

SECURITIES AND EXCHANGE COMMISSION
AUTHORIZATION ACT OF 2002

APRIL 22, 2002.—Committed to the Committee of the Whole House on the State of
the Union and ordered to be printed

Mr. OXLEY, from the Committee on Financial Services,
submitted the following

R E P O R T

[To accompany H.R. 3764]

The Committee on Financial Services, to whom was referred the bill (H.R. 3764) to authorize appropriations for the Securities and Exchange Commission, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

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AMENDMENT

The amendment is as follows:
Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the “Securities and Exchange Commission Authorization Act of 2002”.

SECTION 2. AUTHORIZATION OF APPROPRIATIONS OF THE SECURITIES AND EXCHANGE COMMISSION.

In addition to any other funds authorized to be appropriated to the Securities and Exchange Commission, there are authorized to be appropriated to carry out the functions, powers, and duties of the Commission, \$776,000,000 for fiscal year 2003, of which—

(1) not less than \$134,000,000 shall be available for the Division of Corporate Finance and for the Office of Chief Accountant;

(2) not less than \$326,000,000 shall be available for the Division of Enforcement; and

(3) not less than \$76,000,000 shall be available to implement section 8 of the Investor and Capital Markets Fee Relief Act, relating to pay comparability.

SEC. 3. SENSE OF THE CONGRESS.

It is the sense of the Congress that the Securities and Exchange Commission should conduct a thorough annual review of the annual financial statements contained in the most recent periodic disclosures filed with the Commission by the largest 500 reporting issuers, as determined by market capitalization and by other factors as the Commission shall determine.

PURPOSE AND SUMMARY

The purpose of H.R. 3764, the Securities and Exchange Commission Authorization Act of 2002, is to authorize appropriations for the Securities and Exchange Commission (SEC) for fiscal year 2003.

The bill authorizes \$776 million for fiscal year 2003, with \$134 million designated for the use of the Division of Corporation Finance and the Office of the Chief Accountant, and \$326 million designated for the use of the Division of Enforcement. Given this substantial increase in funding, the bill expresses the sense of the Congress that the SEC should conduct a thorough annual review of the annual financial disclosures of the 500 largest market participants. Finally, the Committee also fully funds the pay parity provisions of the Investor and Capital Markets Fee Relief Act (Public Law 107-123), enacted into law in January 2002.

BACKGROUND AND NEED FOR LEGISLATION

The SEC is statutorily charged with the supervision of the Nation’s securities markets. This legislation will authorize the resources necessary for the SEC to enable it to continue its mission of protecting investors and promoting efficiency, competition, and capital formation.

The U.S. securities markets are widely regarded as the deepest, most liquid, and fairest markets in the world, in large part due to the work of the Commission. With modest staff and limited resources, the SEC currently oversees an estimated 8,000 brokerage firms employing nearly 700,000 brokers; 7,500 investment advisers with approximately \$20 trillion in assets under management; 34,000 investment company portfolios; and over 17,000 reporting companies. The Commission also has oversight responsibilities for nine registered securities exchanges, the National Association of Securities Dealers, the National Futures Association, 13 registered clearing agencies, and the Municipal Securities Rulemaking Board.

The President’s fiscal year 2003 budget request includes a total of \$466.9 million for the SEC, an increase of 6.6 percent above the SEC’s 2002 appropriation of \$437.9. This proposed funding level

would provide the SEC with a “zero-growth” budget in that it provides no new staff and only modest amounts for the SEC’s e-government and information technology initiatives, telecommunications systems, and security enhancements. The Commission has not received a staffing increase in the last two years, despite the additional responsibilities put upon it by the enactment of the Commodity Futures Modernization Act and the Gramm-Leach-Bliley financial services modernization act. Now, with the events of September 11 in which the SEC’s Northeast Regional Office was destroyed, as well as the Enron and Global Crossing bankruptcies, the challenges facing the SEC and the SEC’s responsibilities have expanded yet again. While the Administration has, in a supplemental budget request, asked for an additional \$20 million for the SEC in fiscal 2003 in order to fund 100 new staff positions, Chairman Pitt has noted, and the Committee agrees, that this amount is only enough to fill the SEC’s immediate post-Enron needs. These needs include a greater focus on “real-time” enforcement, particularly in financial reporting cases, initiation of more current, rather than periodic, disclosures, increased investor education programs and updated information technology. To address these areas, H.R. 3764 provides for an additional \$233.1 million beyond the President’s initial budget plus the supplemental request, and designates specific programs at the SEC that are to receive substantially increased funding.

Furthermore, this authorization level would allow the SEC to at last take the steps necessary to stem the agency’s recruiting and retention problems. In January 2002, the President signed into law the Investors and Capital Markets Fee Relief Act, which provided both for substantial cuts in certain fees paid by investors and for “pay parity” between SEC staff and the employees of the Federal bank regulatory agencies. However, the President’s budget request does not provide funding for pay parity. SEC Chairman Harvey Pitt has requested an additional \$76 million above the President’s budget request to fully fund pay parity in fiscal year 2003. H.R. 3764 provides the necessary funds for existing staff, as well as for the SEC’s projected new hires.

The authorization is consistent with the fee reduction provisions of the Investor and Capital Markets Fee Relief Act, which was intended to provide the SEC with stable funding, while reducing fees imposed on investors that impede the capital formation process. The Committee’s authorization of \$776 million for the SEC is less than the amount of fees that are projected by the Congressional Budget Office to be collected in fiscal year 2003 and designated as “offsetting collections” available to fund the activities of the SEC.

HEARINGS

The Committee has not held hearings on this legislation.

COMMITTEE CONSIDERATION

The Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises was discharged from the further consideration of H.R. 3764 on April 8, 2002.

The Committee on Financial Services met in open session on April 11, 2002 and ordered H.R. 3764 reported to the House with

a favorable recommendation by a voice vote, a quorum being present.

COMMITTEE VOTES

Clause 3(b) of rule XIII of the Rules of the House of Representatives requires the Committee to list the record votes on the motion to report legislation and amendments thereto. A motion by Mr. Oxley to order the bill reported to the House with a favorable recommendation was agreed to by a voice vote, a quorum being present.

The following amendment was considered by a record vote. The names of members voting for and against follow:

An amendment by Mr. Sherman, no. 2, calling for the Securities and Exchange Commission to conduct a thorough review of the largest companies within one year of the enactment of this bill was not agreed to by a record vote of 25 yeas and 26 nays (Record vote no. 24).

YEAS	NAYS
Mr. LaFalce	Mr. Oxley
Mr. Frank	Mr. Leach
Mr. Kanjorski	Mr. Bereuter
Ms. Waters	Mr. Baker
Mr. Sanders	Mr. Castle
Mrs. Maloney of New York	Mr. Royce
Mr. Watt of North Carolina	Mr. Ney
Mr. Bentsen	Mr. Barr of Georgia
Mr. Maloney of Connecticut	Mrs. Kelly
Ms. Hooley of Oregon	Mr. Gillmor
Ms. Carson of Indiana	Mr. Weldon of Florida
Mr. Sherman	Mr. Ryun of Kansas
Mr. Sandlin	Mr. Manzullo
Ms. Lee	Mr. Ose
Mr. Mascara	Mrs. Biggert
Mr. Inslee	Mr. Green of Wisconsin
Ms. Schakowsky	Mr. Toomey
Mr. Moore	Mr. Shays
Mr. Gonzalez	Mr. Fossella
Mrs. Jones of Ohio	Mr. Gary G. Miller of California
Mr. Capuano	
Mr. Shows	Mr. Cantor
Mr. Crowley	Mr. Grucci
Mr. Israel	Ms. Hart
Mr. Ross	Mr. Ferguson
	Mr. Tiberi
	Mr. Lucas of Kentucky

The following other amendments were considered by the Committee:

An amendment by Mr. Oxley, no. 1, adding funding for pay parity, was agreed to by a voice vote.

An amendment by Mr. Sherman, no. 3, expressing the Sense of Congress that the SEC should conduct a thorough annual review of the annual financial statements contained in the most recent periodic disclosures filed with

the SEC by the largest 500 companies, was agreed to by a voice vote.

COMMITTEE OVERSIGHT FINDINGS

Pursuant to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives, the Committee held a hearing and made findings that are reflected in this report.

PERFORMANCE GOALS AND OBJECTIVES

Pursuant to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee establishes the following performance related goals and objectives for this legislation:

The Securities and Exchange Commission will use the funds authorized by this legislation to improve its oversight of public companies, including increasing the reviews of public company financial statements filed pursuant to the securities laws, improve its enforcement of the securities laws, and improve retention of key personnel.

NEW BUDGET AUTHORITY, ENTITLEMENT AUTHORITY, AND TAX EXPENDITURES

In compliance with clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee finds that this legislation would result in no new budget authority, entitlement authority, or tax expenditures or revenues.

COMMITTEE COST ESTIMATE

A cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974 was not available in time for the filing of this report. The Committee estimates that budget authority will be made available to the SEC at approximately the levels authorized in the legislation.

CONGRESSIONAL BUDGET OFFICE ESTIMATE

Pursuant to clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, a cost estimate provided by the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974 was not made available to the Committee in time for the filing of this report. The Chairman of the Committee shall cause such estimate to be printed in the *Congressional Record* upon its receipt by the Committee.

FEDERAL MANDATES STATEMENT

An estimate of Federal mandates prepared by the Director of the Congressional Budget Office pursuant to section 423 of the Unfunded Mandates Reform Act was not made available to the Committee in time for the filing of this report. The Chairman of the Committee shall cause such estimate to be printed in the *Congressional Record* upon its receipt by the Committee.

ADVISORY COMMITTEE STATEMENT

No advisory committees within the meaning of section 5(b) of the Federal Advisory Committee Act were created by this legislation.

CONSTITUTIONAL AUTHORITY STATEMENT

Pursuant to clause 3(d)(1) of rule XIII of the Rules of the House of Representatives, the Committee finds that the Constitutional Authority of Congress to enact this legislation is provided by Article 1, section 8, clause 1 (relating to the general welfare of the United States) and clause 3 (relating to the power to regulate interstate commerce).

APPLICABILITY TO LEGISLATIVE BRANCH

The Committee finds that the legislation does not relate to the terms and conditions of employment or access to public services or accommodations within the meaning of section 102(b)(3) of the Congressional Accountability Act.

SECTION-BY-SECTION ANALYSIS OF THE LEGISLATION

Section 1. Short Title

Section 1 provides the short title of the bill, the “Securities and Exchange Commission Authorization Act of 2002”.

Section 2. Authorization of Appropriations of the Securities and Exchange Commission

Section 2 authorizes appropriations in the amount of \$776 million for the SEC for fiscal year 2003, with \$134 million designated for the use of the Division of Corporation Finance and the Office of Chief Accountant, and \$326 million designated for the use of Division of Enforcement. Not less than \$76 million of the total authorized by the bill is to be available to implement the pay parity provisions of the Investor and Capital Markets Fee Relief Act (Public law 107–123). This authorization will allow the SEC to substantially increase its staff, and to bring its salary and benefits structure into parity with those of the Federal banking regulators.

Section 3. Sense of the Congress

This section expresses the sense of the Congress that the SEC should conduct a thorough annual review of the annual financial statements of the largest 500 reporting issuers, based on market capitalization, or other factors that the SEC may apply. The section leaves to the SEC discretion over the method of implementation of this annual monitoring of the largest market participants’ annual financial statements.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

This bill does not amend existing law.