

Testimony of the Securities and Exchange Commission  
Before the United States House of Representatives  
Committee on Financial Services  
Sept. 24, 2024

Good morning, Chairman McHenry, Ranking Member Waters, and members of Committee. Thank you for the opportunity to testify before you today about the work of the U.S. Securities and Exchange Commission.

### **The SEC at 90 Years**

At the SEC, we celebrated our 90<sup>th</sup> birthday earlier this year.

In the aftermath of the 1929 market crash and the frauds, scams, and other observed problems in the securities markets, President Franklin Roosevelt came together with Congress to enact a series of securities laws in the 1930s and set up the SEC. Congress and Roosevelt understood how vital capital markets are to investors, issuers, and a dynamic and growing economy.

Today, the SEC oversees the capital markets and works to deter and prevent fraud and manipulation, as well as helps ensure that investment advisers carry out their duties to their clients, and that companies and entrepreneurs can access the capital they need to succeed. The SEC is also the cop on the beat watching out for the investing public and issuers.

The SEC is a remarkable agency. We serve investors building for a better future and issuers raising money to fund innovation, while overseeing the capital markets where they meet. The essence of this is captured in our three-part mission to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation.

### **Growth and Change in the Markets**

Today, the more than \$100 trillion U.S. capital markets<sup>1</sup> are the deepest, most liquid in the world. To put these figures in context, the assets of the entire U.S. banking system add up to about \$23 trillion.<sup>2</sup>

Comprising approximately 40 percent of the world's capital markets,<sup>3</sup> U.S. capital markets outpace our roughly 24 percent of the world's economy.<sup>4</sup> The U.S. capital markets also play an integral role in the dollar's dominance.

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<sup>1</sup> See Securities Industry and Financial Markets Association, "2024 Capital Markets Fact Book" (July 2024), Page 6, available at <https://www.sifma.org/wp-content/uploads/2023/07/2024-SIFMA-Capital-Markets-Factbook.pdf>.

<sup>2</sup> See Board of Governors of the Federal Reserve System, "Assets and Liabilities of Commercial Banks in the United States," available at <https://www.federalreserve.gov/releases/h8/current/default.htm>. Total assets of approximately \$23 trillion as of week ending September 4, 2024 (Table 2, Line 33).

<sup>3</sup> See Securities Industry and Financial Markets Association, "2024 Capital Markets Fact Book" (July 2024), Page 6, available at <https://www.sifma.org/wp-content/uploads/2023/07/2024-SIFMA-Capital-Markets-Factbook.pdf>.

<sup>4</sup> See Carol Bertaut et al., "The International Role of the U.S. Dollar" (June 23, 2023), Figure 1, available at <https://www.federalreserve.gov/econres/notes/feds-notes/the-international-role-of-the-us-dollar-post-covid-edition-20230623.html>.

Everyday investors benefit from the U.S. capital markets. Their investment portfolios fund home purchases, college educations, and retirements. About 58 percent of U.S. households own stocks either directly or indirectly.<sup>5</sup> More than half of American households, representing nearly 121 million individual investors, own registered funds.<sup>6</sup>

Today, registered investment advisers advise 57 million clients.<sup>7</sup> This includes advising on more than \$37 trillion in registered funds,<sup>8</sup> \$27 trillion in private funds,<sup>9</sup> and \$49 trillion in separately managed accounts.<sup>10</sup>

We oversee approximately 40,000 entities—including approximately 13,000 registered funds, approximately 15,400 investment advisers, about 3,400 broker-dealers, 25 national securities exchanges, 108 alternative trading systems, 10 credit rating agencies, and six active registered clearing agencies, among other external entities. The SEC oversees the Financial Industry Regulatory Authority (FINRA), the Municipal Securities Rulemaking Board (MSRB), and the Securities Investor Protection Corporation (SIPC). In addition, the Commission provides oversight over standard-setting and rulemaking by the Public Company Accounting Oversight Board (PCAOB) and the Financial Accounting Standards Board (FASB).

### **SEC Organization and Staff**

To fulfill its mission, the SEC is organized around six divisions and 24 offices located in 11 regional locations<sup>11</sup> as well as our Washington, D.C., headquarters. We currently have 4,893 staff on board,<sup>12</sup> representing only a 5 percent increase from 2016 when we had 4,650 staff.

The SEC staff in 2023 rated us among the best places to work in the federal government; we ranked third among mid-sized agencies for the second year in a row.<sup>13</sup> Our attrition this fiscal year is at historically low levels, so far averaging around 3 percent at an annualized rate.

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<sup>5</sup> See Federal Reserve Board, “Changes in U.S. Family Finances from 2019 to 2022” (October 2023), Page 19, available at <https://www.federalreserve.gov/publications/files/scf23.pdf>.

<sup>6</sup> See ICI, “2024 Investment Company Fact Book,” Page 2, available at <https://www.icifactbook.org/pdf/2024-factbook.pdf>.

<sup>7</sup> See Securities and Exchange Commission, “Investment Adviser Statistics” (Table 3.2), available at <https://www.sec.gov/files/im-investment-adviser-statistics-20240515.pdf>.

<sup>8</sup> See Securities and Exchange Commission, “Registered Fund Statistics” (Table 2.1), available at <https://www.sec.gov/files/investment/im-registered-fund-statistics-20240806.pdf>; See also Securities and Exchange Commission, “Money Market Fund Statistics” Table 2), available at <https://www.sec.gov/files/investment/mmf-statistics-2024-07.pdf>.

<sup>9</sup> See Securities and Exchange Commission, Investment Advisers Statistics (Section 5), available at <https://www.sec.gov/files/im-investment-adviser-statistics-20240515.pdf>.

<sup>10</sup> See Securities and Exchange Commission, Investment Advisers Statistics (Table 4.1), available at <https://www.sec.gov/files/im-investment-adviser-statistics-20240515.pdf>.

<sup>11</sup> When the Salt Lake City office closes in FY 2025, there will be 10 regional offices.

<sup>12</sup> Staff onboard as of Sept. 6, 2024.

<sup>13</sup> See Partnership for Public Service, “2023 Best Places to Work in the Federal Government,” available at <https://bestplacestowork.org/rankings/detail/?c=SE00>.

The SEC's funding is deficit neutral. While the congressional appropriations process determines the SEC's budget, the SEC collects fees on stock and other securities transactions to offset the appropriations.<sup>14</sup>

For FY 2024 the SEC budget is \$2.15 billion, remaining the same as it was in FY 2023. At the start of FY 2024, we paused nearly all job postings and backfilling for departing staff.

In fiscal years 2021 through 2024, we will have shed 299,000 usable square feet from the SEC's real estate footprint. As a result of these reductions over the last three years, we expect to save approximately \$20 million in FY 25. We will continue looking for opportunities to achieve cost savings across our leasing footprint and in other ways in the years to come.

The rest of this testimony will describe the work of the six divisions. For the programmatic divisions, we will review certain rules that were implemented, adopted, or proposed in the last year.<sup>15</sup>

### **Corporation Finance**

The Division of Corporation Finance seeks to ensure that investors have access to the information they need to make informed investment and voting decisions when a company offers its securities to the public, and on an ongoing basis as companies continue to provide information to the marketplace. The Division also provides interpretive assistance to companies with respect to compliance with SEC rules and forms and makes recommendations to the Commission regarding new rules and revisions to existing rules.

The Division reviews the disclosures and financial statements of reporting companies to monitor and enhance compliance with disclosure and accounting requirements under the federal securities laws and Commission rules.

In FY 2023, there were approximately 7,400 actively reporting issuers subject to oversight by the Division's Disclosure Review Program, of which more than 4,000 were listed on U.S. exchanges.<sup>16</sup> Further, in FY 2023, the Division reviewed the filings of more than 3,700 reporting companies and new issuers.<sup>17</sup>

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<sup>14</sup> See Congressional Research Service, "Introduction to Financial Services: The Securities and Exchange Commission (SEC)" (Aug. 8, 2023), available at <https://crsreports.congress.gov/product/pdf/IF/IF11714>.

<sup>15</sup> In addition to the rules detailed within the Divisions, rules to revise the Commission's regulations under the Privacy Act were implemented in October 2023. See Securities and Exchange Commission, "SEC Approves Revised Privacy Act Rule" (Sept. 20, 2023), available at <https://www.sec.gov/newsroom/press-releases/2023-189>. Rules strengthening and modernizing the Commission's ethics compliance program were implemented in March 2024. See Securities and Exchange Commission, "SEC Updates Ethics Rules Governing Securities Trading by Agency Personnel" (Feb. 22, 2024), available at <https://www.sec.gov/newsroom/press-releases/2024-25>.

<sup>16</sup> Approximately 52 percent of those 7,400 issuers self-identified as smaller reporting companies, emerging growth companies, or both. See 17 CFR 240.12b-2 (defining the terms "smaller reporting company" and "emerging growth company").

<sup>17</sup> See Securities and Exchange Commission, "Fiscal Year 2025 Congressional Budget Justification" (Page 24), available at <https://www.sec.gov/files/fy-2025-congressional-budget-justification.pdf>.

The Division has worked on a number of proposed and final rules in the last year.<sup>18</sup>

In December 2023, rules began to be implemented requiring registrants to disclose material cybersecurity incidents they experience as well as to disclose on an annual basis material information regarding their cybersecurity risk management, strategy, and governance.<sup>19</sup>

In November 2023, as mandated by Congress in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the Commission adopted rules regarding conflicts of interest in the securitization market.<sup>20</sup> Compliance with these rules is required starting in June 2025.

In July 2024, rules were implemented regarding disclosures by special purpose acquisition companies (SPACs), both when going public as well as when engaging in a business combination transaction with a target company (de-SPAC transactions).<sup>21</sup>

In March 2024, the Commission adopted rules to standardize climate-related risk disclosures by public companies and in public offerings.<sup>22</sup> The Commission stayed these rules pending the completion of judicial review.<sup>23</sup>

The Commission also has adopted rules related to corporate governance. As mandated by Congress in the Dodd-Frank Act, exchange listing rules on clawbacks of executive compensation were implemented in 2023, with corresponding issuer disclosure requirements beginning in 2024.<sup>24</sup> Updated rules regarding how corporate insiders trade their own company's stock have been phased in starting in April 2023.<sup>25</sup> In October 2023, the Commission adopted rules shortening the deadlines by which beneficial owners must inform the public of their position, with compliance beginning in February 2024.<sup>26</sup> Lastly, in August 2024, consistent with Congress's mandate in the Financial Data Transparency Act of 2022, the SEC, together with eight other federal financial

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<sup>18</sup>In May 2023, the SEC adopted a rule related to stock buybacks. The U.S. Court of Appeals for the Fifth Circuit subsequently vacated the rule in December 2023. In addition, in July 2022, the SEC rescinded certain rules applicable to proxy voting advice that the Commission had previously adopted in 2020. The U.S. Court of Appeals for the Fifth Circuit vacated portions of the SEC's 2022 rescission in June 2024, and the U.S. Court of Appeals for the Sixth Circuit upheld the SEC's 2022 rescission in September 2024.

<sup>19</sup> See Securities and Exchange Commission, "SEC Adopts Rules on Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure by Public Companies" (July 26, 2023), available at <https://www.sec.gov/newsroom/press-releases/2023-139>.

<sup>20</sup> See Securities and Exchange Commission, "SEC Adopts Rule to Prohibit Conflicts of Interest in Certain Securitizations" (Nov. 27, 2023), available at <https://www.sec.gov/newsroom/press-releases/2023-240>.

<sup>21</sup> See Securities and Exchange Commission, "SEC Adopts Rules to Enhance Investor Protections Relating to SPACs, Shell Companies, and Projections" (Jan. 24, 2024), available at <https://www.sec.gov/newsroom/press-releases/2024-8>.

<sup>22</sup> See Securities and Exchange Commission, "SEC Adopts Rules to Enhance and Standardize Climate-Related Disclosures for Investors" (March 6, 2024), available at <https://www.sec.gov/newsroom/press-releases/2024-31>.

<sup>23</sup> See Securities and Exchange Commission, "Order Issuing Stay" (April 4, 2024), available at <https://www.sec.gov/files/rules/other/2024/33-11280.pdf>.

<sup>24</sup> See Securities and Exchange Commission, "SEC Adopts Compensation Recovery Listing Standards and Disclosure Rules" (Oct. 26, 2022), available at <https://www.sec.gov/news/press-release/2022-192>.

<sup>25</sup> See Securities and Exchange Commission, "SEC Adopts Amendments to Modernize Rule 10b5-1 Insider Trading Plans and Related Disclosures" (Dec. 14, 2022), available at <https://www.sec.gov/news/press-release/2022-222>.

<sup>26</sup> See Securities and Exchange Commission, "SEC Adopts Amendments to Rules Governing Beneficial Ownership Reporting" (Oct. 10, 2023), available at <https://www.sec.gov/news/press-release/2023-219>.

regulators, proposed joint data standards for data submitted to the nine financial regulators to promote the interoperability of financial regulatory data.<sup>27</sup>

## **Investment Management**

The Division of Investment Management has primary responsibility for administering the Investment Company Act of 1940 and Investment Advisers Act of 1940. In administering the Investment Company Act, the Division develops regulatory policy for investment companies, which include mutual funds, money market funds, closed-end funds, business development companies, unit investment trusts, variable insurance products, and exchange-traded funds.

The Division also develops regulatory policy as applicable to investment advisers, including advisers to registered investment companies, separately managed accounts, and, in certain cases, to private funds.

In FY 2023, Division staff reviewed more than 1,900 filings related to more than 4,400 funds and insurance products. Staff also reviewed annual reports—including financial statements—from more than 4,200 funds.<sup>28</sup>

The Division worked on a number of rulemakings in the last year.<sup>29</sup>

The Commission adopted amendments to Form PF, the confidential reporting form for certain SEC-registered investment advisers to private funds.<sup>30</sup> Rules requiring that large hedge fund and private equity fund advisers make current reports on certain events to the Commission were implemented in June 2024. A joint rule with the Commodity Futures Trading Commission (CFTC) to enhance the amount of information the agencies receive from all Form PF filers was adopted in February 2024 and will be implemented in March 2025.<sup>31</sup>

In August 2024, the Commission adopted amendments to reporting requirements on form N-PORT.<sup>32</sup> Funds generally will be required to comply with the amendments for reports filed on or after November 17, 2025, except fund groups with net assets of less than \$1 billion have until May 18, 2026.

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<sup>27</sup> See “SEC Proposes Joint Data Standards Under the Financial Data Transparency Act of 2022” (Aug. 2, 2024), available at <https://www.sec.gov/newsroom/press-releases/2024-93>.

<sup>28</sup> See Securities and Exchange Commission, “Fiscal Year 2025 Congressional Budget Justification” (Page 32), available at <https://www.sec.gov/files/fy-2025-congressional-budget-justification.pdf>.

<sup>29</sup> In addition to the rules detailed, the Commission adopted in March 2024 rules relating to internet advisers, which will be implemented in March 2025. See Securities and Exchange Commission, “SEC Adopts Reforms Relating to Investment Advisers Operating Exclusively Through the Internet” (March 27, 2024), available at <https://www.sec.gov/newsroom/press-releases/2024-42>. Further, rule amendments requiring the electronic filing of certain documents previously submitted on paper by investment advisers and others were implemented in February and June of 2023. <https://www.sec.gov/newsroom/press-releases/2022-113>. In August 2023, the SEC adopted rules regarding private fund advisers. The U.S. Court of Appeals for the Fifth Circuit subsequently vacated the rule in June 2024.

<sup>30</sup> See Securities and Exchange Commission, “SEC Adopts Amendments to Enhance Private Fund Reporting” (May 3, 2023), available at <https://www.sec.gov/newsroom/press-releases/2023-86>.

<sup>31</sup> See Securities and Exchange Commission, “SEC Adopts Amendments to Enhance Private Fund Reporting” (Feb. 8, 2024), available at <https://www.sec.gov/newsroom/press-releases/2024-17>.

<sup>32</sup> See Securities and Exchange Commission, “SEC Adopts Reporting Enhancements for Registered Investment Companies and Provides Guidance on Open-End Fund Liquidity Risk Management Programs” (Aug. 28, 2024), available at <https://www.sec.gov/newsroom/press-releases/2024-110>.



In May 2024, the Commission finalized amendments to Regulation S-P that will require covered firms to notify their customers of data breaches that might put their personal information at risk.<sup>33</sup> Such covered firms include broker-dealers (including funding portals), investment companies, registered investment advisers, and transfer agents. Larger entities will have to comply in December 2025 and smaller entities in June 2026. The Division of Trading and Markets also worked on these rules.

In July 2023, the Commission adopted amendments to update the regulations for governing money market funds.<sup>34</sup> There is a staggered transition period for funds to come into compliance, with full implementation to be complete in October 2024.

In September 2023, the Commission adopted amendments to the Investment Company Act “Names Rule” to address funds names that could mislead investors about a fund’s investments and risks.<sup>35</sup> Compliance will be phased in based on fund size, with larger funds required to comply in December 2025 and smaller funds in June 2026.

In July 2024, the Commission implemented a Congressional mandate to provide a tailored form to register the offerings of registered index-linked annuities.<sup>36</sup> Filers will have until May 1, 2026, to comply with most of the final amendments, and insurance companies will be able to use the tailored form in September 2024.

Rules regarding the updating of funds’ shareholder reports were implemented in July 2024.<sup>37</sup>

Rules to govern proxy voting information reported on Form N-PX were implemented in August 2024.<sup>38</sup>

The Divisions of Investment Management and Trading and Markets are considering recommending that the Commission re-propose rules regarding conflicts of interest in the use of predictive analytics by brokers and advisers.<sup>39</sup> Further, the Division of Investment Management is

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<sup>33</sup> See Securities and Exchange Commission, “SEC Adopts Rule Amendments to Regulation S-P to Enhance Protection of Customer Information” (May 16, 2024), available at <https://www.sec.gov/newsroom/press-releases/2024-58>.

<sup>34</sup> See Securities and Exchange Commission, “SEC Adopts Money Market Fund Reforms and Amendments to Form PF Reporting Requirements for Large Liquidity Fund Advisers” (July 12, 2023), available at <https://www.sec.gov/newsroom/press-releases/2023-129>.

<sup>35</sup> See Securities and Exchange Commission, “SEC Adopts Rule Enhancements to Prevent Misleading or Deceptive Investment Fund Names” (Sept. 20, 2023), available at <https://www.sec.gov/newsroom/press-releases/2023-188>.

<sup>36</sup> See Securities and Exchange Commission, “SEC Adopts Tailored Registration Form for Offerings of Registered Index-Linked and Registered Market-Value Adjustment Annuities” (July 1, 2024), available at <https://www.sec.gov/newsroom/press-releases/2024-81>.

<sup>37</sup> See Securities and Exchange Commission, “SEC Adopts Amendments to Modernize Fund Shareholder Reports and Promote Transparent Fee- and Expense-Related Information in Fund Advertisements” (Oct. 26, 2022), available at <https://www.sec.gov/newsroom/press-releases/2022-193>.

<sup>38</sup> See Securities and Exchange Commission, “SEC Adopts Rules to Enhance Proxy Voting Disclosure by Registered Investment Funds and Require Disclosure of “Say-on-Pay” Votes for Institutional Investment Managers” (Nov. 2, 2022), available at <https://www.sec.gov/newsroom/press-releases/2022-198>.

<sup>39</sup> See Office of Information and Regulatory Affairs, “Agency Rule List - Spring 2024, Securities and Exchange Commission,” available at [https://www.reginfo.gov/public/do/eAgendaMain?operation=OPERATION\\_GET\\_AGENCY\\_RULE\\_LIST&current](https://www.reginfo.gov/public/do/eAgendaMain?operation=OPERATION_GET_AGENCY_RULE_LIST&current)

considering recommending that the Commission repropose rules regarding the custody of funds or investments of clients as well as changes to regulatory requirements relating to open-end funds' liquidity and dilution management.

In May 2024, the Commission and U.S. Department of the Treasury's Financial Crimes Enforcement Network jointly proposed rules requiring customer identification programs for Commission-registered investment advisers and exempt reporting advisers.<sup>40</sup>

In addition to these rules, the Division also is implementing an initiative to add to the aggregate public data published by the SEC. First, earlier this year, it began publishing the Registered Fund Statistics report, which aggregates data about the registered fund industry.<sup>41</sup> Second, in May, the Division began publishing a new report based on aggregated data filed by investment advisers on Form ADV, providing statistics on the investment advisory industry and showing trends over time.<sup>42</sup> Third, in July, it updated and enhanced public reporting of data regarding hedge funds, private equity funds, and other private funds from Form PF. The report provides the public with information about the leverage, borrowing, and other activities of this rapidly growing sector.

## Trading and Markets

The Division of Trading and Markets works to maintain fair, orderly, and efficient markets. Market monitoring and supervision are essential parts of the Division's activity—especially during times of market stress. Transaction volume in listed equities has doubled in the last five years and tripled in the last 17 years.<sup>43</sup>

The Division oversees 25 national securities exchanges, 108 alternative trading systems, about 3,400 broker-dealers, 53 security-based swap dealers, six active registered clearing agencies, and more than 300 transfer agents, among other entities.

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<sup>40</sup> See Securities and Exchange Commission, "SEC, FinCEN Propose Customer Identification Program Requirements for Registered Investment Advisers and Exempt Reporting Advisers" (May 13, 2024), available at <https://www.sec.gov/newsroom/press-releases/2024-54>. A separate FinCEN proposal in February 2024 would designate RIAs and ERAs as "financial institutions" under the Bank Secrecy Act (BSA) and subject them to AML/CFT program requirements and suspicious activity report (SAR) filing obligations, among other requirements. See Federal Register "Financial Crimes Enforcement Network: Anti-Money Laundering/Countering the Financing of Terrorism Program and Suspicious Activity Report Filing Requirements for Registered Investment Advisers and Exempt Reporting Advisers" (Sept. 4, 2024), available at <https://www.federalregister.gov/public-inspection/2024-19260/anti-money-launderingcountering-the-financing-of-terrorism-program-and-suspicious-activity-report>.

<sup>41</sup> See Securities and Exchange Commission, "SEC Staff Publishes New Registered Fund Statistics Report" (April 24, 2024), available at <https://www.sec.gov/newsroom/press-releases/2024-49>.

<sup>42</sup> See Securities and Exchange Commission, "SEC Staff Publishes New Investment Adviser Statistics Report" (May 15, 2024), available at <https://www.sec.gov/newsroom/press-releases/2024-57>.

<sup>43</sup> See CBOE "Historical Market Volume Data," available at [https://www.cboe.com/us/equities/market\\_statistics/historical\\_market\\_volume/](https://www.cboe.com/us/equities/market_statistics/historical_market_volume/).

In FY 2023, the Division responded to more than 16,000 public inquiries. In FY 2023, the Division also reviewed more than 660 filings from broker-dealers as well as more than 1,700 self-regulatory organization proposed rule changes and advance notices.<sup>44</sup>

In the last year, with respect to rulemaking, the Division was primarily focused on market structure for the equity and Treasury markets as well as implementing rules mandated by Congress through the Dodd-Frank Act.

In terms of equity market structure, last week the Commission adopted amendments to certain rules under Regulation NMS to adopt an additional minimum pricing increment, or “tick size,” for the quoting of certain NMS stocks, reduce the access fee caps for protected quotations of trading centers, increase the transparency of exchange fees and rebates, and accelerate the implementation of rules that will make information about the market’s best priced, smaller-sized orders publicly available.<sup>45</sup>

On May 28, 2024, much of the U.S. markets (equities, corporate bonds, municipals, etc.) successfully aligned its settlement cycle with the Treasury markets at T+1.<sup>46</sup> In March 2024, the Commission adopted amendments to Rule 605 that enhance disclosure requirements for order execution quality.<sup>47</sup> Large broker-dealers—those with more than 100,000 customers—will have to disclose execution quality to the public. Compliance with these amendments to Rule 605 will begin in December 2025. The Commission also is continuing to review comments on other rule proposals related to the equities markets.<sup>48</sup>

As for Treasury markets, in December 2023 the Commission adopted rules to facilitate additional central clearing for the \$27 trillion U.S. Treasury markets.<sup>49</sup> By March 2025, Treasury clearinghouses must separate proprietary margin from customer margin and further facilitate access to central clearing. Starting at the end of 2025, certain cash transactions will have to be cleared. Starting in June 2026, certain repo and reverse repo transactions must be cleared. In February 2024, the Commission adopted final rules further defining a dealer and government

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<sup>44</sup> See Securities and Exchange Commission, “Fiscal Year 2025 Congressional Budget Justification” (Pages 27 and 28, filings with regard to broker-dealers filing form 17-H, risk supervision of alternative net capital broker-dealers, and over-the-counter derivatives), available at <https://www.sec.gov/files/fy-2025-congressional-budget-justification.pdf>.

<sup>45</sup> See Securities and Exchange Commission, “SEC Adopts Rules to Amend Minimum Pricing Increments and Access Fee Caps and to Enhance the Transparency of Better Priced Orders” (Sept. 18, 2024), available at <https://www.sec.gov/newsroom/press-releases/2024-137>.

<sup>46</sup> See Securities and Exchange Commission, “SEC Finalizes Rules to Reduce Risks in Clearance and Settlement” (Feb. 15, 2023), available at <https://www.sec.gov/newsroom/press-releases/2023-29>.

<sup>47</sup> See Securities and Exchange Commission, “SEC Adopts Amendments to Enhance Disclosure of Order Execution Information” (March 6, 2024), available at <https://www.sec.gov/newsroom/press-releases/2024-32>.

<sup>48</sup> See Securities and Exchange Commission, “SEC Proposes Rule to Address Volume-Based Exchange Transaction Pricing for NMS Stocks” (Oct. 18, 2023), available at <https://www.sec.gov/news/press-release/2023-225>. See also Securities and Exchange Commission, “SEC Proposes Rules to Amend Minimum Pricing Increments and Access Fee Caps and to Enhance the Transparency of Better Priced Orders” (Dec. 14, 2022), available at <https://www.sec.gov/news/press-release/2022-224>. See also Securities and Exchange Commission, “SEC Proposes Regulation Best Execution” (Dec. 14, 2022), available at <https://www.sec.gov/news/press-release/2022-226>. See also Securities and Exchange Commission, “SEC Proposes Rule to Enhance Competition for Individual Investor Order Execution” (Dec. 14, 2022), available at <https://www.sec.gov/news/press-release/2022-225>.

<sup>49</sup> See Securities and Exchange Commission, “SEC Adopts Rules to Improve Risk Management in Clearance and Settlement and Facilitate Additional Central Clearing for the U.S. Treasury Market” (Dec. 13, 2023), available at <https://www.sec.gov/news/press-release/2023-247>.



securities dealer.<sup>50</sup> Further, rules are being implemented this month that will update and narrow the circumstances in which broker-dealers are exempt from registering with a national securities association.<sup>51</sup>

The Commission also worked to finalize Congressionally mandated Dodd-Frank rules. Entities subject to rules creating a regime for the registration and regulation of security-based swap execution facilities (SBSEFs) were required to begin complying in August 2024.<sup>52</sup> Further, antifraud rules related to security-based swap transactions were implemented in August of 2023.<sup>53</sup> In October 2023, the Commission adopted rules regarding the reporting of short sale<sup>54</sup> and securities lending related data.<sup>55</sup>

The Commission also adopted rules in November 2023 relating to the governance and use of outside service providers by clearinghouses, and compliance will be phased in during December 2024 and December 2025.<sup>56</sup>

Finally, rules related to the electronic recordkeeping of broker-dealers were phased in beginning in May 2023, to be completed in November 2024.<sup>57</sup>

## **Economic and Risk Analysis**

The Division of Economic and Risk Analysis (DERA) includes economists, statisticians, data scientists and engineers, attorneys, accountants, and other staff. These experts provide support to every aspect of the Commission’s mission from rulemaking to enforcement.

DERA provides economic analyses that consider the costs and benefits of our rules as well as their effects on efficiency, competition, and capital formation. In conducting the economic analysis, DERA staff work closely with staff from the divisions, from the earliest stages of policy development through the finalization of a particular rule.

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<sup>50</sup> See Securities and Exchange Commission, “SEC Adopts Rules to Include Certain Significant Market Participants as ‘Dealers’ or ‘Government Securities Dealers’” (Feb. 6, 2024), available at <https://www.sec.gov/newsroom/press-releases/2024-14>.

<sup>51</sup> See Securities and Exchange Commission, “SEC Adopts Amendments to Exemption From National Securities Association Membership” (Aug. 23, 2023), available at <https://www.sec.gov/newsroom/press-releases/2023-154>.

<sup>52</sup> See Securities and Exchange Commission, “SEC Adopts Rules for the Registration and Regulation of Security-Based Swap Execution Facilities” (Nov. 2, 2023), available at <https://www.sec.gov/newsroom/press-releases/2023-230>.

<sup>53</sup> See Securities and Exchange Commission, “SEC Adopts Rules to Prevent Fraud in Connection with Security-Based Swaps Transactions and Prevent Undue Influence over CCOs” (June 7, 2023) available at <https://www.sec.gov/newsroom/press-releases/2023-104>.

<sup>54</sup> See Securities and Exchange Commission, “SEC Adopts Rule to Increase Transparency Into Short Selling and Amendment to CAT NMS Plan for Purposes of Short Sale Data Collection” (Oct. 13, 2023), available at <https://www.sec.gov/newsroom/press-releases/2023-221>.

<sup>55</sup> See Securities and Exchange Commission, “SEC Adopts Rule to Increase Transparency in the Securities Lending Market” (Oct. 13, 2023), available at <https://www.sec.gov/newsroom/press-releases/2023-220>.

<sup>56</sup> See Securities and Exchange Commission, “SEC Adopts Rules to Improve Clearing Agency Governance and Mitigate Conflicts of Interest” (Nov. 16, 2023), available at <https://www.sec.gov/newsroom/press-releases/2023-236>.

<sup>57</sup> See Securities and Exchange Commission, “SEC Adopts Rule Amendments to Modernize How Broker-Dealers Preserve Electronic Records and Enhance the Electronic Recordkeeping Requirements for Security-Based Swap Entities” (Oct. 12, 2022), available at <https://www.sec.gov/newsroom/press-releases/2022-187>.

The Commission receives feedback from the public on these economic analyses, which benefits our rulemaking.

DERA also supports the Commission's examination and enforcement functions by helping to identify securities law violations, quantify harm to investors, calculate ill-gotten gains, and assist enforcement with returning funds to harmed investors.

Finally, DERA assists the Commission in its efforts to identify, analyze, and respond to economic and market issues, including those related to new financial products, investment and trading strategies, systemic risk, and fraud.

## **Examinations**

The Division of Examinations serves a critical role in helping firms to comply with the law.

In FY 2023, Division staff conducted more than 3,100 examinations across our tens of thousands of registrants. From investment advisers to broker-dealers to exchanges, the Division helps ensure that registrants are following their legal obligations to customers and clients, including seniors and other vulnerable investors.

Importantly, the Division is the first line of defense for the investing public relying on investment advisers. It is responsible for examining and overseeing a growing registrant population, including more than 15,400 investment advisers and approximately 800 investment company complexes.

The Division issues risk alerts that summarize examination observations and preview potential examination scope areas focusing on compliance with new rules. The Division also promotes compliance by regularly engaging with the industry and investors through its national and regional outreach events.

Further, the Division works in parallel with SROs to examine the more than 3,300 broker-dealers with roughly 150,000 branch offices.

## **Enforcement**

The work of the Division of Enforcement is central to the SEC's investor protection role. The Division conducts investigations into possible violations of the federal securities laws and litigates enforcement actions in the federal courts and in administrative proceedings. In addition to monetary remedies designed to remove wrongdoer's ill-gotten gains and deter future violations, the Commission's enforcement actions protect investors by obtaining remedial injunctions in district court and, similarly, remedial suspensions and bars in administrative proceedings.

In FY 2023, the Division brought 784 enforcement actions that resulted in orders for \$4.9 billion in penalties and disgorgement. When feasible, the civil penalties and disgorgement obtained in the Commission's civil enforcement actions are returned to harmed investors, and the SEC distributed \$930 million to harmed investors in FY 2023.<sup>58</sup> Further, in FY 2023, the SEC received

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<sup>58</sup> See Securities and Exchange Commission, SEC Announces Enforcement Results for Fiscal Year 2023" (Nov. 14, 2023), available at <https://www.sec.gov/news/press-release/2023-234>.

more than 40,000 separate tips, complaints, and referrals from whistleblowers and others, up from about 16,700 in 2019.

### **Other Offices**

The SEC has an Office of the General Counsel, which provides legal analysis and advice to the Commission and its divisions and offices on all aspects of the Commission's activities. The other offices include: Office of the Chief Accountant, Office of Investor Education and Advocacy, Office of International Affairs, Office of the Investor Advocate, Office of Credit Ratings, Office of Municipal Securities, Office of the Advocate for Small Business Capital Formation, and Strategic Hub for Innovation and Financial Technology.

### **Conclusion**

Thank you for the opportunity to testify today and for the Committee's support of the SEC, its mission, and its people.