

MEMORANDUM

To: Members of the Committee on Financial Services

From: FSC Majority Staff

Date: April 24, 2014

Subject: April 29, 2014, Full Committee Hearing Entitled “Oversight of the SEC’s Agenda, Operations, and FY 2015 Budget Request”

The Committee on Financial Services will hold a hearing entitled “Oversight of the SEC’s Agenda, Operations, and FY 2015 Budget Request,” at 10:00 a.m. on Tuesday, April 29, 2014, in room 2128 of the Rayburn House Office Building. The Honorable Mary Jo White, Chair of the Securities and Exchange Commission, will be the only witness.

Background

The U.S. Securities and Exchange Commission (“SEC”) has a three-part mission: to protect investors; to maintain fair, orderly and efficient markets; and to facilitate capital formation. The SEC consists of five presidentially-appointed commissioners who serve staggered five-year terms, one of whom is designated by the President to serve as Chairman. No more than three commissioners may belong to the same political party. The commissioners guide SEC policy by interpreting the Federal securities laws, proposing new rules as warranted by market developments or Congressional mandates, amending existing rules, and overseeing SEC enforcement actions. As a result of changes made to the SEC’s organization by previous Chairmen and the Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203), the SEC now has five Divisions, 17 Offices, and eleven Regional Offices. The SEC’s Divisions and Offices are based at the SEC’s headquarters in Washington, D.C., and they report to the Chairman.

Established by the Securities Exchange Act of 1934 (the “Exchange Act”), the SEC is an independent federal agency that has broad authority to enforce the federal securities laws and to establish rules for the national securities markets. In addition to its enforcement of the Exchange Act, the SEC also administers several other New Deal-era statutes that form the bulk of modern day securities regulation, including the Securities Act of 1933, the Trust Indenture Act of 1939, the Investment Company Act of 1940, and the Investment Advisers Act of 1940. These laws give the SEC the authority to impose administrative and civil sanctions to enforce the securities laws, including monetary

penalties. The SEC has the authority to bring enforcement actions against market participants and others for certain types of misstatements or omissions and for certain types of conflicts of interest. Although the SEC cannot itself bring criminal charges against those alleged to have violated the securities laws, it can refer cases for criminal prosecution to the U.S. Department of Justice.

The SEC oversees more than 25,000 entities and is also charged with overseeing the Public Company Accounting Oversight Board, the Financial Industry Regulatory Authority, the Municipal Securities Rulemaking Board, the Securities Investor Protection Corporation, and the Financial Accounting Standards Board. The Dodd-Frank Act expanded the SEC's authority over derivatives, asset-backed securities, credit rating agencies, municipal advisors and advisers to private funds.

FY 2015 SEC Budget Request

The Administration's FY 2015 SEC budget request is \$1.7 billion. For FY 2014, the SEC is operating under a total budget of \$1.46 billion (\$1.35 billion for FY 2014 plus carryover and recoveries from prior years). From FY 2004 to FY 2014, the SEC's budget increased more than 55%. The FY 2015 budget request would support 5,143 positions (639 more positions compared to FY 2014) and 4,648 full time employees. The FY 2015 request includes \$9.2 million for the Office of Inspector General.

The SEC Reserve Fund

Section 991 of the Dodd-Frank Act amended Section 4 of the Exchange Act and established the "Securities and Exchange Commission Reserve Fund" ("the Reserve Fund"). Section 991 allows the SEC to contribute \$50 million in any one fiscal year to the Reserve Fund provided that the balance of the Reserve Fund never exceeds \$100 million. For FY 2014, SEC received a \$50 million increase in its direct appropriation (compared to FY 2013) and removed \$50 million from the Reserve Fund. The SEC must notify the Committee on Financial Services and the Committee on Appropriations within 10 days of making a Reserve Fund obligation. Since December 2012, the SEC has used more than \$32.8 million from the Reserve Fund to pay for improvements to the SEC's website and the SEC's internal information technology systems. In her April 1, 2014, written testimony before the Subcommittee on Financial Services and General Government of the Committee on Appropriations, Chair White noted that the, "SEC's FY 2015 budget request, which includes full use of the SEC Reserve Fund, would support a number of key information technology initiatives."