



January 21, 2010

The Honorable Daniel K. Inouye, Chairman
Committee on Appropriations
United States Senate
S-128 Capitol Building
Washington, DC 20510

The Honorable Thad Cochran, Vice Chairman
Committee on Appropriations
United States Senate
S-128 Capitol Building
Washington, DC 20510

The Honorable Richard J. Durbin, Chairman
Subcommittee on Financial Services and
General Government
Committee on Appropriations
United States Senate
SD-184 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Susan M. Collins, Ranking Member
Subcommittee on Financial Services and General
Government
Committee on Appropriations
United States Senate
SD-184 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Inouye, Vice Chairman Cochran, Subcommittee Chairman Durbin, and Subcommittee Ranking Member Collins:

I am writing on behalf of the Council of Institutional Investors (“Council”), a nonprofit association of public, union and corporate pension funds with combined assets that exceed \$3 trillion. Member funds are major long-term shareowners with a duty to protect the retirement savings of millions of American workers. As significant market participants, Council members have a deep, abiding interest in ensuring that the Securities and Exchange Commission (SEC or “Commission”) has the resources needed to fulfill its primary mission of investor protection.

The financial crisis has demonstrated that regulators lacked the knowledge and resources needed to flexibly respond to rapid financial innovation and market expansion. Strong regulation that can adapt to an evolving marketplace is impossible without stable, long-term funding. Unlike most other federal financial regulators, the SEC has been subject to the large ups and downs of the Congressional appropriations process. After receiving budget increases in 2003-2005, the SEC’s funding level was flat or declining during 2005-2007. As a result, while the financial crisis was brewing, the SEC had to cut its staff by 10%. As the Investors’ Working Group (IWG) concluded, this unstable appropriations process “helped to undermine robust oversight,” contributing to the financial crisis.¹

The Council accordingly urges the Committee on Appropriations to support a stable self-funding mechanism for the Commission. Independent funding is a core IWG recommendation designed to strengthen the existing regulatory framework. More specifically, the IWG concludes:

¹ Investors Working Group. *U.S. Financial Regulatory Reform: The Investors’ Perspective* (July 2009). [www.cii.org/UserFiles/file/resource%20center/investment%20issues/Investors%27%20Working%20Group%20Report%20\(July%202009\).pdf](http://www.cii.org/UserFiles/file/resource%20center/investment%20issues/Investors%27%20Working%20Group%20Report%20(July%202009).pdf). The Investors Working Group (IWG) is an independent, nonpartisan commission sponsored by the Council of Institutional Investors and the CFA Institute Centre for Financial Market Integrity to provide an investor perspective on ways to improve the regulation of U.S. financial markets. The Council’s membership endorsed the full recommendations of the IWG in fall 2009. For more information about the IWG, please visit www.cii.org/iwglinfo.

To ensure that funding keeps pace with rapid market changes and financial innovation, Congress, the Administration and regulators should periodically reevaluate the resources each agency needs to fulfill its mission. To the extent possible, agencies should have funding flexibility to respond to these changes *on their own* [emphasis added].²

Self-funding is critical for the SEC to conduct necessary long-term planning and better respond to unknown future risks. The Commission currently has only approximately 3,700 people to oversee more than 35,000 firms, including 11,000 investment advisers, 8,000 mutual funds, 5,500 broker-dealers, and more than 12,000 public companies. Not only is the SEC's staff size inadequate for the markets it oversees, but it is also smaller than it was only a few years ago. Self-funding would ensure that the Commission has a workforce of sufficient size and skill to oversee the nation's capital markets, including potential expansions into areas such as over-the-counter derivatives and private fund advisers.

As policymakers contemplate comprehensive financial regulatory reform, Congress can help strengthen investor protection and encourage vigorous financial regulation by establishing a stable, independent funding source for the Commission. The Council thus urges you to include such a self-funding mechanism in regulatory reform legislation.

Thank you for your consideration and we look forward to working with you to strengthen the regulation of our financial system. If you have any questions, please do not hesitate to contact me at (202) 261-7096 or jonathan@cii.org, or our general counsel Jeff Mahoney at (202) 261-7081 or jeff@cii.org.

Sincerely,



Jonathan D. Urick
Analyst
Council of Institutional Investors

Cc: The Honorable Christopher J. Dodd, Chairman, Committee on Banking, Housing, and Urban Affairs
The Honorable Richard C. Shelby, Ranking Member, Committee on Banking, Housing, and Urban Affairs
The Honorable Charles E. Schumer, United States Senate
The Honorable Michael D. Crapo, United States Senate
The Honorable Robert F. Bennett, United States Senate
The Honorable Judd Gregg, United States Senate
The Honorable Kathryn Ann Bailey Hutchison, United States Senate
The Honorable Timothy Johnson, United States Senate
The Honorable Herb Kohl, United States Senate
The Honorable John F. Reed, United States Senate
The Honorable Jon Tester, United States Senate

² *Ibid.* at 9.