Testimony on "Examining the SEC's Agenda, Operations, and FY 2018 Budget Request"
by
Chair Mary Jo White
U.S. Securities and Exchange Commission
Before the
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Chairman Hensarling, Ranking Member Waters, and Members of the Committee:

Thank you for inviting me to testify today regarding the current work and initiatives of the U.S. Securities and Exchange Commission (SEC or Commission), and the SEC's FY 2018 Preliminary Authorization Request.[1] The SEC is a critical agency that serves as the bulwark safeguarding millions of investors and the most vibrant markets in the world. Thanks to the exceptional work and commitment of our superb staff, the Commission has in recent years strengthened its operations and programs across the agency and has aggressively enforced the securities laws to punish wrongdoers, adopted strong measures that protect investors and our markets, and invested in the people and technology required to ensure that our markets remain the strongest and safest in the world. These and other efforts across our extensive areas of responsibility are all in furtherance of our essential mission: to protect investors; to maintain fair, orderly, and efficient markets; and to facilitate capital formation.

The Commission's actions and accomplishments since I became Chair in April of 2013 a little over three and half years ago, have been extensive.[2] The last three and a half years have been marked by vigorous enforcement and examination programs, empowered with new tools and methods to detect and hold wrongdoers accountable and protect investors. Aided by enhanced technology to analyze suspicious activity and strengthened by initiatives like self-reporting, SEC staff has been able to identify and target the most significant risks for investors across the market. In fiscal year 2016 alone, the Commission brought over 850 enforcement actions, an unprecedented number; secured over $4 billion in orders directing the payment of penalties and disgorgement; performed approximately 2,400 exams, a seven-year high; and, even more importantly, continued to develop cutting-edge cases and smarter, more efficient exams.

The Commission over the last three and a half years has pursued very consequential rulemaking and other measures designed to protect investors, strengthen the markets, and open new avenues for capital-raising. Since I last testified, the agency, for example, has advanced major rules addressing important equity market structure issues – including the transparency of alternative trading systems, the disclosures received by investors of order handling practices, and

[1] The views expressed in this testimony are those of the Chair of the Securities and Exchange Commission and do not necessarily represent the views of the President, the full Commission, or any Commissioner.

[2] *See generally SEC Accomplishments: Protecting Investors and Our Markets through Rigorous Oversight, Vigorous Enforcement, and Transformative Rulemaking* (June 13, 2016), *available at* https://www.sec.gov/about/sec-accomplishments.htm.

is expected to consider this afternoon approving a final plan for the consolidated audit trail (CAT) – while moving forward with a comprehensive assessment of other fundamental structural questions. We also continued implementation of a series of proposals to address the increasingly complex portfolios and operations of mutual funds and exchange-traded funds (ETFs), including modernizing the data reported by funds and their advisers, adopting final rules for enhanced liquidity management by funds, and a proposal for new controls on their use of derivatives. We adopted new rules to better enable businesses to raise capital through local and regional offerings and advanced our comprehensive review of the effectiveness of our disclosure regime, including through several detailed proposals. We finalized critical components of the regulatory regime for security-based swaps and established new standards for the clearing agencies that stand at the center of our financial system. And we advanced other rules mandated by statute, including new disclosures by resource extraction issuers and, jointly with five other federal financial regulators, new requirements for incentive-based compensation arrangements at financial institutions.

This work, which is described in greater detail below, marks the latest phase of an extraordinary regulatory effort by the agency following the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) in 2010 and the Jumpstart Our Business Startups Act (JOBS Act) in 2012. This effort has enlisted all of our policy divisions and offices. In addition to advancing very significant discretionary initiatives, the Commission has now adopted final rules for 67 of the 86 mandatory rulemaking provisions of the Dodd-Frank Act directed to the SEC (a 78% completion rate), the majority of them since I became Chair.[3] These include all of the mandates in the areas of private funds, the Volcker rule, clearing agencies, municipal securities advisors, credit rating agencies, specialized disclosures, and all but one of the mandated asset-backed securities reforms. We have completed all of the rulemakings directed by the JOBS Act. And we have made significant progress advancing the rulemakings required of us late last year under the Fixing America's Surface Transportation Act (FAST Act). Some of the most significant initiatives of the last three and a half years include:

- *Equity Market Structure*. An imperative of our modern equity markets is strong technological systems and operations, and the Commission has adopted Regulation Systems Compliance and Integrity (SCI) to require critical market participants – including exchanges, clearing agencies, and large alternative trading systems (ATSs) – to implement wide-ranging measures designed to reduce the occurrence of systems issues and improve resilience when such issues do occur. The self-regulatory organizations (SROs), acting under Commission oversight, have also continued to develop further measures to enhance the operational integrity of the markets. In addition, the Commission has proposed new rules to enhance market transparency, with the first-ever major update of Regulation ATS, and proposed rules requiring important new disclosures for how investor orders are handled by broker-dealers. The Commission has also proposed enhancements to our core regulatory tools of registration and firm oversight. And the Commission is expected to consider this afternoon a final plan for the consolidated audit trail, which will allow regulators to track all activity in U.S. markets in

[3] The current status of the Commission's implementation of the Dodd-Frank Act is summarized at https://www.sec.gov/spotlight/dodd-frank.shtml.

National Market System (NMS) securities. Beyond these efforts, the Commission has also expanded its consideration of additional market structure reforms, assisted by the establishment of the Equity Market Structure Advisory Committee, which has made recommendations in a number of important areas, including the use of exchange access fees.

- *Money Market Funds.* To address the risk of investor runs, as experienced during the financial crisis, the Commission in 2014 adopted rules that fundamentally change the way money market funds operate. These rules became fully operational on October 14, 2016.

- *Asset Management.* Following that work, the Commission undertook to enhance its regulatory regime for the broader asset management industry. In furtherance of that goal, the Commission this year adopted major rules to improve and expand the information reported to the Commission and investors by funds and their advisers, as well as to impose new controls on how funds manage their liquidity and to permit the use of swing pricing. The Commission has also proposed significant enhancements to the regulation of funds' use of derivatives, and new rules for transition and business continuity planning by advisers.

- *Capital Formation*. Implementing mandates from the JOBS Act, the Commission adopted rules to increase access to capital for smaller companies by revamping and enhancing Regulation A, and other rules to permit companies to offer and sell securities through equity crowdfunding. Separately, the Commission, in an exercise of our discretionary authority just last month adopted final rules to facilitate intrastate and regional securities offerings, including offerings relying on recently adopted intrastate crowdfunding and other provisions under state securities laws. We also worked with the SROs to build a pilot program to widen the minimum quoting and trading increments – or tick sizes – for stocks of some smaller companies, which began operating in early October and which will aid in understanding whether wider tick sizes enhance the market quality and secondary liquidity of these stocks. This work follows on the Commission's adoption of rules to allow general solicitation for certain offers and sales made under Rule 506, as well as a rule to disqualify certain felons and other "bad actors" from participating in private securities offerings made under Rule 506.

- *Disclosure Effectiveness.* The staff of the Commission has undertaken and continues a comprehensive assessment of the effectiveness of our disclosure regime for investors and issuers. As part of that assessment, the Commission issued a major concept release that seeks input on modernizing certain business and financial disclosure requirements in Regulation S-K for the benefit of investors and companies. We also issued a request for comment on certain financial reporting and disclosure requirements in final statements under Regulation S-X, and the Commission proposed targeted amendments to address redundant, overlapping, and outdated disclosure requirements in Regulations S-K. The Commission also pursued improvements to disclosure through rule proposals in targeted areas, including Industry Guide 7, which addresses disclosures about mining company

properties, and updates to the definition of "smaller reporting companies" that qualify for certain scaled disclosures under Regulations S-K and S-X.

- *Security-Based Swaps.* The Commission has implemented a substantial portion of a regulatory regime for security-based swaps required by the Dodd-Frank Act, which is designed to ensure that the approximately $11 trillion market for security-based swaps is safer, more transparent, and more efficient. The Commission has adopted the core rules for reporting security based swap transactions to regulators and the public through security-based swap data repositories. We have also adopted the framework for registering security-based swap dealers and major security-based swap participants with the Commission, as well as rules to help ensure that non-U.S. dealers participating in the U.S. market comply with our rules. Most recently, the Commission adopted extensive requirements for how these entities must conduct business with counterparties, and rules for how they acknowledge and verify their transactions. Finalizing the remainder of the rules for dealer activities – including those for capital, margin, and asset segregation – and operationalizing those regimes remains a high priority for this year.

- *Asset-Backed Securities.* The Commission in 2014 adopted wide-ranging rules to enhance transparency and better protect investors in the asset-backed securities market. The Commission completed rules requiring significant enhancements to registered offering disclosures for asset-backed securities, a market with $4.8 trillion in issuances over the past decade that stood at the epicenter of the financial crisis. Acting jointly with five other federal agencies, the Commission also adopted credit risk retention rules, which require securitizers of asset-backed securities to keep "skin in the game" for the securities they package and sell.

- *Executive Compensation.* In 2015, the Commission adopted the rule mandated by the Dodd-Frank Act requiring a company to disclose the ratio of compensation of its chief executive officer to the median compensation of its employees. The Commission in 2015 also proposed the remaining executive compensation rules required by the Dodd-Frank Act, including disclosure of whether a company allows executives to hedge the company's stock, disclosure of pay versus performance measures of executive compensation, and new disclosures and rules for clawing back incentive compensation erroneously awarded (none of these mandates have deadlines under the Dodd-Frank Act). Most recently, earlier this year we re-proposed, jointly with other regulators, rules regarding disclosure and restrictions for certain incentive-based compensation arrangements at large financial institutions.

- *Clearance and Settlement.* In September, the Commission adopted new rules to enhance the oversight of clearing agencies that are deemed to be systemically important or that are involved in complex transactions, such as security-based swaps. At the same time, the Commission proposed to shorten the standard settlement cycle for most broker-dealer transactions to two business days after the trade date ("T+2"). And last year, the Commission took the first major step in the regulation of transfer agents in decades, issuing an advance notice of proposed rulemaking, concept release, and request for comment on the full regulatory regime.

- *Credit Rating Agencies and Credit Ratings.* The Commission adopted in 2014 a comprehensive package of a dozen reforms for the regulation and oversight of credit ratings agencies, including new controls on the management of conflicts of interest. The Commission has also acted to remove almost all of the references to credit ratings from its rules and forms.

- *Broker-Dealer Financial Responsibility.* The Commission, soon after I became Chair, adopted rules to provide additional safeguards with respect to a broker-dealer's custody of customer securities and cash, as well as to strengthen the audit requirements for broker-dealers. In addition, the Commission adopted amendments to the broker-dealer financial responsibility rules to enhance protections for customer assets, firm capital requirements, and risk management controls. In 2016, we proposed, jointly with the Federal Deposit Insurance Corporation (FDIC), rules that implement procedures for the orderly liquidation of covered broker-dealers.

- *Municipal Advisors.* In 2014, the Commission established a new regulatory regime to protect municipalities and investors from conflicted advice and unregulated advisors by requiring municipal advisors to register with the SEC and to comply with the rules of the Municipal Securities Rulemaking Board (MSRB). And we continue to work with the MSRB to establish the full suite of regulatory obligations for municipal advisors.

- *Volcker Rule*. The Commission, in December 2013, adopted, jointly with other regulators, rules to implement a prohibition on proprietary trading and certain relationships with hedge funds and private equity funds. Compliance with those rules was required in 2015, and the SEC is now working in coordination with the other financial regulators to ensure that firms are in compliance.

While our work in enforcement and rulemaking are the most visible examples of the agency's actions in furtherance of our mission, the imperatives of our mission are carried forward each day by all of the dedicated staff of our divisions and offices. The Division of Corporation Finance, for example, reviews the annual and periodic reports of thousands of issuers each year, helping to ensure that investors receive full and fair disclosure about the public companies in which they invest. And staff in the Office of Small Business Policy alone responded in FY 2016 to over 1,500 inquiries from small businesses about their questions and concerns. During the same period, the Division of Trading and Markets, and the Office of Municipal Securities reviewed more than 3,200 filings from exchanges and other SROs to preserve a fair and orderly marketplace for all investors, a 21% increase from last year. The

Division of Investment Management in FY 2016 reviewed filings covering more than 12,700 mutual funds and other investment companies, where many individuals invest their hard-earned money to save for retirement, college, and other important goals. Our economists in the Division of Economic and Risk Analysis produced more than 30 incisive papers and publications in FY 2016, including two major analyses to help inform our work on asset management. And the numbers are only a small part of the story. Each instance of such engagement makes our markets better and safer for investors.

Throughout the agency, we are increasingly harnessing technology to better identify risks, uncover frauds, sift through large volumes of data, inform policymaking, and streamline operations. The Commission's emphasis on technological improvements is continuing to pay dividends, improving efficiencies while allowing us to cover more ground than ever before. We continue to build on this progress by seeking sufficient appropriated funds for a number of key information technology (IT) initiatives, including improvements to the Electronic Data Gathering, Analysis and Retrieval (EDGAR) system and our enforcement surveillance tools.

Vigorously Enforcing the Securities Laws

The SEC's vigorous enforcement program is at the heart of our efforts to protect investors and instill confidence in the integrity of the markets. The Division of Enforcement (Enforcement) advances these efforts by investigating and bringing civil charges against violators of the federal securities laws. Successful enforcement actions impose meaningful sanctions on securities law violators, result in penalties and disgorgement of ill-gotten gains that can be returned to harmed investors, and deter future wrongdoing.

Enforcement delivered very strong results on behalf of investors in FY 2014, FY 2015, and in FY 2016. The SEC filed a record 868 enforcement actions in FY 2016 covering a wide range of misconduct, and obtained orders totaling over $4 billion in disgorgement and penalties. Of the 868 enforcement actions, a record 548 were independent actions for alleged violations of the federal securities laws, and 320 were either actions against issuers who were delinquent in making required filings with the SEC or administrative proceedings seeking bars against individuals based on criminal convictions, civil injunctions, or other orders.

Even more important than the numbers, these actions addressed the most important issues for investors and markets, spanned the securities industry, and included numerous important "first-of-their-kind" actions. Significantly, more than 60% of our independent actions in FY 2016 also included charges against individuals. In FY 2016, the SEC charged individuals in 337 of our independent actions, the highest number in the last five years. A few other important features of our enforcement program also bear highlighting.

Executing the Admissions Policy

The Commission continues to use its first of a kind admissions policy to aggressively seek admissions in certain cases where heightened accountability and acceptance of responsibility by a defendant is particularly important. These types of cases include those involving particularly egregious conduct; where large numbers of investors were harmed; where

the markets or investors were placed at significant risk; where the conduct undermines or obstructs our investigative process; where an admission can send an important message to the markets; or where the wrongdoer presents a particular future threat to investors or the markets. Since implementing the admissions protocol in 2013, the SEC has obtained admissions from over 70 entities and individuals, including major financial institutions, national auditing firms,[4] and an international pyramid scheme targeting Latino communities. While this is an evolving protocol that continues to be applied to more cases, as we indicated when we implemented it, the majority of cases will continue to be resolved on a "neither admit nor deny" basis, which is the norm for other civil law enforcement agencies and in private litigation.[5] This practice allows the Commission to obtain significant relief, eliminate litigation risk, return money to victims more expeditiously, and conserve enforcement resources for other matters. We are committed, however, to requiring admissions where appropriate, and are prepared to litigate those cases if necessary.

Enhancing Focus on Key Areas of Misconduct

The Commission also continues to focus resources on key areas of misconduct. One critical area is financial reporting and issuer disclosure. Comprehensive, accurate, and reliable financial reporting is the bedrock upon which our markets are based, and is essential to ensuring public confidence in them. And at my direction, since 2013, our Enforcement Division has intensified its focus on pursuing violations in this area. Part of this effort involved creating a dedicated group of accountants, attorneys, and analysts who use cutting edge data analytical tools to look for evidence of reporting discrepancies and other early warning signs of financial reporting fraud. Holding responsible individuals accountable for their role in this kind of financial misconduct is a significant priority of mine and in FY 2016, we charged 127

[4] The Commission does not accept "neither admit nor deny" settlements where a defendant has acknowledged relevant facts in a settlement with other criminal or civil authorities, or been convicted. This regularly occurs in connection with guilty pleas that arise from parallel criminal investigations, which frequently are matters that we referred to a criminal prosecutor in which our own investigation assisted in securing a favorable resolution on the criminal side as well. While these cases are not included in the admissions cited above, they serve the same purpose and have the same impact. We have obtained these kinds of settlements with dozens of individuals and entities since this policy changed at the end of 2011.

[5] In the majority of its cases, the Commission, like all other federal agencies with civil law enforcement powers, settles on a "no admit, no deny" basis. But, in 2013, we determined that our Enforcement program's deterrent message could be enhanced by requiring admissions of wrongdoing in appropriate cases. We are pleased to see that other civil law enforcement agencies have begun to follow our lead. For example, the CFTC entered into its first admissions settlement in October 2013. *See* Release PR6737-13, *CFTC Files and Settles Charges Against JPMorgan Chase Bank, N.A., for Violating Prohibition on Manipulative Conduct In Connection with "London Whale" Swaps Trades* (Oct. 16, 2013), http://www.cftc.gov/PressRoom/PressReleases/pr6737-13, and Max Stendahl, *CFTC Mimics SEC Policy Shift With JPMorgan 'Whale' Pact*, Law360 (Oct. 16, 2013, 7:47 p.m.), http://www.law360.com/articles/480686/cftc-mimics-sec-policy-shift-with-jpmorgan-whale-pact. Similarly, the CFPB now requires admissions in certain cases and entered into its first admissions settlement in February 2014. *See* Press Release, *CFPB Takes Action Against Mortgage Lender for Illegal Payments*, Feb. 24, 2014, http://www.consumerfinance.gov/about-us/newsroom/cfpb-takes-action-against-mortgage-lender-for-illegal-payments/.

individuals in our substantive issuer reporting and disclosure cases, more than twice the number of individuals we charged in FY 2014.[6]

Another key area of enforcement is investment management, where the SEC has continued to bring actions addressing a widening range of issues, including performance advertising, undisclosed conflicts of interest, compliance issues, and private equity fees and expenses. Among these are "first-of-their-kind" actions for failures to report material compliance matters to fund boards and the improper allocation of expenses by private equity advisers. The Enforcement Division's focus on private equity has expanded significantly over the past few years and, to date, the SEC has brought eleven enforcement actions related to private equity advisers breaching their fiduciary duties by charging undisclosed fees and expenses, shifting and misallocating expenses, and failing to adequately disclose conflicts of interest.

In addition, during the last few years, Enforcement has emphasized cases involving violations in market structure areas, bringing significant enforcement actions involving high frequency trading, the operation of trading platforms such as dark pools, manipulative trading, and market access and technology controls. We have brought cases, for example, against ATSs for misusing confidential customer trading information, actions against high frequency traders for manipulative trading and net capital violations, and against exchanges for providing some, but not all, traders with additional information about certain order types.

Enhancing the Whistleblower Program

The SEC's Whistleblower program continues to have a transformative impact on our enforcement program. The SEC's Office of the Whistleblower is currently tracking hundreds of matters in which a whistleblower's tip has caused a matter under investigation or an investigation to be opened, or which have been forwarded to Enforcement staff for consideration in connection with an existing investigation. The number of whistleblower tips received by the Commission has increased each year of the program's operation. In Fiscal Year 2016, the Commission received approximately 4, 200 whistleblower tips, representing a more than 40% increase over the number of tips received in Fiscal Year 2012, the first year for which the office had full-year data. In FY 2016, the Commission awarded more than $57 million to whistleblowers who provided original information that led to successful enforcement actions resulting in an order or monetary sanctions exceeding $1 million, and has awarded more than $111 million since the program's inception. Just this August, the Commission announced a $22 million award, its second largest, to a former company employee whose detailed tip and extensive assistance helped the agency halt a well-hidden wrongdoing at the company where the whistleblower worked. The Commission has also filed numerous "friend of the court" briefs in support of private actions by whistleblowers who have experienced retaliation for reporting internally at their companies, and has brought our own actions against firms for whistleblower retaliation and improper restrictions of whistleblowing activity in confidentiality agreements.

[6] In FY 2011, 2012, and 2013, the Enforcement Division charged 83, 90, 78, individuals in reporting and disclosure cases, respectively.

Preserving Investigative Tools

During my tenure as Chair, I have sought to work with Congress to modernize the Electronic Communications Privacy Act (ECPA), which governs the authority of law enforcement to obtain emails from internet service providers (ISPs). The bills currently pending in Congress to amend ECPA would unfortunately pose significant risks to the American investing public by impeding the ability of Commission staff to investigate and uncover insider trading, Ponzi schemes, and other types of fraud. Although I agree that ECPA's privacy protections and evidence collection procedures should be updated, I believe there are ways to update ECPA that offer stronger privacy protections and observe constitutional boundaries without putting innocent victims and our capital markets at risk.

As drafted, the bills would require government entities to obtain a criminal warrant when they seek the content of subscriber emails and other electronic communications from ISPs. The SEC, as a civil law enforcement agency, cannot obtain criminal warrants. Thus, the SEC would no longer be able to gather these communications directly from an ISP to obtain often critical and otherwise unobtainable evidence of serious wrongdoing. Any effort to update ECPA can, and should, be done without harming the ability of the SEC to protect our nation's citizens from securities fraud. I look forward to the opportunity to continue to work with Congress on solutions that both protect investors and privacy interests.[7]

Building Stronger, Safer Markets for Investors and Issuers

The SEC continues to pursue an extensive program of rulemaking and other policy efforts designed to ensure that our securities markets continue to optimally and securely serve investors and issuers. The SEC has significantly progressed in implementing mandatory rulemakings under three separate statutes, as well as in pursuing an impressive range of important discretionary initiatives.

As the Committee knows, the SEC and our fellow regulators have been working hard to strengthen our nation’s financial systems by implementing the rules mandated by the Dodd-Frank Act, which responded to the worst financial crisis since the Great Depression. Over the last two years, the SEC has moved into the final phase of implementing the Dodd-Frank Act, focusing on completing all of the remaining rules in the two major remaining areas of mandates: security-based swaps and executive compensation.

Increasing Transparency and Oversight for Security-Based Swaps

Since 2014, we have passed major milestones in the establishment of a comprehensive regulatory framework for security-based swaps, which will give us powerful tools to oversee an approximately $11 trillion market. First, we finalized the core requirements for reporting

[7] *See* Letter from Mary Jo White, Chair, Kara Stein, Commissioner, Michael Piwowar Commissioner, U.S. Securities and Exchange Commission, to Charles Grassley, Chairman, United States Senate Committee on the Judiciary, dated May 11, 2016; and letter from Mary Jo White, Chair, U.S. Securities and Exchange Commission, to Patrick J. Leahy, Chairman, United States Senate Committee on the Judiciary, dated April 24, 2013.

security-based swap transactions to regulators and the public through security-based swap data repositories.[8] Second, we adopted the framework for registering security-based swap dealers and major security-based swap participants with the Commission,[9] as well as rules to help ensure that non-U.S. dealers participating in the U.S. market comply with our rules.[10]

Work is now underway to finalize all of the obligations that registered dealers and participants will be required to undertake. In April, the SEC adopted extensive requirements for how these entities must conduct business with counterparties – including special entities like municipalities and pension funds – and supervise such conduct.[11] We also this June finalized rules for timely and accurate trade acknowledgment and verification requirements for security-based swaps,[12] and we have proposed a process for dealing with bad actors in the security-based swap market.[13] Next in line will be to finalize that process, complete capital, margin, and asset segregation requirements for security-based swap entities,[14] and adopt rules for recordkeeping

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[8] *See* Release No. 34-74246, *Security-Based Swap Data Repository Registration, Duties, and Core Principles* (February 11, 2015), *available at* https://www.sec.gov/rules/final/2015/34-74244.pdf.; Release No. 34-74244, *Regulation SBSR—Reporting and Dissemination of Security-Based Swap Information* (February 11, 2015), *available at* https://www.sec.gov/rules/final/2015/34-74244.pdf; Release No. 34-78321, *Regulation SBSR-Reporting and Dissemination of Security-Based Swap Information* (July 14, 2016), *available at* https://www.sec.gov/rules/final/2016/34-78321.pdf; and Release No. 34-78716, *Access to Data Obtained by Security-Based Swap Data Repositories* (August 29, 2016), *available at* https://www.sec.gov/rules/final/2016/34-78321.pdf. While not required for transaction reporting to commence, the Commission has also proposed a form and manner for how SDRs should make security-based swap data available to the Commission. *See* Release No. 34-76624, *Establishing the Form and Manner with which Security-Based Swap Data Repositories Must Make Security-Based Swap Data Available to the Commission* (December 11, 2015), *available at* https://www.sec.gov/rules/proposed/2015/34-76624.pdf;

[9] *See* Release No. 34-75611, *Registration Process for Security-Based Swap Dealers and Major Security-Based Swap Participants* (August 5, 2015), *available at* https://www.sec.gov/rules/final/2015/34-75611.pdf.

[10] *See* Release No. 34-77104, Security-Based Swap Transactions Connected with a Non-U.S. Person's Dealing Activity That Are Arranged, Negotiated, or Executed By Personnel Located in a U.S. Branch or Office or in a U.S. Branch or Office of an Agent; Security-Based Swap Dealer De Minimis Exception (Feb. 10, 2016), *available at* https://www.sec.gov/rules/final/2016/34-77104.pdf; and Release No. 34-72472, *Application of "Security-Based Swap Dealer" and "Major Security-Based Swap Participant" Definitions to Cross-Border Security-Based Swap Activities* (June 25, 2014), *available at* https://www.sec.gov/rules/final/2014/34-72472.pdf.

[11] *See* Release No. 34-77617, *Business Conduct Standards for Security-Based Swap Dealers and Major Security Based Swap Participants* (April 14, 2016), *available at* https://www.sec.gov/rules/final/2016/34-77617.pdf.

[12] *See* Release No. 34-78011, *Trade Acknowledgment and Verification of Security-Based Swap Transactions* (June 8, 2016), *available at* https://www.sec.gov/rules/final/2016/34-78011.pdf.

[13] *See* Release No. 34-75612, *Applications by Security-Based Swap Dealers or Major Security-Based Swap Participants for Statutorily Disqualified Associated Persons to Effect or Be Involved in Effecting Security-Based Swaps* (August 5, 2015), *available at* https://www.sec.gov/rules/proposed/2015/34-75612.pdf.

[14] *See* Release No. 34-68071, *Capital, Margin, and Segregation Requirements for Security-Based Swap Dealers and Major Security-Based Swap Participants and Capital Requirements for Broker-Dealers* (October 18, 2012), *available at* https://www.sec.gov/rules/proposed/2012/34-68071.pdf.

and regulatory reporting, which we have targeted to complete by year-end.[15] With those steps, the regulatory structure for security-based swap dealers will be complete, a priority supported by me, the staff, and all of our Commissioners.[16]

Creating New Disclosures and Limits for Executive Compensation

With respect to executive compensation, the SEC last year issued proposals for all of the remaining executive compensation rulemakings required by the Dodd-Frank Act, including disclosure of whether a company allows executives to hedge the company's stock, disclosure of pay versus performance measures of executive compensation, and new disclosures and rules for clawing back incentive compensation erroneously awarded.[17] Together with five of our fellow financial regulators, we also re-proposed a joint rule and are working hard with those regulators to finalize the final rule regarding incentive-based compensation arrangements at large financial institutions.[18] And following the analysis of some 285,500 total comment letters, 1,500 of them unique, the final pay ratio rule was adopted in August 2015.[19]

Completing Implementation of the Dodd-Frank Act

Beyond these two areas, the SEC has continued to finish all of the mandates of the Dodd-Frank Act since I last testified. The Commission this June adopted rules to require resource extraction issuers to disclose payments made to the U.S. federal government or foreign governments for the commercial development of oil, natural gas, or minerals, a requirement under Section 1504 of the Dodd-Frank Act.[20] And, working with our colleagues at the FDIC, we

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[15] *See* Release No. 34-71958, *Recordkeeping and Reporting Requirements for Security-Based Swap Dealers, Major Security-Based Swap Participants, and Broker-Dealers; Capital Rule for Certain Security-Based Swap Dealers* (April 17, 2014), *available at* https://www.sec.gov/rules/proposed/2014/34-71958.pdf.

[16] *See* Commissioner Daniel M. Gallagher and Commissioner Michael S. Piwowar, *Statement Regarding Security-Based Swap Rules* (Sept. 25, 2015), *available at* https://www.sec.gov/news/statement/gallagher-piwowar-security-based-swaps.html; and Commissioner Kara M. Stein, *Remarks at the "SEC Speaks" Conference* (February 19, 2016), *available at* https://www.sec.gov/news/speech/stein-sec-speaks-2016.html.

[17] *See* Release No. 33-9723, *Disclosure of Hedging by Employees, Officers and Directors* (February 9, 2015), *available at* https://www.sec.gov/rules/proposed/2015/33-9723.pdf; Release No. 34-74835, *Pay Versus Performance* (April 29, 2015), *available at* https://www.sec.gov/rules/proposed/2015/34-74835.pdf; and Release No. 33-9861, *Listing Standards for Recovery of Erroneously Awarded Compensation* (July 1, 2015), *available at* https://www.sec.gov/rules/proposed/2015/33-9861.pdf.

[18] *See* Release No. 34-77776, *Incentive-based Compensation Arrangements* (May 6, 2016), *available at* https://www.sec.gov/rules/proposed/2016/34-77776.pdf.

[19] *See* Release No. 33-9877, *Pay Ratio Disclosure* (August 5, 2015), *available at* https://www.sec.gov/rules/final/2015/33-9877.pdf.

[20] *See* Release No. 34-78167, *Disclosure of Payments by Resource Extraction Issuers* (June 27, 2016), *available at* https://www.sec.gov/rules/final/2016/34-78167.pdf.

proposed joint rules for broker-dealers covered under the orderly liquidation provisions of Title II, as required by Section 205(h) of the Dodd-Frank Act.[21]

These accomplishments of the last year are, of course, only the latest in an historic undertaking by the agency to execute the most daunting rulemaking agenda in memory. Pursuant to mandates of the Dodd-Frank Act, since I arrived at the agency in April 2013, we have stood up an entirely new regulatory regime for municipal advisors,[22] and implemented sweeping changes in the securitization markets that were at the epicenter of the crisis – including the joint rulemaking on credit risk retention.[23] We significantly enhanced the rules for credit rating agencies,[24] strengthened the rules for how broker-dealers handle customer funds and securities,[25] disqualified bad actors from private offerings,[26] removed credit rating references from throughout our rules,[27] and, through the Volcker Rule, restricted proprietary trading by financial institutions.[28]

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[21] *See* Release No. 34-77157, *Covered Broker-Dealer Provisions under Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act* (February 17, 2016), *available at* https://www.sec.gov/rules/proposed/2016/34-77157.pdf.

[22] *See* Release No. 34-70462, *Registration of Municipal Advisors* (September 30, 2013), *available at* https://www.sec.gov/rules/final/2013/34-70462.pdf.

[23] *See* Release No. 34-73407, *Credit Risk Retention* (October 22, 2014), *available at* https://www.sec.gov/rules/final/2014/34-73407.pdf; and Release No. 33-9638, *Asset-Backed Securities Disclosure and Registration* (September 4, 2014), *available at* https://www.sec.gov/rules/final/2014/33-9638.pdf.

[24] *See* Release No. 34-72936, *Nationally Recognized Statistical Rating Organizations* (August 27, 2014), *available at* https://www.sec.gov/rules/final/2014/34-72936.pdf.

[25] *See* Release No. 34-70073, *Broker-Dealer Reports* (July 30, 2013), *available at* https://www.sec.gov/rules/final/2013/34-70073.pdf. In addition, the Commission adopted amendments to the broker-dealer financial responsibility rules to enhance protections for customer assets, firm capital requirements, and risk management controls and proposed rules to provide investors with useful information about modern broker-dealer order handling practices. *See* Release No. 34-70072, *Financial Responsibility Rules for Broker-Dealers* (July 30, 2013), *available at* https://www.sec.gov/rules/final/2013/34-70072.pdf.

[26] *See* Release No. 33-9414, *Disqualification of Felons and Other "Bad Actors" from Rule 506 Offerings* (July 10, 2013), *available at* https://www.sec.gov/rules/final/2013/33-9414.pdf ("Bad Actor Rule").

[27] *See* Release No. IC-31828, *Removal of Certain References to Credit Ratings and Amendment to the Issuer Diversification Requirement in the Money Market Fund Rule* (September 16, 2015), *available at* https://www.sec.gov/rules/final/2015/ic-31828.pdf; Release No. IC-30847, *Removal of Certain References to Credit Ratings Under the Investment Company Act* (December 27, 2013), *available at* https://www.sec.gov/rules/final/2013/33-9506.pdf; and Release No. 34-71194, *Removal of Certain References to Credit Ratings Under the Securities Exchange Act of 1934* (December 27, 2013), *available at* https://www.sec.gov/rules/final/2013/34-71194.pdf.

[28] *See* Release No. BHCA-1, *Prohibitions and Restrictions on Proprietary Trading and Certain Interests In, and Relationships With, Hedge Funds and Private Equity Funds* (December 10, 2013), *available at* https://www.sec.gov/rules/final/2013/bhca-1.pdf; and Release No. BHCA-2, *Treatment of Certain Collateralized Debt Obligations Backed Primarily by Trust Preferred Securities with Regard to Prohibitions and Restrictions on Certain Interests in, and Relationships with, Hedge Funds and Private Equity Funds* (January 17, 2014), *available at* https://www.sec.gov/rules/interim/2014/bhca-2.pdf.

Facilitating Capital Formation for both Large and Small Issuers

The SEC performs a critical function for issuers seeking to raise capital to grow their businesses and the larger economy. Our rules seek to facilitate offerings by a diverse set of companies – large and small, engaged in all manner of commerce – while ensuring that investors have the protections they require to maintain confidence in the strongest capital markets in the world. Since I became Chair, the SEC has carried out this responsibility through a number of key initiatives, with particular emphasis on smaller businesses.

Completing Implementation of the JOBS Act and the FAST Act

The JOBS Act, in particular, made several significant changes to the avenues for capital formation in the securities markets, especially for smaller issuers, and we have now completed all of the rules mandated by that legislation. A few months after I became Chair, we finalized the changes to private offerings required by the JOBS Act, while advancing measures to ensure the agency has the information it needs to monitor the changes and protect investors, including adopting a rule that disqualifies certain felons and other "bad actors" from participating in private securities offerings made under Rule 506.[29] Last year, the SEC adopted final rules to update and expand Regulation A (commonly referred to as Regulation A+), an exemption from registration for small offerings of securities, to facilitate smaller companies' access to capital.[30] And we also finalized new rules to permit securities-based crowdfunding offerings by issuers and the operation of funding portals to intermediate such offerings.[31] Issuers are now actively using both of these new avenues for raising capital. As of September 30th, 114 companies had started crowdfunding offerings and 136 companies filed offering documents to use expanded Regulation A, and those that have completed their offerings reported raising $5.3 million through crowdfunding and $172 million through Regulations A.

The FAST Act was enacted by Congress late last year, requiring the SEC to undertake several more rulemakings and studies to promote capital formation and modernize disclosure. We have already made progress on implementing those mandates, adopting interim final rules to

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[29] *See* Release No. 33-9415, *Eliminating the Prohibition Against General Solicitation and General Advertising in Rule 506 and Rule 144A Offerings* (July 10, 2013), *available at* https://www.sec.gov/rules/final/2013/33-9415.pdf; and Release No. 33-9416, Amendments to Regulation D, Form D and Rule 156 under the Securities Act (July 10, 2013), *available at* https://www.sec.gov/rules/proposed/2013/33-9416.pdf. On the same day, the Commission adopted rules to disqualify certain felons and other "bad actors" from participating in securities offerings made under Rule 506. *See* Bad Actor Rule, *supra* note 26.

[30] *See* Release No. 33-9741, *Amendments for Small and Additional Issues Exemptions under the Securities Act (Regulation A)* (March 25, 2015), *available at* https://www.sec.gov/rules/final/2015/33-9741.pdf.

[31] *See* Release Nos. 33-9974; 34-76324, *Crowdfunding* (October 30, 2015), *available at* https://www.sec.gov/rules/final/2015/33-9974.pdf.

revise registration forms for emerging growth companies and smaller reporting companies,[32] and to permit issuers to include a summary in the annual report on Form 10-K.[33] Earlier this year, the SEC also approved amendments to revise the rules related to the thresholds for registration, termination of registration, and suspension of reporting under Section 12(g) of the Securities Exchange Act, implementing provisions of both the JOBS and the FAST Acts.[34] Staff has also completed a study and report on how to further modernize and simplify the Regulation S-K disclosure requirements as mandated by Section 72003 of the FAST Act .

Creating New Opportunities for Smaller Issuers

Since I last testified, the Commission has gone beyond the statutory mandates to develop and adopt a number of additional initiatives that are designed to facilitate capital formation, particularly for small businesses. Last month, for example, the Commission adopted final rules to modernize Rule 147, a safe harbor to a statutory exemption for intrastate securities offerings, and establish a new exemption, designated Rule 147A, to facilitate capital formation through intrastate offerings.[35] Many market participants and state regulators had raised concerns that the current requirements have not kept up with changes in the business environment and technology, which limits the usefulness of the safe harbor for capital-raising, especially for smaller state and local businesses. The new rules retain the key feature of existing Rule 147 – its intrastate character, which permits companies to raise money from investors within their state without concurrently registering the offers and sales at the federal level. In recognition of the transformative nature of the internet and other technologies, new Rule 147A removes the existing intrastate restriction on offers, but – critically for the state-based nature of the offering and its regulation – continues to require that sales be made only to residents of the state or territory of the issuer's principal place of business.[36]

Another important initiative is the pilot program to widen the minimum quoting and trading increments – or tick sizes – for stocks of some smaller companies. Following a study directed by the JOBS Act,[37] the Commission in May 2015 approved a proposal, submitted in

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[32] *See* Release No. 33-10003, *Simplification of Disclosure Requirements for Emerging Growth Companies and Forward Incorporation by Reference on Form S-1 for Smaller Reporting Companies* (January 13, 2016), *available at* https://www.sec.gov/rules/interim/2016/33-10003.pdf.

[33] *See* Release No. 34-77969, *Form 10-K Summary* (June 1, 2016), *available at* https://www.sec.gov/rules/interim/2016/34-77969.pdf.

[34] *See* Release No. 33-10075, *Changes to Exchange Act Registration Requirements to Implement Title V and Title VI of the JOBS Act* (May 3, 2016), *available at* https://www.sec.gov/rules/final/2016/33-10075.pdf.

[35] *See* Release No. 33-9973, *Exemptions to Facilitate Intrastate and Regional Securities Offerings* (October 30, 2015), *available at* https://www.sec.gov/rules/proposed/2015/33-9973.pdf.

[36] While the new rule can be used for any kind of intrastate offering meeting its conditions, at least 35 states have enacted some form of intrastate crowdfunding, and this rule could facilitate capital raising through those state provisions.

[37] *Report to Congress on Decimalization* (July 2012), *available at* https://www.sec.gov/news/studies/2012/decimalization-072012.pdf.

response to a Commission order,[38] by the national securities exchanges and the Financial Industry Regulatory Authority (FINRA) for a two-year pilot program.[39] The SEC plans to use the pilot program to assess whether wider tick sizes enhance the market quality of these stocks for the benefit of issuers and investors. The pilot began on October 3, 2016.[40]

More broadly, the Commission staff remains committed to helping small issuers use these channels and others to build their businesses using the securities markets. The Office of Small Business Policy within the Division of Corporation Finance provides extensive guidance to small businesses seeking to raise capital or comply with our reporting requirements. Each year, the office responds to over 1,500 requests for interpretive advice, provides guidance through speaking engagements, and meets frequently with interested parties about pending rulemakings that could impact small businesses. The Commission also renewed the Advisory Committee on Small and Emerging Companies to provide the Commission with advice on capital formation and reporting requirements for smaller issuers.[41]

Updating the Definition of an "Accredited Investor"

In another important step for modernizing the private offering market, the Commission published a staff report in December 2015 regarding the key definition of "accredited investor," which analyzes various approaches for modifying the definition and provides staff recommendations for potential updates and modifications.[42] The report recommends that the Commission consider expanding the definition to include alternative indicators for individuals to qualify as accredited investors (other than looking solely at income and net worth). The report also evaluates the impact that potential changes to the definition would have on the size of the accredited investor pool. I have directed the staff to prepare recommendations for the

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[38] *See* Release No. 34- 72460, *Order Directing the Exchanges and the Financial Industry Regulatory Authority To Submit a Tick Size Pilot Plan* (June 24, 2014), *available at* https://www.sec.gov/rules/other/2014/34-72460.pdf.

[39] *See* Release No. 34-74892, *Joint Industry Plans; Order Approving the National Market System Plan to Implement a Tick Size Pilot Program by BATS Exchange, Inc., BATS Y-Exchange, Inc., Chicago Stock Exchange, Inc., EDGA Exchange, Inc., EDGX Exchange, Inc., Financial Industry Regulatory Authority, Inc., NASDAQ OMX BX, Inc., NASDAQ OMX PHLX LLC, The Nasdaq Stock Market LLC, New York Stock Exchange LLC, NYSE MKT LLC, and NYSE Arca, Inc., as Modified by the Commission, For a Two-Year Period* (May 6, 2015), *available at* https://www.sec.gov/rules/sro/nms/2015/34-74892.pdf.

[40] On November 6, 2015, the Commission issued an exemption to the participants requiring implementation of the Tick Size Pilot until October 3, 2016. *See* Release No. 34-76382, Order Granting Exemption from Compliance with the National Market System Plan to Implement a Tick Size Pilot Program (November 6, 2015), *available at* https://www.sec.gov/rules/exorders/2015/34-76382.pdf.

[41] Information regarding the committee and its recommendations can be found at https://www.sec.gov/info/smallbus/acsec.shtml.

[42] *See Report on the Review of the Definition of "Accredited Investor"* (December 18, 2015), *available at* https://www.sec.gov/corpfin/reportspubs/special-studies/review-definition-of-accredited-investor-12-18-2015.pdf.

Commission on how the definition should be modified, and the comments we are receiving in response to the report will help inform the next steps.

Strengthening Markets with Targeted Action and Data-Driven Analysis

Since I last testified before this Committee, we have proceeded with our ongoing assessment of U.S. equity market structure to ensure that our markets remain the deepest, fairest, and most reliable in the world. It is important that our market structure is optimally serving investors and companies of all sizes seeking to raise capital. Our approach is data-driven and includes a number of identified short-term enhancements, as well as a comprehensive review of the entire structural operation of the equity markets to determine whether other changes should be made to optimize our markets for investors and issuers. The Commission staff has also continued to pursue significant initiatives with FINRA and the MSRB to enhance the structure of the fixed income markets, to enhance best execution obligations, and disclosure of mark-ups in certain principal transactions.

Preserving Operational Integrity in the Equity Markets

As I have remarked since my earliest days at the Commission,[43] a fundamental requirement of our modern equity markets is strong technological systems and operations. In November of 2014, the Commission adopted wide-ranging rules designed to strengthen the technology infrastructure of the U.S. securities markets.[44] The rules – together comprising Regulation SCI – impose requirements on certain key market participants intended to reduce the occurrence of systems issues and improve resiliency when systems problems do occur.

Our efforts to preserve the operational integrity of the market extend well beyond Commission rulemaking. In response to my requests,[45] the SROs have continued to work to address issues like order types and operations, data feed disclosures, and "single points of failure" within infrastructure systems that have the ability to significantly disrupt trading.[46] Most recently, the Commission approved new rules of the New York Stock Exchange, NYSE MKT,

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[43] *See, e.g.*, Chair Mary Jo White, *Enhancing Our Equity Market Structure* (June 5, 2014) *available at* https://www.sec.gov/News/Speech/Detail/Speech/1370542004312 ("Chair White Market Structure Framework Speech"); Chair Mary Jo White, *Focusing on Fundamentals: The Path to Address Equity Market Structure*, (October 2, 2013), *available at* https://www.sec.gov/News/Speech/Detail/Speech/1370539857459; and Chair Mary Jo White, Statement on Meeting with Leaders of Exchanges (September 12, 2013), available at https://www.sec.gov/News/PressRelease/Detail/PressRelease/1370539804861 ("Chair White Exchange Meeting Statement").

[44] *See* Release No. 34-73639, *Regulation Systems Compliance and Integrity* (November 19, 2014) ("Regulation SCI Adopting Release"), *available at* https://www.sec.gov/rules/final/2014/34-73639.pdf.

[45] *See, e.g.*, Chair White Market Structure Framework Speech and Chair White Exchange Meeting Statement, *supra* note 43.

[46] *See* Chair Mary Jo White, *The Continuous Process of Optimizing the Equity Markets* (June 2, 2016), *available a*t https://www.sec.gov/news/speech/the-continuous-process-of-optimizing-the-equity-markets.html.

and Nasdaq that provide for closing contingency procedures for listed securities if the relevant exchange is unable to conduct a closing transaction in one or more securities due to a systems or technical issue.[47] All of the exchanges have now conducted and completed in-depth analyses of order types and have filed proposed rule changes to clarify the operation of their order types.[48] All of the exchanges have also now submitted rule filings disclosing how they use securities information processor (SIP) feeds and direct feeds.[49] These filings provide significantly improved transparency for investors and the public on how the exchanges operate. And, also at my request, the SIPs have implemented a time stamp in their data feeds, to facilitate greater transparency on the issue of data latency.[50] In this regard, it should also be noted that the SIPs

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[47] S*ee Release No. 34-78015, Notice of Filings of Amendment No. 1, and Order Granting Accelerated Approval of Proposed Rule Changes, as Modified by Amendment No. 1, to Provide for How the Exchanges Would Determine an Official Closing Price if the Exchanges are Unable to Conduct a Closing Transaction* (June 8, 2016), *available at* http://www.sec.gov/rules/sro/nyse/2016/34-78015.pdf ; Release No. 34-78014, *Notice of Filing of Amendment No. 1, and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, to Establish Secondary Contingency Procedures for the Exchange's Closing Cross* (June 8, 2016), *available at* http://www.sec.gov/rules/sro/nasdaq/2016/34-78014.pdf.

[48] See Release Nos. 34-74796 (April 23, 2015), 80 Fed. Reg. 23,838 (April 29, 2015) (SR-NYSEArca-2015-08); 34-74738 (April 16, 2015), 80 Fed. Reg. 22,600 (April 22, 2015) (SR-BATS-2015-09); 34-74739 (April 16, 2015), 80 Fed. Reg. 22,567 (April 22, 2015) (SR-BYX-2015-07); 34-74558 (March 20, 2015), 80 Fed. Reg. 16,050 (March 26, 2015) (SR-NASDAQ-2015-024); 34-74618 (March 31, 2015), 80 Fed. Reg. 18,452 (April 6, 2015) (SR-Phlx-2015-29); 34-74617 (March 31, 2015), 80 Fed. Reg. 18,473 (April 6, 2015) (SR-BX-2015-015); 34-74439 (March 4, 2015), 80 Fed. Reg. 12,666 (March 10, 2015) (SR-EDGX-2015-08); 34-74435 (March 4, 2015), 80 Fed. Reg. 12,655 (March 10, 2015) (SR-EDGA-2015-10); 34-73468 (October 29, 2014), 79 Fed. Reg. 65,450 (November 4, 2014) (SR-EDGX-2014-18); 34-73592 (November 13, 2014), 79 Fed. Reg. 68937 (November 19, 2014) (SR-EDGA-2014-20); 34-73572 (November 10, 2014), 79 Fed. Reg. 68,736 (November 18, 2014) (SR-CHX-2014-18); 34-74678 (April 8, 2015), 80 Fed. Reg. 20,053 (April 14, 2015) (SR-NYSE-2015-15); and 34-74682 (April 8, 2015), 80 Fed. Reg. 20,043 (April 14, 2015) (SR-NYSEMKT-2015-22).

[49] *See* Release Nos. 34-72685 (July 28, 2014), 79 Fed. Reg. 44,889 (August 1, 2014) (SR-BATS-2014-029); 34-72687 (July 28, 2014), 79 Fed. Reg. 44926 (August 1, 2014) (SR-BYX-2014-012); 34-72682 (July 28, 2014), 79 Fed. Reg. 44,938 (August 1, 2014) (SR-EDGA-2014-17); 34-72683 (July 28, 2014), 79 Fed. Reg. 44,950 (August 1, 2014) (SR-EDGX-2014-20); 34-72711 (July 29, 2014), 79 Fed. Reg. 45,570 (August 5, 2014) (SR-CHX-2014-10); 34-72710 (July 29, 2014), 79 Fed. Reg. 45,511 (August 5, 2014) (SR-NYSE-2014-38); 34-72708 (July 29, 2014), 79 Fed. Reg. 45,572 (August 5, 2014) (SR-NYSEArca-2014-82); 34-72709 (July 29, 2014), 79 Fed. Reg. 45,513 (August 5, 2014) (SR-NYSEMKT-2014-62); 34-72684 (July 28, 2014), 79 Fed. Reg. 44956 (August 1, 2014) (SR-NASDAQ-2014-072); 34-72713 (July 29, 2014), 79 Fed. Reg. 45,544 (August 5, 2014) (SR-Phlx-2014-49); 34-72712 (July 29, 2014), 79 Fed. Reg. 45,521 (August 5, 2014) (SR-BX-2014-037); 34-74074 (January 15, 2015), 80 Fed. Reg. 3,679 (January 23, 2015) (SR-BATS-2015-04); 34-74075 (January 15, 2014), 80 Fed. Reg. 3,693 (January 23, 2015) (SR-BYX-2015-03); 34-74076 (January 15, 2014), 80 Fed. Reg. 3,674 (January 23, 2015) (SR-EDGA-2015-02); 34-74072 (January 15, 2015), 80 Fed. Reg. 3,282 (January 22, 2015) (SR-EDGX-2015-02); 34-74357 (February 24, 2015), 80 Fed. Reg. 11252 (March 2, 2015) (SR-CHX-2015-01); 34-74410 (March 2, 2015), 80 Fed. Reg. 12,240 (March 6, 2015) (SR-NYSE-2015-09); 34-74409 (March 2, 2015), 80 Fed. Reg. 12,221 (March 6, 2015) (SR-NYSEArca-2015-11); 74408 (March 2, 2015), 80 Fed. Reg. 12,225 (March 6, 2015) (SR-NYSEMKT-2015-11); and 34-74690 (April 9, 2015), 80 Fed. Reg. 20282 (April 15, 2015) (SR-NASDAQ-2015-033).

[50] *See* Release No. 34-75505, *Joint Industry Plan; Order Approving Amendment No. 35 to the Joint Self-Regulatory Organization Plan Governing the Collection, Consolidation and Dissemination of Quotation and Transaction Information for Nasdaq-Listed Securities Traded on Exchanges on an Unlisted Trading Privileges Basis Submitted by the BATS Exchange, Inc., BATS Y-Exchange, Inc., Chicago Board Options Exchange, Incorporated, Chicago Stock Exchange, Inc., EDGA Exchange, Inc., EDGX Exchange, Inc., Financial Industry Regulatory Authority, Inc.,*

have steadily upgraded their systems to reduce average latencies from nearly one second a decade ago to less than 1/1000th of a second today.[51]

Another important component of this effort is ensuring that the moderators put in place in 2012 to address extraordinary volatility in the market work well. And the SEC and the SROs are actively reviewing the operation of the limit up-limit down pilot plan, with a focus on issues that occurred during the volatile trading of August 24, 2015.[52] This review has included extensive public analysis by SEC staff of that day's events and the consideration of specific improvements to refine the plan's operation.[53]

Implementing Targeted Initiatives to Optimize Equity Market Structure

The Commission is also taking action to address enhanced equity market transparency and disclosure, including our proposal issued in November 2015 to update disclosures by alternative trading systems (ATSs), [54] and in July the Commission proposed amendments to Rules 605 and 606 of Regulation NMS to modernize those rules.[55] Updating Rules 605 and 606 will provide investors with important new information about broker-dealer order handling practices, empowering them to better assess the routing decisions of broker-dealers.

International Securities Exchange LLC, NASDAQ OMX BX, Inc., NASDAQ OMX PHLX LLC, Nasdaq Stock Market LLC, National Stock Exchange, Inc., New York Stock Exchange LLC, NYSE MKT LLC, and NYSE Arca, Inc. (July 22, 2015), *available at* https://www.sec.gov/rules/sro/nms/2015/34-75505.pdf; and Release No. 34-75505, Order Approving the Twenty Second Substantive Amendment to the Second Restatement of the CTA Plan and Sixteenth Substantive Amendment to the Restated CQ Plan (July 22, 2015), *available at* https://www.sec.gov/rules/sro/nms/2015/34-75504.pdf.

[51] *See, e.g.*, Release No. 34-70010, Notice of Filing and Immediate Effectiveness of the Nineteenth Charges Amendment to the Second Restatement of the CTA Plan and Eleventh Charges Amendment to the Restated CQ Plan (July 19, 2013), *available at* https://www.sec.gov/rules/sro/nms/nmsarchive/nms2013.shtml.

[52] *See* Release No. 34-77679, Order Approving the Tenth Amendment to the National Market System Plan to Address Extraordinary Market Volatility by Bats BZX Exchange, Inc., Bats BYX Exchange, Inc., Chicago Stock Exchange, Inc., Bats EDGA Exchange, Inc., Bats EDGX Exchange, Inc., Financial Industry Regulatory Authority, Inc., NASDAQ BX, Inc., NASDAQ PHLX LLC, The Nasdaq Stock Market LLC, National Stock Exchange, Inc., New York Stock Exchange LLC, NYSE MKT LLC, and NYSE Arca, Inc. (April 21, 2016), *available at* https://www.sec.gov/rules/sro/nms/2016/34-77205.pdf.. *See also* Testimony of Stephen Luparello, Director, Division of Trading and Markets, SEC, before the United States Senate Committee on Banking, Housing, and Urban Affairs Subcommittee on Securities, Insurance, and Investment (March 3, 2016), *available* at https://www.sec.gov/news/testimony/testimony-regulatory-reforms-to-improve-equity-market-structure.html.

[53] *See* Research Note: Equity Market Volatility on August 24, 2015 (December 2015), *available at* https://www.sec.gov/marketstructure/research/equity_market_volatility.pdf.

[54] *See* Release No. 34-76474, *Regulation of NMS Stock Alternative Trading Systems* (November 18, 2015), *available at* https://www.sec.gov/rules/proposed/2015/34-76474.pdf.

[55] See Release No. 34-78309, *Disclosure of Order Handling* Information (July 13, 2016), *available at https://www.sec.gov/rules/proposed/2016/34-78309.pdf*.

The Commission's proposal on Regulation ATS, issued last November, would require ATS platforms that trade national market system (NMS) stocks to provide significant new transparency with respect their operations. In the years since Regulation ATS was first adopted in 1998, our equity markets have undergone significant change. ATSs are now an important component of our current market structure, fueled by advancements in technology and competing directly with exchanges. Consequently, the number of trading centers has increased substantially, trading activity in NMS stocks is less concentrated, and ATSs collectively now account for approximately 15% of the dollar volume in NMS stocks. This proposal, marking the first-ever major update of Regulation ATS, would require new detailed disclosures about the operation of these platforms and would create a new process for Commission oversight of them. And, I recently announced that I have directed staff to develop recommendations for the Commission to consider the application of Regulation SCI and Regulation ATS to platforms that trade government securities.[56]

In addition to enhancing the transparency of our market for investors, the Commission has also advanced measures to improve our core regulatory tools of registration and firm oversight. In March 2015, for example, the Commission proposed important amendments to Rule 15b9-1 to require broker-dealers that engage in off-exchange proprietary trading to become members of a national securities association, which would enhance oversight of active proprietary trading firms.[57] The staff also continues to make progress on recommendations to the Commission to address, among other things, the registration status of certain active proprietary traders, improvements to firms' risk management of trading algorithms, and an anti-disruptive trading rule that would address the use of aggressive, destabilizing trading strategies in vulnerable market conditions.[58]

Assessing Further Data-Driven Enhancements to Equity Market Structure

The Commission's continuing work in market structure is a comprehensive undertaking that requires updates in technology, and utilization of data and analytics to make informed decisions on enhancing market structure. That means new ways of using existing market data through tools like the Market Information Data Analytics System (MIDAS),[59] and it also means building new systems to provide even more powerful analytical capabilities for the Commission and our fellow regulators. The Commission is expected to consider this afternoon a final plan from the SROs to create a consolidated audit trail that will allow regulators to track all activity in U.S. markets in National Market System (NMS) securities.[60] This is a substantial undertaking

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[56] *Supra* note 46.

[57] *See* Release No. 34-74581, *Exemption for Certain Exchange Members* (March 25, 2015), *available at* https://www.sec.gov/rules/proposed/2015/34-74581.pdf.

[58] *See* Chair White Market Structure Framework Speech, *supra* note 43.

[59] Information regarding MIDAS may be found at https://www.sec.gov/marketstructure/midas.html.

[60] *See* Release No. 34-77724, *Joint Industry Plan; Notice of Filing of the National Market System Plan Governing the Consolidated Audit Trail by BATS Exchange, Inc., BATS-Y Exchange, Inc., BOX Options Exchange LLC, C2*

and will result in very sophisticated financial databases, providing a full lifecycle of all orders and transactions in our equity and options markets. Once a final plan is approved, Commission Rule 613 requires the selection of a plan processor within two months to build, operate and maintain the consolidated audit trail. Data is set to be reported by the exchanges and FINRA within one year of Commission approval.

In early 2015, as part of our broader market structure work, the Commission established the Equity Market Structure Advisory Committee to provide a formal mechanism through which the Commission can receive advice and recommendations on key equity market structure issues from a diverse group of experts.[61] The Committee as a whole has since met six times to consider issues such as the operation of Regulation NMS, the impact of access fees and rebates widely used by stock exchanges and the regulatory structure of trading venues, and the impact of various market structure issues on customers. The Committee has established subcommittees to look more closely at specific issues identified by the SEC staff and Committee members before presenting them to the full Committee for discussion and deliberation. The Committee at its July 8, 2016, meeting recommended that the Commission propose a pilot program to adjust the access fee cap under Rule 610, consider rulemaking to make changes to NMS plan governance, and consider issuing guidance regarding implementation timelines for proposed SRO rule changes, including publication of technical specifications. The staff and the Committee will continue to use a variety of tools to ensure both the transparency of the Committee's consideration of issues and input from the full range of investors and other interested market participants, including coordination with our Investor Advisory Committee.

Deepening Oversight of the Fixed Income Markets

Fixed income market structure has long been a focus at the Commission, and the continued impact of technology, regulation, and other forces require us to deepen our oversight. In particular, as I have remarked before, technology in the fixed income markets may not be deployed today to achieve all of the benefits it could for investors, including the broad availability of pre-trade pricing information, lower search costs, and greater price competition.[62]

Options Exchange, Incorporated, Chicago Board Options Exchange, Incorporated, Chicago Stock Exchange, Inc., EDGA Exchange, Inc., EDGX Exchange, Inc., Financial Industry Regulatory Authority, Inc., International Securities Exchange, LLC, ISE Gemini, LLC, Miami International Securities Exchange LLC, NASDAQ OMX BX, Inc., NASDAQ OMX PHLX LLC, The NASDAQ Stock Market LLC, National Stock Exchange, Inc., New York Stock Exchange LLC, NYSE MKT LLC, and NYSE Arca, Inc. (April 27, 2016), *available at* https://www.sec.gov/rules/sro/nms/2016/34-77724.pdf.

[61] Information regarding the committee and its ongoing work can be found at https://www.sec.gov/spotlight/equity-market-structure-advisory-committee.shtml. *See also* Chair Mary Jo White, *Optimizing our Equity Market Structure: Opening Remarks at the Inaugural Meeting of the Equity Market Structure Advisory Committee* (May 13, 2015), *available at* https://www.sec.gov/news/statement/optimizing-our-equity-market-structure.html.

[62] *See* Chair Mary Jo White, *Intermediation in the Modern Securities Markets: Putting Technology and Competition to Work for Investors* (June 20, 2014) ("Chair White Fixed Income Speech"), *available at* http://www.sec.gov/News/Speech/Detail/Speech/1370542122012.

One important step is to ensure that the best execution and pricing disclosure rules for the corporate bond and municipal securities markets are robust and useful to investors, and FINRA and the MSRB have moved forward on such reforms. At the Commission's urging,[63] the MSRB in December 2014 adopted a best execution rule for the municipal bond market similar to FINRA's best execution rule.[64] And both SROs have since developed and published additional guidance on the best execution obligations of broker-dealers and municipal securities dealers.[65] In 2014, I also urged both FINRA and the MSRB to move forward on markup and markdown disclosure rules, a reform also publicly supported by my fellow Commissioners.[66] Both have submitted proposals for markup and markdown disclosure to the SEC for approval, and SEC staff is evaluating comments received on those proposals.[67]

A related effort in these markets is enhancing pre-trade price transparency. Work on this initiative is underway at the SEC. Pre-trade transparency for corporate bonds and municipal securities should remain a critical objective, and the Commission staff continues to work through the challenging issues inherent in such a transformative market structure change. The staff's immediate goal is to develop a carefully considered recommendation for the Commission's consideration.

The initiatives in these markets also include interagency work on the U.S. Treasury market in the wake of the events of October 15, 2014.[68] One important priority for the Treasury

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[63] *See SEC Report on the Municipal Securities Markets* (July 31, 2012), *available at* http://www.sec.gov/news/studies/2012/munireport073112.pdf.

[64] *See* MSRB Rule G-18 (Best Execution); Release No. 34-73764, *Self-Regulatory Organizations; Municipal Securities Rulemaking Board; Order Granting Approval of a Proposed Rule Change Consisting of Rule G-18, on Best Execution of Transactions in Municipal Securities, and Amendments to Rule G-48, on Transactions with Sophisticated Municipal Market Professionals ("SMMP"), and Rule D-15, on the Definition of SMMP* (December 5, 2014), *available at* https://www.sec.gov/rules/sro/msrb/2014/34-73764.pdf.

[65] *See* MSRB Implementation Guidance on MSRB Rule G-18, on Best Execution (November 2015), *available at* http://www.msrb.org/~/media/Files/MISC/Best-Ex-Implementation-Guidance.ashx?la=en; and FINRA Regulatory Notice 15-46 (November 2015), *available at* https://www.finra.org/sites/default/files/notice_doc_file_ref/Notice_Regulatory_15-46.pdf.

[66] *See, e.g.*, Chair White Fixed Income Speech, *supra* note 62; and Commissioners Kara M. Stein and Michael S. Piwowar, *Statement on Edward D. Jones Enforcement Action* (August 13, 2015), *available at* http://www.sec.gov/news/statement/statement-on-edward-jones-enforcement-action.html.

[67] *See* Exchange Act Release No. 34-78573 (Aug. 15, 2016), *available at* https://www.sec.gov/rules/sro/finra/2016/34-78573.pdf; Exchange Act Release No. 34-78777 (Sep. 7, 2016), *available at* https://www.sec.gov/rules/sro/msrb/2016/34-78777.pdf.

[68] *See* Chair Mary Jo White, U.S. Securities and Exchange Commission, *Prioritizing Regulatory Enhancements for the U.S. Treasury Market*, Keynote Address at the Evolving Structure of the U.S. Treasury Market Second Annual Conference, Federal Reserve Bank of New York (Oct. 24, 2016) ("Chair White 2016 Treasury Market Speech"), *available at* https://www.sec.gov/news/speech/white-keynote-us-treasury-market-conference-102416.html; *Joint Staff Report: The U.S. Treasury Market on October 15, 2014* (July 13, 2015), *available at* https://www.treasury.gov/press-center/press-releases/Documents/Joint_Staff_Report_Treasury_10-15-2015.pdf; Department of Treasury, *Notice Seeking Public Comment on the Evolution of the Treasury Market* (January 22,

market is developing a mechanism for post-trade transparency for regulators, which systems operated by FINRA and the MSRB already provide in the corporate and municipal markets. Last month, the Commission approved a groundbreaking FINRA rule that will for the first time provide regulators with transaction data for the U.S. Treasury market from participants that are FINRA members.[69] The Federal Reserve Board also announced its intention to collect transaction data from banks. This regulatory transparency will provide regulators with information critical to a deeper understanding of the U.S. Treasury market operations. And as discussed at length at the recent Treasury market conference at the Federal Reserve Bank of New York, regulators are beginning to consider appropriate steps to provide public transparency of U.S. Treasury market transactions.

In addition to these initiatives, I announced recently that the SEC is also focused on strengthening the foundational regulatory regime for Treasury market intermediaries and working with FINRA as it evaluates the application of its rules to the government securities market.[70] In addition, with respect to the regulation of dealers, I have asked SEC staff to consider further clarifying how conduct of active proprietary trading firms in the equity and government securities markets may trigger dealer registration requirements. Finally, while FINRA has already begun applying its rules to this market, including the recent regulatory trade reporting regime and rules governing mark-ups and commissions,[71] FINRA staff also expects to recommend to its Board of Governors in the first quarter of 2017 that a range of important conduct provisions be applied to the government securities market.[72]

Strengthening Other Critical Market Infrastructures

Clearing agencies provide vital services to both the equity and fixed income markets every day, and it is vital that the clearance and settlement cycle continue to work effectively and efficiently as the markets grow in size and complexity. The Commission this September adopted new rules to enhance the oversight of clearing agencies that are deemed to be systemically

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2016*), available at* https://www.treasury.gov/press-center/press-releases/Documents/Market%20Structure%20RFI%20Final.pdf.

[69] *See* Release No. 34-79116, *Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, Relating to the Reporting of Transactions in U.S. Treasury Securities to TRACE* (Oct. 18, 2016), *available at* https://www.sec.gov/rules/sro/finra/2016/34-79116.pdf.

[70] *See* Chair White 2016 Treasury Market Speech, *supra* note 68.

[71] *See* Exchange Act Release No. 34-76639, *Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Order Approving a Proposed Rule Change to Amend FINRA Rule 0150 to Apply FINRA Rule 2121 and its Supplementary Material .01 and .02 to Transactions in Exempted Securities That Are Government Securities* (Dec. 14, 2015), *available at* https://www.sec.gov/rules/sro/finra/2015/34-76639.pdf.

[72] *See* Letter from Robert Cook, President and Chief Executive Officer of FINRA, to Stephen Luparello, Director of the Division of Trading and Markets dated October 17, 2016, *available at* https://www.sec.gov/divisions/marketreg/letter-from-finra-regulation-of-us-treasury-securities.pdf and http://www.finra.org/sites/default/files/FINRA-Comment-Letter-SEC-10-17-16.pdf.

important or that are involved in complex transactions, such as security-based swaps.[73] These rules will guard against systemic risk that can arise in the clearance and settlement system, and provide certainty to market participants, especially those engaged in cross-border activities. In addition, also this September, the Commission proposed an amendment to Rule 15a6-1(a) of the Exchange Act to shorten the standard settlement cycle for most broker-dealer transactions from three business days after the trade date ("T+3") to two business days after the trade date ("T+2"). The proposed amendment is designed to reduce the risks that arise from the value and number of unsettled securities transactions prior to the completion of settlement, including credit, market, and liquidity risk directly faced by U.S. market participants.[74] I and my fellow Commissioners have expressed strong support for this effort,[75] and it is an important measure for the Commission to advance in coordination with the broader SRO and industry efforts underway.

Last year, again with broad support from all of the Commissioners,[76] the SEC also took the first major step to modernize the regulation of transfer agents in decades, issuing an advance notice of proposed rulemaking, concept release, and request for comment on the full regulatory regime.[77] It is important that this work progress so that the integral work of these market participants continues to serve investors and issuers.

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[73] *See* Release No. 34-78961, *Standards for Covered Clearing Agencies* (September 28, 2016), *available at* https://www.sec.gov/rules/final/2016/34-78961.pdf. The Commission also proposed to expand these standards to cover other registered clearing agencies. *See* Release No. 34-78963, *Definition of "Covered Clearing Agency"* (September 28, 2016).

[74] *See* Release No. 34-78962, *Amendment to Securities Transaction Settlement Cycle*, *available at https://www.sec.gov/rules/proposed/2016/34-78962.pdf.*

[75] *See* Letter from Mary Jo White, Chair, U.S. Securities and Exchange Commission, to Kenneth E. Bentsen, Jr., President and CEO, Securities Industry and Financial Markets Association and Paul Schott Stevens, President and CEO, Investment Company Institute, dated September 16, 2015, *available at https://www.sec.gov/divisions/marketreg/chair-white-letter-to-sifma-ici-t2.pdf;* Commissioners Michael S. Piwowar and Kara M. Stein, *Statement Regarding Proposals to Shorten the Trade Settlement Cycle*, (June 29, 2015), *available at* https://www.sec.gov/news/statement/statement-on-proposals-to-shorten-the-trade-settlement-cycle.html; Commissioner Michael S. Piwowar, *Statement at Open Meeting: Shortening the Settlement Cycle* (September 28, 2016), *available at* https://www.sec.gov/news/statement/piwowar-statement-open-meeting-092816.html; Commissioner Kara M. Stein, *Statement on the Proposed Rule Amendment to Shorten the Transaction Settlement Cycle* (September 28, 2016), *available at* https://www.sec.gov/news/statement/stein-second-statement-open-meeting-092816.html.

[76] *See, e.g.*, Chair Mary Jo White, *Beyond Disclosure at the SEC in 2016* (Feb. 19, 2016), *available at* http://www.sec.gov/news/speech/white-speech-beyond-disclosure-at-the-sec-in-2016-021916.html. *See also* Commissioners Michael Piwowar and Kara Stein Statement of Support for the Need to Modernize the Commission's Transfer Agent Rules (June 11, 2015), *available at* http://www.sec.gov/news/statement/statement-of-support-modernize-sec-transfer-agent-rules.html.

[77] *See* Release No. 34-76743, *Transfer Agent Regulations* (December 22, 2015), *available at* https://www.sec.gov/rules/concept/2015/34-76743.pdf.

Making Disclosure More Effective for Investors and Issuers

Another important ongoing initiative is our review of the effectiveness of disclosure for investors and issuers. Following the issuance of the Regulation S-K study required by the JOBS Act,[78] I directed the staff to review comprehensively our disclosure regime for corporate issuers and develop specific recommendations for updating the requirements.[79] As with the many efforts undertaken by my predecessors in this area, the objective is to improve the disclosure regime for investors and companies, based on input from both investors – about the type of information they want and how it can be best presented – and companies.

This is a comprehensive undertaking and the staff is reviewing the disclosure requirements in phases. In the first phase of the review, the staff is focusing on the business and financial disclosures required by periodic and current reports, Forms 10-K, 10-Q and 8-K, and updates to certain Industry Guides, including Guides 3 and 7. In September 2015, the Commission issued a request for comment for certain financial reporting and disclosure requirements in Regulation S-X.[80] Then, in April 2016, the Commission issued a major concept release that seeks input on modernizing certain business and financial disclosure requirements in Regulation S-K for the benefit of investors and companies.[81] We have already received a number of helpful comment letters on the concept release, which discusses many issues and questions that will also serve as a basis for the study of our disclosure requirements mandated by the FAST Act. Finally, more recently, in August 2016, the Commission issued a request for comment on disclosure requirements in Regulation S-K relating to management, certain security

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[78] *See Report on Review of Disclosure Requirements in Regulation S-K* (December 2013), *available at* https://www.sec.gov/news/studies/2013/reg-sk-disclosure-requirements-review.pdf.

[79] *See* Chair Mary Jo White, *The Path Forward on Disclosure* (October 14, 2013), *available at* https://www.sec.gov/News/Speech/Detail/Speech/1370539878806; and Chair Mary Jo White, *The SEC in 2014* (January 27, 2014), *available at* https://www.sec.gov/News/Speech/Detail/Speech/1370540677500.

[80] *See* Release No. 33-9929, *Request for Comment on the Effectiveness of Financial Disclosures about Entities other than the Registrant* (September 25, 2015), *available at* https://www.sec.gov/rules/other/2015/33-9929.pdf. Regulation S-X contains disclosure requirements that dictate the form and content of financial statements to be included in filings with the Commission. It addresses both registrant financial statements and financial statements of certain entities other than the registrant. It also requires that domestic issuer financial statements filed with the Commission be prepared in accordance with generally accepted accounting principles.

[81] *See* Release No. 33-10064, *Business and Financial Disclosure Required by Regulation S-K* (April 13, 2016) ("S-K Concept Release"), *available at https://www.sec.gov/rules/concept/2016/33-10064.pdf*. Regulation S-K is the central repository for the Commission's non-financial disclosure requirements. It is intended to foster uniform and integrated disclosure for registration statements under the Securities Act, registration statements under the Securities Exchange Act, and periodic and current reports filed under the Exchange Act. In July 2015, the Commission issued a concept release about possible revisions to audit committee disclosures. *See* Release No. 33-9862, *Possible Revisions to Audit Committee Disclosures* (July 1, 2015), *available at* https://www.sec.gov/rules/concept/2015/33-9862.pdf.

holders, and corporate governance matters,[82] and proposed rule and form amendments that would require registrants to include a hyperlink to exhibits in their filings.[83]

While we continue to study these comments as part of our comprehensive review, the Commission has also sought to identify and address discrete areas where updates to our disclosure requirements are now needed. In June 2016, for example, we proposed rules to modernize the Commission's disclosure requirements and policies for mining properties by aligning them with current industry and global regulatory practices and standards.[84] Then, in July, the Commission proposed amendments to eliminate redundant, overlapping, outdated, or superseded disclosure provisions, in light of subsequent changes to Commission disclosure rules, accounting principles, and technology.[85] A range of different stakeholders, including investors and issuers, have expressed support for removing redundancies and outdated provisions in certain disclosure requirements, a topic that was also highlighted again by the FAST Act. Accordingly, based on a thorough review of Commission rules, U.S. Generally Accepted Accounting Principles, and International Financial Reporting Standards, the proposal identifies a number of areas where disclosure requirements may be redundant, duplicative, or overlapping — or where requirements may have been superseded by changes made previously. The staff is also considering whether disclosure requirements should be further scaled for certain categories of issuers and, in June 2016, the Commission proposed amendments to the definition of "small reporting company" that would expand the number of companies eligible for the scaled disclosure available to that category of issuers.[86] But, as with any complex and detailed framework, we must carefully consider each aspect of the rules under review for potential changes, and we will ultimately be informed by investors, issuers, and other stakeholders on whether any particular change is appropriate.

Importantly, the staff is also considering how companies file their disclosures and is exploring alternatives that could enhance the way that investors access the disclosures. This component of our initiative is of vital importance as technology and investors' needs and behavior evolve. In the near term, we are working on changes to SEC.gov that would make EDGAR filings more accessible to investors and easier for them to navigate. We also continue to work to improve the technology behind EDGAR and SEC.gov, most recently in June by

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[82] *See* Release No. 33-10198, *Request for Comment on Subpart 400 of Regulation S-K Disclosure Requirements Relating to Management, Certain Security Holders and Corporate Governance Matters* (August 25, 2016), *available at* https://www.sec.gov/rules/other/2016/33-10198.pdf.

[83] *See* Release No. 33-10201, *Exhibit Hyperlinks and HTML Format* (August 31, 2016), *available at* https://www.sec.gov/rules/proposed/2016/33-10201.pdf.

[84] *See* Release No. 33-10098, *Modernization of Property Disclosures for Mining Registrants* (June 16, 2016), *available at* https://www.sec.gov/rules/proposed/2016/33-10098.pdf.

[85] *See* Release No. 33-10110, *Disclosure Update and Simplification* (July 13, 2016), *available at* https://www.sec.gov/rules/proposed/2016/33-10110.pdf.

[86] *See* Release No. 33-10107, *Amendments to Smaller Reporting Company Definition* (June 27, 2016), *available at* https://www.sec.gov/rules/proposed/2016/33-10107.pdf.

allowing filers to voluntarily submit eXtensible Business Reporting Language data inline as part of their core filings to facilitate easier access to, and analysis of, information.[87]

Another important new part of this ongoing review of disclosure effectiveness is to expand it to cover investment companies. Last May, I directed staff in the Division of Investment Management to undertake a disclosure effectiveness initiative of their own to consider ways to improve the form, content, and delivery of funds' disclosures.[88] Staff is in the early stages of prioritizing areas of focus, but I expect they will include ways to leverage advances in technology to improve the presentation and delivery of disclosures and ways to enhance disclosure about fund strategies, investments, risks, and fees.

Enhancing Risk Monitoring and Regulatory Safeguards for the Asset Management Industry

We have also already made significant progress on the Commission's major undertaking to enhance risk monitoring and regulatory safeguards for the asset management industry, which I announced in December 2014.[89] This effort, which comprises five core initiatives addressing funds' evolving portfolio composition risks and operational risks, follows the fundamental reforms to money market funds proposed and adopted during my tenure, which came into effect on October 14, 2016. [90]

The Commission has adopted several rules and proposed others to implement four of the five initiatives I announced in late 2014. First, last month, the Commission adopted new rules and forms as well as amendments to its rules and forms to modernize the reporting and disclosure of information by registered investment companies.[91] The adopted rules will require registered funds to provide portfolio-wide and position-level holdings data to the Commission on a monthly basis, as well as report annually on certain census-type information that reflects current information needs. This data will be reported in a structured data format, which will improve the ability of the Commission and the public both to aggregate and analyze information across all funds and to link the reported information with information from other sources. In a

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[87] *See* Release No. 34-78041, *Order Granting Limited and Conditional Exemption Under Section 36(a) of the Securities Exchange Act of 1934 from Compliance with Interactive Data File Exhibit Requirement in Forms 6-K, 8-K, 10-Q, 10-K, 20-F and 40-F to Facilitate Inline Filing of Tagged Financial Data* (June 13, 2016), *available at* http://www.sec.gov/rules/exorders/2016/34-78041.pdf.

[88] *See* Chair Mary Jo White, *The Future of Investment Company Regulation* (May 20, 2016), *available at* https://www.sec.gov/news/speech/white-speech-keynote-address-ici-052016.html.

[89] *See* Chair Mary Jo White, *Enhancing Risk Monitoring and Regulatory Safeguards for the Asset Management Industry* (December 11, 2014), *available at* https://www.sec.gov/News/Speech/Detail/Speech/1370543677722.

[90] *See* Release No. IC-31166, *Money Market Fund Reform; Amendments to Form PF* (July 23, 2014), *available at* https://www.sec.gov/rules/final/2014/33-9616.pdf.

[91] See Release No. 33-10231, *Investment Company Reporting Modernization* (October 13, 2016) *available at* https://www.sec.gov/rules/final/2016/33-10231.pdf.

related effort, in August 2016, the Commission adopted amendments to the Investment Advisers Act rules and to Form ADV, the primary investment adviser reporting and disclosure form, that among other things: (1) provides additional information regarding advisers, including information about their separately managed account business; and (2) addresses issues that staff has identified since the Commission made significant changes to Form ADV in 2011.[92]

To advance the second initiative in this area, regarding enhanced liquidity management, the Commission also adopted last month a new rule that will require mutual funds and other open-end investment companies, including ETFs, to adopt and implement liquidity management programs.[93] These funds will also be required to provide enhanced disclosure regarding their liquidity and redemption practices, the methods used by funds to meet redemptions, their committed lines of credit, and inter-fund borrowing and lending. In addition, mutual funds (except money market funds or ETFs) will be permitted to use "swing pricing,"[94] which would also require additional disclosures.

In December 2015, the Commission advanced the third initiative by proposing a rule that would impose new requirements on the use of derivatives by open and closed-end funds and business development companies.[95] Funds would be required to comply with one of two alternative portfolio limitations designed to limit the amount of leverage that a fund may obtain through derivatives and certain other transactions. In addition, funds would be subject to asset segregation requirements to manage risks associated with derivatives transactions, as well as year-end expected requirements to establish risk management programs for their derivatives activities.

On June 28, 2016, the Commission advanced the fourth initiative by proposing a rule that would require investment advisers registered with the Commission to create and maintain transition plans to prepare for a major disruption in their business[96]. SEC staff is also developing

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[92] *See* Release No. IA-4509, *Amendments to Form ADV and Investment Advisers Act Rules* (August 25, 2016), *available at* https://www.sec.gov/rules/final/2016/ia-4509.pdf. For example, the adopted amendments will require investment advisers to provide additional information regarding their separately managed account business, including aggregate data related to the use of borrowings and derivatives, and information about other aspects of their advisory business, including branch office operations and the use of social media. In addition, the amendments will facilitate streamlined registration and reporting for groups of private fund adviser entities operating a single advisory business.

[93] *See* Release Nos. 33-10233; IC-32315, *Investment Company Liquidity Risk Management Programs* (October 13, 2016, *available at* https://www.sec.gov/rules/final/2016/33-10233.pdf.

[94] *See* Release Nos. 33-10234; IC-32316, Investment Company Swing Pricing (October 13, 2016), available at https://www.sec.gov/rules/final/2016/33-10234.pdf. Swing pricing is the process of reflecting in a fund's net asset value the costs associated with the trading activity of the fund occasioned by shareholders' redemptions and purchases in order to reflect those costs in the prices paid and received by purchasing and redeeming shareholders.

[95] *See* Release No. IC-31933, *Use of Derivatives by Registered Investment Companies and Business Development Companies* (December 11, 2015), *available at* https://www.sec.gov/rules/proposed/2015/ic-31933.pdf.

[96] *See* Release No. IA-4439, *Adviser Business Continuity and Transition Plans* (June 28, 2016), *available at* https://www.sec.gov/rules/proposed/2016/ia-4439.pdf.

a recommendation that the Commission propose new requirements for stress testing by large investment advisers and large investment companies, the final initiative I outlined in 2014. Such rules would implement, in part, requirements under section 165(i) of the Dodd Frank Act.

Beyond this broad program for enhancing our oversight of the asset management industry, last year, I asked the staff to prepare a recommendation to the Commission for proposed rules requiring independent compliance assessments for registered investment advisers, which could further promote compliance with our rules for asset managers. The assessments would not replace examinations conducted by OCIE, but would be designed to improve overall compliance by registered investment advisers. I have forwarded the staff's recommendations to my two fellow Commissioners.

Section 913 of the Dodd-Frank Act granted the Commission authority to adopt rules to establish a uniform fiduciary standard of conduct for broker-dealers and investment advisers when providing personalized investment advice about securities to retail customers. As I have stated previously, my evaluation of the differences in the standards that apply to advice under the federal securities laws has led me to conclude that broker-dealers and investment advisers should be subject to a uniform fiduciary standard of conduct when providing personalized investment advice about securities to retail investors. I recognize that this is a complex issue, and that there are significant challenges that will need to be addressed in proposing a uniform fiduciary standard, including how to define the standard, how it would affect current business practices, and the nature of the potential effects on investors, particularly retail investors.

SEC staff has developed a framework for this rulemaking that has been provided to the Commission for its consideration. As part of its analysis in developing its recommendations, the staff is considering, among other things, the SEC staff's 2011 study under Section 913 of the Dodd-Frank Act,[97] the response to the request for information from March 2013,[98] the additional views of investors and other interested market participants, and the potential economic and market impacts. Ultimately, of course, the Commission as a whole will decide whether to proceed with a rulemaking to implement a uniform fiduciary standard and its parameters.

Prioritizing Cybersecurity

Cybersecurity is – as I have said before[99] – one of the greatest risks facing the financial services industry and will be for the foreseeable future. Cybersecurity risks can have far-reaching impacts, and robust and responsible safeguards for market participants and investors' information must be maintained. The Commission has been proactive in publicly

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[97] *See Study on Investment Advisers and Broker-Dealers* (January 2011), *available at* https://www.sec.gov/news/studies/2011/913studyfinal.pdf.

[98] *See* Release Nos. 34-69013 and IA-3558, *Duties of Brokers, Dealers, and Investment Advisers* (March 1, 2013), *available at* https://www.sec.gov/rules/other/2013/34-69013.pdf.

[99] *See, e.g.*, Chair Mary Jo White, *Opening Statement at SEC Roundtable on Cybersecurity* (March 26, 2014), *available at* https://www.sec.gov/News/PublicStmt/Detail/PublicStmt/1370541286468.

prioritizing awareness of cyber risks and in examining and enforcing the rules we oversee that relate to cybersecurity.[100]

Our own regulatory efforts are focused primarily on ensuring that our registered entities have policies and procedures to address the risks posed to their systems and data by cyberattacks. In the asset management space, staff from the Division of Investment Management issued guidance that discussed a number of measures that funds and advisers should consider.[101] We are also are keeping close watch on how public companies are addressing the issue in accordance with the 2011 guidance issued by the Division of Corporation Finance.[102]

On the exam front, the staff is building on its successful "cybersweep" from last year, and will focus on cybersecurity compliance and controls in 2016 as well.[103] This year's efforts involved more testing to assess firms' preparedness and implementation of firms' procedures and controls. Also, last November marked the compliance date for most entities covered by Regulation SCI, which, as noted above, covers certain key market participants – including exchanges, large ATSs, clearing agencies, and others.[104] In particular, Regulation SCI requires those entities to have comprehensive policies and procedures in place surrounding their technological systems to make them more resilient. It also requires those entities to report disruptions in their technology systems to the SEC promptly. The first set of exams of SCI entities with respect to these requirements have been underway since June.

Last May I added a Senior Advisor for Cybersecurity Policy to my staff, who has deep expertise in cybersecurity and will continue to enhance our coordinated approach to cybersecurity policy across the SEC and engage at the highest levels with market participants and other agencies. While all disruptions from cybersecurity events cannot be prevented, we continue to explore ways to ensure that our regulated entities consider the full range of cybersecurity risks to their businesses and consider and use appropriate tools and procedures to prevent breaches, detect attacks, and limit harm.

Yesterday, the SEC hosted the Fintech Forum, a public forum to discuss financial technology (Fintech) innovation in the financial services industry. The goal of the forum was to foster greater collaboration and understanding among regulators, entrepreneurs, and industry experts into Fintech innovation and evaluate how the current regulatory environment can most effectively address these new technologies. The Forum was divided into four panels in which

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[100] General information about these activities can be found at https://www.sec.gov/spotlight/cybersecurity.shtml.

[101] *See Cybersecurity Guidance*, Investment Management Guidance Update No. 2015-02 (Apr. 2015), *available at* https://www.sec.gov/investment/im-guidance-2015-02.pdf.

[102] *See* CF Disclosure Guidance: Topic No. 2, *Cybersecurity* (October 13, 2011), *available at* https://www.sec.gov/divisions/corpfin/guidance/cfguidance-topic2.htm.

[103] *See also* National Exam Program, Risk Alert: Vol. IV, Issue 8, *OCIE's 2015 Cybersecurity Examination Initiative* (Sep. 15, 2015), *available at* https://www.sec.gov/ocie/announcement/ocie-2015-cybersecurity-examination-initiative.pdf.

[104] *See* SCI Adopting Release, *supra* note 44.

the participants discussed the impact of recent innovation in investment advisory services; the impact of recent innovation on trading, settlements, and clearance activities; the impact of recent innovation on capital formation; and investor protection in the fintech era.

Strengthening Compliance with Risk-Based Examinations

As I know the Committee appreciates, the Office of Compliance Inspections and Examinations (OCIE) plays a critical role in protecting investors and the integrity of our capital markets. OCIE examiners focus on conducting risk-based examinations of registered entities, including broker-dealers, investment advisers, investment companies, national securities exchanges, SROs, transfer agents, and clearing agencies to evaluate their compliance with applicable regulatory requirements. This work is essential to address deficiencies directly with registrants and, more broadly, to improve industry compliance, detect and prevent fraud, inform policy, and identify risks.

OCIE continues to bolster its risk-based approach by using data analytics to identify activities that may warrant examination as well as deploying technology to make examinations more efficient and targeted. OCIE's Quantitative Analytics Unit has, for example, developed and continues to improve a National Exam Analytic Tool, which allows examiners to analyze huge amounts of trading data in minutes. These efforts and others have enhanced our ability to reach more registrants, and more effectively use our limited examination resources. In FY 2016, OCIE conducted more than 2,400 examinations of registrants, an increase over each of the prior seven fiscal years.

In furtherance of its risk-based approach, OCIE publishes its annual public statement of examination priorities to inform investors and registrants about areas that the staff believes present heightened risk. The examination priorities are selected through a collaborative process in which OCIE's senior management and senior representatives of other SEC Divisions and Offices worked side-by-side to analyze and perform a risk-based assessment of information from a number of sources. In 2016, OCIE's stated priorities include ETFs, fee selection practices at investment advisers and dual registrants, variable annuities, retail retirement issues, clearing agencies, cybersecurity, and Regulation SCI compliance. In March 2016, OCIE created a new Office of Risk and Strategy to consolidate and streamline OCIE's risk assessment, market surveillance, and quantitative analysis teams and provide operational risk management and organizational strategy for OCIE.

Deploying technology and the risk-based approaches as described above is imperative and helpful, but they do not and cannot produce sufficient exam coverage. I remain concerned that we do not have the resources to adequately examine the vast and growing registered investment adviser population, of which there are approximately 12,200. The Commission has therefore taken additional steps to prioritize our limited examination resources to better cover investment advisers. In fiscal year 2016, OCIE conducted more than 1,400 examinations of investment advisers, more examinations than any of the previous seven years. OCIE has also made significant enhancements to its examination program for advisers, including hiring additional industry experts, strengthening its examiner training program and increasing its use of advanced quantitative techniques. However, despite these efforts and in light of rapid growth in the adviser population, OCIE was only able to examine approximately 11% of advisers in fiscal year 2016. These advisers manage more than 35% of assets under management.

This level of coverage cannot be allowed to persist. After exploring a number of additional measures, effective October 1, 2016, OCIE has transitioned resources from its broker-dealer examination program to its program for investment advisers and investment companies. Together with the new hires permitted by our Congressional appropriations, we have increased the investor advisor and investment company OCIE staff by approximately 20% from FY 2015 levels. Significantly more resources are needed to fulfill our responsibility to investors.

Investing in People and Technology for a Smarter, Stronger Commission

Since becoming Chair, the Commission has continued its hard work to enhance its internal operations. The investing public depends on the staff of the Commission and our public systems each day to navigate the securities markets, and it is important that we continue to work to improve the quality of both. For example, we have made increasing investments in information security to improve risk management and monitoring and modernize and secure the SEC's infrastructure. The agency is also engaged in an ongoing, multi-year effort to simplify and optimize the financial reporting process through EDGAR to promote automation and reduce filer burden. With a more modern EDGAR, both the investing public and SEC staff will benefit from having improved access to better data. The steps over the last few years to modernize *SEC.gov* have also continued to improve one of the most widely used federal government websites, making it more flexible, informative, easier to navigate, and secure.

Technology also continues to be the bedrock for much of our ongoing enforcement and examination effort, creating efficiencies and capabilities that were previously impossible. In the last two years, our initiatives have included:

- *Expanding data analytic tools* that assist in the integration and analysis of huge volumes of financial market data, employing algorithms and quantitative models that can lead to earlier detection of fraud or suspicious behavior and ultimately enabling the agency to allocate its resources more effectively. For example, SEC staff has used data analytic (including pattern recognition) tools to, among other things, detect potential fraudulent or manipulative trading, identify financial statement outliers or unusual trends indicative of possible accounting fraud, discover possible money laundering, sift through massive volumes of trading data to detect suspicious trading patterns, and flag higher risk registrants for examination prioritization.

- *Enhancing the Tips, Complaints, and Referral system (TCR)* to bolster its flexibility, configurability, and adaptability. TCR investments will provide more flexible and comprehensive intake, triage, resolution tracking, searching, and reporting functionalities, with full auditing capabilities.

- *Improving enforcement investigation and litigation tracking* to better handle the substantial volume of materials produced during investigations and litigation. Among other initiatives, the SEC plans to enhance its ability to electronically transfer large amounts of data; implement a document management system for Enforcement's internal case files; and revamp the tools used to collect and analyze trading data from market participants.

Of course, none of these achievements, including those made possible by enhanced technology, would be possible without the hard work and dedication of the extraordinary women and men who work at the SEC. Our human capital strategy is built to ensure that we continue to attract and retain talented, engaged, and productive employees that reflect the constantly evolving markets we oversee. In 2014, the Partnership for Public Service named the SEC as the most improved agency in the Best Places to Work in Government annual awards for 2014.[105] And in 2015, the SEC rose to #10 on the Best Places to Work among mid-size agencies list in their annual survey based on the results of our Federal Employee Viewpoint Survey.[106] That trend continued in 2016, as reflected by our very positive results in the most recent Federal Employee Viewpoint Survey results. We ranked 3rd among 37 large federal agencies in Global Satisfaction and 6th in Employee Engagement. In addition, the SEC experienced the largest increases among all large federal agencies in both indices versus 2015, with a 9% increase Global Satisfaction and a 6% increase in Employee Engagement. While these improvements are impressive, we remain committed to fostering an even better and stronger workplace to serve the country's investors and its markets.

Striving for Continued Excellence and Meeting New Challenges

In recent years, the SEC has made great strides forward in fulfilling its critical mission. As discussed earlier, the agency has set new records for enforcement cases and examinations, strengthened its operations and programs, completed most of its Congressionally mandated rulemakings, and advanced other mission critical policy objectives. Improvements to the agency's technology and operations also have made the SEC more efficient and effective. These achievements were made possible by the additional resources Congress has provided in recent fiscal years, and the hard work of the SEC staff who have used them effectively. Although we are very pleased with this significant progress, challenges remain and additional resources are needed to permit the agency to fulfill its many obligations to investors and the markets.

The markets and registrants we oversee have grown exponentially. We now oversee approximately 28,000 market participants and selectively review the disclosures and financial statements of over 9,000 reporting companies. From 2001 to 2015, assets under management of SEC-registered advisers more than tripled from approximately $21.5 trillion to approximately $66.8 trillion, and assets under management of mutual funds more than doubled from $7 trillion to over $15 trillion. Trading volume in the equity markets from 2001 through 2015 nearly tripled to over $70 trillion. And, as this Committee knows, the SEC's responsibilities have also significantly increased, with new or expanded responsibilities for security-based swaps, hedge fund and other private fund advisers, credit rating agencies, municipal advisors, clearing agencies, and crowdfunding portals.

The SEC's budget requests for FYs 2017 and 2018 are intended to:

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[105] *See* Partnership for Public Service, *The Big Picture: Profiles of Notable Movers, available at* http://bestplacestowork.org/BPTW/rankings/profiles#sec.

[106] *See* Partnership for Public Service, *Best Places to Work Agency Rankings, available at* http://bestplacestowork.org/BPTW/rankings/overall/mid.

- Strengthen our examination coverage of investment advisers;

- Continue the agency's investments in the technologies needed to keep pace with today's high-tech, high-speed markets and market participants;

- Further bolster our core enforcement functions to detect, investigate, and prosecute wrongdoing;

- Continue the agency's emphasis on economic and risk analysis to support rulemaking and oversight; and

- Enhance the agency's oversight of rapidly changing markets and ability to carry out its increased regulatory responsibilities, including by hiring additional market and quantitative experts.

Because the SEC's budget is offset by matching collections of fees on securities transactions, the funding levels the SEC is requesting will not impact the deficit or the amount of funding available for other agencies.

For FY 2018, the SEC's authorization request totals $2.227 billion, a $445 million increase over the FY 2017 request. This level would help the SEC implement our new responsibilities, more effectively oversee the rapidly changing markets the SEC regulates, and continue to modernize the agency's information technology tools and infrastructure. Also, as described further below, the request includes the funds necessary to begin a prospectus-level procurement with the General Services Administration (GSA) in order to acquire a new headquarters lease.

The current leases for the SEC's headquarters buildings (Station Place I, II, and III) will expire in FY 2019, 2020, and 2021. In accordance with the memorandum of understanding (MOU) between the GSA and the SEC, we have begun work with GSA to begin the procurement process for a new headquarters lease. The SEC is working collaboratively with GSA to develop a package of materials to submit through the prospectus lease process. We have been informed by GSA that the SEC must be prepared to obligate the funds necessary for the build out of a new headquarters, if relocation is required, before a new lease can be executed. GSA's current schedule calls for a new lease to be executed in FY 2018. Thus, the SEC's FY 2018 authorization request reflected the GSA's estimate at that time for the build-out of which would cover expenses for construction, IT cabling and equipment, security-related equipment, and appropriate GSA fees were we required to re-locate. The estimate will continue to be refined as the prospectus lease process unfolds.

Under the core FY 2018 request, the SEC would continue to place a high priority on hiring additional examiners as part of the agency's multi-year effort to increase coverage of investment advisers. This market segment is the fastest growing registrant population we oversee and its growth in size and complexity has continued to outpace the growth of the agency's examination staff. A decade ago, there were approximately 9,000 advisers registered

with the Commission, managing $28 trillion in assets. For FY 2017, OCIE projects that these figures will grow to 12,500 advisers managing more than $70 trillion in assets. During the last ten years, the number of SEC examiners relative to adviser assets under management decreased from approximately 17 examiners per trillion dollars of assets to 8 examiners per trillion dollars. In FY 2016, due to enhancements to the examination workforce and technology tools, the SEC staff set a new record for the number of adviser exams performed in one year. However, due to continued growth in the industry, the examination rate remained at approximately 11% of registered advisers. These advisers manage more than 35% of assets under management. The FY 2018 request would continue our efforts to increase our examination rate of the investment adviser industry to be more comparable to that achieved by other financial entity regulators.

The agency also would seek to bolster the Enforcement Division's workforce in order to continue to support its three core functions: intelligence analysis, investigation, and litigation. Specifically, the Enforcement Division would use these resources to:

- help collect, analyze, triage, refer, monitor, and follow through on the thousands of tips that the SEC receives from whistleblowers and others;

- deploy additional experienced investigative and trial attorneys, accountants, and industry experts; and

- aggressively litigate against securities law violators.

Technology remains a crucial component of our strategy for pursuing wrongdoing, and the SEC intends to continue investing in data analytics, litigation support, and other tools critical for the Division of Enforcement.

The SEC would also use FY 2018 funds to hire additional economists and other analysts to bolster economic and risk analysis in support of rulemaking and oversight. In addition, the agency would focus on hiring additional staff in the Divisions of Trading and Markets and Investment Management to strengthen oversight of key market segments such as derivatives markets, clearing agencies, and investment companies. In particular, the SEC would use FY 2018 funds to enhance the agency's oversight of the fixed income markets. For example, the Commission would use these funds to implement appropriate market structure reforms in the Treasury and corporate bond markets. The SEC also remains focused on cybersecurity risk in the markets and market participants and would use FY 2018 funds to continue to build a robust framework to gauge broad based market risk and assist in strengthening examination programs for registrants, including those required by Regulation SCI, to determine cybersecurity maturity, capabilities and risk profiles.

Building on the progress made over the past several years to modernize our technology systems, the SEC will continue its emphasis on leveraging technology to strengthen operations and increase the effectiveness of our programs. Similar to the FY 2017 request, the FY 2018 request proposes full use of the SEC Reserve Fund, to support the continued implementation of a number of key technology initiatives, including enhanced risk and data analysis, EDGAR redesign, enforcement and examination support, and business process improvements. These key

priorities will enhance the SEC's ability to augment service to registrants and the public, integrate and analyze large amounts of data, and improve SEC business and operation processes.

It is critical that we have the resources necessary to discharge our responsibilities, both the new ones and the many others we have long held in the face of a growing and ever-more sophisticated financial services industry. I deeply appreciate the serious charge we have to be prudent stewards of the funds we are appropriated, and we strive to demonstrate how seriously we take that obligation by the work we do. At the same time, the cuts and limitation to the SEC's budget that some have proposed would imperil the progress we have made and our ability to fulfill our mission. Only with Congress' continued assistance can we continue to successfully execute our mission to protect investors, preserve the integrity of our markets, and promote capital formation. We very much appreciate the Committee's support.

Conclusion

The Commission's extensive work to protect investors, preserve market integrity, and promote capital formation goes beyond the initiatives and policies I have discussed. But I have tried by example to convey the breadth and importance of the Commission's ongoing efforts and provide a sense of the agency's work both since my time as Chair and since I last testified before this Committee. While more remains to be achieved, I am very proud of the agency's significant accomplishments across its many areas of critical responsibilities. For that, I want to thank first and foremost the exceptional staff of the SEC, as well as my fellow Commissioners, present and past. They richly deserve the praise and confidence of investors and the markets.

In closing, I also want to thank the Chairman, the Ranking Member, and this Committee as a whole for your support of the agency's mission. Your continued support will allow the Commission to better protect investors and facilitate capital formation, more effectively oversee the markets and entities we regulate, and continue to build upon the significant progress we have achieved.

I am happy to answer any questions that you may have.