The SEC -- Revitalized, Reformed and Protecting Investors

As Chairman of the U.S. Securities and Exchange Commission, Mary L. Schapiro helped strengthen and revitalize the agency; oversaw a more rigorous enforcement program; and, shaped new rules by which Wall Street must play. During her tenure, the agency's dedicated work force brought a record number of Enforcement actions, swiftly reacted to the May 6, 2010 Flash Crash, and achieved significant regulatory reform to protect investors.

Executive Summary

Reforming and Revitalizing the SEC -- During Chairman Schapiro's tenure, the agency:

- Streamlined its enforcement procedures to launch investigations more quickly
- Developed its first national, centralized database for all tips and complaints and established an office to triage them
- Created specialized enforcement units to harness expertise and experience
- Eliminated a layer of management to put more expert attorneys back on the front lines
- Modernized its technology and upgraded its case management system
- Established a new whistleblower program already paying dividends
- Established a new division to focus on risk and economic analysis
- Created new corporate disclosure units
- Bolstered its ranks by hiring more experts in risk management, quantitative analytics, trading, portfolio management, valuation skills -- and stepped up training
- Enhanced collaboration by creating cross-agency working groups and making it a criteria for performance evaluations
- Created the agency's first-ever Office of the Chief Operating Officer
- Improved the agency's financial reporting, eliminating material weaknesses

Achieved Record Results in Enforcement and Inspections

- Brought a record number of enforcement actions -- including 735 enforcement actions in FY 2011– and a near-record 734 actions in FY 2012
- Returned more than $6 billion since FY 2009 to harmed investors
- Obtained more than $11 billion in ordered disgorgements and penalties since FY2009
- Brought an increased average of 50 Ponzi scheme cases each year between FY 2009 and 2012 – more than twice as many as compared to FY 2007 and 2008
- Filed actions against 129 individuals and institutions stemming from the financial crisis, including more than 50 CEOs, CFOs and other senior officers
- Brought financial-crisis related actions against Fannie Mae and Freddie Mac, State Street, American Home Mortgage, New Century, IndyMac, Bancorp, Countrywide, Brookstreet, Citigroup, Wachovia Capital Markets, Goldman Sachs, Evergreen, J.P. Morgan Securities, Bank of America, Charles Schwab, Morgan Keegan, TD Ameritrade, and others
- Brought a record number of enforcement actions against investment advisers
- Increased the amount of enforcement actions involving municipal securities

- Introduced new tools, similar to those used by criminal authorities, to secure the cooperation of persons who are on the "inside"
- Prosecuted the largest insider trading scheme ever discovered, winning a record $92.8 million fine in the civil case against the CEO of the Galleon Hedge Fund
- Witnessed gains from a new Aberrational Performance Inquiry focused on hedge funds
- Embraced a risk-based approach targeting examinations of registered firms, bringing a 50% increase in the rate at which exams result in referrals to the enforcement division
- Imposed first-ever penalty against an exchange for rule violations
- Launched an initiative to address concerns arising from reverse mergers and foreign issuers

Investor-Focused Rulemaking

- Experienced one of the busiest rulemaking periods in decades, including proposing or adopting more than ¾ of the rules required by the Dodd-Frank Act.
- Enhanced safeguards for investors' assets held by investment advisers
- Proposed and began adopting an entirely new regulatory regime for the previously-unregulated derivatives market
- Required companies to let shareholders weigh in on executive compensation and "golden parachute" compensation arrangements
- Required advisers to hedge funds and other private funds to register and be subject to SEC rules – leading to the registration of about 4,000 of them -- and implemented a new reporting regime.
- Required companies to disclose their use of conflict minerals and required resource extraction companies to disclose payments to governments
- Adopted widely-hailed 2010 rules to enhance the resiliency of money market funds
- Curtailed pay-to-play practices by advisers to government clients, like public pension plans
- Provided investors with more meaningful and more-timely information regarding municipal securities – and issued a report recommending ways to improve the structure of the municipal securities market
- Provided investors with more meaningful information about company boards and risk management
- Required advisers to provide clients with brochures that plainly disclose such things as the advisers' business practices, fees, conflicts of interests and disciplinary information
- Adopted new rules designed to help revitalize the asset-backed securities market by encouraging better disclosure
- Proposed rules to create a new and more equitable framework governing the way in which investors pay the costs for mutual funds to be marketed and sold
- Proposed rules to help clarify the meaning of a date in a target date fund's name and enhance the information in fund advertising and marketing materials in order to assist investors preparing for retirement

Addressed the Structure of the Market

- Approved measures that have helped to reduce the chance of another Flash Crash occurring

- Approved single stock and market wide circuit breakers that have helped to limit the impact of technology errors in the market
- Clarified up front for investors how and when erroneous trades would be broken
- Required broker-dealers to put in place risk controls and effectively prohibited unfiltered access to the exchanges
- Required, for the first time, the exchanges to establish a consolidated audit trail system that will enable regulators to track detailed order/trade information across the securities markets
- Eliminated stub quotes
- Set up a new system to collect information that will inform future rulemaking regarding high frequency trading

Reforming and Revitalizing the SEC

Streamlined enforcement procedures to launch investigations more quickly – This eliminated the need for attorneys to obtain clearance from the full Commission before initiating an investigation or commencing settlement negotiations.

Developed the SEC's first national, centralized database for all tips and complaints and set up an office to triage them – The system allows information to be effectively sorted, stored and compared regardless of how the information is received. A new Office of Market Intelligence reviews and analyzes the information to conduct market surveillance, to determine whether to open new investigations or route data to existing investigations, and to discover emerging trends that need to be watched.

Created specialized enforcement units to harness experience -- The five new national specialized units allow the enforcement unit to build specialized expertise and institutional experience in areas including Structured and New Products, Market Abuse, Municipal Securities and Public Pensions, Asset Management, and FCPA. They allow the agency to better detect trends, links and patterns related to fraudulent conduct, and to more effectively investigate suspicious activity in these areas.

Eliminated a layer of management to put more expert attorneys on the front lines of investigations -- This returned experienced attorneys to investigations and litigation.

Modernized the agency's technology and upgraded its case management system – Three systems have been increasing efficiency, including 1) a new eDiscovery system that is giving investigators faster access to information by vastly expanding their ability to parse evidence and drill down on key subjects; 2) an enhanced case management system that is providing a clearer view into the progress of every investigation and enforcement action, as well as aggregated statistics and performance metrics; and 3) a new system, TRENDS, that is helping the National Exam Program become more uniform in the way it does its exams and ensuring that staff enter exams fully prepared.

Advocated and established a new whistleblower program that is paying dividends-- A new program, advocated by Chairman Schapiro, incentivized insiders to come forward with information regarding possible securities law violations. The new program has helped to reduce the length of investigations; paid out its first reward; and, generated more than 3,000 tips.

Established a new division to focus on risk and economic analysis -- The Division of Risk, Strategy and Financial Innovation serves as the SEC's "think tank," improving the agency's ability to track and respond to new products, trading practices and risks. Staffed with academics, economists and financial industry professionals, this division enhances the SEC's cost/benefit analysis capabilities.

Created new corporate disclosure units – The division that focuses on corporate disclosures set up new groups each to concentrate closely on the largest financial institutions, structured finance products, and capital markets trends.

Hired new skill sets and stepped up training -- The agency has brought on board experts in risk management, trading, quantitative analytics, portfolio management and valuation skills to help it keep pace with those it regulates. And, it has more than doubled its training resources to ensure that veteran employees are up-to-date on the financial industry's latest developments.

Enhanced collaboration by creating cross-agency working groups and making it a part of performance evaluations -- Chairman Schapiro emphasized the need for collaboration to ensure rulemakings and studies benefit from the insight of the full spectrum of agency expertise. She also created a host of cross-functional teams to develop the tips and complaints database, establish requirements for the new consolidated audit trail, conduct the Muni Field hearings; address life settlements; and, study how to establish a fiduciary duty for both Investment Adviser and broker-dealers. She also incorporated collaboration criteria into performance evaluations.

Created the agency's first-ever Office of the Chief Operating Officer – This position has enhanced agency efforts -- around information technology, financial reporting and records management -- to refocus resources and make the agency more efficient and effective.

Improved the agency's financial reporting, eliminating material deficiencies -- The SEC improved its internal controls, as the GAO reported that the agency had no material weaknesses for the second year in a row, and no significant deficiency in the area of information systems, a key area for strong financial reporting.

Overseeing a Successful Enforcement and Exam Program

Brought a record number of enforcement actions – In FY 2011, the agency brought 735 enforcement actions -- more than at any time in the agency's history. And, in FY 2012, it brought a near-record 734 actions.

Returned more than $6 billion to harmed investors -- Since FY 2009, the agency has identified and tracked down investors who were harmed by wrongdoing, and returned $6.75 billion to them.

Obtained more than $11 billion in ordered disgorgements and penalties – The agency obtained $2.4 billion in FY 2009; $2.85 in FY 2010; $2.8 billion in FY 2011; and $3.1 billion in FY 2012.

Brought an increased average of 50 Ponzi scheme cases -- Between FY 2009 and 2012, the agency brought approximately 50 Ponzi cases each year, up from 22 per year between 2007 and 2008.

Filed actions against 129 individuals and institutions stemming from the financial crisis -- The actions resulted in $2.6 billion in disgorgement, penalties and other financial relief. The institutions involved in the SEC's credit crisis cases included Fannie Mae and Freddie Mac, J.P. Morgan Securities, Goldman Sachs, State Street, American Home Mortgage, New Century, IndyMac, Bancorp, Countrywide, Brookstreet, Citigroup, Wachovia Capital Markets, ICP Asset Management, Taylor, Bean & Whitaker, Evergreen, Bank of America, Charles Schwab, Evergreen, Morgan Keegan, and TD Ameritrade, and Stifel, Nicolaus & Co.

Brought actions against more than 50 CEOs, CFOs and other senior officers in connection with the financial crisis – The agency has charged individuals in all but 8 of the financial-crisis related cases it has brought. A $67.5 million settlement with the former Countrywide Financial CEO resulted in the largest-ever penalty paid by a public company's senior executive in an SEC settlement.

Brought a record number of enforcement actions against investment advisers -- The SEC filed record numbers of enforcement actions against investment advisers and investment companies in FY 2011 and 2012.

Increased the amount of enforcement actions involving municipal securities -- In FY 2012, the SEC filed more than double the number of enforcement actions related to municipal securities than it filed the previous year. Included in these actions were charges against the former mayor and city treasurer of Detroit in a pay-to-play scheme involving investments in the city's pension funds, and Goldman Sachs for violations of various municipal securities rules resulting from undisclosed "in-kind" non-cash contributions that one of its investment bankers made to a Massachusetts gubernatorial candidate.

Encouraged greater cooperation with insiders -- The agency introduced new cooperation tools, similar to those used by criminal authorities, to secure the cooperation of persons who are on the 'inside.' This program is helping investigators to obtain information and the assistance of witnesses earlier in investigations, enabling the agency to build stronger cases more quickly. The SEC used this tool for the first time, among many, in 2010 when it charged a former executive of Carter's Inc. with financial fraud – but not the company, which cooperated with the agency.

Detected and prosecuted the largest insider trading scheme ever discovered – The agency won a record $92.8 million fine in the civil case against Raj Rajaratnam, Galleon Hedge Fund CEO. Rajaratnam's parallel criminal conviction resulted in an 11-year prison sentence and $64 million in fines and forfeitures. In addition to Rajaratnam, the SEC has won civil judgments or negotiated favorable settlements with other traders, analysts, researchers and high-ranking executives. SEC support helped lead to pleas and criminal convictions for more than 50 other members of the conspiracy, including former Goldman Sachs board member and former Managing Director of McKinsey & Company, Rajat Gupta. The number of SEC insider trading actions filed since October 2009 have been the most in SEC history for any three-year period.

Witnessed gains from a new Aberrational Performance Inquiry – This collaborative effort--with Risk Fin and the exam unit--uses quantitative analytics to search for hedge fund advisers whose claimed returns are unusual enough to raise a red flag. For instance, in 2011, as a result of a sweep, the agency charged four hedge fund advisers for inflating returns, overvaluing assets and other actions that materially misled and harmed investors. In 2012, the SEC charged three advisory firms and six individuals as part of this initiative to combat investment adviser fraud.

Embraced a risk-based approach for targeting examinations -- By making its program more risk-based, the examination program has seen a 50% increase in its rate of referrals to the enforcement unit. The new program developed and improved algorithms that use publicly available data from registered entities to target those whose behavior is consistent with increased risk of unethical or illegal actions.

Imposed first-ever penalty against an exchange – The penalty stemmed from rules violations that gave certain customers an improper head start on trading information.

Launched an initiative to address concerns arising from reverse mergers and foreign issuers -- Deregistered the securities of nearly 50 companies and filed more than half a dozen fraud actions against foreign issuers and executives since the initiative began.

Engaging in One of the Busiest Rulemaking Periods

Experienced one of the busiest rule-writing periods in decades -- In both 2010 and 2011, the Commission proposed and/or adopted about 70 rules, concept releases or interpretive releases each year. In addition, the Commission proposed or adopted about 80% of the rules required by the Dodd-Frank Act, including adopting 36 rules, proposing more than 39 other rules and conducting 15 studies required by the Act.

Enhanced safeguards for investors' assets -- In cases where registered investment advisers retain custody of a client's assets, advisers are now required to hire an independent public accountant to conduct an annual "surprise exam" to verify those assets actually exist. In addition, the adviser must obtain a written report -- prepared by an accountant registered and inspected by the Public Company Accounting Oversight Board -- assessing the safeguards that protect the clients' assets. The agency has proposed similar rules for registered broker-dealers who retain custody.

Proposed an entirely new regulatory regime for the previously unregulated derivatives market – The agency has laid the groundwork for an entirely new system that includes defining a series of terms related to security-based swaps; establishing a process for clearing transaction, trading on execution facilities and storing data in repositories; developing standards for operating and governing of clearing agencies; specifying steps that end-users must follow when engaging in transactions; and establishing registration requirements.

Required companies to let shareholders weigh in on executive compensation -- The agency adopted rules allowing shareholder to approve executive compensation and "golden parachute" arrangements. It also joined with other regulatory agencies to propose rules requiring certain large financial institutions to disclose the structure of their incentive-based compensation practices, and prohibit such institutions from maintaining compensation arrangements that encourage inappropriate risks. In addition, the agency adopted rules requiring exchanges and national securities associations to prohibit the listing of any equity security of an issuer that does not comply with new compensation committee and compensation adviser requirements.

Required advisers to hedge funds and other private funds to register and be subject to SEC rules – leading to the registration of about 4,000 of them -- The SEC adopted rules requiring advisers to hedge funds and other private funds to register with the SEC as part of the Dodd-Frank Act. As a result, the agency can now see the full landscape of hedge funds, rather than just a sliver based on those who registered voluntarily. In tandem with the CFTC, the Commission also adopted a new rule that would require hedge fund advisers and other private fund advisers to report systemic risk information to the Financial Stability Oversight Council. The SEC adopted a rule defining “family offices” that will be excluded from the definition of an investment adviser under the Investment Advisers Act.
The SEC also adopted a rule defining advisers to “venture capital funds,” who are required to report basic information to the SEC and the public.

Required companies to disclose their use of conflict minerals and required resource extraction companies to disclose payments to governments – The SEC adopted rules, under the Dodd-Frank Act, that require companies to disclose annually whether they use “conflict minerals” that originate from the Democratic Republic of the Congo or adjoining countries because of concerns that the exploitation and trade of these minerals by armed groups is helping to finance conflict in the region and is contributing to a humanitarian crisis. The agency also adopted rules under the Dodd-Frank Act that require resource extraction companies to disclose payments to governments.

Adopted widely-hailed rules to enhance the resiliency of money market funds -- The SEC adopted rules to make money market funds more resilient by strengthening credit quality, liquidity and maturity standards, as well as introducing stress testing requirements and mandating new reporting of money market fund holdings. In addition, the SEC made available to investors the detailed information about a fund's investments and the market-based price of its portfolio known as its "shadow NAV" (net asset value) or mark-to-market valuation. The Chairman also called upon the Financial Stability Oversight Council to act to make such funds less susceptible to destabilizing runs like occurred during the credit crisis.

Curtailed pay-to-play practices by advisers to government clients, like public pension plans - The agency prohibited the use of campaign contributions and related payments to influence the awarding of contracts for the management of public pension plan assets and similar government investment accounts.

Provided investors with more meaningful and more-timely information regarding municipal securities – The Commission expanded existing rules prohibiting brokers, dealers, and municipal securities dealers from purchasing or selling municipal securities unless they reasonably believe that entities issuing the securities have agreed to disclose such things as annual financial statements and notices of certain material events, such as payment defaults and rating changes. The new rules expand coverage to variable rate demand obligations, improve disclosure of tax risk, strengthen disclosure of important events and establish more specific filing deadlines. The Commission also issued a report laying out a range of recommendations to improve the structure of the municipal market.

Provided investors with more meaningful information about company boards -- The Commission required companies to file detailed information about the structure of their boards; the qualifications of their directors and nominees; the fees and conflicts of compensation consultants; and the relationship between a company's overall compensation policies and its risk profile.

Required advisers to provide clients with a brochure of key information – The Commission improved and updated a form so that clients of investment advisers can now get details most relevant to them, written in plain English, such as the advisers' business practices, fees, conflicts of interests and disciplinary information. It also required brochure "supplements" to give resume-like information about the individuals at an investment advisory firm. Further, it ensured investors have easy access to the brochures, Form ADV, Part 2, which are filed electronically and posted on the SEC's website.

Adopted new rules designed to help revitalize the asset-backed securities market by encouraging better disclosure – The new rules require issuers of asset-backed securities: 1) to disclose the history of the requests they received and repurchases they made related to their outstanding asset-backed securities; and 2) to conduct a review of the assets underlying those securities.

Proposed rules to create a new and more equitable framework governing the way in which investors pay the costs for mutual funds -- The proposed rules would create a new and more equitable framework for the way in which investors pay the marketing and sales costs – so-called "12b-1 fees -- for mutual funds. In addition, the rules would limit the amount of asset-based sales charges that individual investors pay.

Proposed rules to help clarify the meaning of a date in a target date fund's name --
The Commission proposed rules to help investors to better assess the anticipated investment glide path and risk profile of a target date fund by, for example, requiring graphic depictions of asset allocations in fund ads. The rules, which would require an asset allocation "tag line" adjacent to a target date fund's name in an ad, also would enhance the information in ads and marketing materials to help investors prepare for retirement.

Improving the Structure of the Market

Approved a series of measures that have helped to reduce the chance of another Flash Crash occurring – Months before the Flash Crash, Chairman Schapiro launched a comprehensive review of the structure of the markets and, following May 6, summoned the exchange heads to Washington to hammer out a series of measures to address the issues raised by that day's volatile trading.

Approved a variety of circuit breakers to help limit the impact of technology errors in the market -- The Commission approved a proposal establishing a "limit up-limit down" mechanism that prevents trades in individual exchange-listed stocks from occurring outside of a specified price band. It also approved market-wide circuit breakers that when triggered, halt trading in all exchange-listed securities throughout the U.S. markets.

Clarified up front for investors how and when erroneous trades would be broken -- The new rules approved by the Commission outline when an erroneous trade would be broken, so that market participants are less likely to flee when computer glitches occur.

Required broker-dealers to put in place risk controls and effectively prohibited unfiltered access to the exchanges -- The Commission approved new rules that require broker-dealers to implement controls and supervisory procedures to manage the financial and regulatory risks of market access, particularly the technology systems that enter orders in to the marketplace. The rules also assured broker-dealers would implement risk controls to reduce the chance of computer glitches.

Approve a first-ever consolidated audit trail system -- The Commission approved a new rule requiring the exchanges and FINRA to submit a comprehensive plan for developing, implementing, and maintaining a consolidated audit trail. The audit trail will collect and accurately identify every order, cancellation, modification, and trade execution for all exchange-listed equities and equity options across all U.S. markets. The new measure will increase the data available to regulators investigating illegal activities and it will significantly improve the ability to reconstruct broad-based market events in an accurate and timely manner.

Eliminated stub quotes -- The Commission approved new rules proposed by the exchanges and FINRA to strengthen the minimum quoting standards for market makers and effectively prohibit "stub quotes" in the U.S. equity markets.

Set up a new system to collect market and trading data -- The new system will inform future rulemaking regarding high frequency trading

ADDITIONAL INVESTOR PROTECTION MEASURES

- **Issued a record number of investor alerts and bulletins**
- **Established an investor advisory committee**
- **Created a new investor.gov website and upgraded sec.gov**