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Before the Committee on Financial Services
U.S. House of Representatives
September 15, 2011

Chairman Bachus, Ranking Member Frank, and members of the Financial Services Committee, I am pleased to provide the committee with this written statement on behalf of The Boston Consulting Group, Inc. ("BCG") concerning its organizational and operational review of the U.S. Securities and Exchange Commission ("SEC" or "the agency"). This review culminated with a 263-page report of BCG's findings and recommendations. Below, we discuss the process for our review, and a summary of our findings and recommendations.

Dodd-Frank Act Mandates SEC Study

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank" or the "Act") was enacted in July 2010. Section 967 of the Act directed the SEC to "engage an independent consultant of high caliber" to examine the agency's internal operations and structure and make recommendations for necessary reform. BCG submitted a proposal in response to an RFP and was pleased that the SEC selected us for this study.

The Boston Consulting Group

Founded in 1963, BCG is a global management consultancy and one of the world's leading advisors on strategy, organizational change and transformation to major corporations, public sector agencies and non-government organizations. Over the years we have responded to our client needs (both in the public and private sectors) to implement major transformation and change. To achieve this, we have invested in methodologies and tools to successfully deliver large-scale improvements in organization structure, effectiveness and efficiency for our clients. We brought a number of these core strengths to bear in our thorough study of the SEC, including a deep knowledge of capital markets, our equally deep experience in organizational design, people management and technology, and our proven track record in using this experience and expertise to great effect for our clients, here in the US and globally.

The SEC

The SEC's mission is threefold: protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. Today, the SEC oversees a large, highly complex, and rapidly changing securities market with a wide range of registrants. The agency engages in numerous regulatory activities, including registration, rulemaking and interpretation, reviewing SRO rules, investigation and enforcement, and examinations. As of the writing of our report, the SEC employed approximately 3,900 employees nationwide, which includes the home office in Washington, DC and 11 regional and district offices.

To carry out its mission, the SEC requires both a regulatory framework with clear authorizations, as well as a robust set of internal capabilities to fulfill this mandate. Our study focused on the latter.

BCG's Report and Recommendations

We conducted our study from October 2010 to March 2011. We leveraged a number of proprietary methodologies and tools, reviewed extensive documentation, undertook analyses, and conducted more than 425 discussions with current and former SEC officials, regulated entities, peer regulators, SROs, and industry groups. We focused on the four matters for study that the SEC identified in the Statement of Work for this project: 1) organization structure; 2) personnel and resources; 3) technology and resources; and 4) relationships with self-regulatory organizations ("SROs"). For each of these matters, we identified the key issues, recommended options, and noted initiatives already underway.

We submitted a 263-page report to Congress and the SEC on March 10, 2011. Broadly speaking, there are three parts to our report:

- An Executive Summary of our key findings and recommendations
- The core body of the report that addresses: Scope and approach, Context, Assessment, Strategic direction for the SEC, and Recommended initiatives
- A detailed Appendix with analyses that supplement the observations and conclusions in the core body of the report

We found that the SEC has initiated steps to more efficiently fulfill its existing mandates as well as manage its expanded mandate under Dodd-Frank. That said, however, we also found that the agency can do more. In particular, we found that there are opportunities for the agency to realign its resources to focus on the highest priority mission critical activities (as identified by the divisions and offices, themselves). In terms of organizational design, we found that the agency will need to make fundamental decisions regarding its operating model, and that the key areas of focus will include redesigning the structure of the operating divisions, increasing the focus on operational management and efficiency, formulating a clear strategy and design for the regional model, and reviewing the interaction between the Commission and SEC staff. We likewise found that more can be done to improve the agency's personnel processes and capabilities. For example, the agency needs to develop a targeted recruiting process, enhanced training capabilities, a knowledge management system, and a fully implemented and embraced performance management system, all of which must be supported by a well-functioning, service-oriented, and appropriately staffed HR team. With regard to technology, we found that the SEC today under-leverages technology in the conduct of its business. Given the SEC's expanding mandate and the increasing sophistication of the securities markets that it oversees, it is imperative that the agency address key gaps and make technology a strategic enabler. Finally, with respect to SROs, we found that there are opportunities for improvement in three areas of the agency's SRO-related operations – structure (e.g., the number of SEC/SRO touch-points), competencies (e.g., staff skills), and processes (e.g., the SRO rule review process) – which, if addressed, could enhance both the SEC's ability to oversee, and serve as a co-regulator with, the SROs.

As described in detail in our report, we developed a portfolio of initiatives which will create real efficiency and effectiveness improvements for the agency. These initiatives fall into the following four major categories:

Reprioritize regulatory activities

The SEC should engage in a rigorous assessment of its highest-priority needs in regulatory policy and operations, and reallocate resources accordingly.

- *Initiative 1: Reprioritize regulatory activities.* The SEC should undertake a structured agency-wide process to evaluate and reprioritize its mission critical activities and re-align resources accordingly. In order to do so, each division and office should classify its respective mission critical activities into four categories: high-priority activities that SEC management deems critical to strengthen or commence; activities that the SEC could, if necessary, scale back or stop entirely; activities where the SEC could consider delegating responsibilities externally, (e.g., to SROs); mandated activities where SEC management could request implementation flexibility from Congress.

Reshape the organization

The SEC should reshape its organizational structure, roles, and governance to maximize efficiency, effectiveness, and collaboration, as well as to drive continuous improvement.

- *Initiative 2a: Systematically redesign the organization.* The SEC should undertake a disciplined and transparent cascading process to re-design the organization, roles, accountabilities and decision rights to address the structural design of the operating divisions and support offices, as well as the strategy, design, and footprint of the regional model. This redesign must also take into account the reprioritization of activities and reallocation of resources described above, as well as the opportunity to streamline the management structure
- *Initiative 2b: Seek flexibility from Congress on certain Dodd-Frank mandated offices.* The SEC should seek flexibility from Congress to design its organization structure in a manner consistent with the activities required to be performed by the Dodd-Frank-mandated offices while avoiding unnecessary duplication
- *Initiative 2c: Review Commission- staff interaction processes and delegation of authority.* The SEC should review the Commission-staff interaction processes to provide clarity on delegated authority, increase transparency for the Commission in areas that are delegated, and increase efficiency in Commission-staff interactions where the Commission retains authority
- *Initiative 2d: Implement a continuous improvement program.* The SEC should undertake an ongoing initiative to systematically reduce costs throughout the organization through levers such as demand management, sourcing, and business process optimization

Invest in enabling infrastructure

The SEC should invest in key enabling infrastructure, including technology, human resources, risk management, and high-priority staff skills.

- *Initiative 3a: Enhance and develop key systems.* The SEC should enhance its existing technology and develop a new suite of systems to drive internal efficiency (e.g., by deploying workflow tools) and enable critical functionality (e.g., improve the availability of information by deploying a knowledge management system and sharing data across applications)
- *Initiative 3b: Enhance the Office of Information Technology's (OIT) ability to deliver technology solutions.* The SEC should undertake a multi-faceted transformation of OIT, which will improve the effectiveness of the information technology (IT) function to develop key technology capabilities

- *Initiative 3c: Establish a Technology Center of Excellence.* The SEC should establish a Technology Center of Excellence to institutionalize an awareness of the impact of technology on the securities markets (e.g., the effect of high frequency trading on market structure) and improve the adoption of new technology at the agency (e.g., market data analytics)
- *Initiative 3d: Execute the planned Office of Human Resource (OHR) redesign.* The SEC should undertake a multi-faceted transformation of OHR, through the execution of its restructuring plans, including a build out of the new HR Manager role, centralization of the SEC's training function, the development of a targeted recruiting process, and an enhancement of OHR's capability to support more effective people management processes within the agency
- *Initiative 3e: Complete roll-out of performance management system and link to compensation.* The SEC should accelerate the implementation of OHR's new performance management system; in concert, the agency should develop and link performance to a meaningful compensation strategy
- *Initiative 3f: Create a surge capacity plan.* The SEC should develop a short-term staffing plan that would enable the agency to navigate short-term surges in workload, particularly with respect to the Division of Investment Management and Trading and Markets
- *Initiative 3g: Enhance risk management.* The SEC should further develop and embed its risk management capabilities in the line organizations to better track key market trends and developments in a timely and actionable manner
- *Initiative 3h: Hire staff to build high-priority staff skills.* The SEC should fill vacancies caused by attrition with employees who meet high-priority skill needs

<u>Enhance SRO engagement model</u>
The SEC should implement initiatives to enhance its role as both an overseer of, and co-regulator with, SROs.

- *Initiative 4a: Strengthen oversight of SROs.* The SEC should enhance the disclosures SROs make about their regulatory activities, develop metrics and standards that SROs can be measured against, and enhance oversight of the Financial Industry Regulatory Authority
- *Initiative 4b: Centralize and coordinate approach to SRO interactions.* The SEC should create a central, coordinating point of contact for SRO interactions and implement structural measures that foster dialogue with SROs on market trends and related issues
- *Initiative 4c: Strengthen processes for SRO rule proposals.* The SEC should institute clearer processes for SRO rule proposals and the SEC's review thereof

We would recommend these initiatives be implemented immediately and rigorously because they are foundational to the agency's future and should, in any case, be the first major set of initiatives to be launched. Congress should then reflect on whether such optimization adequately meets its expectations for the agency's efficiency and effectiveness. This sequence is particularly important as a precise estimate of efficiencies and any future funding need can only be determined by an in-depth analysis of specific investment initiatives that target long-standing capability needs, future increases in market-driven workload, and the results of the optimization initiatives.

Proposed Legislation
We have reviewed the two legislative proposals in the context of our organizational and operational review of the SEC.

The proposed "SEC Modernization Act of 2011" (the "Modernization Act") contains a number of provisions which, based on our reading of the draft bill, appear to be consistent with options outlined in our report. Moreover, there are several provisions of the Modernization Act which appear to posit options beyond those outlined in our report. Finally, several provisions of the Modernization Act appear to go beyond the scope of our study.

The "SEC Regulatory Accountability Act" (H.R. 2308) addresses regulatory mandates that are beyond the scope of our study.

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Our report entitled "U.S. Securities and Exchange Commission Organizational Study and Reform" and dated March 10, 2011, is incorporated by reference into this written testimony.

United States House of Representatives
Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	2. Organization or organizations you are representing:
Vaidyanathan Chandrashekhar Shubh Saumya Michael Shanahan	The Boston Consulting Group, Inc.

3. Business Address and telephone number:

[redacted]

4. Have ___you___ received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	5. Have any of the ___organizations you are representing___ received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?
☐ Yes ☑ No	☑ Yes ☐ No

6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.

BCG received a contract from the SEC for $4,853,406 in October 2010.

7. Signature:

Please attach a copy of this form to your written testimony.