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STATEMENT OF PAUL SCHOTT STEVENS PRESIDENT AND CEO INVESTMENT COMPANY INSTITUTE ON THE U.S. SECURITIES AND EXCHANGE COMMISSION'S APPROPRIATIONS FOR FISCAL YEAR 2017

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

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The Investment Company Institute[1] appreciates this opportunity to submit testimony to the Subcommittee relating to the Administration's FY 2017 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 for Funds and Their Investors

Registered investment companies (RICs, or "funds")[2] are one of America's primary savings and investment vehicles for middle-income Americans. All told, an estimated 90.9 million shareholders in 53.6 million U.S. households owned some type of registered fund in 2015.[3] At year-end 2015, total

[1] The Investment Company Institute (ICI) is a leading, global association of regulated funds, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's U.S. fund members manage total assets of $16.9 trillion and serve more than 90 million U.S. shareholders.

[2] 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, ETFs, and UITs.

[3] *See* Burham, Kimberly, Michael Bogdan, and Daniel Schrass, "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2015," ICI Research Perspective 21, no. 5 (November); available at www.ici.org/pdf/per21-05.pdf.

RIC assets were $18.1 trillion. These funds, and their millions of investors, benefit from an effective SEC.

RICs are an integral part of our economy in other ways, as well. In addition to their role as the investment vehicle of choice for millions of Americans, RICs have been important investors in the capital markets. As participants in the stock, bond, and money markets, RICs and their shareholders benefit from the SEC's ability to provide strong regulatory oversight of these markets in order to protect investors, promote confidence in our markets, and ensure their resiliency and vibrancy.

Increasing Importance of the SEC's Domestic and International Engagement and Perspective in Financial Regulatory Policy Discussions

The SEC has engaged in joint rulemaking with other domestic regulatory agencies (including banking regulators) and is an active participant in domestic bodies such as the Financial Stability Oversight Council (FSOC) and international bodies such as the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB). Because other domestic and international regulatory activity increasingly affects funds, SEC engagement with these bodies is more important than ever. The SEC's collaboration with its counterparts can help minimize costly and inappropriate regulations, enhance regulatory consistency, and promote better market oversight and investor protection. Moreover, 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, the SEC as the world's leading capital markets regulator must have a strong and effective voice. Policy discussions about how to strengthen the stability of the financial system and increase its resilience to future shocks provide a compelling example. Since the 2008 global financial crisis, U.S. and global regulators and international bodies such as IOSCO and the FSB increasingly have focused on identifying and mitigating risks to the financial system at large. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) created the FSOC—on which the SEC Chair serves as a voting member—for this purpose. Notwithstanding the SEC's involvement, the membership of both the FSB and FSOC is heavily tilted toward banking regulators. As a result, there is an unfortunate tendency for those members to view the entire financial system through the lens of their "safety and soundness" concerns and their experience with banks and bank-type regulation. This, in turn, makes it altogether likely that these bodies may advance policy initiatives without sufficient understanding of or due regard for the way in which the capital markets operate and are regulated, or of how financial institutions other than banks are structured, operated, and currently regulated. The resources of an expert capital markets and securities regulator such as the SEC need to be bolstered so it is well-positioned to provide relevant information, perspective, and balance to these policy discussions.

To the extent that bodies like FSOC or FSB, after careful review and analysis, identify demonstrable risks related to the activities of funds, then the SEC is the regulator best equipped to address them. The SEC is currently working on an ambitious five-part reform package designed to enhance risk monitoring and regulatory safeguards for the asset management industry. To date, the SEC has issued proposals that would (i) modernize and enhance reporting requirements for funds and registered investment advisers ("advisers"); (ii) require mutual funds and ETFs to adopt liquidity risk management programs; and (iii) regulate funds' use of derivatives. The SEC staff is working on proposals that would (i) require annual stress testing by large funds and advisers, as the Dodd-Frank Act requires; and (ii) require advisers to create transition plans to prepare for the winding down of their businesses or similar business disruptions.[4]

While it moves this reform package forward, the SEC is pursuing additional rulemaking that would affect funds. For instance, the SEC has proposed a new rule that would permit website transmission of mutual fund shareholder reports, and it is taking steps to update and modernize its regulations governing transfer agents, key service providers for funds.

Careful execution of this complex regulatory agenda will require the SEC staff to undertake in-depth analysis needed to assure itself that it can meet its regulatory objectives (including improving the SEC's ability to monitor risk) without imposing undue burdens on funds and exposing their investors (or capital markets and their participants generally) to unintended harm. Moreover, in connection with any enhanced data reporting proposal (or the reporting to the SEC of any other non-public information), it will be critical for the SEC to have proper information security controls in place, to protect and maintain the confidentiality of this highly sensitive and valuable information. The SEC's resources need to be adequate to meet these important objectives.

Fulfilling New Regulatory Mandates Should Not Take Priority Over Core Functions

Congress must remain highly attentive to addressing annual budget deficits and levels of federal indebtedness. Nonetheless, it also must take care to provide the SEC the resources the agency needs to successfully conduct its investor protection and market oversight functions and to promote financial stability. As the Subcommittee is aware, the Dodd-Frank Act gave the SEC significant new or

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[4] *See, e.g.*, Chairman's Address at SEC Speaks, Chair Mary Jo White, "Beyond Disclosure at the SEC in 2016," (Feb. 19, 2016), available at www.sec.gov/news/speech/white-speech-beyond-disclosure-at-the-sec-in-2016-021916.html.

expanded regulatory authority over securities-based derivatives, private fund advisers, credit rating agencies, municipal advisors, and clearing agencies. In recent testimony, SEC Chair White noted that while the SEC had proposed or adopted nearly all of the mandatory rulemakings required by the Dodd-Frank Act and the Jumpstart Our Business Startups Act (JOBS Act), "challenges remain if we are to be successful in addressing the growing size and complexities of the securities markets and fulfill the SEC's broad mandates and responsibilities."[5]

Although ICI is not in a position to comment on specific funding levels, we appreciate and share this important concern. Fulfilling new regulatory mandates should not come at the risk of impairing the SEC's pre-existing responsibilities with respect to the fund industry, nor compromising the interests of their millions of mainstream investors. Aside from its mandatory rulemaking, the SEC staff's ongoing responsibilities to investors and the fund industry include, among others: discretionary rulemaking; reviewing funds' registration statements and material amendments thereto, certain preliminary proxy statements, and accounting statements; providing legal guidance through interpretive and no-action letters, interpretive releases, memoranda, and other letters and materials; and reviewing applications from entities that request exemptions from certain statutory provisions and granting those that are consistent with investor protection. These functions should not be compromised due to competing priorities or funding constraints.

[5] Chair Mary Jo White, "Testimony on the Fiscal Year 2017 Budget Request of the U.S. Securities and Exchange Commission," before the Subcommittee on Financial Services and General Government, Committee on Appropriations, United States House of Representatives (Mar. 22, 2016), available at www.sec.gov/news/testimony/testimony-white-sec-fy-2017-budget-request.html.

The Need for an Efficient and Expert Regulator

No matter what level of funding Congress ultimately authorizes, the SEC must utilize the resources it receives to their maximum effect. In this regard, the SEC deserves credit for its efforts to develop, improve, and increase the use of the agency's economic research and analytical capabilities, in particular through the enhancement of the Division of Economic and Risk Analysis (DERA). DERA's contributions and involvement should help bring additional focus, rigor, and consistency to the SEC's consideration of the economic consequences of its rulemaking activity.

DERA and other SEC divisions, notably the Division of Investment Management, also have made progress in hiring staff with specialized expertise and experience. These staff members should help the SEC better inform itself about the industry and markets that it regulates, as well as the economic consequences of its regulations. Funding levels should support the continuation of these types of activities and improvements.[6]

Conclusion

Congress must assure that the SEC has resources sufficient to fulfill its mission of protecting the nation's investors, including the nearly 91 million investors who own shares of mutual funds and other RICs. These investors deserve the benefits of an SEC that can soundly and effectively regulate securities offerings, market participants, and the markets themselves and promote financial stability.

Accordingly, we urge Congress to provide the appropriations necessary to allow the SEC to appropriately fulfill its vitally important missions. We appreciate your consideration of our views.

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[6] The SEC's FY 2017 budget request identifies "expanding staff expertise" through both hiring and training as a key performance goal.