

**STATEMENT OF THE INVESTMENT COMPANY INSTITUTE  
ON THE U.S. SECURITIES AND EXCHANGE COMMISSION'S  
APPROPRIATIONS FOR FISCAL YEAR 2012**

**Subcommittee on Financial Services and General Government  
Committee on Appropriations  
United States Senate**

**May 27, 2011**

The Investment Company Institute<sup>1</sup> appreciates this opportunity to submit testimony to the Subcommittee relating to the Administration's FY 2012 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 91 million shareholders in over 52 million U.S. households owned some type of registered fund in 2010.<sup>3</sup> At year-end 2010, total RIC assets were approximately \$13 trillion. These funds, and their 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 15 years and held a significant portion of the outstanding shares of U.S.-issued stocks, bonds, and money market securities at year-end 2010.<sup>4</sup> Indeed, investment companies as a whole were one of the largest groups of investors in U.S.

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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 \$13.1 trillion and serve over 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> Michael Bogdan, John Sabelhaus & Daniel Schrass, *Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2010*, Investment Company Institute Fundamentals 19, no. 6 (September), available at <http://www.ici.org/pdf/fm-v19n6.pdf>.

<sup>4</sup> Investment Company Institute, *Investment Company Fact Book* (51<sup>st</sup> ed. 2011). The Fact Book is available at <http://www.icifactbook.org>.

companies, holding 27 percent of their outstanding stock at year-end 2010.<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.

### **Staffing and Dodd-Frank Implementation**

Congress is rightly concerned about government spending. It also must be concerned that the SEC not lack resources it needs to successfully pursue its investor protection and market oversight functions, including the new responsibilities assigned to the agency by the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”).

While we have no view on the specific levels of funding and staffing necessary for the agency, we recognize that the new responsibilities assigned to the SEC by Dodd-Frank are substantial and will call for significant resources.<sup>6</sup> These responsibilities include expanded regulatory authority over derivatives trading, hedge fund advisers, and municipal advisors. While expanding the SEC’s authority in these areas is important to fill significant regulatory gaps, it 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.

In particular, we believe more can and should be done to develop the agency’s economic research and analytical capabilities. There is a compelling need for the SEC to better inform itself about its regulated industry and market, as well as the economic consequences of its regulations. This is imperative if the SEC is to avoid regulatory approaches that could have the effect of making financial firms or products less competitive, less innovative, less attractive to talented professionals, and less available to investors.

### **Improvements in the Use of Available Resources**

No matter what level of funding ultimately is authorized, it is vitally important that the SEC utilize the resources it has to their maximum effect. Chairman Schapiro is to be commended for taking significant steps over the past few years to improve the operational efficiency of the agency, bringing in new leadership and senior management in many of the SEC’s divisions, restructuring some key divisions, seeking to improve the agency’s risk assessment capabilities, and hiring more staff with specialized expertise and real world experience, among other things. Still, Chairman Schapiro herself admits that much work remains to improve the SEC’s internal operations.<sup>7</sup> We strongly agree. We

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

<sup>6</sup> The SEC argues that it will need to add 468 positions to implement Dodd-Frank. See Congressional Justification FY 2012 in Brief, at p. 3, avail. at <http://www.sec.gov/about/secfy12congbudjust.pdf>.

<sup>7</sup> See Testimony on Implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act by the U.S. Securities and Exchange Commission Before the United States Senate Committee on Banking, Housing, and Urban Affairs, Thursday, February 17, 2011.

therefore strongly support the continued focus on internal reforms that will allow the SEC to work more efficiently and improve its performance. This includes, for example, conducting empirical research that informs major rulemakings, providing regulatory guidance that reflects a better understanding of the relevant regulated industry, better integrating activities of different SEC divisions and branch offices, and implementing new inspection strategies.<sup>8</sup> The agency also will have a tremendous amount of new data as a result of recent rulemakings, such as data from Form N-MFP (relating to money market funds) and proposed Form PF (relating to private funds). It should have adequate funding to acquire and implement the technology necessary to understand, utilize, and secure all of this data.

## **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 91 million investors who own mutual funds and other registered investment companies, 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. American taxpayers deserve every assurance that the SEC, indeed all agencies and departments of Government, husband their resources appropriately.

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.

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<sup>8</sup> We also note that Section 967 of Dodd-Frank directed the SEC to engage the services of an independent consultant to study a number of specific areas of SEC internal operations. That organizational study, by the Boston Consulting Group, was delivered to Congress on March 10. It is available at <http://www.sec.gov/news/studies/2011/967study.pdf>.