

Washington Watch

Obama Asks Congress to Double SEC Budget, Increase Adviser Exams

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President Barack Obama asked Congress to double the budget for the SEC by 2021, starting with a \$1.8 billion “down payment” in 2017, to match “growing challenges” in the financial system and strengthen regulation of it.

The White House budget request also asks for the Commodity Futures Trading Commission’s budget to be doubled over the same timeframe, with \$330 million requested for 2017. The White House Office of Management and Budget, in its [182-page budget summary](#) released Feb. 9, specifically mentioned the low level of examinations of SEC-registered investment advisers.

“Without adequate staffing the Securities and Exchange Commission is not able to examine investment advisors as frequently as it should, introducing significant risk to investors and the economy,” the budget summary stated in a nearly one-page discussion entitled “Leveling the Playing Field through Wall Street Reform.” The rate of adviser examination has for years been at the center of a debate between factions who differ on how to fund increased surveillance of the approximately 11,000 advisers currently registered with the SEC. Few people, if any, have argued that the SEC’s recent levels of adviser examinations have been adequate. But the SEC’s Office of Compliance Investigations and Examinations has been working to increase the effectiveness of the program.

In July 2014, then Commissioner Elisse Walter wrote in a [letter](#) to House Financial Services chairman Jeb Hensarling, R-Tex., “Today, even though SEC is responsible for overseeing 11,000 advisers that manage nearly \$50 trillion in assets, the agency examines these advisers only once every 12 years, and 40 percent of advisers have never been examined.” Statistics on the frequency of adviser examination have varied, with some reports putting it at once every 11 years, and SEC staff has been working in recent years to increase the frequency and effectiveness of the program.

OCIE has embarked on several programs designed to better focus its resources using data analytics to better identify examination targets, has hired 70 new examiners in the past year, and has been engaged in an initiative to conduct on-site examinations of “never before examined” advisers over the past two years. Still, the challenges continue in large part because of budget

constraints and congressional politics. Even though the SEC effectively funds itself through the registration fees and penalties it collects from the firms and individuals under its jurisdiction, all of that money must go to the U.S. Treasury, and the SEC's budget must be approved by Congress. There has been division within Congress on how the agency should be funded, whether it should:

- be given free rein to sustain itself through user fees,
- be compelled to delegate adviser supervision to a self-regulatory organization like the Financial Industry Regulatory Authority;
- or some mix of the two approaches.

The Investment Adviser Association, the voice of SEC-registered advisers in Washington, D.C., has long opposed FINRA having any role in adviser oversight, citing among other problems, FINRA's rules-based compliance regime in contrast to the SEC's principles-based approach, and a lack of transparency and accountability. "Throughout the entire debate, the IAA's position has been clear: the SEC — a government entity with the right expertise that is held accountable by Congress — is in the best position to examine investment advisers and should be provided with the money necessary to do that job," wrote IAA General Counsel Bob Grohowski in a Feb. 4 blog on the organization's website.

Shift in Resources Reportedly Under Way

In the [blog](#), Grohowski hailed recent unconfirmed news reports that "the SEC is beginning a significant restructuring of its examination staff, adding as many as 100 new examiners dedicated to investment advisers, some of whom would be shifted from OCIE's broker-dealer examination program to the adviser program." *InvestmentNews* [reported](#) on Feb. 1, that "the SEC plans to increase the number of RIA examiners by almost 20 percent this year — to 630 from 530, according to someone familiar with the initiative." Noting that the 100 additional examiners would be on top of last year's addition of 70 at OCIE, Grohowski went on to say, "This 35 percent increase in the adviser exam staff is a meaningful development, and a strong step in the right direction for the oversight of registered investment advisers."

IAA President and CEO Karen Barr said, "allocating appropriate resources to the adviser examination staff is good, sound public policy that contributes substantially toward these ends. We strongly support OCIE's new initiative, and expect that it will meaningfully augment the SEC's ability to efficiently and effectively oversee the investment advisory profession."