

**STATEMENT OF THE INVESTMENT COMPANY INSTITUTE  
ON THE U.S. SECURITIES AND EXCHANGE COMMISSION'S  
APPROPRIATIONS FOR FISCAL YEAR 2014**

**Subcommittee on Financial Services and General Government  
Committee on Appropriations  
U.S. House of Representatives**

**April 15, 2013**

The Investment Company Institute<sup>1</sup> appreciates this opportunity to submit testimony to the Subcommittee relating to the Administration's FY 2014 Appropriations request for the Securities and Exchange Commission (SEC). In the past, the Subcommittee has consistently sought to provide adequate resources for the SEC. For the reasons expressed below, we urge it to do so again this year.

**Importance of a Well-Funded and Effective Securities Regulator**

Registered investment companies (RICs)<sup>2</sup> and their shareholders have a strong stake in an effective SEC. RICs are one of America's primary savings and investment vehicles for middle-income Americans. All told, more than 93.7 million shareholders in over 54.6 million U.S. households owned some type of registered fund in 2012.<sup>3</sup> At year-end 2012, total RIC assets were approximately \$14.5 trillion. These funds, and their

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<sup>1</sup> The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of \$14.7 trillion and serve more than 90 million shareholders.

<sup>2</sup> Fund sponsors offer four types of registered investment companies in the U.S.—open-end investment companies (commonly called “mutual funds”), closed-end investment companies, exchange-traded funds (ETFs), and unit investment trusts (UITs).

<sup>3</sup> Schrass, Daniel, Michael Bogdan, and Sarah Holden. 2012. “Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2012.” *ICI Research Perspective* 18, no. 6 (November), available at [www.ici.org/pdf/per18-06.pdf](http://www.ici.org/pdf/per18-06.pdf).

millions of investors, benefit when the SEC conducts sound rulemaking and effective oversight.

RICs are an integral part of our economy in another way, as well. In addition to their role as the investment vehicle of choice for millions of Americans, investment companies have been among the largest investors in the domestic financial markets for much of the past 20 years and held a significant portion of the outstanding shares of U.S.-issued stocks, bonds, and money market securities at year-end 2012.<sup>4</sup> Indeed, investment companies as a whole were one of the largest groups of investors in U.S. companies, holding 28 percent of their outstanding stock at year-end 2012.<sup>5</sup> As major participants in the stock, bond, and money markets, RICs and their shareholders benefit from strong regulatory oversight of these markets.

### **Considerations in Determining Funding Levels**

While Congress is rightly concerned about government spending, it also must take care not to deprive the SEC of the resources the agency needs to successfully pursue its investor protection and market oversight functions. As the Subcommittee is aware, the Dodd-Frank Wall Street Reform and Consumer Protection Act gave the SEC significant new responsibilities, including expanded regulatory authority over derivatives trading, hedge fund advisers, and municipal advisors.<sup>6</sup> In recent testimony on the status of efforts to implement the Dodd-Frank Act, then SEC Chairman Elisse Walter expressed concern that

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<sup>4</sup> Investment Company Institute, *2013 Investment Company Fact Book* (53rd ed., forthcoming in May 2013). The Fact Book will be available at <http://www.icifactbook.org>.

<sup>5</sup> *Id.*

<sup>6</sup> The Jumpstart Our Business Startups Act (“JOBS Act”), enacted last year, further increased the SEC’s existing workload.

without additional resources, “many of the issues to which the Dodd-Frank Act is directed will not be adequately addressed.”<sup>7</sup> She added that “[t]he SEC would be unable to sufficiently build out its technology and hire the industry experts and other staff sorely needed to oversee and police these new areas of responsibility.”<sup>8</sup> Although ICI is not in a position to comment on specific funding levels, these comments are of concern to us. We also reiterate our strong view that fulfilling new regulatory mandates should not come at the risk of impairing the SEC’s pre-existing responsibilities with respect to mutual funds and other more “traditional” products, nor compromising the interests of their millions of mainstream investors.

No matter what level of funding ultimately is authorized, it is vitally important that the SEC utilize the resources it receives to their maximum effect. After a series of well-publicized missteps in the past several years, there have been encouraging signs of progress. For example, the SEC deserves credit for its recent efforts to develop, improve, and increase the use of the agency’s economic research and analytical capabilities. Last year, the Division of Risk, Strategy, and Financial Innovation (RiskFin) and the Office of the General Counsel circulated to the SEC’s rulemaking divisions and offices written guidance on how the staff should approach economic analysis. The guidance should help bring additional focus, rigor, and consistency to the agency’s consideration of the economic consequences of its rulemaking activity. More recently, RiskFin published a study responding to questions posed by three SEC Commissioners concerning money market

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<sup>7</sup> Testimony of Elisse B. Walter, U.S. Securities and Exchange Commission, on “Wall Street Reform: Oversight of Financial Stability and Consumer and Investor Protections,” before the United States Senate Committee on Banking, Housing, and Urban Affairs (February 14, 2013), available at <http://www.sec.gov/news/testimony/2013/ts021413ebw.htm>.

<sup>8</sup> *Id.*

funds. This type of analysis provides useful information to build the public record on important issues before the SEC and helps guide sound policy decisions. RiskFin and other SEC divisions, notably the Division of Investment Management, also have made progress in hiring staff with specialized expertise and real world experience. Adding more of these seasoned professionals to the SEC staff should help address the compelling need we have previously identified for the SEC to better inform itself about its regulated industry and market, as well as the economic consequences of its regulations. Funding levels should support the continuation of these types of activities and improvements.<sup>9</sup>

Data analysis also is an area of focus for the Division of Investment Management. Division Director Norm Champ has identified improving mutual fund data collection and analysis by streamlining the current “hodgepodge” of fund data collection and reporting forms as one of several rulemaking priorities.<sup>10</sup> Rationalizing data collection and reporting forms is a worthwhile endeavor, but to achieve the best results the SEC should take a broad perspective. Many firms that sponsor or advise mutual funds will be obligated to provide data not only under SEC rules but also under rules of other regulators both domestically and abroad.<sup>11</sup> To get the full picture and be able to develop requirements that generate useful information without imposing undue burdens, the SEC staff should be granted sufficient resources to allow it to study these other reporting regimes as part of its project.

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<sup>9</sup> The SEC’s FY 2014 budget request identifies “focusing on economic and risk analysis to support rulemaking and oversight” as an area where increased funding is needed.

<sup>10</sup> See, e.g., Remarks by Norm Champ, Director, Division of Investment Management, U.S. Securities and Exchange Commission, to the 2013 Mutual Funds and Investment Management Conference, Palm Desert, CA (March 18, 2013).

<sup>11</sup> See, e.g., SEC Form N-MFP; SEC Form PF; CFTC Form CPO-PQR; Article 24 of Directive 2011/61/EU and Articles 110-111 and Annex IV of Commission Delegated Regulation (EU) No 231/2013.

From our perspective, it also is more important than ever to assure that the SEC has adequate resources to engage actively on the international front. In a recent speech, former Chairman Walter articulated succinctly the reasons for such engagement in the form of two “key concepts” she described as follows:

- First, domestic financial market participants are increasingly affected by overseas regulation. Engaging with other regulators can minimize troubling or costly differences and help us as regulators better serve the markets we oversee and investors we protect.
- Second, as the world’s financial regulators, finance ministries, and central banks debate and seek consensus on the standards and principles that will govern the international financial system, it is important that market regulators’ voices and perspectives be heard.<sup>12</sup>

We agree with both of these points and urge the Subcommittee to provide the SEC with the resources it needs to be a strong voice in these conversations.

## **Conclusion**

Congress must assure that the SEC has resources sufficient to adequately fund its staffing and to take other steps to fulfill its mission of protecting the nation’s investors, including over 93 million investors who own mutual funds and other RICs, and that it deploys those resources to the best possible effect. These investors deserve the benefits of an SEC that can soundly, effectively, and efficiently regulate securities offerings, market participants, and the markets themselves.

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<sup>12</sup> Remarks by Chairman Elisse Walter, U.S. Securities and Exchange Commission, Before the Australian Securities and Investments Commission (ASIC) Forum, Sydney, Australia (via videoconference) (March 24, 2013), available at <http://www.sec.gov/news/speech/2013/spch032413ebw.htm>.

Accordingly, we urge Congress to provide the appropriations necessary to allow the SEC to appropriately fulfill its mission.

We appreciate your consideration of our views.