

STATEMENT OF JESSICA WACHTER, CHIEF ECONOMIST AND DIRECTOR, DIVISION OF ECONOMIC AND RISK ANALYSIS, U.S. SECURITIES AND EXCHANGE COMMISSION

Thank you and good morning, Chairman Wagner, Ranking Member Sherman, and members of the subcommittee. It is my pleasure to be here today. I am the Commission's Chief Economist and the Director of the Division of Economic and Risk Analysis, or DERA as we call it. Today, I am testifying in my official capacity as the Chief Economist and Director of DERA, but my testimony does not necessarily reflect the views of the Commission, the Commissioners, or other members of the staff.

I know that many are not familiar with my division's work so I wanted to give you a little information about who we are and what we do. DERA was established in 2009 from a merger of the Office of Risk Assessment and the Office of the Chief Economist. DERA is made up of over 170 economists, statisticians, data scientists and engineers, attorneys, accountants, and other staff. These experts provide support to every aspect of the Commission's mission from rulewriting to enforcement. As of May 31, DERA had over 100 PhD economists working on rulewriting, litigation support, and risk analysis.

High-quality economic analysis is an essential part of SEC rulemaking. It helps ensure, among other things, that decisions to propose and adopt rules are informed by the best available information about a rule's likely economic consequences and it allows the Commission to consider a rule's potential benefits and costs when determining if a rule is in the public interest. As a result, DERA is actively involved in the Commission's policy and rulemaking function. In Commission rulemakings, DERA's Office of Policy Economics conducts an economic analysis that examines the costs and benefits, as well as effects on efficiency, competition, and capital formation of that rulemaking. As a general matter, the economic analysis contains: (1) a statement of the need for the proposed action; (2) a baseline against which to measure the likely economic consequences of the proposed regulation; (3) alternative regulatory approaches; (4) an evaluation of the benefits and costs—both quantitative and qualitative—of the proposed action and the main alternatives; and (5) an analysis of the effects on efficiency, competition, and capital formation. In conducting the economic analysis, DERA staff work closely with staff from the policy divisions, including the Division of Trading and Markets, from the earliest stages of policy development through the finalization of a particular rule.

In addition to working on rulemaking and policy matters, DERA economists also support the Commission's examination and enforcement functions by providing rigorous economic analysis and data analytics. We help identify securities law violations, quantify harm to investors, calculate ill-gotten gains, and assist enforcement with returning funds to harmed investors. DERA's Office of Litigation Economics also provides expert testimony in enforcement matters. DERA staff also perform risk analyses of the capital markets to inform the Commission and those outside of it.

High-quality data greatly facilitate our economic analyses. Indeed, data and data analytics are becoming increasingly important to the successful accomplishment of the SEC's mission. To meet the increased demand for data analytics, DERA's data scientists and engineers develop tools and perform

analyses in support of the entire Commission. This includes working with the SEC's other divisions and offices to design data structuring approaches for required disclosures, validation rules, and data quality assessments, as well as advanced machine learning algorithms.

In sum, DERA staff deliver high-quality, data-driven analyses that are critical to the SEC's mission of protecting investors, facilitating capital formation, and ensuring fair, orderly, and efficient markets. It is my great pleasure to serve at the SEC. I have been privileged to study financial markets and to teach the new leaders of our financial industry for more than 20 years. Our markets are the deepest and most liquid in the world and I am honored that I am able to help them continue to grow and to thrive. Thank you again for inviting me, and I look forward to answering your questions.