enforcement actions in FY 2023, a three percent increase over fiscal year 2022. When looking only at the 501 original, or "standalone," enforcement actions we file—whether settled or litigated—it's an 8 percent increase over the prior fiscal year. Our actions resulted in orders for $4.9 billion in penalties and disgorgement. The SEC distributed $930 million to harmed investors in FY 2023.[19]

Meanwhile, rapid technological innovation in the financial markets has led to misconduct in emerging and new areas, not least in the crypto space. Further, the complexity of the frauds we are investigating—and the sophistication of the fraudsters—is ever increasing.

Addressing this requires new tools, expertise, and resources. When the cars become faster and the highways more congested, you want more cops, not fewer.

This year's request would grow the team by 27 FTEs to 1,447. The additional staff will provide the Division with more capacity to meet these challenges, investigate misconduct on a larger scale, accelerate the pace of enforcement investigations to resolution, and represent the Commission and protect investors in increasingly complex litigations.

Division of Examinations

The Division of Examinations serves a critical role in helping to ensure firms comply with the law.

In FY 2023, we conducted more than 3,100 examinations across our tens of thousands of registrants. From investment advisers to broker-dealers to exchanges, the Division helps ensure that registrants are following their legal obligations to customers and clients, including seniors and other vulnerable investors.

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[18] *See* Securities and Exchange Commission, "Fiscal Year 2025 Congressional Budget Justification" *available a*t https://www.sec.gov/files/fy-2025-congressional-budget-justification.pdf.

[19] *See* Securities and Exchange Commission, SEC Announces Enforcement Results for Fiscal Year 2023" (Nov. 14, 2023), *available at* https://www.sec.gov/news/press-release/2023-234.

Importantly, the Division is the first line of defense for the investing public relying on investment advisers. It is responsible for examining and overseeing a growing registrant population, including more than 15,400 investment advisers and approximately 800 investment company complexes.

Further, we work in parallel with SROs to examine the more than 3,300 broker-dealers with roughly 150,000 branch offices.

This stretches thin the limited resources of the Division.

Our FY 2025 request would help the Division grow 20 FTE to reach 1,156 FTEs.

These additional resources are the minimum just for the Division to stay abreast of the growth in market participants and make key investments to help protect the American public regarding emerging cyber and information security risks.

Programmatic Divisions

Next, I will turn to our three programmatic Divisions.

Corporation Finance

The Division of Corporation Finance oversees the disclosures of new issuers and public companies so that investors can make informed investment decisions. It's important for investors to receive useful, timely, and accurate disclosure. It's important that issuers can get timely feedback on their registration statements and other filings. Today, there are more than 7,400 active reporting companies, up from about 6,800 in 2020.

In FY 2023, the Division reviewed the filings of more than 3,700 reporting companies and new issuers.[20]

The 2025 budget request would grow the team to 447 FTEs. With this increase of 16 FTEs, the Division would still be 30 FTEs under the 2016 level.

Additional resources would allow the Division to serve investors and issuers more ably as markets grow and evolve.

Investment Management

The Division of Investment Management oversees the 13,000 registered funds and 15,400 investment advisers that steward nest eggs for 57 million clients. At the end of 2016, by comparison, 12,000 registered investment advisers advised 43 million clients.

As noted earlier, both the registered funds market and the private funds market are each bigger than the banking sector, and we've seen significant growth in both. More than half of American households, representing more than 115 million individual investors, own registered funds. When I started on Wall Street 45 years ago, household penetration was less than 6 percent.

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[20] *See* Securities and Exchange Commission, "Fiscal Year 2025 Congressional Budget Justification" (Page 24), *available a*t https://www.sec.gov/files/fy-2025-congressional-budget-justification.pdf.

In FY 2023, the Division reviewed more than 4,200 annual and periodic reports as well as more than 8,600 total portfolios and insurance contracts.[21]

Given this growth in the markets, we've asked to grow the division by nine FTEs to a total of 237.

Trading and Markets

The Division of Trading and Markets serves on the front line for maintaining fair, orderly, and efficient markets. Market monitoring and supervision are essential parts of the Division's activity—especially during times of market stress.

The Division oversees 24 national securities exchanges, 103 alternative trading systems, more than 3,300 broker-dealers, 51 security-based swap dealers, six active registered clearing agencies, and more than 200 transfer agents, among other entities.

In FY 2023, the Division responded to more than 16,000 public inquiries. In FY 2023, the Division also reviewed more than 660 filings of broker-dealers as well as more than 1,700 SRO proposed rule changes and advance notices.[22]

As market centers, broker-dealers, and clearance and settlement systems continue to grow in size and activity, so does the need for robust supervision of these entities and intermediaries.

In FY 2025, we've requested 14 additional FTEs, for a total of 293, to support this important function of the Commission.

Economic and Risk Analysis

Economic analysis is critical to all of the agency's work. The Division of Economic and Risk Analysis provides impartial economic analyses that consider the costs and benefits of our rules as well as their effects on efficiency, competition, and capital formation.

We get feedback from the public on these economic analyses, which benefits our rulemaking. Our economic analyses also benefit the markets broadly because making data available creates a public good.

In the Enforcement context, the Division's staff is instrumental in assisting Enforcement staff with identifying potential wrongdoing, assessing ill-gotten gains, and working to return funds to harmed investors.

DERA assists the Commission in its efforts to identify, analyze, and respond to economic and market issues, including those related to new financial products, investment and trading strategies, systemic risk, and fraud.

[21] *See* Securities and Exchange Commission, "Fiscal Year 2025 Congressional Budget Justification" (Page 32), *available at* https://www.sec.gov/files/fy-2025-congressional-budget-justification.pdf.
[22] *See* Securities and Exchange Commission, "Fiscal Year 2025 Congressional Budget Justification" (Pages 27 and 28, filings with regard to broker-dealers filing form 17-H, risk supervision of alternative net capital broker-dealers, and over-the-counter derivatives) *available at* https://www.sec.gov/files/fy-2025-congressional-budget-justification.pdf.

Given the critical nature of the Division's work, for FY 2025, we've asked for funding to support 196 FTEs total, just one additional FTE.

Additional Matters

Technology

Technology and data continue to fuel rapid change in our markets. The rise of big data, algorithms, and AI in our markets has put more pressure than ever on the SEC to keep pace. For example, the data processing by the Division of Enforcement alone has grown 20 percent year over year for the last three years. Cyber threats represent an ever-increasing threat to the agency and our markets alike.

Yet, as I mentioned, the SEC is cutting its IT program by about a quarter this fiscal year because of budget pressures. We have had to delay technology upgrades, some migrations to the cloud, and enhancements in data analytics. For example, we cut back significantly our investments in Enforcement case management; Enforcement, Exams, and DERA analytics capabilities; implementation of the government-wide Zero Trust security program; and the workflow system supporting the Division of Corporation Finance's disclosure review program.

Thus, we have requested $457 million for information technology. This would help support the Commission's cybersecurity, migration to the cloud, modernization of key systems like EDGAR, implementation of the Financial Data Transparency Act, and other critical IT needs. This request assumes full use of an additional $50 million from the SEC Reserve Fund for multi-year IT projects and programs. To put these figures in context, this spending is dwarfed by what some of the biggest market participants spend in a month on technology.

Facilities

We currently have offices in Washington, D.C., and 11 regional offices. The total facilities cost in FY 2024 is only 5 percent of our budget. We continue to work with GSA to manage it prudently, significantly reducing our space footprint as I described earlier.

Part of the SEC's FY 2025 request is $8.4 million for lease procurements managed by GSA. This amount represents the additional funds needed for GSA's recompete of the lease for the SEC's Chicago Regional Office.

We will continue looking for opportunities to achieve cost savings across our leasing footprint in the years to come.

Conclusion

The U.S. capital markets are the deepest, most liquid in the world. We cannot, however, take this leadership for granted. The SEC needs to be funded to meet the match of the growing and evolving markets we oversee. I thank the Committee for providing me the opportunity to summarize this budget request.

I am pleased to take your questions.