

MEMORANDUM

To: Members of the Committee on Financial Services

From: FSC Majority Staff

Date: September 29, 2017

Subject: October 4, 2017, Full Committee Hearing Entitled “Examining the SEC’s Agenda, Operations, and Budget”

The Committee on Financial Services will hold a hearing entitled “Examining the SEC’s Agenda, Operations, and Budget,” at 10:00 a.m. on Wednesday, October 4, 2017, in room 2128 of the Rayburn House Office Building. The Honorable Jay Clayton, Chairman, U.S. Securities and Exchange Commission, will be the only witness.

Background

President Trump nominated Chairman Clayton to the U.S. Securities and Exchange Commission (“SEC”) on January 20, 2017. On May 2, 2017, the U.S. Senate confirmed Chairman Clayton for a term expiring in 2021 and he was sworn in on May 4, 2017. On July 12, 2017, Chairman Clayton delivered his first policy speech, which outlined his guiding principles for the SEC, which, at its core, focuses on being true to the SEC’s three-part mission and the long term impacts on the Main Street Investors.

The SEC has a three-part mission: to protect investors; to maintain fair, orderly and efficient markets; and to facilitate capital formation. The SEC consists of five presidentially-appointed commissioners who serve staggered five-year terms, one of whom is designated by the President to serve as Chairman. No more than three commissioners may belong to the same political party. The commissioners guide SEC policy by interpreting the Federal securities laws, proposing new rules as warranted by market developments or Congressional mandates, amending existing rules, and overseeing SEC enforcement actions. The SEC has five Divisions, 23 Offices, and 11 Regional Offices. The SEC’s Divisions and Offices are based at the SEC’s headquarters in Washington, D.C., and they report to the Chairman. This hearing will examine the SEC’s operations and the extent to which it is meeting its statutory mission, including the following matters:

FY 2017 SEC Funding and the SEC's 2018 Budget Request

Pursuant to the Continuing Resolution, which expires on December 9, 2017, the SEC's current appropriation is \$1.605 billion. The Administration's FY 2018 request for the SEC is \$1.602 billion, and proposes to eliminate the SEC Reserve Fund. The SEC has the authority to carry over unspent funds from the previous fiscal year. The SEC carried over approximately \$25 million in unspent funds from FY 2016 into FY 2017. On May 23, 2017, Chairman Clayton submitted a \$1.602 billion FY 2018 budget request to Chairman Hensarling in accordance with Section 607 of the Congressional Budget and Impoundment Control Act of 1974.

SEC Cybersecurity

In May 2017, Chairman Clayton initiated an assessment of the SEC's internal cybersecurity risk profile and its approach to cybersecurity from a regulatory and oversight perspective. On September 20, 2017, Chairman Clayton issued a statement on cybersecurity in which he revealed that in August 2017, the SEC discovered "an incident previously detected in 2016 may have provided illicit gain through trading."¹ Specifically, there was a software vulnerability in the test filing component of its Electronic Data Gathering Analysis and Retrieval ("EDGAR") system which resulted in unauthorized access to nonpublic information. Chairman Clayton has asked the SEC's Inspector General to review the SEC's response to the breach.

¹ Press Release, SEC Chairman Jay Clayton, Statement on Cybersecurity (Sept. 20, 2017) *available at* <https://www.sec.gov/news/public-statement/statement-clayton-2017-09-20>.