MEMO# 11763

March 27, 2000

INSTITUTE TESTIFIES IN SUPPORT OF SEC FY 2001 BUDGET; SEC CHAIRMAN LEVITT TESTIFIES ON INTERNET AND STAFFING ISSUES

[11763] March 27, 2000 TO: BOARD OF GOVERNORS No. 18-00 FEDERAL LEGISLATION MEMBERS No. 4-00 PRIMARY CONTACTS - MEMBER COMPLEX No. 21-00 PUBLIC INFORMATION COMMITTEE No. 11-00 RE: INSTITUTE TESTIFIES IN SUPPORT OF SEC FY 2001 BUDGET; SEC CHAIRMAN LEVITT TESTIFIES ON INTERNET AND STAFFING ISSUES ____ On March 21, the Senate Subcommittee on Commerce, Justice, State, and the Judiciary Committee on Appropriations held a hearing on the Administration's FY 2001 budget request for the Securities and Exchange Commission. SEC Chairman Arthur Levitt presented the SEC's budget and testified on Internet and staffing issues; the Institute submitted testimony for the record. Both statements are summarized below, and copies of the Institute's and Chairman Levitt's testimony are attached. Institute Supports Full SEC Funding In its statement, the Institute supported an increased level of SEC funding of $422.8 million for FY 2001, as requested by the Administration. The Institute's statement expressed concern, however, that SEC fees will generate revenues significantly in excess of that required to fund SEC operations, despite the steady decline in SEC 6(b) registration fees as mandated under the National Securities Markets Improvement Act of 1966. The statement added that adequate financial resources are essential for the SEC to continue its effective regulatory oversight of the securities markets and to carry out important investor protection and awareness initiatives. The Institute's statement explained that the funding increase is necessary to support the SEC's many initiatives, including finalizing significant rule proposals on fund governance issues, developing new rules for mutual fund advertising, and addressing disclosure of after-tax returns. In addition, sufficient resources are needed to address significant equity market issues, such as decimalization, concerns over market fragmentation and after-hours trading, and to respond to the many challenges new developments in technology will bring. The Institute's statement also addressed the SEC's "staffing crisis" and supported the SEC's retention initiative, which would raise staff compensation to levels comparable with the banking regulatory agencies, thus raising employee morale and enhancing the SEC's recruitment and retention efforts. The statement added that adequate staffing resources are essential for the SEC to fulfill its mandate. The Internet and the SEC's Staffing Crisis Top SEC Agenda 2In its budget request for FY 2001, the SEC asks for $422.8 million, $62.0 million over the FY 2000 budget. In his testimony, Chairman Levitt focused on two specific areas that are dominating the Commission's agenda: the Internet and the Commission's inability to retain qualified staff.

The Internet. Chairman Levitt emphasized the profound effect that the Internet is having on the way investors participate in the capital markets and on the Commission. He also noted the growing incidence of internet fraud, as evidenced by the myriad fraudulent schemes occurring today. The Chairman outlined the Commission's team approach to combating Internet securities fraud, and pointed to the efforts of the Office of Internet Enforcement, which, formed in 1998, is responsible for conducting Internet surveillance. The Chairman also noted that because the Commission previously received a fiscal 2000 appropriation of $12.5 million to combat Internet fraud, it would only request a minimal increase above its FY 2000 level to fund Internet activities in FY 2001. Staffing Crisis. Chairman Levitt noted that resolving the staffing crisis is a top priority for the SEC. He warned that the Commission's inability to attract and retain qualified staff not only threatens its ability to oversee the nation's securities markets and respond to changing markets in timely fashion, but also hampers its ability to bring cases to trial, limits its institutional memory, and lowers employee morale, which in turn reinforces the staffing crisis. The Chairman emphasized the importance of increasing staff salaries to levels at least on par with those paid by various banking regulators, such as the Federal Reserve, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency. He added that establishing parity among regulators is particularly important given the increased coordination of activities among all the financial regulators that will occur as a result of the Gramm-Leach-Bliley Act of 1999, which permits securities firms, banks and insurance companies to affiliate with one another. Chairman Levitt noted that the Administration's FY 2001 budget request includes $15 million to reinstate ten percent special pay for certain attorneys and accountants. He expressed concern, however, that special pay would not be sufficient to resolve the staffing crisis, urging instead for a legislative solution that would provide the Commission with the same pay authority as the banking regulators. Such relief would go far in enabling the Commission to fulfill its mission of protecting investors and ensuring market integrity. We will inform you of further developments. Matthew P. Fink President Attachments

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