

MEMO# 10851

March 31, 1999

INSTITUTE TESTIFIES IN SUPPORT OF SEC FY 2000 BUDGET; SEC CHAIRMAN LEVITT OUTLINES TOP FUND INDUSTRY ISSUES

1 See Memo to Board of Governors No. 14-99, Director Services Committee No. 9-99, Primary Contacts – Member Complex No. 23-99, and SEC Rules Committee No. 17-99, dated March 10, 1999. [10851] March 31, 1999 TO: BOARD OF GOVERNORS No. 26-99 FEDERAL LEGISLATION MEMBERS No. 13-99 PRIMARY CONTACTS - MEMBER COMPLEX No. 37-99 PUBLIC INFORMATION COMMITTEE No. 15-99 RE: INSTITUTE TESTIFIES IN SUPPORT OF SEC FY 2000 BUDGET; SEC CHAIRMAN LEVITT OUTLINES TOP FUND INDUSTRY ISSUES

On March 25, the Senate Appropriations Subcommittee on Commerce, Justice, State, the Judiciary and Related Agencies held a hearing on the Administration's FY 2000 budget request for the Securities and Exchange Commission. SEC Chairman Arthur Levitt presented the SEC's budget; the Institute submitted testimony for the record. Both statements are summarized below, and copies of the Institute's and the SEC's testimony are attached. Institute Supports Full SEC Funding In its statement, the Institute supported an increased level of SEC funding for FY 2000, as requested by the Administration. The budget seeks a \$360.8 million appropriation for the SEC, 5.7 percent more than the SEC FY 1999 budget. The Institute's statement noted 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 stated that the funding increase is necessary to support the expanded activities of the Division of Investment Management. For instance, the new SEC disclosure requirements, including the mandatory use of plain English in mutual fund prospectuses, revised and simplified disclosure in mutual fund prospectuses, and fund profiles, have significantly increased the workload of the Division of Investment Management. In addition, sufficient resources are needed to finance special projects involving investor protection. Presently, the SEC is working to strengthen the current system of fund governance based on insight gained from the recent Director's Roundtable.¹ The SEC has also been actively monitoring the securities industry's progress with Year 2000 compliance and has intensified its efforts during the past year. The Division of Investment Management has formed an independent task force to deal with Y2K disclosure, and the SEC plans to increase the frequency and quality of Y2K disclosure made by public and investment companies during 1999. Finally, adequate funding is essential for routine inspections of investment advisers and fund companies, and for the SEC's ongoing efforts to educate the nation's investors. Several Mutual Fund Issues

Top SEC Agenda In its budget request for FY 2000, the SEC asks for \$360.8 million, \$19.5 million over the FY 1999 budget. As mandated under the National Securities Markets Improvement Act of 1996, SEC 6(b) registration fees are scheduled to drop to 1/38 of one percent (a rate of 0.000264). In his testimony, Chairman Levitt noted that improved investment company governance is one of the SEC's top priorities, along with a continuing effort to address soft dollar issues (see page 10) and improved targeting of examinations of broker-dealers and investment advisers. Chairman Levitt also outlined several FY 2000 goals focused on the mutual fund industry. One objective is to inspect investment company complexes and each of the large investment advisers that are qualified for federal registration at least once every five years (see page 16). The SEC also plans to initiate integrated reviews of selected mutual fund disclosure filings (see page 16). These reviews will focus on whether a fund is investing in accordance with its stated objectives and policies. Chairman Levitt also mentioned the SEC's recent disclosure initiatives, including the overhauled prospectus disclosure requirements, the fund profile, and plain English rules, as part of their ongoing effort to promote access to reliable and useful information about investments. Y2K readiness is also a top priority for the SEC. Chairman Levitt expects the SEC to expend a significant amount of resources overseeing and reviewing the Y2K readiness of both the securities industry and the SEC. Chairman Levitt also remarked on the increasing popularity of online investing and expressed concern about the SEC's ability to adequately oversee this growing area at current funding levels. However, he outlined many steps the SEC has already taken to combat Internet fraud, including investor education initiatives. Senator Gregg Suggests SEC Increase Budget Request At the hearing, discussion between Subcommittee Chairman Judd Gregg (R-NH) and Chairman Levitt focused primarily on whether the SEC had requested enough funding for FY 2000, particularly considering the increased responsibilities of the Commission in the current market. Chairman Gregg specifically noted the need for the SEC to respond to the dramatic growth in electronic commerce. Chairman Levitt stated that the SEC had not asked for all they believe would be necessary to fulfill their duties, at which point Senator Gregg instructed Chairman Levitt to review the Commission's current FY 2000 request and develop a new budget that reflects a realistic assessment of the SEC's expanded needs. We will inform you of further developments. Matthew P. Fink President Attachments

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