

Testimony on “Examining the SEC’s Agenda, Operations and FY 2016 Budget Request”

by

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U.S. Securities and Exchange Commission

Before the

Committee on Financial Services

United States House of Representatives

March 24, 2015

Chairman Hensarling, Ranking Members Waters, and members of the Committee:

Thank you for inviting me to testify regarding the recent activities and current initiatives of the U.S. Securities and Exchange Commission (SEC), our fiscal year 2016 budget request, and our planned agenda to continue to fulfill our critical three-part mission: to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.¹

Since I testified before this Committee last April, the SEC has accomplished a great deal in many areas important to our mission and in fulfilling Congressional mandates. Over the last year, informed and supported by rigorous and robust economic analyses, the Commission has, for example, adopted a series of very important reforms, including rules directly responding to the financial crisis, and the integrity of our markets. We have made substantial progress implementing the rulemakings mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and the Jumpstart Our Business Startups Act (JOBS Act). The rules on which the Commission has taken action on in the last year include:

- *Asset-Backed Securities.* 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 includes the types of securities backed by residential and commercial real estate that played a central role in the financial crisis.
- *Credit Rating Agencies.* The Commission finalized over a dozen rules that will reduce conflicts of interest and strengthen the integrity of nationally recognized statistical ratings organizations and the transparency of their ratings. The Commission also continued to remove references to credit ratings, bringing the total of removed references to 30 and leaving only four rules and one form with references to be removed.
- *Money Market Funds.* The Commission completed reforms designed to enhance the structure and operation of the \$3.7 trillion money market fund market to enhance the protection of investors and to support financial stability.
- *Security-Based Swaps.* The Commission proceeded with the next critical phase of its implementation of Title VII of the Dodd-Frank Act, adopting new rules for previously

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 full Commission, or any Commissioner.

unregulated derivatives by mandating the parameters for covered entities and establishing registration and reporting requirements for security-based swap data repositories. In particular, in June 2014 the Commission adopted the first of a series of key rules and guidance on cross-border security-based swap activities for market participants, and earlier this year adopted rules that require security-based swap data repositories to register with the SEC and prescribe reporting and public dissemination requirements for security-based swap transaction data.

- *Capital Formation.* The Commission advanced rules to implement JOBS Act provisions concerning registration and reporting thresholds under Exchange Act Section 12(g). On March 25, the Commission is scheduled to consider the adoption of a potentially transformative rule under the JOBS Act to significantly enhance the existing Regulation A exemption from registration for small offerings of securities.
- *Risk Retention.* As required by the Dodd-Frank Act, the Commission approved a joint agency rule requiring sponsors of securitization transactions to retain risk in those transactions.
- *Market Stability and Oversight.* The Commission adopted Regulation Systems Compliance and Integrity (Regulation SCI), creating for the first time mandatory technology and systems standards and reporting for significant market participants intended to reduce systems issues and improve the overall resiliency of our markets. Also on March 25, the Commission is scheduled to consider a rule proposal to enhance the supervision of large proprietary trading firms, including those engaged in high frequency trading, that have come to play an important role in the U.S. equity markets.
- *Executive Compensation.* As required by the Dodd-Frank Act, the Commission proposed rules for enhancing corporate disclosure of hedging policies for officer and directors.

Substantial progress has also been made in our assessment of U.S. equity market structure to ensure that our markets remain the deepest and fairest in the world and optimally serve investors and companies of all sizes seeking to raise capital. In addition to the adoption of Regulation SCI, we have published for notice and comment a proposal by the self-regulatory organizations (SROs) for a pilot to assess the impact of different tick sizes on the quality of the equity markets for small capitalization issuers. In response to my request, the exchanges conducted and completed an in-depth analysis of order types and reported on their findings, and have filed proposed rule changes that improve disclosures about how they use securities information processor (SIP) feeds and direct feeds. I have also asked the exchanges and SIPs to incorporate a time stamp in their data feeds to facilitate greater transparency on the issue of data latency, which I expect will be operationalized this summer. We have also brought a number of significant enforcement actions for violations of market integrity rules. In addition, recently we created an equity market structure advisory committee to focus on the structure and operations of the U.S. equities markets (including Regulation NMS) and provide a formal mechanism through which the Commission can receive advice and recommendations specifically related to equity market structure issues. The membership of the committee reflects a diversity of backgrounds, expertise, and viewpoints on our current equity market structure that we expect will provide

valuable input as SEC staff continues to pursue, at my direction, a broad market structure agenda focused on high frequency trading and fairness, market transparency, trading venue regulation, mitigating broker conflicts, and critical market infrastructure.² Staff also continues to pursue ideas to improve the market structure for trading fixed income securities, including municipal and corporate bonds, and is developing a far-ranging package of measures for enhancing the asset management industry's risk monitoring and regulatory safeguards.

We are also advancing our initiative to improve the effectiveness of the public company disclosure regime for investors and companies, where the staff has sought input from a broad range of market participants and is developing recommendations for the Commission's consideration. In addition, consistent with the Dodd-Frank Act, staff is currently engaged in a comprehensive review of the "accredited investor" definition.

The Division of Enforcement continued to achieve significant results, filing 755 enforcement actions and obtaining orders for more than \$4.16 billion in disgorgement and penalties in fiscal year 2014. Notable actions include the first series of cases involving violations of the "market access" rule, the first action enforcing the "pay to play" rule for investment advisers, the first action against a private equity firm relating to its allocation of fees and expenses, and the first anti-retaliation case to protect a whistleblower who reported improper trading activity. Structural improvements – including increased recruitment of industry experts, the augmentation of our data analytics capacities, and enhanced training programs – within our Office of Compliance, Inspections and Examinations have led to a more effective, efficient examination program.

The agency's emphasis on technological improvements is continuing to pay dividends, improving efficiencies while allowing us to cover more ground than ever before. In FY 2016, the SEC plans to build on the substantial progress made over the past few years to modernize its technology systems, streamline operations, and increase the effectiveness of its programs. Key information technology initiatives include:

- *Data analytics 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.
- *EDGAR modernization*, an ongoing, multi-year effort to simplify the financial reporting process to promote automation and reduce filer burden, including on small companies.
- *Examination improvements* aimed toward improving risk assessment and surveillance tools that will help the staff monitor for trends and emerging fraud risks, as well as improving the workflow system supporting SEC examinations.
- *Enterprise Data Warehouse*, a centralized repository for the SEC to organize its disparate sources of data and help the public gain easier access to more usable market data.

² To help ensure that a full range of viewpoints is represented, the committee will invite relevant industry and public participants to present and discuss the topics to be addressed at each meeting.

In recent years, the agency's responsibilities have dramatically increased, with new or expanded jurisdiction over securities-based swaps, private fund advisers, credit rating agencies, municipal advisors, and clearing agencies. As the SEC's jurisdiction has grown, so too has the size and complexity of the markets and entities within it. The SEC is charged with overseeing over 25,000 market participants, including broker-dealers, investment advisers, transfer agents, exchanges, and others. From fiscal year 2001 to the start of fiscal year 2015, for example, the assets under management of SEC-registered investment advisers increased approximately 254 percent from \$17.5 trillion to approximately \$62 trillion (up about \$7 trillion from last year alone), assets under management of mutual funds grew by some 143 percent to \$15.6 trillion, and trading volume in the equity markets more than doubled to in excess of \$67 trillion. With respect to fixed income, the total principal amount of corporate bond issues outstanding is approximately \$11.6 trillion, and the total principal amount of municipal bond issues outstanding is approximately \$3.6 trillion.

It is critical that the agency be able to keep pace with the rapid expansion of the size and complexity of the securities markets and the entities over which it has jurisdiction. Although improvements to technology and operations have made the agency more efficient and effective and recent growth in the SEC's budget has permitted the agency to begin to address gaps, more is needed to match our resources to our growing mandates and the increasing complexity of the markets. There continues to be an immediate and pressing need for additional resources to permit the agency to increase its examination coverage of registered investment advisers and investment companies so as to better protect investors and the nation's securities markets. We are advancing our ongoing assessments of ways to improve the U.S. equity and fixed income markets and the opportunities available to small businesses to raise capital to ensure that our markets and our entrepreneurs can serve their vital roles in promoting economic growth. Moving forward the initiatives focused on improving the risk monitoring and regulatory safeguards of the evolving asset management industry also are essential. We must also further leverage cutting-edge technology to better keep pace with the entities and markets we regulate, continue to strengthen our economic and risk analysis functions, and hire additional experts to further our expanded rulemaking and oversight responsibilities.

We must continue our work in these and other areas, and we are doing so with intensity. Ultimately, our policies and initiatives will be judged on whether we have implemented and enforced rules that create a strong and effective regulatory framework and stand the test of time under scrutiny in rapidly changing financial markets. It will also be measured by our ability to continue to execute and improve on our existing regulatory, enforcement, and examination programs. In performing all of our work, I fully recognize our responsibility to be effective and prudent stewards of the funds we are appropriated, and believe our accomplishments to date reflect how seriously we take that responsibility.

Below I have highlighted the work of each of the SEC's Divisions and a number of its Offices, including information on the SEC's substantial progress in implementing the Dodd-Frank and JOBS Acts. I also include below a brief discussion of the SEC's fiscal year 2016 budget request.

Issuer Disclosure and Capital Formation

The Division of Corporation Finance (Corporation Finance) regularly and systematically reviews the disclosures and financial statements of thousands of reporting companies and selectively reviews documents that companies file when they engage in public offerings, business combination transactions, and proxy solicitations, in each case to enhance compliance with our rules to help ensure that investors have access to material information to inform their investment and voting decisions. During fiscal year 2014, Corporation Finance staff reviewed the annual and periodic reports of over 4,300 companies and, in addition to other selective reviews of transactional filings, more than 600 registration statements by new issuers. Corporation Finance also maintains specialized offices with legal and accounting experts that support filing reviews, undertake reviews of specialized filings, provide interpretive guidance on rules and regulations, participate in numerous Commission rulemaking projects, provide specialized expertise in enforcement matters, evaluate the outcomes of our filing review program and conduct ongoing assessments to evaluate the effectiveness of our internal supervisory controls. Below is an overview of several key Corporation Finance initiatives.

Dodd-Frank Act Rulemakings

Since its passage, the Commission has adopted rules implementing Dodd-Frank Act mandates on accredited investors, say-on-pay, asset-backed securities, compensation committee listing standards and disclosure, conflict minerals, and disqualifications for felons and other bad actors. In addition, the Commission has proposed disclosure rules on CEO pay ratio and hedging of equity securities by employees and directors (Sections 953(b) and 955 of the Dodd-Frank Act). During 2014, the Commission adopted final rules governing the disclosure, reporting, and offering process for asset-backed securities and, along with the other financial regulators, rules implementing the credit risk retention requirements of the Dodd-Frank Act.

Corporation Finance, along with other Commission staff, continues to work to implement provisions of the Dodd-Frank Act relating to executive compensation matters and payments by resource extraction issuers. In addition, the staff is currently conducting the review of the accredited investor definition as it relates to natural persons as mandated by Section 413 of the Dodd-Frank Act.

JOBS Act Rulemakings

Corporation Finance also has rule writing teams that have been working with staff throughout the Commission to complete several JOBS Act mandates.

In July 2013, pursuant to Title II of the JOBS Act, the Commission adopted the final rules to allow general solicitation and general advertising for offers and sales made under Rule 506 of Regulation D, provided that all securities purchasers are accredited investors and issuers take reasonable steps to verify that purchasers are accredited investors. The rules became effective in September 2013. In conjunction with the adoption of these final rules, the Commission also issued a rule proposal that would enhance the Commission's ability to assess

the development of market practices in Rule 506 offerings and that would address concerns that may arise with the use of general solicitation by issuers in these types of offerings.

In October 2013, as mandated by Title III of the JOBS Act, the Commission proposed rules to implement the new exemption for the offer and sale of securities through crowdfunding, an evolving method to raise capital using the Internet. The Commission received over 500 comment letters on this complex rulemaking and Corporation Finance is preparing recommendations for the Commission on final rules.

In December 2013, as mandated by Title IV of the JOBS Act, the Commission proposed rules that would build upon Regulation A, which is an existing exemption from registration for small offerings of securities, to enable companies to offer and sell up to \$50 million of securities within a 12-month period. The Commission received over 100 comment letters, and the Commission is scheduled to consider adopting a final rule on March 25.

In December 2014, as mandated by Titles V and VI of the JOBS Act, the Commission proposed amendments to revise the rules related to the thresholds for registration, termination of registration, and suspension of reporting under Section 12(g) of the Exchange Act. The Commission received comments, and Corporation Finance will develop recommendations for the Commission on final rules.

The division, on behalf of the Commission and in partnership with the U.S. Small Business Administration (SBA), also hosts events to inform small business owners and entrepreneurs about new options for capital raising under the JOBS Act. These very well-received events highlight additional ways small businesses may seek to raise funds under current and proposed Commission rules and give small business owners an opportunity to ask questions of the Commission and SBA staff.

Study and Review of Public Company Disclosure Requirements

The JOBS Act also required the Commission to conduct several studies. In addition to studies completed in prior years, in December 2013 SEC staff submitted to Congress a report that reviewed Regulation S-K to determine how it may be modernized, made more effective, and simplified to reduce the costs and other burdens for companies at all stages of development.

Following the issuance of the report, I directed Corporation Finance to lead the SEC staff's efforts to develop specific recommendations for updating and modernizing the disclosure rules – primarily Regulations S-K and S-X – to improve the disclosure regime for the benefit of both companies and investors. Corporation Finance is developing recommendations for updating the requirements to facilitate timely, material disclosure by companies, and also is considering whether there are other potential changes that may enhance investors' access to material information.

A key component of this project includes public outreach to market participants on how the Commission might enhance its disclosure rules and filing requirements to make them more meaningful for investors and less burdensome for issuers. In addition, SEC staff is coordinating

with the Financial Accounting Standards Board to identify ways to improve the effectiveness of disclosures in corporate financial statements and to minimize duplication with existing disclosure requirements.

Trading and Markets

The Division of Trading and Markets (Trading and Markets) supervises the major participants in the U.S. securities markets, including securities exchanges, broker-dealers, clearing agencies, transfer agents, FINRA, security futures product exchanges, and securities information processors. Trading and Markets also works closely with the Office of Municipal Securities to supervise the Municipal Securities Rulemaking Board (MSRB) and municipal advisors.

Trading and Markets is continuing its significant efforts to implement key areas of the Dodd-Frank and JOBS Acts. The division is responsible for more than 30 separate rulemaking initiatives and studies under the two statutes, including a number that will create new ongoing supervisory responsibilities upon completion. Within the SEC, Trading and Markets has also led interagency projects mandated by the Dodd-Frank Act, including interagency staff recommendations for the designation of systemically important non-bank financial entities and financial market utilities under the auspices of the Financial Stability Oversight Council and, in conjunction with the Board of Governors of the Federal Reserve (FRB) and the Federal Deposit Insurance Corporation (FDIC), mechanisms for the orderly liquidation of certain large financial companies, including certain large broker-dealers under the new liquidation authority established by the Dodd-Frank Act.

OTC Derivatives

Trading and Markets has continued to engage in rulemaking to establish a new oversight regime for the OTC derivatives marketplace. Most recently, the SEC adopted two new sets of rules that will require security-based swap data repositories (SDRs) to register with the SEC and prescribe reporting and public dissemination requirements for security-based swap transaction data. The SEC also proposed certain additional rules, rule amendments, and guidance related to the reporting and public dissemination of security-based swap transaction data. The new rules are designed to increase transparency in the security-based swap market and to ensure that SDRs maintain complete records of security-based swap transactions that can be accessed by regulators. In addition to the adoption of these rules, in 2014 the SEC proposed the last of the remaining rules required by Title VII of the Dodd-Frank Act and adopted a number of significant final rules and interpretations, including rules governing the application of the “security-based swap dealer” and “major security-based swap participant” regimes to cross-border security-based swap activities.

The staff continues to work to develop recommendations for the remaining final rules required by Title VII that have been proposed but not yet adopted, including those addressing, the registration of – and requirements for – security-based swap dealers and major security-based swap participants, security-based swaps execution facilities, and the enhanced oversight of

clearing agencies for security-based swaps. Currently, the Title VII rulemakings are a very high priority for the agency.

Review of Equity Market Structure

The SEC's review of equity market structure has continued to progress with a data-driven approach that has helped identify areas where improvements in the regulatory structure may be warranted. Drawing on the Commission's equity market structure website, the Market Information Data Analytics System, and other data resources, Trading and Markets is working on a series of rulemaking initiatives to present to the Commission for consideration in the near future, including:

- A rule proposal scheduled to be considered on March 25 that would eliminate an exemption from national securities association membership requirements for broker-dealers that trade in off-exchange venues;
- Rules designed to improve firms' risk management of trading algorithms and to enhance regulatory oversight of their use;
- Rules that would expand the information that alternative trading systems (ATSs) disclose to the SEC about their operations and, for the first time, to make ATS operational information publicly available;
- An order-routing transparency rule that would require disclosure of customer specific information that a broker would be expected to provide to institutional customers on request;
- An anti-disruptive trading rule to address the use of aggressive, destabilizing trading strategies in vulnerable market conditions when they could most exacerbate price volatility; and
- A rule regarding the status of active proprietary traders as dealers.

To improve transparency regarding the latencies between the consolidated data feeds of SIPs and the proprietary feeds of the exchanges, I requested that the exchanges consider including a time stamp in the consolidated data feeds to indicate when a trading venue, for example, processed the display of an order or execution of a trade. In response, the exchanges have announced plans to add new data elements to make data feed latencies more transparent; the exchanges expect to implement the time stamps by this summer. In addition, at my request, the exchanges have submitted rule changes to disclose how they use SIP and proprietary market data feeds in their operations, thus increasing transparency.

The exchanges also have undertaken a comprehensive review of their equity order types and how they operate in practice. Our review of the exchange submissions is ongoing, but substantially all the exchanges have filed proposed rule changes to describe fully order-type functionality. For example, each exchange's rulebook will fully describe the characteristics of its order types (e.g., price, display, routable, provide liquidity only); the functionality of the order

type (e.g., how and when it interacts or does not interact with other order types with respect to the full range of potential order book and execution scenarios); the relative priority of the order type; and the way in which an execution of the order type will be priced taking into account the full range of potential execution scenarios.

Strengthening Critical Market Infrastructure

Recent market events demonstrate the need to bolster resilience throughout critical market systems. After the August 2013 interruption in the trading of Nasdaq-listed securities, the equities and options exchanges, FINRA, and the clearing agencies have been working with other market participants to implement concrete measures designed to improve the robustness and resilience of market systems. Many of these measures are now complete, including enhancements to the SIPs and enhanced rules for the trade break processes at equity exchanges.

In November 2014, the Commission adopted Regulation SCI, an important set of mandatory rules aimed at strengthening the technology infrastructure of the U.S. securities markets. Regulation SCI imposes requirements on key market participants – including national securities exchanges, registered clearing agencies, FINRA, the MSRB, and certain ATSS – designed to reduce the occurrence of systems issues, improve resiliency when technology issues arise, and enhance the Commission’s oversight of the automated systems of these entities. The staff is considering whether it would be appropriate to develop an SCI-like framework for other types of market participants

Tick Size Pilot for Smaller Companies

In 2015, I expect the Commission to continue its evaluation of the appropriate tick size for the quoting and trading of equity securities of smaller companies. Current rules, which have been in effect since decimalization was introduced in 2001, permit market participants to quote securities priced \$1.00 or more in increments as low as a penny.

After conducting a study and issuing a report required by the JOBS Act, as well as holding a roundtable to gather views on the impact of decimalization, in June 2014 the Commission issued an order directing national securities exchanges and FINRA to act jointly in developing and filing a national market system plan to implement a pilot that would, among other things, widen the quoting and trading increments for certain small capitalization stocks. The national securities exchanges and FINRA filed their proposed plan with the Commission, which the Commission published for public comment in November 2014. The Commission has received over 70 comment letters from various interested constituencies and has extended the time period for consideration of the proposed national market system plan until May 6, 2015.

The Volcker Rule

In December 2013, the SEC, the FRB, the FDIC, the Office of the Comptroller of the Currency, and the Commodity Futures Trading Commission adopted a final rule under the Bank Holding Company Act to implement Section 619 of the Dodd-Frank Act, commonly referred to as the “Volcker Rule.” The final rule applies to “banking entities,” which generally are defined

to include insured depository institutions and their affiliates.

Banking entities generally have until July 21, 2015 to bring their activities and investments into conformance with the final rule, with additional time provided for certain legacy covered funds activities. The largest banking entities, however, became subject to a metrics recordkeeping and reporting requirement in July 2014. Commission staff continues to coordinate with staffs of the other agencies on implementation of the final rule, including on compliance, enforcement, and responses to interpretive questions.

Fiduciary Duty

Section 913 of the Dodd-Frank Act granted the Commission authority to impose a uniform standard of conduct for broker-dealers and investment advisers when providing personalized investment advice about securities to retail customers, while at the same time specifying certain features of current business models that would not themselves be a violation of such standards. The question of whether and, if so, how to use this authority is a very important one.³

After significant study and consideration, I believe that broker-dealers and investment advisers should be subject to a uniform fiduciary standard of conduct when providing personalized securities advice to retail investors. As set forth in Section 913, the financial professional giving advice to a retail client should be required to provide advice that is in the client's best interests, without regard to the financial or other interests of the financial professional.

In proposing a uniform fiduciary standard, there are many challenges. At this juncture, I will just mention three of them. The first is how to define the standard. My initial view is that the standard should be codified, principles-based, and rooted in the fiduciary duty applicable to investment advisers. A second challenge, which was expressly contemplated by Section 913 of the Dodd-Frank Act, is to provide clear guidance on what the standard would require, and how current business practices can or cannot continue under the standard – importantly, for both broker-dealers and investment advisers. A third challenge is providing for the meaningful application, examination, and consistent enforcement of a uniform fiduciary standard. Without effective examination and enforcement, a uniform fiduciary standard could be mere words on a page. Central to this challenge is extending our examination coverage for registered investment advisers.

³ In January 2011, the Commission submitted to Congress a staff study required by Section 913, which addressed the obligations of investment advisers and broker-dealers when providing personalized investment advice about securities to retail customers, and recommended, among other things, that the Commission exercise the discretionary rulemaking authority provided by Section 913. In March 2013, the Commission issued a public Request for Data and Other Information relating to the provision of retail investment advice and regulatory alternatives, which sought data to assist the Commission in determining whether to engage in rulemaking, and if so, what the nature of that rulemaking ought to be.

I will be discussing these concepts in depth with my fellow Commissioners in the very near term, and I have asked the staff to develop rulemaking recommendations for Commission consideration. As part of its analysis, the staff is giving serious consideration to, among other things, the recommendations of the SEC staff's Section 913 study of 2011, the views of investors and other interested market participants, potential economic and market impacts, and the information we received in response to a 2013 staff request for data. Included in the staff's work will be recommendations for the Commission's consideration of a program of third party compliance reviews for investment advisers to supplement, but not replace, examinations conducted by the Office of Compliance Inspections and Examinations (OCIE).

Separately, the Commission staff has provided technical assistance to Department of Labor staff as they consider potential changes to the definition of "fiduciary" under the Employee Retirement Income Security Act (ERISA). The staff and I are committed to continuing these conversations with the Department of Labor, both to provide technical assistance and information with respect to the Commission's regulatory approach and to discuss the practical effect on retail investors, and investor choice, of their potential amendments to the definition of "fiduciary" for purposes of ERISA.

Oversight of Investment Funds and Managers

The SEC's Division of Investment Management (Investment Management) primarily administers the SEC's regulatory and disclosure-review functions for mutual funds, other investment companies, and investment advisers. As part of these functions, the Commission and the division oversee registered investment companies with a combined \$17.8 trillion in assets under management and registered investment advisers with approximately \$62 trillion in assets under management.

Money Market Funds

In July 2014, the Commission adopted significant reforms for governing money market mutual funds. The amendments are intended to reduce the risk of runs in money market funds, provide important tools to help further protect investors and the financial system in a crisis, and enhance the transparency and fairness of these products for America's investors.

Under the new rules, "institutional prime" money market funds will be required to maintain a floating net asset value based on the current market value of the securities in their portfolios. The rules also provide new tools for boards of directors of money market funds to directly address heightened redemptions in a fund. Specifically, fund boards will be able to impose liquidity fees or to suspend redemptions temporarily, also known as "gates," if a fund's level of weekly liquid assets falls below certain thresholds. The Commission provided for approximately a two-year transition period for these new provisions to enable both funds and investors time to fully adapt their systems, operations, and investing practices.

The new rules also enhance money market fund disclosure requirements. Money market funds will be required to promptly disclose certain significant events, including the imposition or removal of fees or gates, portfolio security defaults, and instances of sponsor support. In

addition, money market funds will be required to disclose additional key information on their website on a daily basis, including funds' liquidity levels, net shareholder flows, and market-based net asset values per share.

Risk Monitoring and Regulatory Safeguards

Pursuant to Section 965 of the Dodd-Frank Act, Investment Management established a new risk and examinations office (REO). REO monitors trends in the asset management industry and carries out the division's inspection and examination program. In addition, REO and other SEC staff periodically meet with the senior management of large asset management firms and fund boards as part of the staff's ongoing outreach efforts.

At my direction, Investment Management also is developing recommendations for Commission rulemaking with the goal of enhancing risk monitoring and regulatory safeguards for the asset management industry. Specifically, the division is developing recommendations for the Commission to modernize and enhance data reporting for both funds and advisers. This initiative, among other things, would: (i) update the reporting of basic fund census information; (ii) enhance reporting of fund investments in derivatives, liquidity valuation of holdings, and securities lending practices; and (iii) collect more information on separately managed accounts.

In addition, Investment Management is considering whether enhanced risk management programs should be required for mutual funds and ETFs to address the risks related to their liquidity and use of derivatives, and measures to enhance the Commission's comprehensive oversight of those programs. In particular, the division is reviewing options for updated liquidity standards, disclosure of liquidity risks, and measures to appropriately limit the leverage created by a fund's use of derivatives. Investment Management also is developing a recommendation to require investment advisers to create transition plans to prepare for the winding down of their business or similar business disruptions, and is considering recommendations regarding implementation of the new requirements for annual stress testing by large investment advisers and funds, as required by the Dodd-Frank Act.

Target Date Funds

On April 3, 2014, the Commission issued a release reopening the period for public comment on proposed rule amendments concerning target date fund names and marketing. The release requested comment on the SEC's Investor Advisory Committee recommendation that the Commission develop a glide path illustration for target date funds based on a standardized measure of fund risk as a replacement for, or supplement to, the asset allocation glide path illustration the Commission proposed in 2010. To date, approximately 30 comment letters have been submitted, which Investment Management staff are currently reviewing.

Economic Analysis, Risk Assessment, and Data Analytics

The Division of Economic and Risk Analysis (DERA), our fastest growing division, integrates sophisticated analyses of economic, financial, and legal disciplines with data analytics and quantitative methodologies in support of the SEC's mission. The division has grown significantly over the past few years. In particular, with the addition of 45 new positions in FY

2014, DERA's overall staffing level has grown to nearly 150 positions. This growth has deepened staff expertise and enhanced the already significant divisional support for rulemaking and policy development, enforcement and inspection activities, and data analytics and processing.

DERA plays a central role in the development of Commission rules and policy initiatives. A substantial portion of DERA staff, including Ph.D. financial economists with sophisticated knowledge of the financial markets, is dedicated to providing economic analysis in support of policy initiatives and participating directly in the rulemaking process. Specifically, DERA staff works closely with other divisions and offices to examine the need for regulatory action, analyze the potential economic effect of rules and other Commission actions, assist in evaluating public comments, and provide support, where needed, for the review of SRO rules and actions.

DERA economists develop and author a range of data-driven analyses of economic issues to inform the public and the Commission on important aspects of the financial markets, including the development of new rules for those markets. For example, over the past year, DERA, working collaboratively with staff throughout the Commission, has developed economic analyses for a broad range of rulemakings, such as those involving money market fund reform, security-based swaps, asset-backed securities, credit ratings agencies, and market structure, including analyses of high frequency trading.

DERA staff also provides up-to-date economic analyses relevant to policy development. For example, DERA economists, working closely with staff in the Division of Trading and Markets, added two analytical memoranda to the comment file for the Regulation Security Based Swap Reporting rulemaking in advance of the adoption of those regulations. These memoranda examined the effects of post-trade transparency in the swaps market and performed a sophisticated analysis of hedging behavior in the security-based swap market. In addition, DERA staff authored several white papers and published research in academic journals on areas of interest to the Commission's policymaking. These papers are posted to the SEC website and are vital to facilitating the Commission's and the public's access to data-driven economic analyses of the financial markets.

DERA also provides risk assessment and data analysis to the Commission in support of a range of other SEC activities. These activities help to focus the agency's resources on matters presenting the greatest perceived risks in areas such as examinations and registrant reviews. Recently, DERA established a new Office of Risk Assessment that is focused on providing financial and risk modeling expertise to other offices and divisions to support supervisory, surveillance, and investigative programs related to corporate issuers, broker-dealers, investment advisers, and exchanges and trading platforms. In addition, staff in DERA has played key roles in several important cross-agency risk assessment initiatives, such as the Broker-Dealer Risk Assessment Model, developed in close cooperation with OCIE, which helps prioritize examinations of broker-dealers by comparing each broker-dealer against its peers in multiple risk categories. Working closely with the Division of Enforcement's Fraud Task Force and other staff across the agency, DERA also has developed the Corporate Issuer Risk Assessment program, a tool to assist SEC staff in detecting anomalous patterns in financial reporting.

DERA also provides extensive support to the Division of Enforcement, allowing Enforcement to utilize in-house economic expertise. Among other things, DERA assists Enforcement by using economic analysis to identify potential liability, analyze materiality, calculate ill-gotten gains and monetary penalties, develop and respond to expert testimony, and support the distribution of recovered funds to harmed investors.

DERA relies on structured data to perform sophisticated analyses to support its effort on rulemakings and risk assessment activities, and also works closely with the Division of Corporation Finance to facilitate the provision of high-quality XBRL data as part of financial filings. Most recently, DERA has launched an initiative to facilitate the analysis of corporate financial data by making available to the public combined and organized structured datasets that provide selected information extracted from XBRL exhibits to corporate financial reports.

DERA has also continued the expansion of the innovative Quantitative Research and Analytical Data Support initiative, which addresses the Commission's need to further develop and refine high quality financial market data and robust analytical processes by centralizing data resources. The program will enhance the Commission's ability to link important financial market information originating from a wide variety of sources, allowing staff to make connections across markets and entities not previously possible.

Enforcement of the Securities Laws

A strong and effective enforcement program is at the heart of the SEC's 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 wrongdoing.

Enforcement continued to achieve significant results on behalf of investors in FY 2014. The SEC brought the highest number of enforcement actions to date, 755, and obtained monetary remedial orders at its highest level, totaling over \$4.16 billion. The quality and breadth of the actions pursued, however, are the most meaningful measures of a strong and effective enforcement program, and the SEC's actions in FY 2014 addressed significant issues, spanned the entire spectrum of the securities industry, and included numerous first-of-their kind actions. Enforcement focused on innovative, high impact cases and punished and deterred wrongdoers in a way that sent important messages to the market, including by obtaining more admissions.

Admissions Policy

Since changing its long-standing settlement protocol in 2013, the SEC has obtained admissions of misconduct in a number of cases where heightened accountability and acceptance of responsibility by a defendant is particularly important and in the public interest. 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. The SEC has settled numerous cases containing admissions, including recently requiring a major financial firm to acknowledge wrongdoing in connection with its execution of sales of billions of shares of securities and its failure to file required Suspicious Activity Reports, and requiring an investment management firm to admit that it made false and misleading statements to investors. While most cases will continue to be resolved on a “neither admit nor deny” basis,⁴ the SEC will continue to require admissions or other acknowledgements of wrongdoing where appropriate, and will be prepared to litigate those cases if necessary.

Market Structure, Exchanges, and Broker-Dealers

Sophisticated trading technologies, such as algorithmic and automated trading, have transformed the securities markets and may present significant risks to investors and the markets. To promote fair trading and equal access to information, the SEC brought significant actions in the past year against exchanges and other trading platforms for violating rules governing their operation, broker-dealers for failing to live up to their obligations as gatekeepers and providing direct market access, and other market participants for manipulative trading and related abuses. Noteworthy cases included actions charging:

- A major exchange and two affiliated exchanges with repeatedly engaging in business practices that either violated exchange rules or required a rule when the exchanges had none in effect;
- A brokerage firm that operates an ATS with improperly using subscribers’ confidential trading information in marketing its services;
- A high frequency trading firm that accounts for a significant portion of the U.S. trading volume and its former chief operating officer with repeatedly violating the net capital rule and related recordkeeping provisions and filing requirements;
- The owner of a brokerage firm with a manipulative trading practice known as “layering” which involves tricking investors into buying or selling stocks at artificial prices driven by orders that are later cancelled;
- A large market access provider and two officials with violating the market access rule (Securities Exchange Act Rule 15c3-5) by failing to have adequate risk controls in place before providing market access to customers, including some customer firms with thousands of essentially anonymous overseas traders;

⁴ In many cases, the Commission, like other federal agencies with civil enforcement powers, determines that it is appropriate to continue to settle on a “no admit, no deny” basis. 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.

- Two national securities exchanges with failing to accurately describe the order types being used on the exchanges; and
- A large broker dealer with disclosure failures and other securities law violations related to the operation and marketing of its dark pool.

Insider Trading

The SEC has continued to actively pursue insider trading violations by a wide variety of market participants. Two recent examples of the SEC's efforts in this area include an action charging three founders of a software company with insider trading ahead of the company's sale by misusing nonpublic information to take unfair advantage of incorrect media speculation and analyst reports, and an action charging four individuals in a \$12 million serial insider trading scheme in which they traded in stock options based on nonpublic information about monthly sales results leaked by a former company employee. Staff also is developing new technology that will allow it to more effectively identify trading patterns and find connections between traders and their potential sources.

Financial Statement and Accounting Fraud

Enforcement has intensified its focus on identifying and investigating financial reporting and accounting fraud, and the SEC brought a number of significant actions involving inaccurate revenue recognition, auditor independence problems, and false and misleading financial disclosures in FY 2014. For example, a large pharmacy recently paid \$20 million to settle charges that it misled investors about significant financial setbacks and used improper accounting that artificially boosted its financial performance in connection with a bond offering.

To better focus on financial reporting and auditing violations, Enforcement created the Financial Reporting and Audit Task Force in the fall of 2013. The Task Force's mandate is to develop methodologies and tools for detecting financial reporting issues, identify specific issuers with potential violations, determine whether further investigation is warranted, and refer appropriate matters to investigative staff. As part of the SEC's ongoing efforts to hold gatekeepers accountable for failing to carry out their important duties and responsibilities consistent with professional standards, Enforcement also launched a risk-based initiative to identify auditors who may have violated the federal securities laws or failed to comply with U.S. auditing standards during their audits and reviews of financial statements for publicly traded companies. In FY 2014, there was a significant increase in financial reporting and auditing filed actions and investigations.

Investment Advisers

In FY 2014, the SEC brought actions against a wide range of investment advisers, including those who engaged in fraudulent conduct, had deficient compliance programs, and breached their fiduciary duties to their clients. The SEC also filed a number of actions arising from recent Enforcement initiatives focusing on custody rule violations, and misconduct related to adviser fees and expenses. Enforcement in conjunction with DERA also developed and

implemented the Aberrational Performance Inquiry, which focuses on identifying unusual performance returns posted by unregistered and registered hedge fund advisers. To date, the Commission has brought more than ten enforcement actions as a result of this initiative.

Foreign Corrupt Practices Act (FCPA)

The SEC actively pursues companies that bribe foreign officials to obtain or retain business. In FY 2014, the SEC brought significant and impactful FCPA cases, obtaining orders for over \$380 million in disgorgement and penalties. For example, the SEC brought FCPA actions charging a global beauty products company with failing to put controls in place to detect and prevent payments and gifts to Chinese government officials by a subsidiary. As in other areas, the Commission is focused on holding individuals accountable in FCPA cases, and recently charged a former officer at an engineering firm with authorizing bribes and employment to foreign officials to secure those officials' government contracts, as well as two former employees of a U.S.-based defense contractor for taking foreign government officials on an elaborate "world tour" to help secure business for the company.

Municipal Securities

The Commission has filed a number of significant actions in the past year in the area of municipal securities and public pensions, including the first emergency action to halt a fraudulent bond offering; an action charging a state with fraud for failing to disclose its multi-billion-dollar pension liability in bond offering documents; and a series of actions for violations of minimum sales provisions. Enforcement also implemented a new self-reporting initiative designed to address widespread continuing disclosure violations by municipal bond issuers and underwriters, called the Municipalities Continuing Disclosure Cooperation Initiative. The voluntary initiative has resulted in a large number of self-reports of violations and has brought much-needed attention to disclosure compliance in the municipal securities area.

Office of the Whistleblower

The SEC's whistleblower program established pursuant to the Dodd-Frank Act has significantly contributed to the SEC's receiving a substantial volume of high-quality information about potential securities law violations. The program allows the investigative staff to work more efficiently and permits us to better deploy agency resources. As set forth in our Office of the Whistleblower Annual Report for 2014, the SEC received 3,620 tips from whistleblowers in the U.S. and 55 other countries, a more than 20% increase in the number of tips in two years. In September 2014, the Commission made its largest-ever award (over \$30 million) to a whistleblower who provided original information leading to an SEC enforcement action that recovered substantial investor funds. In June 2014, the SEC brought its first anti-retaliation case, charging a hedge fund with engaging in retaliatory practices after learning that the head trader had reported prohibited transaction to the Commission.

Inspection and Examination Program

The Office of Compliance Inspections and Examinations (OCIE) is responsible for the Commission's examination and inspection program. OCIE examines securities firms registered

with the Commission, including broker-dealers, municipal securities dealers, SROs, clearing agencies, transfer agents, investment advisers, and investment companies. In addition, the Dodd-Frank Act increased OCIE's responsibilities to include examinations of, among others, municipal advisors, investment advisers to certain private funds, security-based swap dealers, security-based swap data repositories, major security-based swap participants, and securities-based swap execution facilities. The examination program plays a critical role in supporting and enhancing compliance in the securities industry, which also helps to protect investors and the securities markets generally.

OCIE conducts examinations across the country through its National Examination Program (NEP) and utilizes a risk-based approach for selecting which firms, areas, and issues to examine. In FY 2014, OCIE conducted 1,878 examinations of registrants, including 1,150 exams of investment advisers, 493 exams of broker-dealers, 87 exams of investment company complexes, 46 exams of transfer agents, 10 exams of clearing agencies, and seven exams of municipal advisors. The staff also conducted 70 market oversight program inspections and 15 technology controls program inspections.

Innovative Data Analytics and Technology

Over the past several years, OCIE has recruited industry experts to enhance the NEP's technology and data analytics and advance its risk-based examination approach. In FY 2014, OCIE more than doubled the number of highly skilled technologists in its Quantitative Analytics Unit with the addition of eight positions.

In addition, in FY 2014 OCIE's Risk Analysis Examination (RAE) team – which leverages technology to conduct cross-firm reviews involving large quantities of data – collected and analyzed approximately 1.3 billion transactions from 350 firms. Using this data, the RAE team identified a wide range of problematic behavior including, among other things: unsuitable recommendations, misrepresentations, inadequate supervision, churning, and reverse churning.

Enhanced technology has been, and will continue to be, used to enhance the NEP's Anti-Money Laundering (AML) reviews, which now include nuanced assessments of the quality of firms' AML programs. In addition, in 2015 the NEP plans to use its enhanced capabilities in data analytics to assist in detecting indicators of potentially illegal activity, including excessive trading, market manipulation and misconduct by recidivist representatives.

Never-Before Examined Advisers Initiative and Presence Exam Initiative

In 2014, the NEP launched a two-year initiative to engage with the roughly 20% of investment advisers that have been registered for three years or more but never been examined. This initiative includes both risk-assessment and focused reviews. The risk-assessment approach is designed to obtain a better understanding of a registrant and may include a high-level review of an adviser's overall business activities. The focused review approach includes conducting comprehensive, risk-based examinations of one or more higher-risk areas, which could include the compliance program, portfolio management, and safety of client assets.

Throughout 2013 and 2014, Commission staff also conducted focused, risk-based exams of newly registered private fund advisers that registered with the SEC pursuant to the Dodd-Frank Act. These “presence” examinations were more streamlined than typical examinations, and were designed both to engage with the new registrants to inform them of their obligations as registered entities and to permit the Commission to examine a higher percentage of new registrants. Common deficiencies the staff identified in these examinations include: misallocating fees and expenses; charging improper fees to portfolio companies or the funds they manage; disclosing fee monitoring inadequately; and using fictitious service providers to charge false fees in order to kick back part of the fee to the adviser. Ongoing presence exams and continued identification of these types of deficiencies inform the NEP’s analysis of new and emerging risks.

Alternative Investment Companies

In 2014, the NEP continued its risk-based examinations of selected registered investment companies offering “alternative” investment strategies with a focus on, among other things, leverage, liquidity and valuation policies and practices; staffing, funding, and governance; and the manner in which funds are marketed to investors. The NEP plans to continue examining these companies in 2015.

Cybersecurity Initiative

In FY 2014, the NEP examined 57 broker-dealers and 49 registered investment advisers to better understand how broker-dealers and advisers are currently addressing the legal, regulatory, and compliance issues associated with cybersecurity. Areas of focus in these examinations included governance and supervision of information technology systems, operational capability, information security, and preparedness for cyber-attacks.

Municipal Advisor Exam Initiative

In 2014, the NEP also launched the municipal advisor examination initiative to conduct focused, risk-based examinations of municipal advisors that were newly registered with the Commission. The focus areas of the examinations, which are still ongoing, include the municipal advisor’s books and records responsibilities, compliance with its fiduciary duty to its municipal entity clients, and registration requirements.

Office of Credit Ratings

The Office of Credit Ratings (OCR), which was established by the Dodd-Frank Act, is charged with administering the rules of the Commission with respect to nationally recognized statistical rating organizations (NRSROs), promoting accuracy in credit ratings issued by NRSROs, and helping to ensure that credit ratings are not influenced by conflicts of interest and that NRSROs provide greater disclosure to investors. The Dodd-Frank Act requires OCR to

conduct examinations of each NRSRO at least annually⁵ and the Commission to make available to the public an annual report summarizing the essential exam findings. The fourth annual report of the staff's examinations was published in December 2014.

The Dodd-Frank Act required that the Commission undertake a number of rulemakings related to NRSROs. In August 2014, the Commission completed its required rulemaking for NRSROs by adopting rules requiring NRSROs to, among other things: (1) report on internal controls; (2) protect against potential conflicts of interest; (3) establish professional standards for credit analysts; (4) publicly provide – along with the publication of a credit rating – disclosure about the credit rating and the methodology used to determine it; and (5) enhance their public disclosures about the performance of their credit ratings. The new rules are intended to strengthen the governance of NRSROs and enhance the transparency of NRSRO activities, thereby promoting greater scrutiny and accountability of NRSROs.

The Dodd-Frank Act also mandated three studies relating to credit ratings: (1) a study on the feasibility and desirability of standardizing credit rating terminology, which was published in September 2012; (2) a study on alternative compensation models for rating structured finance products, which was published in December 2012; and (3) a study on NRSRO independence, which was published in November 2013. In response to the study on alternative compensation models for rating structured finance products, the Commission held a public roundtable in May 2013 to invite discussion regarding, among other things, the courses of action discussed in the report.

Going forward, OCR will continue to focus on completing NRSRO examinations to promote compliance with statutory and Commission requirements, including examining for compliance with the new rules that were adopted in August 2014 as they become effective.

Office of the Investor Advocate

The Office of the Investor Advocate, established by Section 915 of the Dodd-Frank Act, was created in February 2014 with the appointment of Rick Fleming as the SEC's first Investor Advocate. Since its founding, the Office of the Investor Advocate has been working to provide another voice for investors as policies are considered at the Commission, at SROs, and in Congress.

The Office of the Investor Advocate is responsible for identifying problems that investors have with financial service providers and investment products; analyzing the potential impact on investors of proposed regulations and rules; identifying areas in which investors would benefit from changes in SEC regulations or SRO rules; and proposing changes in regulations, legislation, or administration of programs that may mitigate the problems identified.

⁵ OCR's scope for NRSRO examinations includes the eight areas required by the Dodd-Frank Act. Beyond annual risk-based examinations of all registered NRSROs, OCR also conducts special risk-targeted examinations based on credit market issues and to follow up on both tips and NRSRO self-reported incidents.

The Investor Advocate is required to submit two reports to Congress every year. The Report on Objectives, provided in June 2014, sets forth the objectives of the Investor Advocate for FY 2015. The Report on Activities, provided in December 2014, describes the activities of the Investor Advocate during the immediately preceding fiscal year. In addition, the Investor Advocate serves as a member of the SEC Investor Advisory Committee, which is authorized by Section 911 of the Dodd-Frank Act.

In the past year, the Office of the Investor Advocate has grown to six staff members. That staff includes the SEC's first Ombudsman, whom the Investor Advocate appointed in September 2014, fulfilling another statutory mandate.

Office of Minority and Women Inclusion

The Office of Minority and Women Inclusion (OMWI) is responsible for all matters related to diversity in management, employment, and business activities at the SEC. OMWI is charged with developing standards for ensuring equal employment opportunity and diversity in the workforce and senior management of the agency, increasing the participation of minority-owned and women-owned businesses in the agency's contracting, and assessing the diversity policies and practices of entities regulated by the SEC. OMWI must submit an annual report to Congress describing the specific actions OMWI and the SEC have taken to enhance workforce diversity and inclusion and promote supplier diversity, and highlighting the achievements and challenges faced in pursuit of these objectives. The most recent annual report was submitted to Congress in April 2014.

SEC Diversity Efforts

The SEC, with leadership and guidance from OMWI, has implemented a multi-pronged strategy for attaining a diverse and skilled workforce. During fiscal year 2014, OMWI took actions designed to advance the agency's workforce diversity and inclusion efforts. OMWI secured commitments from 18 minority and women professional organizations to collaborate with OMWI on outreach and recruitment to attract a diverse talent pool for current and future employment opportunities at all levels of the agency. OMWI also began using metrics beyond those used previously to evaluate performance under the SEC's strategy for attaining for workforce diversity. In FY 2014, OMWI obtained access to applicant data that will be used to evaluate whether outreach and recruitment efforts are having the desired impact. In addition, OMWI continues to work closely with SEC hiring officials to develop and implement division or office specific diversity initiatives.

Overall, the SEC is making progress towards enhancing diversity in the agency's workforce. In FY 2015, OMWI will continue to engage SEC hiring officials, minority and women professional organizations and educational institutions in the agency's efforts to achieve its workforce diversity objectives.

SEC Programs and Contracts

The OMWI Director also advises the Commission on the impact of the SEC's policies and regulations on minority-owned and women-owned businesses. Of the total \$434.2 million the SEC awarded in contracts during FY 2014, \$127.4 million (33.9 percent) was awarded to minority-owned and women-owned businesses. The FY 2014 contract awards represented a 58 percent increase over the \$92.9 million awarded to minority-owned and women-owned businesses in FY 2013. The SEC continues to look for ways to improve its strategy for promoting supplier diversity. For example, OMWI is in the process of developing an electronic business management system to collect up-to-date business information and capabilities statements from suppliers, particularly minority-owned and women-owned businesses, interested in doing business with the SEC.

The Commission also recently published for comment a proposed contract standard for SEC contracts, which would implement the Dodd-Frank requirement that contractors confirm their commitment to ensuring the fair inclusion of women and minorities in their workforces, and the commitment of their subcontractors to workforce inclusion of minorities and women. On February 13, 2015, the proposed contract standard was published in the Federal Register for a 60-day public comment period. If implemented, the contract standard will be incorporated in all solicitations and contracts for services with a value of \$100,000 or more, and any subcontract for services with a value of \$100,000 or more awarded for the performance of a covered contract.

Practices of Regulated Entities

At the beginning of FY 2014, the SEC, together with various other federal financial agencies, published in the Federal Register for public comment their Proposed Interagency Policy Statement Establishing Joint Standards for Assessing the Diversity Policies and Practices of Entities Regulated by the Agencies. The proposal set forth standards covering four areas: 1) organizational commitment to diversity and inclusion; 2) workforce profile and employment practices; 3) procurement and business practices and supplier diversity; and 4) practices to promote transparency of organizational diversity and inclusion. To date, more than 200 comments have been received in response to the proposal. The SEC and the other federal financial agencies are working to complete the final Policy Statement.

Office of Municipal Securities

The Office of Municipal Securities (OMS) administers the Commission's rules pertaining to municipal securities broker-dealers, municipal advisors, investors in municipal securities, and municipal issuers and coordinates with the MSRB on rulemaking and enforcement actions. OMS also advises the Commission and other SEC offices on policy matters, enforcement, and other issues affecting the municipal securities market. In addition, OMS serves as the Commission's liaison to the MSRB, FINRA, the Internal Revenue Service Office of Tax-Exempt Bonds, and various industry groups and regulators on municipal securities issues.

In September 2013, pursuant to Section 975 of the Dodd-Frank Act, the Commission adopted final rules for the registration of "municipal advisors" with the SEC. The new

registration requirements and regulatory standards aim to address problems observed with the conduct of some municipal advisors, including failure to place the duty of loyalty to their municipal entity client ahead of their own interests, undisclosed conflicts of interest, advice rendered by financial advisors without adequate training or qualifications, and “pay to play” practices. Municipal advisors were required to comply with the final rules as of July 1, 2014 and to register with the SEC using the final registration forms during a four-month phased-in compliance period, which began on July 1, 2014.

Over the next year, OMS will continue to devote significant attention to administering these final rules, to reviewing rule filings by the MSRB related to municipal advisor regulation, and to coordinating with SEC examination staff in their examinations of municipal advisors. OMS will also continue to provide ongoing legal advice and technical support to the Enforcement Division on enforcement matters in the municipal securities area.

Office of International Affairs

The Office of International Affairs (OIA) develops and implements strategies to further SEC interests in the regulation and oversight of cross-border securities activities, advances cross-border enforcement and supervisory cooperation, and provides technical assistance to strengthen global financial markets.

In the regulatory policy sphere, OIA coordinates the SEC staff’s engagement in multilateral organizations, including the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board, as well as cross-sectoral work that IOSCO does jointly with other standard-setting bodies such as the Committee on Payments and Market Infrastructures and the Basel Committee on Banking Supervision. This past year, SEC staff led or participated in a wide array of international policy workstreams, including work related to the OTC derivatives markets, financial market infrastructures, market-based financing, and the identification of tools for the regulation of cross-border entities. In addition, OIA manages the SEC staff’s bilateral dialogues with foreign regulatory counterparts, during which it seeks to identify risks in the cross-border securities markets and to share regulatory concerns with the agency.

OIA also advises the Commission and staff on the implementation of SEC initiatives that have an impact beyond the United States, and on foreign and global initiatives that may impact the agency, the U.S. market, and U.S. market participants.

In addition, OIA assists the SEC’s Division of Enforcement on cross-border investigations and litigation, in particular by: (1) informing Enforcement Division strategy when parties, evidence, or assets are located abroad; (2) obtaining foreign evidence and information for enforcement matters; and (3) securing and repatriating illegally obtained proceeds. Working with Enforcement staff, OIA also obtains witness statements, documents, and other information located in the U.S. on behalf of foreign counterparts, as assisting foreign counterparts enhances the SEC’s ability to obtain reciprocal cooperation.

OIA also assists SEC staff on cross-border supervisory issues related to the registration and oversight of foreign entities and examinations of SEC registrants located abroad, and responds to requests for assistance in supervisory matters from foreign counterparts. OIA also negotiates and implements supervisory memoranda of understanding (MOUs) and other arrangements with foreign regulatory authorities to enhance oversight of cross-border regulated entities through consultation, cooperation, and the exchange of information. Most recently, the SEC concluded 29 MOUs with European regulators related to cross-border asset management.

Office of the Chief Accountant

The Commission's Office of the Chief Accountant, which serves as the principal adviser to the Commission on accounting and auditing matters, oversees the Financial Accounting Standards Board's (FASB) process for setting accounting standards for public companies, and the Public Company Accounting Oversight Board (PCAOB), which oversees the audits of public companies. The Commission also plays an important role in connection with International Financial Reporting Standards (IFRS), which foreign private issuers can use in their filings with the Commission, including through interaction with the International Accounting Standards Board (IASB) and the Commission's participation on the IFRS Foundation Monitoring Board.

Commission staff continued in fiscal year 2014 to monitor and support the activities of the FASB and the IASB as they made progress in their efforts to converge U.S. GAAP and IFRS. Commission staff reviews these and all major standard-setting and interpretive efforts of the FASB and the IASB to ensure the appropriateness of accounting standards used by issuers in U.S. markets.

The Commission's oversight over the PCAOB includes appointing board members, approving PCAOB rules, reviewing PCAOB disciplinary actions and disputes regarding inspection reports, and approving the PCAOB's budget and accounting support fee. The PCAOB has an active standard-setting agenda, including projects to update numerous standards that address important aspects of the performance of audits and a project to consider changes to the content of the auditor's report on a company's financial statements. In addition, the PCAOB is expanding its interim program of inspecting broker dealer audits while it develops a permanent inspection program.

Office of Investor Education and Advocacy

The Office of Investor Education and Advocacy (OIEA) seeks to provide individual investors with the information they need to avoid fraud and make sound decisions concerning investments in the securities markets. OIEA advances this mission by communicating daily with investors, responding to their complaints and inquiries, and providing educational programs and materials.

During fiscal year 2014, OIEA processed over 21,000 complaints, questions, and other contacts from investors, and published 28 investor alerts and bulletins, the most ever in a single year, to educate investors. The alerts and bulletins covered a wide variety of topics, warning investors of investment scams such as fraudulent unregistered offerings, schemes involving

virtual currencies, and affinity fraud. The alerts also helped educate the public on a variety of investment and securities-related topics, including by providing information concerning credit ratings, the Investment Adviser Public Disclosure database, the effect of fees on investment returns, and account transfers.

Internal Operations

The Office of the Chief Operating Officer (OCOO) leads and coordinates the activities of the Offices of Acquisitions, Financial Management, Human Resources, Information Technology, and Support Operations. Committed to maximizing agency effectiveness in pursuit of its mission and concentrating resources in mission-critical functions, OCOO works continuously to streamline back office operations, observe effective financial controls, upgrade information systems and leverage human capital.

The SEC continues to place a high priority on allocating its resources efficiently and effectively. Last year, for example, OCOO implemented changes in the acquisitions process and internal restructurings that will allow tens of millions of dollars to be shifted to front-line operations. To keep up with a market in which thousands of trades can be executed – and thousands of records generated – in a single second, the SEC implemented IT upgrades that allow investigators to sift through unprecedented quantities of data to discover suspicious patterns and connections.

Internal controls are also a priority, and for the fourth consecutive year, the General Accountability Office found no material weaknesses in the SEC’s financial reporting. The SEC is building on this performance by developing its Operational Risk program and enhancing cross-organizational processes to support the division and office management assurance statements.

The SEC also has continued its efforts to improve other internal areas, including making significant investments in data and systems security to enhance our monitoring capabilities and streamlining our human resources processes to help save time and money.

Efficiencies and Advances using Technology

Investment in technology continues to be one of the SEC’s highest priorities. In FY 2016, the SEC plans to build on the substantial progress made with its “Working Smarter” initiative that has led to better services and improved business productivity for employees, investors, companies, and the public. Significant progress has been made, and we remain focused on the following areas:

- Expanding data analytics to intake and analyze voluminous market data;
- Building out of high-computing platforms to support analytical models, complex computations, and algorithms;

- Improving risk assessment and surveillance tools to help staff monitor for trends and emerging fraud risks;
- Further automating information security controls, continuing the transition to a posture of continuous monitoring, and building the agency's risk management capabilities; and
- Enhancing the infrastructure to support data sharing that will lower costs and improve the overall accuracy of information.

In addition, the SEC continues to achieve benefits and efficiencies from the virtualization and consolidation of its data centers, expansion of its use of the public cloud, and other technical infrastructure enhancements.

Fiscal Year 2016 Budget Request

To fulfill its mission, the SEC must keep pace with the growing size and complexity of the U.S. securities markets and of the entities within our broad jurisdiction. The securities markets are high-speed and constantly evolving, and the industries within our jurisdiction are by no means static. In the last decade, trading volume in the equity markets has more than doubled, as have assets under management by investment advisers. At the same time, the agency's responsibilities have dramatically increased, with new or expanded jurisdiction over securities-based derivatives, hedge fund and other private fund advisers, credit rating agencies, municipal advisers, and clearing agencies, as well as a requirement to implement a new regime for crowdfunding offerings, among other changes.

The SEC's FY 2016 budget request – all of which would be fully offset by matching collections of very nominal fees on securities transactions and will not increase the Federal budget deficit or take funds away from other agencies – seeks to directly address the growing size and complexity of the markets and entities within our jurisdiction.

The SEC is requesting \$1.722 billion for FY 2016. If enacted, this request would permit the agency to add 431 new staff positions, which are needed both to improve core operations and implement the agency's new responsibilities. These new positions primarily would be dedicated to the following key areas:

- Bolstering examination coverage for investment advisers;
- Focusing on economic risk analysis to support rulemaking and oversight;
- Meeting our expanded responsibilities for overseeing the securities markets and key participants in those markets; and
- Strengthening our core enforcement functions to detect, investigate, and prosecute wrongdoing.

The SEC's FY 2016 budget request continues our efforts to leverage technology to improve agency programs, including through full use of the SEC Reserve Fund. Key information technology initiatives include continuing:

- Investments in data analytics to help ferret out wrongdoing, identify risks, and inform rulemaking;
- Modernization of EDGAR and SEC.gov, to simplify the financial reporting process, reduce filer burden, and make our widely used website more informative, user-friendly, and secure;
- Deployment of systems to make key business processes more efficient and effective, particularly in enforcement and examinations; and
- Focus on IT security to further automate controls and continue building a continuous monitoring program.

Conclusion

Thank you for your support for the agency's mission and for inviting me to be here today to discuss the work and many ongoing initiatives of the SEC. Your continued support will allow us to better protect investors and facilitate capital formation, more effectively oversee the markets and entities we regulate, and build upon the significant progress we have made to date.

I am happy to answer any questions you may have.