

MEMO# 5021

August 2, 1993

SEC CHAIRMAN AND INSTITUTE TESTIFY AT SENATE HEARING ON SEC FUNDING

August 2, 1993 TO: BOARD OF GOVERNORS NO. 67-93 MEMBERS - ONE PER COMPLEX NO. 50-93 RE: SEC CHAIRMAN AND INSTITUTE TESTIFY AT SENATE HEARING ON SEC FUNDING

On July 29, the Subcommittee on Securities of the Senate Committee on Banking, Housing and Urban Affairs held a hearing on the Securities and Exchange Commission's authorization request for fiscal years 1994-1995. SEC Chairman Arthur Levitt, accompanied by Commissioners Schapiro, Roberts and Beese, testified. Robert C. Pozen, General Counsel and Managing Director of FMR Corporation, testified on behalf of the Institute. SEC Testimony Chairman Levitt testified that increased funding for the SEC is necessary to (1) protect investors, (2) maintain the integrity and honesty of U.S. capital markets, (3) ensure that there is a reasonable and cost-efficient regulatory structure so that the U.S. marketplace remains attractive for global capital formation, and (4) continue and expand the SEC's efforts to encourage and stimulate capital formation, particularly by small businesses. Chairman Levitt also stated that additional funding is needed for inspections of investment companies. He stated that "[a] growing number of new fund complexes, including many that recently have been organized by banks, have not been inspected, except for their money market funds." In addition, Chairman Levitt expressed support for S. 423, the "Investment Adviser Oversight Act of 1993", which would provide the SEC with additional resources through the imposition of an annual fee on investment advisers based on assets under management. Finally, Chairman Levitt testified that "the best way to make certain that the Commission's resources are adequate to ensure investor protection is through a full cost recovery mechanism -- in other words, self funding." Institute Testimony In its testimony, the Institute stressed the need for increased funding for the SEC and, in particular, the Division of Investment Management. The Institute stated that, "An examination of the growth rate of the mutual fund industry, as compared to the growth of the Commission's resources devoted to regulation of the industry, illustrates the need for increased funding to assure the Commission's continued ability to provide effective oversight of the industry in the years ahead." The Institute also noted that the gap between the size of the investment company industry and SEC resources available to regulate it threatens to grow despite the fact that investment companies pay substantial registration fees to the SEC. Therefore, the Institute expressed support for legislation that would allow the SEC to become "self-funded" -- to use revenue generated from registration fees to regulate the entities paying those fees. The Institute also testified that additional resources are needed to improve the SEC's oversight of investment advisers. In this regard, the Institute expressed support for S. 423. * * * * Other witnesses at the hearing were Benjamin Vandergrift, partner at Pillsbury, Madison & Sutro, who serves as Chair of the Subcommittee on SEC Administration, Budget and Legislation of the Federal Regulation of Securities Committee of the American Bar

Association, and Sarah Teslik, Executive Director of the Council of Institutional Investors. A copy of Chairman Levitt's and the Institute's testimony is attached. Amy B.R. Lancellotta
Associate Counsel Attachments

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