Testimony before the
Subcommittee on Financial Services and General Government
Committee on Appropriations
United States House of Representatives

by Chair Mary Jo White
U.S. Securities and Exchange Commission

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Chairman Crenshaw, Ranking Member Serrano, and members of the Subcommittee:

Thank you for inviting me to testify today in support of the President's fiscal year 2015 budget request for the Securities and Exchange Commission.[1] I appreciate the opportunity to describe how the SEC would effectively use the $1.7 billion requested for the coming fiscal year and why the agency needs this funding to fulfill its obligation to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.[2]

I am pleased by the SEC's accomplishments this past year. We adopted or proposed a substantial volume of mandated and other key rules. We aggressively enforced the securities laws, changing a key policy that can hold wrongdoers more publicly accountable and obtaining orders for penalties and disgorgement of $3.4 billion in FY 2013, the highest in the agency's history. We launched MIDAS and intensified our comprehensive review of market structure issues, including high-frequency and off-exchange trading practices. And we have continued to improve our efficiency by enhancing our technology, bringing in more experts, and deploying more risk-based analytics to allow us to do more with our limited resources, and to do so more quickly.

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[1] A copy of the SEC's FY 2015 Budget Congressional Justification can be found on our website at http://www.sec.gov/about/reports/secfy15congbudgjust.shtml.

[2] The views expressed in this testimony are those of the Chair of the Securities and Exchange Commission and do not necessarily represent the views of the President, the full Commission, or any Commissioner. In accordance with past practice, the budget justification of the agency was submitted by the Chair and was not voted on by the full Commission.

As described in more detail below, the requested budget level would allow the SEC to build upon its strong efforts and accomplish several key and pressing priorities, including:

- Bolstering examination coverage for investment advisers and other key areas within the agency's jurisdiction;

- Strengthening our enforcement program's efforts to detect, investigate, and prosecute wrongdoing;

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

- Enhancing the agency's oversight of the rapidly changing markets and ability to carry out its increased regulatory responsibilities.

Significant Gains, but Work Remains

The SEC's funding mechanism is deficit-neutral, which means that the amount Congress appropriates to the agency will not have an impact on the nation's budget deficit, nor will it impact the amount of funding available for other agencies.[3] Our appropriation also does not count against the caps set in the bi-partisan Congressional budget framework for 2014 and 2015.

Nonetheless, I deeply appreciate that I have a serious responsibility to be an effective and prudent steward of the funds we are appropriated. Since my arrival a little less than a year ago, we have made every effort to effectively deploy our funds to accomplish our mission and the goals that Congress has set for us. And, within the last year, we have advanced a significant number of rules and other initiatives across the wide range of our responsibilities with respect to the regulatory objectives mandated for the SEC by the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") and the Jumpstart Our Business Startups Act ("JOBS Act"), proposing or adopting rules concerning, among other things:

[3] Section 991 of the Dodd-Frank Act requires the SEC to collect transaction fees from self-regulatory organizations in an amount designed to directly offset our appropriation. The current fee rate is about $0.02 per every $1,000 transacted.

- The registration and regulation of nearly a thousand municipal advisors;

- The cross-border application of our security-based swap rules in the global swaps market;

- Lifting the ban on general solicitation in certain private offerings and proposing rules to provide important data and investor protections for this new market;

- Proprietary trading and investments in private funds by banks and their affiliates, under what is commonly called the "Volcker Rule";

- Increasing access to capital for smaller companies by permitting securities-based crowdfunding;

- Programs required of broker-dealers, investment companies, and other regulated entities to address risks of identity theft;

- Further safeguarding the custody of customer funds and securities by broker-dealers;

- Updating and expanding the Regulation A exemption for raising capital;

- The retention of a certain amount of credit risk by securitizers of asset-backed securities;

- The removal of references to nationally recognized statistical rating organization ratings in our broker-dealer and investment company regulations; and

- Enhancing risk management and other standards for the clearing agencies responsible for the safe and efficient transfer of trillions of dollars of securities each year.

In addition, we put forward rule proposals to strengthen and reform the structure of money market funds and require that certain key market infrastructure participants have comprehensive policies and procedures to better insulate market infrastructure technological systems from vulnerabilities.

We also have taken steps to enhance the SEC's already strong enforcement program, including by modifying the longstanding "no admit/no deny" settlement protocol to require admissions in certain cases. While no admit/no deny settlements still make a great deal of sense in many situations, because admissions achieve a greater measure of public accountability, they can bolster the public's confidence in the strength and credibility of law enforcement and in the integrity of our markets. Already the Commission has resolved a number of cases with admissions, and my expectation is that there will be more such cases in 2014 as the new protocol continues to evolve and be applied. The Commission also has brought a number of significant enforcement cases across our regulatory spectrum, including actions against exchanges to ensure they operate fairly and in compliance with applicable rules, actions against auditors and others who serve as gatekeepers in our financial system, landmark insider trading cases, and additional cases against individuals and entities whose actions contributed to the financial crisis.

In the past year, the Commission also has made great strides to improve its technology, including through the development of tools that permit us to better understand and protect the integrity of our markets and inform our exam program. In October 2013, the agency brought on-line a transformative tool called MIDAS that enables us to analyze enormous amounts of trading data across markets almost instantaneously. The SEC's Quantitative Analytics Unit in our National Exam Program has developed groundbreaking new technology that allows our examiners to access and systematically analyze massive amounts of trading data from firms in a fraction of the time it has taken in years past. We are laying the technological foundation for unified access to SEC information, applications, and data across the agency, and are making a variety of other technological investments to enable us to meet our mission more efficiently and effectively.

Despite this significant progress, there is much that the SEC still needs to accomplish. Completing the rulemakings and studies mandated by Congress in the Dodd-Frank and JOBS Acts remains among my top priorities. We must continue to seek to address structural concerns about our complex, dispersed marketplace in a responsible and empirically-based manner, and also continue our current review of the SEC's public issuer disclosure rules. We also need to continue to increase our capacity to examine and oversee the entities under the SEC's jurisdiction, as well as hold accountable those that harm investors through securities law violations. We are at a critical point in the deployment of more sophisticated technology tools and platforms, and it is vital that we have the resources necessary to continue modernizing our IT systems and infrastructure.

The SEC needs significant additional resources to keep pace with the growing size and complexity of the securities markets and the agency's broad responsibilities. The agency currently oversees more than 25,000 market participants, including over 11,000 investment advisers, approximately 10,000 mutual funds and exchange-traded funds, 4,450 broker-dealers, 450 transfer agents, 18 securities exchanges, as well as the Public Company Accounting Oversight Board (PCAOB), Financial Industry Regulatory Authority (FINRA), Municipal Securities Rulemaking Board (MSRB), the Securities Investor Protection Corporation (SIPC), and the Financial Accounting Standards Board (FASB). The SEC also has responsibility for reviewing the disclosures and financial statements of approximately 9,000 reporting companies, and has new and expanded responsibilities over the derivatives markets, an additional 2,500 reporting advisers to hedge fund and other private funds, close to 1,000 municipal advisors, ten registered credit rating agencies, and seven registered clearing agencies. And, as you know, between the Dodd-Frank and the JOBS Acts, the SEC was given nearly 100 new rulemaking responsibilities.

The SEC's responsibilities are extensive and complex and its mission is critically important. The funding we are seeking is fully justified by our growing responsibilities to investors, companies, and the markets. With what I believe is a thoughtful and targeted approach to our resource challenges, the FY 2015 budget request of $1.7 billion would allow the SEC to hire an additional 639 staff in critical, core areas and enhance our information technology. Outlined below is a brief overview of some of the key components of our request.

Expanding Oversight of Investment Advisers and Strengthening Compliance

There is an immediate and pressing need for significant additional resources to permit the SEC to increase its examination coverage of registered investment advisers so as to better protect investors and our markets. During FY 2013, due to significant resource constraints, the SEC examined only about 9% of these advisers, comprising approximately 25% of the assets under management.

The number of SEC-registered advisers has increased by more than 40% over the last decade, while the assets under management by these advisers have increased more than two-fold, to almost $55 trillion. At the same time, the industry has been increasing its use of new and complex products, including derivatives and certain structured products, employing technologies that facilitate high-frequency and algorithmic trading, and developing complex "families" of financial services companies with integrated operations that include both broker-dealer and investment adviser affiliates. While the SEC has efficiently used its limited resources by improving its risk assessment IT capabilities and focusing its examination staff and resources on those areas posing the greatest risk to investors, much more coverage is clearly needed as the status quo does not begin to provide sufficient protection for investors who increasingly turn to investment advisers for assistance navigating the securities markets and investing for retirement and family needs.

A top SEC priority under the FY 2015 request is to add 316 additional staff to the examination program in its Office of Compliance Inspections and Examinations (OCIE). This would allow the agency to examine more registered firms, particularly in the investment management industry; build out the examination program to implement newly expanded responsibilities with respect to municipal advisors, swap market participants, private fund advisers, crowdfunding portals and other new registrants; and more effectively risk-target and monitor other market participants. Additionally, OCIE would also be able to continue ongoing efforts to enhance its risk assessment and surveillance through the development of new technologies in areas such as text analytics, visualization, search and predictive analytics.

Bolstering Enforcement

Strong and effective enforcement of our federal securities laws is central to the SEC's mission. In addition to modifying our settlement policy to require public admissions in certain cases, the Commission in the last year brought groundbreaking cases across the full range of the securities laws, including, among many others, a $615 million settlement of an insider trading case; a failure to supervise case against a prominent hedge fund adviser; actions against exchanges and municipal issuers; FCPA cases against large multinational corporations; and additional matters against individuals and entities whose actions contributed to the financial crisis.

Notwithstanding these results, the SEC's Division of Enforcement faces a number of key challenges to preserve and enhance its ability to vigorously pursue the entire spectrum of wrongdoing within our jurisdiction. Our Enforcement work includes the detection, investigation, and litigation of violations of the federal securities laws. In each of these areas, we face significant challenges:

- Detection. We receive over 15,000 tips, complaints, and referrals annually, including the more than 3,000 tips that flow into the Division's Whistleblower Office, which generate a fresh stream of case leads in need of investigation. The review and analysis of these tips require significant human and technological resources. We also have focused intensively on potential misconduct in the equity markets and in connection with new rules, including those implemented under the Dodd Frank and JOBS Acts. But detecting misconduct in constantly evolving securities markets, including as a result of the growth of algorithmic, automated trading and "dark pools," requires substantial resources.

- Investigations. Technological advances across the industry allow for more sophisticated schemes, which require improved technology and significant resources to unravel. We also are expanding our focus on financial reporting and auditing misconduct cases, which are highly technical and labor intensive.

- Litigation. We have seen an increase in litigation and trials as we focus more extensively on individual wrongdoing. And, the recent change to our long-standing settlement policy that now requires admissions in certain cases may lead to more litigation. Success at trial is critical to our ability to carry out our mission, and litigation, often against well-funded opposition.

In order to meet the challenges of our rapidly changing and expanding markets, with increasingly complex products and more sophisticated wrongdoers, Enforcement seeks to hire 126 new staff, including additional legal, accounting, and industry specialized experts, primarily for investigations and litigation. These critical resources will enable us to improve our information processing and analysis, expand our investigative capabilities, strengthen our litigation capacity, and better use technology. In addition, the Division will continue to: (1) invest in technology that enables the staff to work more efficiently and effectively, and (2) collaborate with external stakeholders who assist in the Division's identification, investigation, and litigation of securities law violations, including wrongdoing that crosses borders.

Leveraging Technology

The SEC is strongly committed to leveraging technology to streamline operations and increase the effectiveness of its programs. We are developing new analytic tools designed to process data more efficiently and make timelier and better-informed decisions. For example, we apply cutting-edge analytics, such as visual data analysis, to increase the speed with which the exam and enforcement program evaluate data and develop evidence. To support these tools, we are investing in our information technology infrastructure to store and process increased volumes of data. We generated over $18 million in cost avoidance in FY 2013 through a more efficient data center structure, renegotiated contracts, server virtualization, and other process improvements. Our recently initiated Quantitative Research and Analytic Data Support program is structuring vast quantities of financial market data and making it more accessible across the agency. This program will enhance the quality and speed of data-driven analyses and, importantly, link disparate sources of data to allow staff to establish connections not previously possible.

While the agency has made significant progress over the past few years in modernizing its technological systems, progress was set back by our level of funding in FY 2014. Increased funding for these efforts and new technology investments are essential. The SEC's FY 2015 budget request, which includes full use of the SEC Reserve Fund, would support a number of key information technology initiatives, including:

- EDGAR modernization, a multi-year effort to simplify the financial reporting process to promote automation and reduce filer burden. EDGAR provides the most critical window into the capital markets for investors and businesses. With a more modern EDGAR, both the investing public and SEC staff will benefit from having access to better data.

- Enterprise Data Warehouse, a centralized repository for the Commission to organize different sources of data, which can help the public gain easier access to more usable market data, which will facilitate easier and more effective analysis.

- Data analytics tools, to assist in the integration and analysis of large amounts of data, allowing for computations, algorithms and quantitative models that can lead to earlier detection of fraud or suspicious behavior. We have begun deploying these tools on a limited basis within our enforcement and exam programs, but due to current budget constraints have not yet rolled them out more broadly. Under this request, more frontline staff, including those performing examinations and investigations, would be able to leverage these tools to efficiently identify links, anomalies, or indicators of possible securities violations.

- Examination improvements, to improve risk assessment and surveillance tools and datasets that will help the staff monitor for trends and emerging fraud risks, as well as improving the workflow system supporting SEC examinations.

- Enforcement investigation and litigation tracking, to support Enforcement teams with the receipt and loading of the high volume of materials produced during investigations and litigation, to build the capability to permit the electronic transmittal of data, and to implement a document management system for Enforcement's internal case files.

- SEC.gov modernization, to make one of the most widely used federal government websites more flexible, informative, easier to navigate and secure for investors, registrants, public companies, and the general public. SEC.gov receives more than 35 million hits per day, and there is high public demand for quick and ready access to the tremendous amount of data available there, including 21 million filings in the EDGAR system and 170,000 documents on SEC.gov. When fully implemented, the website will offer dramatically improved search and filtering capabilities that will enhance the transparency and availability of this data.

- Tips, Complaints, and Referral (TCR) system enhancements, to bolster flexibility, configurability, and adaptability. The TCR system is the SEC's central repository of tips, complaints, and referrals that maximizes our ability to search, track, and route workflow for the high volume that the agency receives each year (e.g., over 15,000 in FY 2013). System enhancements will provide automated triage of the items the agency receives, as well as improved intake, resolution tracking, searching, and reporting functionalities.

- Information security, to upgrade security tools and processes, and to develop and train staff to monitor, respond to, and remediate ever-increasing risks and security threats and to permit continuous risk monitoring.

- Business process automation and improvement, to improve the efficiency and effectiveness of the agency's processes, thereby enabling us to better serve the public.

Strengthening Oversight of the Securities Markets and Infrastructure

To effectively assess constantly evolving market activity across a wide range of complex trading venues, the SEC's Division of Trading and Markets must:

- Enhance its effort to address market structure and technology developments, including through MIDAS and other tools that facilitate the analysis of trade and order data that reflects, for example, high-frequency trading and trading on off-exchange venues where pre-trade prices are not typically available to the public;

- Continue its work with self-regulatory organizations (SROs) to enhance critical market infrastructures that are essential for the operation of the securities markets; and
- Expand its oversight of clearing agencies, large broker-dealers, exchanges, and other major securities market participants.

Further, in FY 2015 we expect a significant number of new registrants under the Dodd-Frank and JOBS Acts as registration requirements under those laws go into effect, including dealers and other participants in the security-based swap market and crowdfunding portals. Additional resources are needed to undertake these new market-related responsibilities, including staff focused on market supervision, analytics and research, and derivatives policy and trading practices. Accordingly, for these core and new responsibilities, in the FY 2015 budget request the SEC proposes to add 25 positions in its Division of Trading and Markets.

Enhancing Corporate Disclosure Reviews and Supporting Implementation of the JOBS Act

For FY 2015, the SEC requests 25 new positions for its Division of Corporation Finance. These resources are needed for Corporation Finance to continue its multi-year effort to enhance its disclosure review program for large or financially significant companies, meet the increased workload resulting from expected improved market conditions and additional emerging growth companies confidentially submitting registration statements for non-public review, provide increased interpretive guidance, and evaluate trends in the increasingly complex offerings of asset-backed securities and other structured financial products. During FY 2015, Corporation Finance also will continue to implement the rulemakings required by the Dodd-Frank and JOBS Acts and move forward on a comprehensive initiative to update the disclosure requirements for reporting companies.

Focusing on Economic and Risk Analysis to Support Rulemaking and Structured Data and Risk-Based Initiatives

The SEC's Division of Economic and Risk Analysis (DERA) works to integrate analysis of economic, financial, and legal disciplines with data analytics and quantitative methodologies in support of the SEC's mission. DERA is our most rapidly growing division, having more than doubled since its creation in late 2009. In FY 2014, we are planning to hire 45 additional staff for DERA, primarily for additional financial economists and other experts to perform and support economic analyses and research and further enhance our risk assessment activities. In FY 2015, we seek to add 14 positions in DERA, primarily financial economists and other experts who significantly assist with:

- The rulemaking process by providing the Commission and staff with economic analysis and technical advice;
- Data analysis for risk-based selection of firms and issues for inquiries, investigations and examinations; and
- Improving structured data initiatives in order to enable the Commission, investors, and other market participants to more systematically and efficiently analyze and draw conclusions from large quantities of financial information.

DERA also seeks to hire additional technologists with mathematical and statistical programming experience to support the activities of the Division, including by assisting with the development of risk assessment models and risk metrics, data analytics, and economic analysis in the agency's rulemakings.

Enhancing Monitoring of the Investment Management Industry

In the past ten years, the number of portfolios of mutual funds, exchange-traded funds, and closed-end funds has increased by 17%, and assets under management held by those funds has increased by 123% to $16 trillion. And significantly, during that period, complexity in the investment management industry has increased dramatically, reflecting growing sophistication in product design and portfolio strategies.

For FY 2015, the SEC requests 25 new positions for its Division of Investment Management. With additional resources, Investment Management plans to:

- Improve the reporting of information about fund operations and portfolio holdings by mutual funds, closed-end funds, and exchange traded funds;
- Continue to build capacity to manage and analyze data filed by hedge funds and other private funds;
- Bolster the technical expertise of Investment Management's disclosure review program to, among other things, identify trends and monitor the risks related to the growth and increased product sophistication in the asset management industry; and
- Enhance the ability of Investment Management's Risk and Examinations Office to manage, monitor, and analyze industry data, provide ongoing financial analysis of the asset management industry.

Enhancing Training and Development of SEC Staff

Nothing is more critical to the agency's success than the expertise of the SEC's staff. And providing in-depth and up-to-date training is essential for the staff to maintain and enhance its expertise over our constantly changing markets. Historically, the SEC's training budget has not matched that of its federal financial regulatory agency peers. The agency is requesting to increase its staff training budget in FY 2015 principally to support training and development for employees directly involved in examinations, investigations, fraud detection, litigation, and other core mission responsibilities of the SEC. This will consist of specialized training about new trends in the securities industry and changing market conditions, as well as analytics and forensics. The investment in training also will allow the SEC to provide continuing education courses that staff are required to take to maintain necessary legal and financial credentials.

Conclusion

Thank you for your support of the agency's vital mission and the opportunity to present the President's FY 2015 budget request. I would be happy to answer your questions.