

**MEMO# 3027**

August 19, 1991

## **BREEDEN TESTIFIES ON SEC REAUTHORIZATION**

August 19, 1991 TO: INVESTMENT ADVISERS COMMITTEE NO. 38-91 RE: BREEDEN  
TESTIFIES ON SEC REAUTHORIZATION

In recent testimony before the Senate Banking Securities Subcommittee on the SEC reauthorization request for FYs 1992-94, SEC Chairman Richard Breeden made recommendations on self funding, SEC pay levels, investment adviser regulation and firewall provisions in the Senate Banking bill to restructure the financial services industry. In his testimony, Chairman Breeden called for self-funding for the Commission asserting that it could result in lower fees for the industry. His proposal would establish a revolving trust fund account, funded by fees collected by the Commission. Congress could establish a cap on the size of the fund where any fee collections in excess of the cap would be rebated to the industry. At the same time, Chairman Breeden stressed the need to lift the salary cap for SEC staff to reduce turnover and bring the Commission in line with the pay policies of other financial regulators. Chairman Breeden also recommended that investment advisers be assessed a "modest" annual fee to enable the Commission to increase supervision of investment advisers, calling the present supervision "completely inadequate." He added that if the Commission is unable to increase supervision, the Investment Advisers Act should be repealed leaving the supervision of advisers to state enforcement activity, saying "customers shouldn't think there is federal regulation when there isn't." In contrast, Chairman Breeden highlighted the SEC program for examining the mutual fund industry which he believes is "very good and active." When asked about the SEC's position on the creation of a self regulatory organization for advisers, Chairman Breeden said that although the SEC has not taken a position, he thought the Boucher bill to regulate investment advisers might represent a more desirable approach than an SRO because of the private right - 2 - of action provision. The Boucher bill (H.R. 2412, the "Investment Advisors Disclosure and Enforcement Act of 1991") is pending before the Energy and Commerce Committee. Chairman Breeden was asked about the adequacy of the "firewalls" in the Senate Banking Committee Print of legislation to restructure the financial services industry. He stressed the need to prevent the "Alice in Wonderland misincentives" of the deposit insurance system from being carried into the securities business and said there is not enough money in the securities business to solve the banking industries problems. Chairman Breeden suggested that, in addition to firewalls, some activities need to be taken out of the bank, such as foreign currency trading and swaps, to protect the taxpayer. On the international front, Chairman Breeden highlighted the increasing role that investment companies are playing in the U.S. securities market. He then pointed out that both U.S. and foreign law impede the sale of U.S. funds in the international market, and said he strongly believes these laws should be repealed. Chairman Breeden also noted that the Commission will continue work on the Investment

Company Act study designed to determine whether legislative changes are necessary to assure that mutual fund shareholders continue to enjoy a high level of safety and to adjust "the scope and requirements of the Act" in light of the present market. A copy of the Chairman's testimony is attached and recommended for your review as it represents the SEC's view of their activities for the next several years. Please call if you wish further information. This memo can also be found on FUNDS, the Institute's Fund User Network and Delivery System, under Legislative Affairs, Washington Update. Julie Domenick Vice President Legislative Affairs Attachment

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