



June 10, 2010

The Honorable Barney Frank
Chairman
House Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Spencer Bachus
Ranking Member
House Committee on Financial Services
B371a Rayburn House Office Building
Washington, DC 20515

The Honorable Christopher Dodd
Chairman
Senate Committee on Banking, Housing, and
Urban Affairs
534 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Richard Shelby
Ranking Member
Senate Committee on Banking, Housing, and
Urban Affairs
534 Dirksen Senate Office Building
Washington, DC 20510

Dear Messrs. Frank, Bachus, Dodd, and Shelby:

As financial regulatory reform legislation advances to conference, I am writing on behalf of the Council of Institutional Investors (“Council”) to reiterate our strong support for self-funding of the U.S. Securities and Exchange Commission (“SEC” or “Commission”). The Council accordingly urges you to ensure that language implementing SEC self-funding such as that featured in sec. 991 of the *Restoring American Financial Stability Act of 2010* (S. 3217) is included in the final version of financial reform legislation.

A nonprofit association of public, union and corporate pension funds with combined assets that exceed \$3 trillion, the Council represents major, long-term investors with a duty to protect the retirement savings of millions of American workers across the country. Deeply affected by the financial crisis, our member funds have a profound interest in meaningful financial regulatory reform. In particular, as significant participants in the capital markets, Council members have an especially strong interest in ensuring that the SEC has the resources to fulfill its primary mission of investor protection.

Today, the SEC’s mission remains as critical to the smooth functioning of our economy and advancement of the public interest as it was at the time of the Commission’s founding amid the Great Depression. Like the 1930s, in the wake of the most recent crisis, we are once again faced with the consequences of chronically unregulated capital markets. The financial crisis has clearly demonstrated that regulators lacked the knowledge and resources needed to flexibly respond to rapid financial innovation and market expansion.

Despite the explosive growth and increasing complexity of the U.S. securities markets over the past two decades, the SEC’s funding has simply not kept pace. After receiving budget increases from 2003-2005, the Commission’s funding level was flat or declining during 2005-2007. Consequently, while the financial crisis was brewing, limited resources forced the SEC to cut its professional staff by 10%.¹ As the blue-ribbon Investors’ Working Group (“IWG”) concluded, this unstable appropriations process “helped to undermine robust oversight,” contributing to the crisis.²

¹ Mary L. Schapiro, *Speech by SEC Chairman: Statement Concerning Agency Self-Funding 2* (Apr. 15, 2010), www.sec.gov/news/speech/2010/spch041510mls.htm.

² Investors Working Group. “U.S. Financial Regulatory Reform: The Investors’ Perspective” (July 2009), at 9, www.cii.org/UserFiles/file/IWGREport.pdf. For more information, please visit www.cii.org/iwqInfo.

Strong regulation that can adapt to an evolving marketplace is impossible without stable, long-term resources. Independent funding accordingly is a core IWG recommendation designed to strengthen the existing regulatory framework. More specifically, the IWG concludes:

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].³

Unlike most other financial regulators, the SEC has been subject to the harmful ups and downs of the Congressional appropriations process. In order to safeguard investors and the capital markets generally, a self-funding mechanism such as that passed by the Senate would ensure that the Commission has the necessary resources to hire staff with deep knowledge of the markets, develop a robust technology program, and address the regulatory imperatives resulting from rapid market changes and financial innovation.⁴ Self-funding would also allow the SEC to engage in more systematic long-term planning.⁵

Finally, regardless of the SEC's funding mechanism, the Council firmly believes that robust Congressional oversight of the Commission remains critical. Consistent with its constitutional responsibility, the Senate should continue to actively provide advice and consent regarding nominees to lead the Commission. Both houses of Congress should also continue to encourage vigorous SEC regulation through general oversight and appropriate resource allocation to ensure that the Commission is addressing ongoing and emerging risks posed by the capital markets. Independent SEC funding would in no way undermine or diminish such Congressional oversight.

Thank you for considering the views of the Council of Institutional Investors. As described, we believe that SEC self-funding is in the best interest of the tens of millions of individual investors participating in the U.S. capital markets either directly through retirement accounts or indirectly through pension funds such as Council members. As the House and Senate work to resolve differences on financial regulatory reform, we look forward to working with you to strengthen the Commission and its crucial mission of investor protection. If you have any questions, please do not hesitate to contact me at (202) 261-7081 or jeff@cii.org, or Council analyst Jonathan Urick at jonathan@cii.org or (202) 261-7096.

Sincerely,



Jeff Mahoney
General Counsel
Council of Institutional Investors

³ *Id.*

⁴ Mary L. Schapiro, *supra* note 1, at 2.

⁵ *Id.*