



## **AGENCY AND MISSION INFORMATION**

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## Executive Summary

The U.S. Securities and Exchange Commission (SEC) is pleased to submit its budget request for fiscal year (FY) 2016. The SEC is requesting \$1.722 billion in support of 5,205 permanent positions and 4,815 FTE for FY 2016. This requested budget level is essential to support the agency's mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. With these resources, the agency will focus on strengthening core programs and operations, including its examination and enforcement functions, further bolstering its improved technology, hiring additional staff with skill sets necessary to enhance the agency's oversight of the increasingly complex securities markets, and continuing to effectively operationalize the significant new responsibilities assigned to the agency.

In recent years, the SEC has made substantial progress in a number of critical areas and in implementing important internal enhancements. The agency has proposed or adopted nearly all of the mandatory rulemakings required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and the Jumpstart Our Business Startups Act (JOBS Act), in addition to adopting other key rules that protect investors and our markets. The SEC has intensified its review of equity and fixed income market structure issues, undertaken a Disclosure Effectiveness initiative seeking ways to improve the public company disclosure regime for investors and companies, and continued to act aggressively to hold securities law violators accountable. At the same time, the agency has revitalized and restructured its examination function, improved internal collaboration, significantly bolstered the agency's risk assessment capacity, and recruited more staff with specialized expertise and experience.

While changes such as these have made the SEC more efficient and effective, more remains to be done. Additional resources are necessary to permit the agency to keep pace with the growing size and complexity of the securities markets and fulfill the agency's broad mandates and responsibilities. Currently the SEC is charged with overseeing over 25,000 market participants, including nearly 12,000 investment advisers, approximately 10,500 mutual funds and exchange traded funds, nearly 4,500 broker-dealers, and about 450 transfer agents. The agency also oversees 18 national

securities exchanges, 10 credit rating agencies, and eight active registered clearing agencies, 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). In addition, the SEC is responsible for selectively reviewing the disclosures and financial statements of some 9,000 reporting companies.

In recent years, the agency's responsibilities have dramatically increased, with new or expanded jurisdiction over securities-based derivatives, hedge fund and other private fund advisers, credit rating agencies, municipal advisors, and clearing agencies, as well as a requirement to implement and oversee a new regime for securities offerings that utilize crowdfunding, among other changes. As the SEC's jurisdiction has grown, so too has the size and complexity of the markets and entities within it. From fiscal year 2001 to the start of fiscal year 2015, assets under management of SEC-registered advisers increased approximately 252 percent from \$17.5 trillion to approximately \$62 trillion, and assets under management of mutual funds grew by some 143 percent to \$15.6 trillion. Trading volume in the equity markets for 2014 was in excess of \$67 trillion, and the speed at which market participants access the markets continues to increase.

It is critically important that the agency be able to keep pace with the rapid expansion of the securities markets and the entities in its jurisdiction. Taken together, the entities in the SEC's jurisdiction manage Americans' savings for college, their hopes for a secure retirement, and their reserves for a rainy day. While the recent growth in the SEC's budget will permit the agency to begin to address gaps, more is needed. Because the SEC's funding is deficit-neutral, any amount appropriated to the agency will be offset by transaction fees, and as such does not impact the deficit or the funding available for other agencies.

As described in more detail below, this budget request seeks to address the SEC's resource challenges through:

- Increased examination coverage of investment advisers and other key entities who deal with retail and institutional investors;

- Further leveraging cutting-edge technology to permit the SEC to better keep pace with the entities and markets we regulate;
- Protecting investors by expanding our enforcement program's investigative capabilities and strengthening our ability to litigate against wrongdoers;
- Strengthening the SEC's economic and risk analysis functions; and
- Hiring experts capable of permitting the agency to fulfill its expanded rulemaking and oversight responsibilities.

## Expanding Oversight of Investment Advisers and Strengthening Compliance

There remains an immediate and pressing need for significant additional resources to permit the agency to increase its examination coverage of registered investment advisers and investment companies so as to better protect investors and the nation's securities markets. The number of registered advisers has increased nearly 35 percent over the last decade, and the assets managed by these advisers has increased more than two-fold. At the same time, the industry has become more complex, as evidenced by the increasing use of new and sophisticated products such as derivatives and structured products; the increased use of technologies that facilitate high-frequency and algorithmic trading; and the growth of complex families of financial services by companies with integrated operations that include both broker-dealer and investment adviser affiliates.

Despite the SEC's efficient use of limited resources to improve its risk assessment capabilities and focus its examination staff on areas posing the greatest risk to investors – efforts that helped to increase the number of investment adviser examinations approximately 20 percent from FY 2013 – the SEC was only able to examine 10 percent of registered investment advisers in FY 2014. A rate of adviser examination coverage at that level presents a high risk to the investing public.

Under the FY 2016 request, a top priority will be to hire 225 additional examiners, primarily to conduct additional examinations of investment advisers and other staff. Once fully on-board and trained, the investment adviser examiners would assist the agency's National Examinations Program (NEP) in increasing its examination coverage of advisers to an anticipated rate of approximately 14 percent per year.

The NEP also would add positions to improve oversight and examination functions related to broker-dealers, clearing agencies, transfer agents, self-regulatory organizations (SROs), swap data repositories, municipal advisors, and, in the future, crowd-funding portals, among others.

## Continue to Leverage Technology

In FY 2016, the SEC plans to build on the substantial progress made over the past few years to modernize its technology systems, streamline operations, and increase the effectiveness of its programs. The SEC's FY 2016 budget request, which includes full use of the Reserve Fund, would support a number of key information technology (IT) initiatives, including:

- **Data Analytics Tools** that assist in the integration and analysis of huge volumes of financial market data, employing algorithms and quantitative models that can lead to earlier detection of fraud or suspicious behavior.
- **Electronic Data Gathering, Analysis and Retrieval (EDGAR) modernization**, an ongoing, multi-year effort to simplify the financial reporting process to promote automation and reduce filer burden. With a more modern EDGAR, both the investing public and SEC staff will benefit from having improved access to better data.
- **Examination improvements**, aimed toward improving risk assessment and surveillance tools that will help the staff monitor for trends and emerging fraud risks, as well as improving the workflow system supporting SEC examinations.
- **Tips, Complaints, and Referral system (TCR)** to bolster the flexibility, configurability, and adaptability of the system. TCR enhancements will provide more flexible and comprehensive intake, triage, resolution tracking, searching, and reporting functionalities, with full auditing capabilities.
- **Enforcement investigation and litigation tracking**, to support enforcement teams with handling the substantial volume of materials produced during investigations and litigation. Among other initiatives, the SEC hopes to build the capability to permit the electronic transmittal of data for tracking and loading (versus the current practice of receiving content via the mail); implement a document management system for Enforcement's internal case files; and revamp the tools used to collect trading data from market participants.

- **Enterprise Data Warehouse (EDW)**, a centralized repository for the SEC to organize its disparate sources of data and help the public gain easier access to more usable market data. The EDW is the SEC's primary effort to bring together data from different divisions and offices for easier and more efficient analysis across the agency.
- **SEC.gov modernization**, to make one of the most widely used Federal Government websites more flexible, informative, easier to navigate, and secure for investors, public companies, registrants and the general public.
- **Information Security**, to further automate controls, continue the transition to a posture of continuous monitoring, build the agency's risk management capabilities, and strengthen the privacy program.
- **Business Process Automation and Improvement**, to build workflow applications that will improve the efficiency and effectiveness of the agency in serving the public.

The FY 2016 request includes 14 new positions for Office of Information Technology (OIT) to better execute these and other technology initiatives. These staff will serve as project managers, business analysts, and technical resources who will improve technology and data management support for the SEC's business areas. In addition, the positions will enhance information security through monitoring, and drive further improvements in IT equipment management and reporting.

## Bolster Enforcement

It is vital to the SEC's mission to bring timely, high-quality enforcement actions when violations of the Federal securities laws are identified. The agency must expand its enforcement function to keep pace with the growing size and complexity of the nation's markets and to send strong messages to wrongdoers that misconduct will be swiftly and aggressively addressed. For FY 2016, the SEC is requesting 93 new positions for the Division of Enforcement in three areas: staff proficient in conducting intelligence processing and analysis; investigative staff to permit the agency to more swiftly and effectively identify and respond to the high volume of securities-related misconduct; and litigation staff to reinforce the growing number of contested enforcement matters nationwide.

Analysis of large datasets, including SEC filings and trading data in equities, options, municipal bonds, and other securities, helps to limit investor harm by permitting earlier detection

of misconduct. The SEC's Enforcement program expects that both an increasing number of high-quality TCRs and its improved data analysis capabilities will yield additional case leads through FY 2016. The Enforcement program anticipates dedicating 20 of the requested positions to further develop its data analytic function, increase the number of staff responsible for reviewing and triaging incoming TCRs, and bolster the number of staff to whom TCRs are sent for further investigation.

The Enforcement program also requires increased staffing to promptly detect complex frauds and other difficult-to-detect misconduct; respond to misconduct involving the changing equity markets, including misconduct related to algorithmic trading or "dark pools"; address large-scale insider trading or stock manipulations; investigate potential accounting or reporting fraud; and generally keep pace with a rapidly growing and evolving industry. As a result, the Division is seeking 50 new positions in FY 2016 to reinforce its investigative functions. These new positions will help the Division continue progress on existing investigations and handle its increasing case load, while quickly investigating and bringing emergency actions in matters where investors' money may dissipate if immediate action is not taken.

In addition, in recent years an increasing percentage of enforcement actions have been filed as contested matters, as opposed to being fully settled at the outset. This has led to more trials than in the past, a volume that is expected to continue to grow. As a result, the Enforcement program needs additional resources to handle an expansive and sophisticated docket of litigation and trials, often against well-funded adversaries. Enforcement requests 23 new positions in FY 2016 to reinforce its litigation operations nationwide.

## Focus on Economic and Risk Analysis to Support Rulemaking and Oversight

The SEC remains committed to strengthening the economic and risk analysis functions housed in its Division of Economic and Risk Analysis (DERA). For FY 2016, the SEC plans to add 6 new positions to DERA, building upon the 14 positions being added in FY 2015. Specifically, in FY 2016, the SEC is requesting three additional positions for DERA to provide economic analytical capabilities to support enforcement litigation, particularly in the SEC's regional offices. In addition, DERA is seeking three positions to expand the agency's capability to provide high quality economic data in support of

risk assessment and policy initiatives across the SEC. These employees would continue to expand DERA's ability to support SEC programs with data cleansing, normalization, and analysis; statistical programming, text analytics, and risk modeling; and quantitative research services.

### **Meet Expanded Rulemaking and Oversight Responsibilities**

The agency also is requesting 12 additional positions in FY 2016 for its Division of Trading and Markets (TM). Recent legislation and rulemaking – including relating to over-the-counter derivatives, clearing agencies, and crowdfunding – have substantially expanded TM's responsibilities. As registration requirements for these rules become effective, scores of new entities will require Division oversight. Moreover, as the SEC's oversight of regulated entities and analysis of market

events become more data-driven, TM is expanding its use of advanced quantitative skills, tools, and data to assess evolving markets. The Division therefore is expanding its efforts to recruit professionals with expertise in quantitative analysis, risk management, and equity and fixed income market structure. The additional positions will enhance supervision of securities markets, securities market infrastructure, securities intermediaries, and other market participants.

In addition, the SEC is seeking 12 new positions for its Division of Investment Management (IM) to operationalize new rulemaking requirements, and offer enhanced guidance to registrants, expand the disclosure review program's ongoing analysis of industry trends, and provide additional oversight of private fund advisers. The new positions would also monitor money market funds compliance with the new requirements adopted in FY 2014 by the Commission.

## 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

Effectiveness

Fairness

Accountability

Teamwork

Commitment to Excellence

## Strategic Goals and Objectives of the FY 2014 – FY 2018 Strategic Plan

### Goal 1: Establish and maintain an effective regulatory environment

**Strategic Objective 1.1:** 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.

**Strategic Objective 1.2:** The SEC promotes capital markets that operate in a fair, efficient, transparent, and competitive manner, fostering capital formation and useful innovation.

**Strategic Objective 1.3:** The SEC adopts and administers regulations and rules that are informed by robust economic analysis and public comment and that enable market participants to understand their obligations under the securities laws.

**Strategic Objective 1.4:** The SEC engages with a multitude of stakeholders to inform and enhance regulatory activities domestically and internationally.

### Goal 2: Foster and enforce compliance with the Federal securities laws

**Strategic Objective 2.1:** The SEC fosters compliance with the Federal securities laws.

**Strategic Objective 2.2:** The SEC promptly detects and deters violations of the Federal securities laws.

**Strategic Objective 2.3:** The SEC prosecutes violations of Federal securities laws and holds violators accountable through appropriate sanctions and remedies.

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

**Strategic Objective 3.1:** The SEC works to ensure that investors have access to high-quality disclosure materials that facilitate investment decision-making.

**Strategic Objective 3.2:** The SEC works to understand investor needs and educate investors so they are better prepared to make informed investment decisions.

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

**Strategic Objective 4.1:** The SEC promotes a results-oriented work environment that attracts, engages, and retains a technically proficient and diverse workforce, including leaders who provide motivation and strategic direction.

**Strategic Objective 4.2:** The SEC encourages a collaborative environment across divisions and offices and leverages technology and data to fulfill its mission more effectively and efficiently.

**Strategic Objective 4.3:** The SEC maximizes the use of agency resources by continually improving agency operations and bolstering internal controls.

## History and Purpose

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During the peak of the Depression, Congress passed the Securities Act of 1933<sup>1</sup> (Securities Act). This law, along with the Securities Exchange Act of 1934<sup>2</sup> (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 Act<sup>3</sup> (Dodd-Frank Act), the agency’s jurisdiction was expanded to include certain participants in the derivatives markets, private fund advisers, and municipal advisors, among other changes.

The SEC consists of five presidentially appointed Commissioners, with staggered five-year terms. One of them is designated by the President as Chair of the Commission (see *Appendix A: Chair and Commissioners*). President Franklin Delano Roosevelt appointed Joseph P. Kennedy to serve as the first Chairman of the SEC.

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 its website at [www.investor.gov](http://www.investor.gov), as well as an online database of disclosure documents at [www.sec.gov/edgar/searchedgar/companysearch.html](http://www.sec.gov/edgar/searchedgar/companysearch.html) that public companies and other market participants are required to file with the SEC.

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<sup>1</sup> *Securities Act of 1933* [www.sec.gov/about/laws/sa33.pdf](http://www.sec.gov/about/laws/sa33.pdf)

<sup>2</sup> *Securities Exchange Act of 1934* [www.sec.gov/about/laws/sea34.pdf](http://www.sec.gov/about/laws/sea34.pdf)

<sup>3</sup> *Dodd-Frank Wall Street Reform and Consumer Protection Act* [www.sec.gov/about/laws/wallstreetreform-cpa.pdf](http://www.sec.gov/about/laws/wallstreetreform-cpa.pdf)

## Organizational Structure and Resources

### SEC Office Locations

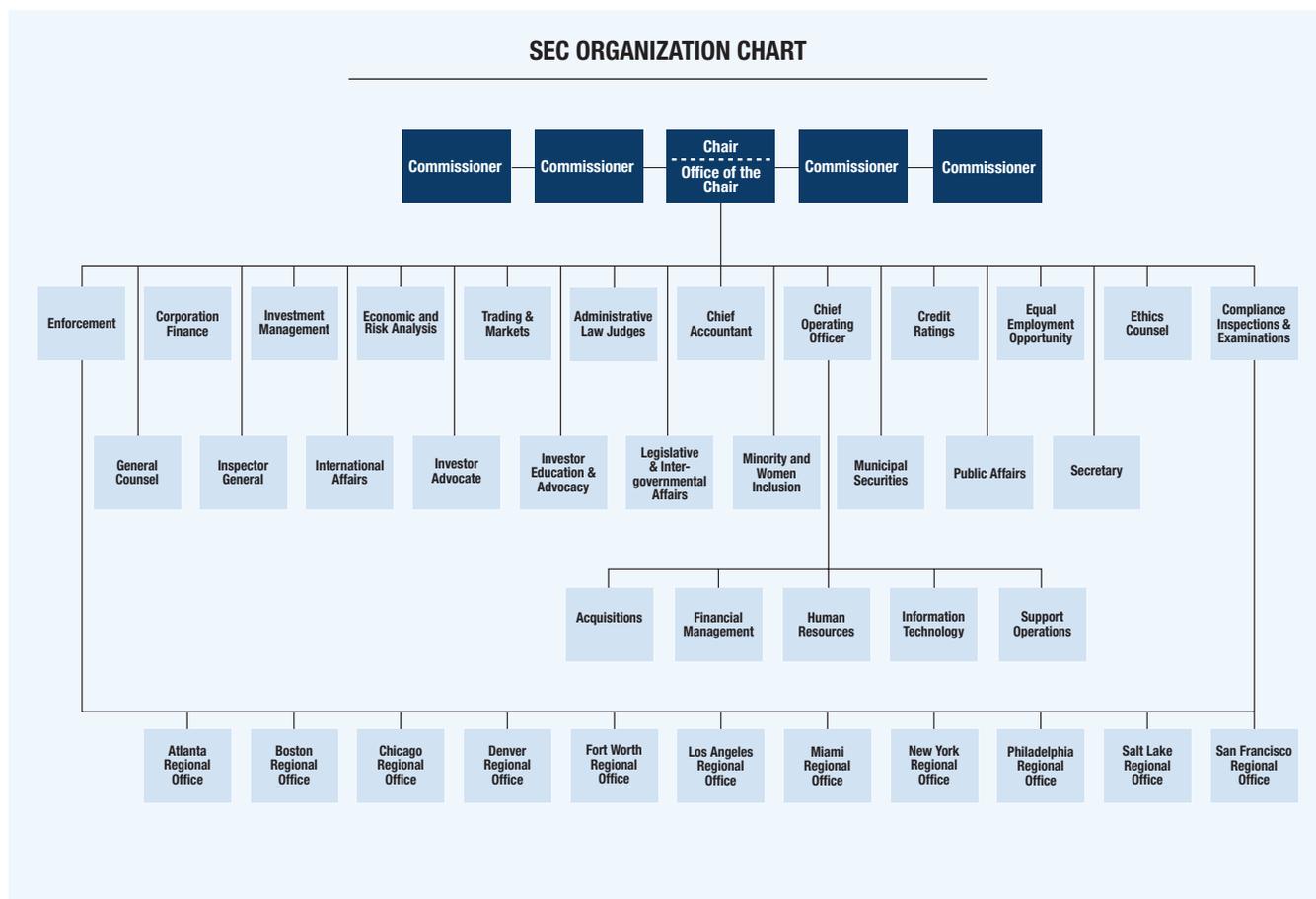
The SEC’s headquarters are in Washington, DC, and the agency has 11 regional offices located throughout the country. The regional offices are responsible for investigating and litigating potential violations of the securities laws. The offices also have examination staff, who inspect regulated entities 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 Chair and four Commissioners, who are appointed by the President and confirmed by the Senate (see Appendix A: Chair and Commissioners). The Chair serves as the chief executive. The agency’s functional responsibilities are organized into five divisions and 23 offices, each of which is headquartered in Washington, DC. The SEC also has 11 regional offices which are comprised primarily of staff from the national enforcement and examination programs.

In fiscal year (FY) 2014, the agency employed 4,150 full-time equivalents (FTE), including 4,013 permanent and 137 temporary FTEs. The SEC organization chart below is as of September 30, 2014.



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