

AGENCY AND MISSION INFORMATION

Executive Summary

The U.S. Securities and Exchange Commission's (SEC) is pleased to submit the budget request for fiscal year (FY) 2014. For FY 2014, the SEC is requesting \$1.674 billion in support of 5,180 positions and 4,638 FTE. This requested budget level would allow the SEC to hire an additional 676 positions to accomplish the priorities the agency has set forth, including:

- Strengthening core programs and operations;
- Acquiring the necessary skill sets to enhance the agency's oversight of the increasing complex and rapidly changing markets and entities the SEC regulates;
- Making operational the significant new responsibilities assigned to the agency over areas such as derivatives, private fund advisers, and municipal advisors under the Dodd-Frank Wall Street Reform and Consumer Protection Act; and
- Implementing the new responsibilities created under Title I of the Jumpstart Our Business Startups (JOBS) Act of 2012.

In addition, this request would enhance the tools our staff have at their disposal to better advance the SEC's mission through much-needed investments in technology and training.

The requested funding is necessary for the SEC to fulfill our responsibility to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. While it is understood that this request comes during a time of tremendous fiscal challenges, it is important to note that this budget request is fully offset by matching collections of fees on securities transactions, and will not in any way impact the Federal budget deficit.

The Commission over the past few years has completed a number of important steps to reform operations and better protect investors. These include revitalizing and restructuring the enforcement and examination functions, revamping the handling of tips and complaints, enhancing safeguards for

investor assets, improving internal collaboration, bolstering our risk assessment capacity, and recruiting more staff with specialized expertise and experience. These efforts could not have been possible without the support of the Congress through the budget process.

However, the SEC's current level of resources is not sufficient to keep pace with the growing size and complexity of the securities markets and of the agency's broad responsibilities. Currently, the SEC oversees approximately 35,000 entities, including about 11,000 investment advisers, 9,700 mutual funds and exchange traded funds, 4,600 broker-dealers with more than 160,000 branch offices. The SEC also has responsibility for reviewing the disclosures and financial statements of approximately 9,500 reporting companies. The SEC oversees approximately 460 transfer agents, 17 national securities exchanges, eight active clearing agencies, and 10 nationally recognized statistical rating organizations (NRSROs), 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). Also, as mentioned above, the agency has new or expanded responsibilities over the derivatives markets, hedge fund and other private fund advisers, municipal advisors, credit rating agencies, and clearing agencies.

Meanwhile, the securities industry continues to grow at a rapid pace. For example, during the past decade, trading volume in the equity markets has more than doubled, as have assets under management by investment advisers, with these trends likely to continue for the foreseeable future. A number of financial firms spend many times more each year on their technology budgets alone than the SEC spends annually on all its operations. Similarly, SEC enforcement teams bring cases against firms that spend more on lawyers' fees than the agency's annual operating budget.

This budget request focuses on addressing these resource challenges by increasing funding in the following areas:

- expanding oversight of investment advisers and strengthening compliance;
- focusing on economic and risk analysis to support rulemaking and oversight;
- bolstering enforcement;
- building oversight of derivatives and clearing agencies;
- supporting implementation of the JOBS Act and enhancing reviews of corporate disclosures;
- leveraging technology; and
- enhancing training and development of SEC staff.

Each of these areas is described further below.

Expanding Oversight of Investment Advisers and Strengthen Compliance

During FY 2012, the SEC examined only about eight percent of registered advisers, and over 40 percent of advisers have never been examined. Additionally, the number of registered advisers has increased by more than 40 percent over the last decade, while the assets under management by these advisers have increased more than two-fold, to almost \$50 trillion. At the same time, the industry has been moving towards the increasing use of new and complex products, including derivatives and certain structured products; the use of technologies that facilitate high-frequency and algorithmic trading; and the development of complex “families” of financial services companies with integrated operations that include both broker-dealer and investment adviser affiliates. While the agency has successfully focused our limited examination resources on those areas posing the greatest risk to investor assets, the SEC’s low rate of examination coverage poses too great a risk to investors to allow it to persist.

Therefore, under the FY 2014 request, one of the SEC’s top priorities is to hire 250 additional examiners to increase the percentage of advisors examined each year, the rate of first-time examinations, and the examination coverage of investment advisers and newly registered private fund advisers.

While the agency’s long-term goal is to examine roughly the same proportion of the adviser industry each year as the Financial Industry Regulatory Authority (FINRA) achieves in its examinations of broker-dealers, which is about half, the SEC recognizes that a sustained, recurring investment will be needed to achieve this outcome.

The National Examinations Program (NEP) also would add 30 positions to improve oversight and examination functions related to broker-dealers, clearing agencies, transfer agents, self-regulatory organizations (SROs), swap data repositories, and municipal advisors. In addition, a portion of these positions will be used to support other critical program initiatives such as expanding the program for registrants’ internal compliance, enhancing global risk assessment and surveillance efforts, and improving technology capabilities. These positions are vital as the agency continues to strive to keep pace with the rapid change and increasing complexity of the markets it regulates.

Focusing on Economic and Risk Analysis to Support Rulemaking and Oversight

For FY 2014, the SEC plans growth of 45 positions in the Division of Risk, Strategy and Financial Innovation (RSFI), primarily to hire financial economists to perform economic analyses and research in support of Commission rulemaking activity. Specifically, RSFI would seek economists with expertise in analyzing:

- high frequency trading data and economic issues in market structure and practices to support the Division of Trading and Markets and the examination program;
- executive compensation and related areas of corporate governance;
- complex structured products, including valuation of and risks associated with those products; and
- swap dealers and financial responsibility requirements.

RSFI also plans to hire computer scientists with mathematical and statistical programming experience to support risk assessment and risk metrics, analytics, rulemaking, and economic analysis.

Bolstering Enforcement

The ability to bring timely, high-quality enforcement actions when violations of the Federal securities laws are identified is integral to the SEC's core mission. The SEC must expand its enforcement function to keep pace with the growing size and complexity of our markets and the SEC's additional responsibilities, and to send strong messages to wrongdoers that misconduct will be swiftly and aggressively addressed. Additional resources are needed in Enforcement to assist in following up on the high volume of tips and complaints received through the Commission's new whistleblower program; achieve additional examinations of advisers; and deploy more advanced analytical and technological tools to detect securities law violations. Specifically, the Division of Enforcement will focus its hiring of 131 staff on increased expertise in the securities industry and new product areas, trial attorneys, and forensic accountants, as well as staff for the Office of Market Intelligence, the Office of the Whistleblower, and the SEC's collections and distributions functions.

Building Oversight of Derivatives and Clearing Agencies

The Commission's regulatory responsibilities are significantly expanding with the addition of new categories of registered entities (including security-based swap execution facilities, security-based swap data repositories, security-based swap dealers, and major security-based swap participants); the required regulatory reporting and public dissemination of security-based swap data; and the mandatory clearing of security-based swaps. To avoid bottlenecks and unintended market disruptions as the new requirements become operational, the agency will need additional staff with technical skills and experience to process and review on a timely basis the requests for interpretation, registration, or required approvals. New staff also will be needed to help conduct improved risk-based supervision of registered security-based swap dealers and participants, that includes using newly-available data to identify excessive risks or other threats to security-based swap markets and investors.

In addition, the agency intends to focus on further enhancing its oversight of clearing agencies. Currently, the average transaction volume cleared and settled by the seven active registered clearing agencies is approximately \$6.6 trillion a day. Yet the SEC only has approximately sixteen examiners devoted to them, with limited on-site presence in only three of the seven. Additionally, the SEC only has approximately a dozen other staff focused on the monitoring and evaluation of risk management systems used by the existing clearing agencies, and will need to expand these efforts to address the expected increase in the number of clearing agencies and rule filings raising risk management issues. Without these additional resources, the mismatch between the amount of regulated clearing activity and staffing will be exacerbated as additional clearing agencies will register with the SEC as a result of their security-based swap activities, and others likely will require expanded oversight due to their designation as systemically important by the Financial Stability Oversight Council. Accordingly, in the FY 2014 budget request the SEC proposes to add 25 positions in the Division of Trading and Markets and in the NEP to support these functions.

Supporting Implementation of the JOBS Act and Enhance Reviews of Corporate Disclosures

For FY 2014, the SEC requests 25 new positions for the Division of Corporation Finance (CF). These positions primarily would be devoted to implementing Title I of the Jumpstart Our Business Startups (JOBS) Act. The Act establishes a new category of filers – “emerging growth companies” – who may comply with scaled disclosure requirements in their initial public offerings and subsequent periodic reports. These companies may also submit draft registration statements for confidential nonpublic review by the staff of the Division. These provisions were intended to increase the number of initial public offerings and the number of companies who file periodic reports with the SEC. The new positions will be used to hire additional attorneys and accountants to conduct reviews of registration statements and other corporate filings, including the additional filings expected to result from the JOBS Act, and to answer

interpretive questions that relate to those filings and other matters relating to the companies making them.

In addition, the CF intends to use these new positions to enhance disclosure reviews of large and financially significant companies, to improve the information these companies provide to investors, thereby facilitating informed decision-making.

Leveraging Technology

Aside from the need to increase the number of experts dedicated to overseeing the securities industry, it is also critically important to continue leveraging technology to streamline operations and increase the effectiveness of the agency's programs. While the SEC has made significant progress over the past few years in modernizing our technology systems, the agency must continue to make investments if it is to keep pace with the markets and organizations that the SEC regulates. The FY 2014 budget request would add \$56 million for technology to support a number of key Information Technology (IT) initiatives, including enhancements to the system for receiving tips, complaints, and referrals (TCR), improvements to IT security, and infrastructure upgrades to achieve efficiencies in business operations and reduce long-term costs.

The SEC plans to enhance its TCR Intake and Resolution system by building an interface to the agency's exam and case management systems, adding intake and routing functionality for referrals from the self-regulatory organizations (SROs), expanding reporting, and constructing the ability to create and route referral memos so that matters that require follow-up action are routed quickly. Additionally, the agency plans to develop a component of the TCR system that will automatically receive new TCRs and determine the characteristics and risks of each based on a set of defined business rules and the use of SEC internal and external information. This triage solution will be integrated with the TCR Intake and Resolution system, thereby providing SEC staff with the required data and will automate analyses that are currently conducted manually.

The agency also plans to make a significant investment in its information security program. In FY 2013 and FY 2014, the Office of Information Technology (OIT) plans to deploy a new set of security tools and develop and train IT analytical staff to monitor, respond to, and remediate threats, as well as to rapidly address security breaches. Rather than conduct only periodic assessments of security, OIT will focus on continuous risk monitoring. Additionally, in FY 2014, the SEC is requesting resources needed to implement infrastructure upgrades to achieve efficiencies in business operations and reduce long-term costs. For example, the agency plans a number of initiatives to automate business processes and share data across the agency, to improve collaboration and content management across the agency, and continue strategic replacement of existing hardware and software in order to hold down maintenance costs.

Enhancing Training and Development of SEC Staff

The SEC's staff is the most important driver of the agency's successes. The FY 2014 request includes a significant increase in the SEC's total training budget to enable the SEC to continue building an effective training program to deepen expertise and skills, not only in the rapidly evolving nature of the markets, but also in areas of new responsibility. The planned investment principally supports training and development for employees directly involved in examinations, investigations, fraud detection, litigation, and other core mission responsibilities of the SEC. The training will consist of specialized in-depth training concerning new trends in the securities industry and changing market conditions, as well as analytics and forensics. The investment also will fund certain specialized financial certifications and regulatory credentials, as well as the advanced continuing education required for maintaining legal and financial credentials. The resources requested in the FY 2014 budget would bring the SEC's level of training investment more on par with other Federal financial regulatory agencies. In FY 2013, the SEC training and development budget was at \$2,375 per capita. The proposed 2014 budget would raise this figure to \$2,850 per capita.

Reserve Fund

In FY 2014, the SEC proposes to continue using its Reserve Fund, established in statute, to fund large, multi-year, mission-critical technology projects. The agency plans to use \$50 million from the Fund for modernization of the Electronic Data Gathering, Analysis and Retrieval (EDGAR) system. The funds also will be used for the construction and enhancement of the Enterprise Data Warehouse (EDW) and to develop the capability to intake, store and analyze data from the Consolidated Audit Trail (CAT) Repository. These key priorities will enhance the SEC's ability to improve service to registrants and the public; integrate large amounts of data from disparate sources so the data can be more readily searched and analyzed by SEC staff; and improve SEC business and operational processes.

Specifically, the agency would continue its multi-year effort to overhaul EDGAR to create a new, modernized system that will, among other things, meet Commission requirements for real-time system updates, reduce filer burden by providing simplified search and filing options based on filer experience (i.e., professional or novice), improve data capture by moving to structured formats for various SEC forms, and reduce the long term costs of operating and maintaining the system.

The EDGAR modernization effort leverages the EDW. The EDW is a critical step in combining various streams of data and helping the public gain easier access to more usable market data. The centralized EDW will allow the organization of data using standard definitions and structures, integration of large amounts of data to allow enhanced analytical capabilities and predictive modeling, and strengthened governance of data controls and quality standards.

A Consolidated Audit Trail (CAT) repository will increase the data available to regulators investigating illegal activities such as insider trading and market manipulation, significantly improve the SEC's ability to reconstruct broad-based market events in an accurate and timely manner, monitor overall market structure, assess how Commission rules are affecting the markets, and decrease regulatory data production burdens on SROs and broker-dealers by reducing the number of ad hoc requests. The SEC plans to invest Reserve Fund dollars to develop the SEC's ability to intake CAT data and store it in the EDW, as well as to develop analytical tools and a single software platform that will allow the SEC to identify patterns, trends, and anomalies in the CAT data. The tools and platform will allow seamless searches of data sets to examine activity to reveal suspicious behavior in securities-related activities and quickly trace the origin.

Vision, Mission, Values and Goals

Vision	
The SEC strives to promote a market environment that is worthy of the public's trust and characterized by transparency and integrity.	
Mission	
The mission of the SEC is to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation.	
Values	
Integrity	Teamwork
Accountability	Fairness
Effectiveness	Commitment to Excellence

Strategic Goals and Outcomes

Goal 1: Foster and enforce compliance with the Federal securities laws

- Outcome 1.1:** The SEC fosters compliance with the Federal securities laws.
- Outcome 1.2:** The SEC promptly detects violations of the Federal securities laws.
- Outcome 1.3:** The SEC prosecutes violations of Federal securities laws and holds violators accountable.

Goal 2: Establish an effective regulatory environment

- Outcome 2.1:** The SEC establishes and maintains a regulatory environment that promotes high-quality disclosure, financial reporting, and governance, and that prevents abusive practices by registrants, financial intermediaries, and other market participants.
- Outcome 2.2:** The U.S. capital markets operate in a fair, efficient, transparent, and competitive manner, fostering capital formation and useful innovation.
- Outcome 2.3:** The SEC adopts and administers rules and regulations that enable market participants to understand clearly their obligations under the securities laws.

Goal 3: Facilitate access to the information investors need to make informed investment decisions

- Outcome 3.1:** Investors have access to high-quality disclosure materials that are useful to investment decision making.
- Outcome 3.2:** Agency rulemaking and investor education programs are informed by an understanding of the wide range of investor needs.

Goal 4: Enhance the Commission's performance through effective alignment and management of human, information, and financial capital

- Outcome 4.1:** The SEC maintains a work environment that attracts, engages, and retains a technically proficient and diverse workforce that can excel and meet the dynamic challenges of market oversight.
- Outcome 4.2:** The SEC retains a diverse team of world-class leaders who provide motivation and strategic direction to the SEC workforce.
- Outcome 4.3:** Information within and available to the SEC becomes a Commission-wide shared resource, appropriately protected, that enables a collaborative and knowledge-based working environment.
- Outcome 4.4:** Resource decisions and operations reflect sound financial and risk management principles.

History and Purpose

During the peak of the Depression, Congress passed the Securities Act of 1933. This law, along with the Securities Exchange Act of 1934 (Exchange Act), which created the SEC, was designed to restore investor confidence in our capital markets by providing investors and the markets with more reliable information and clear rules of honest dealing. The main purposes of these laws were to ensure that:

- Companies publicly offering securities for investment dollars must tell the public the truth about their businesses, the securities they are selling, and the risks involved in investing.
- People who sell and trade securities – brokers, dealers and exchanges – must treat investors fairly and honestly, putting investors' interests first.

The SEC is responsible for overseeing the nation's securities markets and certain primary participants, including broker-dealers, investment companies, investment advisers, clearing agencies, transfer agents, credit rating agencies, and securities exchanges, as well as organizations such as the Financial Industry Regulatory Authority (FINRA), Municipal Securities Rulemaking Board (MSRB), and Public Company Accounting Oversight Board (PCAOB). Under the Dodd-Frank Wall Street Reform and Consumer Protection Act¹ (Dodd-Frank Act), the agency's jurisdiction was expanded to include certain participants in the derivatives markets, private fund advisers, and municipal advisers among other changes.

The SEC consists of five presidentially appointed Commissioners, with staggered five-year terms. One of the Commissioners is designated by the President as Chairman of the Commission (see *Appendix A: Chairman and Commissioners*).

By law, no more than three of the Commissioners may belong to the same political party. The Commission convenes regularly at meetings that are open to the public and the news media unless the discussion pertains to confidential subjects, such as whether to begin an enforcement investigation.

Each year, the SEC brings hundreds of civil enforcement actions against individuals and companies for violation of securities laws. Examples of infractions include insider trading, accounting fraud, and providing false or misleading information about securities or the companies that issue them. One of the major sources of information that the SEC relies on to bring enforcement action is investors themselves – another reason that educated and careful investors are critical to the functioning of efficient markets. To help inform investors, the SEC offers the public a wealth of educational information on the website www.investor.gov, as well as an online database of disclosure documents at www.sec.gov/edgar/searchedgar/companysearch.html that public companies and other market participants are required to file with the SEC.

¹ *Dodd-Frank Wall Street Reform and Consumer Protection Act* www.sec.gov/about/laws/wallstreetreform-cpa.pdf

Organizational Structure and Resources

SEC Office Locations

The SEC’s headquarters are in Washington, D.C., and the agency has 11 regional offices located throughout the country. The regional offices are responsible for investigating and litigating potential violations of the securities laws. The offices also have examination staff, who inspect regulated entities such as investment advisers, investment companies and broker-dealers. The map below shows the locations of the regional offices, and the states that are included in each region.



SEC Organization Structure

The SEC is an independent Federal agency established pursuant to the Exchange Act. It is headed by a bipartisan five-member Commission, comprised of the Chairman and four Commissioners, who are appointed by the President and confirmed by the Senate. The Chairman serves as the Chief Executive Officer. In fiscal year (FY) 2012, the agency employed 3,770 full-time equivalents (FTE), including 3,739 permanent and 31 temporary FTEs. The SEC organization chart below is as of September 30, 2012.

