Testimony on "Examining the SEC's Agenda, Operations, and FY 2017 Budget Request"
by
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U.S. Securities and Exchange Commission

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United States House of Representatives
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Chairman Hensarling, Ranking Member Waters, and Members of the Committee:

Thank you for inviting me to testify regarding the recent activities and current initiatives of the U.S. Securities and Exchange Commission (SEC).[1] As you know, the SEC has a three-part mission: to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. Since I last testified before this Committee eight months ago, the SEC has advanced significant rulemakings, continued to bring strong enforcement actions against wrongdoers, and made significant progress on our initiatives involving the asset management industry, equity market structure, and disclosure effectiveness.

As described in more detail below, the Commission has adopted or proposed 17 substantive rulemakings in the past eight months, including rules required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and the Jumpstart Our Business Startups Act (JOBS Act). These efforts have included final rules addressing over-the-counter derivatives; new means for small businesses to access capital (including rules to update Regulation A and permit securities-based crowdfunding offerings); executive compensation disclosures; and the removal of references to credit ratings from our rules. In addition to implementing congressionally mandated rules, we have also advanced other important programs, including rules to enhance oversight of high-frequency traders and our supervision of investment advisers and mutual funds.

Our enforcement program also continued to deliver very strong results, with the Commission bringing 807 enforcement actions and obtaining monetary remedies of approximately $4.2 billion in Fiscal Year 2015 (FY 2015). These results included high-quality, "first-ever" cases in a number of important areas, including protections for whistleblower communications; violations by financial institutions under the Foreign Corrupt Practices Act; misconduct by underwriters in the primary market for municipal securities; and the fee practices of private equity advisers. In addition, the Commission brought cutting edge market structure enforcement cases, including an action against a dark pool operator for running a secret trading desk and an action against a high frequency trading firm for violating the market access rule and Regulation NMS. The Commission also continued to seek admissions, including the first-ever admissions settlement with an auditing firm, and to pursue complex cases with criminal

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[1] The views expressed in this testimony are those of the Chair of the Securities and Exchange Commission and do not necessarily represent the views of the full Commission, or any Commissioner.

authorities, including a recent action charging dozens of defendants with a global scheme to profit from hacked non-public information about corporate earnings announcements.

Going forward, we plan to continue to focus on completing our mandatory rulemakings while pursuing other initiatives that are critical to our mission, including those relating to asset manager oversight, equity market structure, and our disclosure effectiveness review. We will also continue to strengthen our enforcement and examination programs, striving for high-impact efforts that protect investors and preserve market integrity. The agency's Fiscal Year 2017 budget request to the Office of Management and Budget reflects these priorities, focusing on the execution of our core programs and operations by seeking to hire individuals with the skill sets necessary to enhance the agency's oversight of increasingly complex securities markets; striving to build the significant new oversight programs assigned to the SEC in recent years; and continuing to enhance our technology, including our ability to analyze and assess large volumes of data.

I deeply appreciate the serious responsibility we have to be prudent stewards of the funds we are appropriated, and we strive to demonstrate how seriously we take that responsibility by the work we do. We continue to place a high priority on allocating our resources efficiently and effectively, and we were very pleased that the Commission recently received an unmodified audit report, the agency's best-ever audit opinion from the Government Accountability Office, with no material weaknesses or significant deficiencies identified in FY 2015. With Congress' continued assistance, we plan to build on these improvements and continue to enhance the execution of our mission.

Implementing Remaining Congressional Mandates and Other Significant Rulemakings

Since I last testified, the SEC has continued to make substantial progress implementing the rulemakings mandated by the Dodd-Frank and JOBS Acts, completing significant rulemaking in key areas under the Dodd-Frank Act and finishing all major rulemakings under the JOBS Act. Specifically, since the hearing on March 24, 2015, the Commission has:

- Adopted final rules to update and expand Regulation A (commonly referred to as Regulation A+), an exemption from registration for small offerings of securities, to facilitate smaller companies' access to capital;

- Adopted new rules under Title VII of the Dodd-Frank Act to provide a comprehensive, efficient process for security-based swap dealers and major security-based swap participants to register with the SEC and proposed new procedures addressing statutorily disqualified associated persons;

- Adopted new rules to permit securities-based crowdfunding offerings by issuers and the operation of funding portals to intermediate such offerings;

- Adopted amendments to remove credit rating references in the principal rule that governs money market funds and the form that money market funds use to report information to the Commission each month about their portfolio holdings;

- Adopted a rule that requires public companies to disclose the ratio of the compensation of their chief executive officer to the median compensation of its employees;

- Proposed rules governing the application of certain requirements to security-based swap transactions connected with a non-U.S. person's dealing activity in the United States;

- Proposed rules to require companies to disclose the relationship between executive compensation and the financial performance of a company;

- Proposed rules directing national securities exchanges and associations to establish listing standards requiring companies to adopt policies that require recovery of incentive-based compensation erroneously awarded to executive officers; and

- Proposed amendments related to regulatory access to security-based swap data held by security-based swap data repositories.

The Commission has also acted in the last eight months to advance other important rules central to investor protection, market integrity, and capital formation, a number of which are connected with the larger initiatives described in detail below. The Commission:

- Proposed rules to require that broker-dealers trading in off-exchange venues become members of a national securities association to enhance regulatory oversight of active proprietary trading firms, such as high-frequency traders;

- Proposed two sets of rules to modernize the reporting and disclosure of information by investment companies and investment advisers to enhance the quality of information available to investors and allow the Commission to more effectively collect and use data provided by investment companies and investment advisers;

- Proposed rules designed to promote effective liquidity risk management for open-end funds (except money market funds) and permit the use of swing pricing for open-end funds (except money market funds and exchange-traded funds (ETFs));

- Proposed amendments to Securities Act Rule 147 to modernize the rule for intrastate offerings, including through intrastate crowdfunding provisions, and to Rule 504 to increase the aggregate limit on offers and sales and to provide additional investor protections;

- Proposed two sets of amendments to the SEC rules governing its administrative proceedings that, if adopted, would among other things adjust the timing of administrative proceedings and permit parties to take depositions of witnesses as part of discovery;

- Issued a request for comment on the effectiveness of financial disclosures about entities other than the registrant under Regulation S-X; and

- Issued a concept release about possible revisions to audit committee disclosures.

Vigorous Enforcement of the Securities Laws

The SEC's vigorous enforcement program is at the heart of its efforts to protect investors and instill confidence in the integrity of the markets. The Division of Enforcement (Enforcement) advances these efforts by investigating and bringing civil charges against violators of the federal securities laws. Successful enforcement actions impose meaningful sanctions on securities law violators, result in penalties and disgorgement of ill-gotten gains that can be returned to harmed investors, and deter further wrongdoing.

Enforcement continued to deliver very strong results on behalf of investors in FY 2015. The SEC filed a record 807 enforcement actions covering a wide range of misconduct, and obtained orders totaling $4.19 billion in disgorgement and penalties. Of the 807 enforcement actions filed in Fiscal Year 2015, a record 507 were independent actions for violations of the federal securities laws, and 300 were either actions against issuers who were delinquent in making required filings with the SEC or administrative proceedings seeking bars against individuals based on criminal convictions, civil injunctions, or other orders.

More important than the numbers, these actions addressed meaningful issues for investors and markets, spanned the securities industry, and included numerous "first-of-their-kind" actions. Significantly, approximately two-thirds of our substantive actions in FY 2015 also included charges against individuals. A few other important features of our enforcement program drawn from the last eight months also bear highlighting.

Leveraging Data Tools and Analysis

Enforcement's leveraging of data and quantitative analytics contributed significantly to the year's strong results. Specifically, Enforcement has focused on ways to harness in-house expertise and data infrastructure to analyze massive data sources and identify conduct that potentially violates the federal securities laws. For example, Enforcement is partnering with our Division of Economic and Risk Analysis to develop a tool to enable staff to detect anomalous financial results disclosed in public company filing data. Enforcement staff is also implementing new analytical tools to detect suspicious trading patterns to assist with insider trading and microcap fraud investigations. These tools can streamline investigations significantly and, in some cases, identify misconduct that previously might not have been detected. These efforts have facilitated a number of cases filed during the past six months.

Executing the Admissions Policy

The Commission continues to aggressively seek admissions in cases where heightened accountability and acceptance of responsibility by a defendant is particularly important and in the public interest. These types of cases include those involving particularly egregious conduct; where large numbers of investors were harmed; where the markets or investors were placed at significant risk; where the conduct undermines or obstructs our investigative process; where an admission can send an important message to the markets; or where the wrongdoer presents a

particular future threat to investors or the markets. Since adopting the admissions protocol in 2013, the SEC has obtained admissions in more than thirty cases (and from a total of 47 entities and individuals), including a number involving a major financial institution and a national auditing firm and requiring charged individuals to admit liability in a world-wide pyramid scheme targeting the Asian-American community. As we indicated when we adopted the admissions protocol, the majority of cases continue to be resolved on a "neither admit nor deny" basis.[2] We continue, however, to increase the use of our evolving, "first-of-its-kind" policy to require admissions or other acknowledgements of wrongdoing where appropriate, and will be prepared to litigate those cases if necessary.

Focusing on Key Areas of Misconduct

The Commission also continues to focus resources on key areas of misconduct. One critical area is financial reporting and issuer disclosure. Comprehensive, accurate, and reliable financial reporting is the bedrock upon which our markets are based, and our Enforcement Division is focused on pursuing violations in this area. The SEC brought a series of significant financial reporting cases in FY 2015, including four important actions in September, each of which also involved charges against senior executives.

Another key area is investment management, where the SEC has continued to bring actions addressing a wide range of issues, such as performance advertising, undisclosed conflicts of interest, compliance issues, and private equity fees and expenses. These include "first-of-their-kind" actions for failures to report material compliance matters to fund boards and the improper allocation of expenses by private equity advisers.

Enhancing the Whistleblower Program

The SEC's Whistleblower program continues to have a transformative impact on our enforcement program. The SEC's Office of the Whistleblower is currently tracking over 700 matters in which a whistleblower's tip has caused a matter under investigation or an investigation to be opened, or which have been forwarded to Enforcement staff for consideration in connection with an existing investigation. In FY 2015, the Commission paid more than $37 million to eight whistleblowers who provided original information that led to successful enforcement actions resulting in an order or monetary sanctions exceeding $1 million, and has awarded more than $50 million since the program's inception. The Commission also brought actions against firms for whistleblower retaliation and improper restrictions of whistleblowing activity in confidentiality agreements.

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[2] In many cases, the Commission, like other federal agencies with civil enforcement powers, determines that it is appropriate to continue to settle on a "no admit, no deny" basis. This practice allows the Commission to obtain significant relief, eliminate litigation risk, return money to victims more expeditiously, and conserve enforcement resources for other matters.

Building New Initiatives for Facilitating Capital Formation

On this strong foundation of rulemaking and enforcement, we have continued to advance programs to address issues central to the Commission's mission using all of the tools available to us. These programs have sought to expand capital formation for small businesses, review the effectiveness of our disclosure regime, enhance the oversight of asset managers, enhance our equity and fixed income market structure, and catalyze consideration of a uniform fiduciary duty for investment advisers and broker-dealers.

With the adoption of the rules for both Regulation A+ and crowdfunding, the Commission is moving beyond the program set forth by the JOBS Act to develop a number of ongoing initiatives that are designed to facilitate capital formation, particularly for small businesses.

Last month, the Commission issued a rule proposal seeking to modernize Rule 147, a safe harbor to a statutory exemption for intrastate securities offerings, which would establish a new exemption to facilitate capital formation through intrastate offerings. Many market participants and state regulators have raised concerns that the current requirements of Securities Act Section 3(a)(11) and Rule 147 have not kept up with changes in the business environment and technology, which limits the usefulness of the exemption for capital-raising, especially for smaller state and local businesses. The rule proposal would retain the key feature of existing Rule 147 – its intrastate character, which permits companies to raise money from investors within their state without concurrently registering the offers and sales at the federal level. In recognition of the transformative nature of the internet and other technologies, however, the rule would, among other things, eliminate the existing intrastate restriction on offers, but – critically for the state-based nature of the offering and its regulation – would require that sales be made only to residents of the state or territory of the issuer's principal place of business. The proposal would also ease some of the issuer eligibility requirements to make the rule available to a greater number of businesses seeking financing in state, but ensure that such financing can only occur with a set of baseline investor protections and that issuers have a strong and identifiable presence within the state of offering.[3]

In May of this year the Commission also approved a proposal, submitted in response to a Commission order, by the national securities exchanges and the Financial Industry Regulatory Authority (FINRA) for a two-year pilot program that would widen the minimum quoting and trading increments – or tick sizes – for stocks of some smaller companies. The SEC plans to use the pilot program to assess whether wider tick sizes enhance the market quality of these stocks for the benefit of issuers and investors.

In addition, as described in more detail below, the Division of Corporation Finance currently is engaged in a comprehensive review of the disclosure requirements for public companies, including smaller public companies, with the goal of making recommendations on

[3] While the proposed rule could be used for any intrastate offering meeting its conditions, more than 25 states have enacted some form of intrastate crowdfunding, and this provision could facilitate capital raising through those state provisions.

how to update the requirements to facilitate timely, material disclosure by companies and shareholders' more usable access to that information. The staff is also engaged in a comprehensive review of the "accredited investor" definition. That review and the feedback received through that process will inform the SEC's consideration of whether to change the definition of accredited investor, including whether net worth and annual income should be used as tests for determining whether a natural person is an accredited investor, and at what levels. As part of that review, the staff also plans to independently evaluate alternative criteria for the definition suggested by the public or other interested parties, giving careful consideration to both the need to facilitate capital formation and the need to protect investors.

The Office of Small Business Policy within the Division of Corporation Finance also continues to provide extensive guidance to small businesses seeking to raise capital or comply with our reporting requirements. Each year the office responds to over 1,000 requests for interpretive advice, provides guidance through speaking engagements and meets frequently with interested parties about pending rulemakings that could impact small businesses.

Disclosure Effectiveness Review

As discussed above, as follow-up to the Regulation S-K[4] study required by the Dodd-Frank Act, I directed the staff to develop specific recommendations for updating disclosure requirements. The goal is to comprehensively review the existing disclosure requirements and make recommendations to the Commission on how to update the requirements to facilitate timely, material disclosure by companies and shareholders' more usable access to that information. The staff is currently considering ways to improve the disclosure requirements, including those in Regulation S-K and Regulation S-X,[5] for the benefit of investors and companies.

The staff is reviewing the disclosure requirements in phases. In the first phase of the review, the staff is focusing on the business and financial disclosures required by periodic and current reports, Forms 10-K, 10-Q and 8-K, and updates to certain Industry Guides. The staff also will consider whether disclosure requirements should be scaled for certain categories of issuers, such as smaller reporting companies or emerging growth companies, and, if so, how. In August, as noted above, the Commission issued a Request for Comment for certain disclosure requirements in Regulation S-X.

The staff is also considering how companies file their disclosures and is exploring alternatives that could enhance the way that investors access the disclosures. In the near term,

[4] Regulation S-K is the central repository for the Commission's non-financial disclosure requirements. It is intended to foster uniform and integrated disclosure for registration statements under the Securities Act of 1933, registration statements under the Securities Exchange Act of 1934 (Exchange Act), and periodic and current reports filed under the Exchange Act.

[5] Regulation S-X contains disclosure requirements that dictate the form and content of financial statements to be included in filings with the Commission. It addresses both registrant financial statements and financial statements of certain entities other than the registrant. It also requires that domestic issuer financial statements filed with the Commission be prepared in accordance with generally accepted accounting principles.

we are working on changes to sec.gov that would make EDGAR filings more accessible to investors and easier for them to navigate. In a later phase of the review, the staff will review and consider recommendations regarding the governance and compensation disclosures required in proxy statements.

To date, we have heard from a number of interested parties about this review, receiving over 50 separate comment letters. We expect this number will increase as the Commission issues additional concept and proposing releases.

Enhancing Risk Monitoring and Regulatory Safeguards for the Asset Management Industry

As our rulemaking efforts since March illustrate, the Commission and its staff have made significant progress in executing a program to enhance risk monitoring and regulatory safeguards for the asset management industry.

On May 20, 2015, the Commission proposed new rules and forms as well as amendments to its rules and forms to modernize the reporting and disclosure of information by registered investment companies. The proposed rules, if adopted, would include the following enhancements:

- *Portfolio Reporting.* A new monthly portfolio reporting form, Form N-PORT, would require registered funds other than money market funds to provide portfolio-wide and position-level holdings data to the Commission on a monthly basis.

- *Census Reporting.* Registered funds would be required to annually report certain census-type information to the Commission on Form N-CEN, and the form currently used to report fund census information (Form N-SAR) would be rescinded. Proposed Form N-CEN would streamline and update information reported to the Commission to reflect current information needs, such as requiring more information on ETFs and securities lending.

- *Structured Data.* Funds would report portfolio and census information in a structured data format, which would improve the ability of the Commission and the public both to aggregate and analyze information across all funds and to link the reported information with information from other sources.

- *Enhanced Disclosure and Website Communications.* Funds would be required to provide enhanced and standardized financial statement disclosures, and could provide shareholder reports by making them accessible on their website, while providing shareholders the option of continuing to receive paper copies.

Also on May 20, 2015, the Commission proposed amendments to Form ADV, the primary investment adviser reporting and disclosure form, that would: (1) provide additional information regarding advisers, including information about their separately managed account business; and (2) address issues that staff has identified since the Commission made significant

changes to Form ADV in 2011.[6] In addition, the proposed amendments would, if adopted, require advisers to maintain records of the calculation of performance information that is distributed to any person.

On September 22, 2015, the Commission proposed a new rule that would require open-end funds to adopt and implement liquidity management programs. If the proposed rules are adopted, they would effect the following enhancements, among others:

- *Liquidity Risk Management Programs.* Mutual funds and other open-end management investment companies, including ETFs, would be required to have a liquidity risk management program. The proposed rule would exclude money market funds from the requirements because they are already subject to liquidity requirements tailored to their particular structure and operations.

- *Swing Pricing.* Mutual funds (except money market funds or ETFs) would be permitted to use "swing pricing."[7]

- *Enhanced Disclosures.* Mutual funds and other open-end funds would be required to provide enhanced disclosure regarding fund liquidity and redemption practices, the methods used by funds to meet redemptions, and, if used, swing pricing. Funds would also be required to disclose information regarding committed lines of credit, interfund borrowing and lending, and swing pricing.

The comment period for the proposed rules on data modernization and liquidity management will be open through January 13, 2016. The Commission has already received substantial public comment, and all comments received will be analyzed in connection with the staff's development of recommendations to the Commission on final rules.

At my direction, the SEC staff is working on additional initiatives aimed at helping to ensure the Commission's regulatory program is fully addressing the increasingly complex portfolio composition and operations of the asset management industry. These initiatives include:

- *Use of Derivatives by Investment Companies.* SEC staff is working on recommendations to the Commission to propose new requirements related to the use of derivatives by registered funds, including measures to appropriately limit the leverage these instruments may create and enhance risk management programs for such activities.

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[6] For example, the proposals would, if adopted, require aggregate information related to assets held and use of borrowings and derivatives in separately managed accounts and provide additional information about an adviser's advisory business, including branch office operations and the use of social media.

[7] Swing pricing is the process of reflecting in a fund's net asset value the costs associated with the trading activity of the fund occasioned by shareholders' redemptions and purchases in order to reflect those costs in the prices paid and received by purchasing and redeeming shareholders.

- *Transition Plans for Investment Advisers.* Staff is also developing recommendations for the Commission to propose requiring investment advisers registered with the Commission to create and maintain transition plans to prepare for a major disruption in their business.

- *Stress Testing for Large Investment Advisers and Large Investment Companies.* Staff is also considering recommending that the Commission propose new requirements for stress testing by large investment advisers and large investment companies. Such rules would implement in part requirements under section 165(i) of the Dodd Frank Act.

- *Third-Party Compliance Reviews.* At my direction, staff is also preparing a recommendation to the Commission for proposed rules requiring third-party compliance reviews for registered investment advisers. The reviews would not replace examinations conducted by our Office of Compliance Inspections and Examinations, but would be designed to improve overall compliance by registered investment advisers.

Enhancing Our Equity and Fixed Income Market Structure

Since I last testified, we have proceeded with our ongoing assessment of U.S. equity market structure to ensure that our markets remain the deepest and fairest in the world and optimally serve investors and companies of all sizes seeking to raise capital.

As noted above, the Commission approved the initiation of a pilot on different tick sizes, and the SEC staff continues to work with the exchanges and other market participants to implement the pilot. The data generated by this initiative will deepen our understanding of the impact of tick sizes on market quality and help us consider new policy initiatives that can improve trading in the securities of smaller-cap issuers. In addition, the Commission proposed important amendments to Rule 15b9-1 to require broker-dealers that engage in off-exchange proprietary trading to become members of a national securities association, which would extend self-regulatory oversight to a significant portion of off-exchange trading not currently so regulated.

In February, the Commission established the Equity Market Structure Advisory Committee to provide a formal mechanism through which the Commission can receive advice and recommendations on equity market structure issues. The first meeting, held on May 13, 2015, focused on Rule 611 of Regulation NMS, known as the "Order Protection Rule" or "Trade-Through Rule." The second meeting, held on October 27, 2015, focused on two important market structure topics – the impact of access fees and rebates widely used by stock exchanges and the regulatory structure of trading venues. Following the second meeting, the Committee established subcommittees to look more closely at specific issues identified by the SEC staff and Committee members before presenting them to the full Committee for discussion and deliberation. The staff and the Committee will continue to use a variety of tools to ensure both the transparency of the Committee's consideration of issues and input from the full range of investors and other interested market participants, as well as from other advisory committees and organizations with remits that overlap with the Committee's.

In addition, the Commission will shortly take up another important proposal for reform in our equity markets, amending Regulation Alternative Trading System (ATS) to require enhanced transparency with respect to ATSs that trade national market system stocks. In the years since Regulation ATS was first adopted in 1998, our equity markets have undergone significant change. Advancements in technology have fueled the growth in the number of trading centers and trading activity in NMS stocks is less concentrated. ATSs are an important component of our current market structure, as they compete directly with national securities exchanges and account for approximately 15% of the dollar volume in NMS stocks. The proposal that the Commission will soon consider would, if adopted, update our regulation of these trading venues by requiring enhanced public disclosures.

Beyond Commission rulemaking, in response to requests I have previously made, all of the exchanges have conducted and completed in-depth analyses of order types and have filed proposed rule changes to reflect their findings. All of the exchanges have also now submitted rule filings disclosing how they use securities information processor (SIP) feeds and direct feeds. These filings provide significantly improved transparency for investors and the public on how the exchanges operate. Also at my request, the SIPs have implemented a time stamp in their data feeds, to facilitate greater transparency on the issue of data latency.

The staff also continues to progress on recommendations to the Commission to address, among other things:

- The registration status of certain active proprietary traders and improvements to firms' risk management of trading algorithms;
- Enhanced disclosure requirements concerning a broker's order routing practices;
- An anti-disruptive trading rule that would address the use of aggressive, destabilizing trading strategies in vulnerable market conditions; and
- The development and implementation of a consolidated audit trail.

With respect to our fixed income markets, I have directed SEC staff to undertake an initiative designed to enhance the public availability of pre-trade pricing information in the fixed income markets. This initiative builds on a recommendation in the Commission's July 2012 Report on the Municipal Securities Market, and would potentially require the public dissemination of the best prices displayed by market participants on electronic systems, such as ATSs and other electronic dealer networks, in the corporate and municipal bond markets. This potentially transformative change would broaden access to pricing information that today is available only to select parties, and could facilitate enhanced execution, improve market efficiency, and promote price competition. I am mindful, however, of the need to strike the right balance of compelling the disclosure of meaningful pre-trade pricing information without discouraging market participants from producing such information. Accordingly, to help inform our initiative on pre-trade price transparency, we have been actively engaged in discussions with market participants, FINRA, and the Municipal Securities Rulemaking Board

(MSRB). Before we take any actions, I also anticipate careful staff analysis of the pricing data already available to assess how best to achieve our regulatory objectives.

On September 24, 2015, the MSRB published a request for comment on a new proposal that would require confirmation disclosure of mark-ups for certain principal transactions with retail customers when the dealer makes a corresponding trade within two hours of the customer's trade. The MSRB also requested comment on proposed modifications to a November 2014 proposal that would require confirmation disclosure of same-day pricing information for specified principal transactions with retail customers. On October 12, 2015, FINRA published a request for comment on a modified proposal that would require confirmation disclosure of same-day pricing information for specified principal transactions with retail customers.

The comment periods for the FINRA and MSRB requests for comment end on December 11, 2015. Although these proposals differ to a degree, FINRA and the MSRB have represented that they intend to coordinate on their approach to potential rulemaking in this area. Staff in the SEC's Office of Municipal Securities and Division of Trading and Markets have been closely monitoring these proposed changes and look forward to hearing from commenters in light of the goal we share with the MSRB and FINRA of providing meaningful dealer compensation disclosure to retail investors.

Personalized Investment Advice Standard of Conduct

Section 913 of the Dodd Frank Act granted the Commission authority under the Exchange Act and Advisers Act to adopt rules establishing a uniform fiduciary standard of conduct for broker-dealers and investment advisers when providing personalized investment advice about securities to retail customers. In March 2013, the Commission issued a public request for information to obtain further data and other information to assist it in determining whether or not to use the authority provided under section 913 of the Dodd Frank Act.

As I indicated previously, my evaluation of the differences in the standards that apply to advice under the federal securities laws has led me to conclude that broker-dealers and investment advisers should be subject to a uniform fiduciary standard of conduct when providing personalized investment advice about securities to retail investors. I recognize that this is a complex issue, and that there are significant challenges that will need to be addressed in proposing a uniform fiduciary standard, including how to define the standard, how it would affect current business practices, and the nature of the potential effects on investors, particularly retail investors.

SEC staff is developing rulemaking recommendations for the Commission's consideration. As part of its analysis, the staff is giving serious consideration to, among other things, the recommendations of an SEC staff's 2011 study under Section 913 of the Dodd-Frank Act, the views of investors and other interested market participants, potential economic and market impacts, and the information we received in response to the Commission's request for data. Ultimately, of course, the Commission as a whole will decide whether to proceed with a rulemaking to implement a uniform fiduciary duty and, if so, its parameters. I will discuss all aspects of this issue with my fellow Commissioners as we proceed.

Conclusion

The Commission's extensive work to protect investors, preserve market integrity, and promote capital formation is not limited to the above initiatives. But I have tried by example to convey the breadth and importance of the Commission's ongoing efforts and provide a sense of our progress in the last few months.

Thank you for your support of the agency's mission and for inviting me to be here today. Your continued support will allow us to better protect investors and facilitate capital formation, more effectively oversee the markets and entities we regulate, and build upon the significant progress we have made.

I am happy to answer any questions that you may have.