SEC 2015 Budget Impacts Investment Management Industry

March 25, 2015

This past December, President Obama signed an appropriations bill that provides an $11.8 million budget increase for the SEC's Division of Economic and Risk Analysis (DERA) intended to bolster the agency's cost-benefit analysis used in rulemaking. This action comes after multiple SEC rules have been stricken by the D.C. Circuit for failure to adequately consider their effect on efficiency, competition, and capital formation, as required by law. DERA's budget increase will likely enhance its role in many upcoming regulatory initiatives, including those mentioned mentioned in "FSOC Presses SEC on Money Managers' Systemic Risks" on page 14. Nevertheless, the SEC's overall 2015 fiscal year budget increase fell about $200 million short of the President's request. Rick A. Fleming, the SEC's "Investor Advocate," is among the dissatisfied, having recommended, in reports to Congress, that sufficient resources be provided to enable the SEC to conduct an adequate number of investment adviser examinations. In 2014 the SEC examined only 10 percent of advisers. Although the SEC's 2015 appropriation does not provide the funds he recommended, Mr. Fleming's most recent report states that his office will seek to identify potential efficiencies or other funding mechanisms to help enhance the SEC's oversight of investment advisers. However, in recent years the SEC has already exploited many of the most obvious potential efficiencies, and agreement on other funding mechanisms (including charging advisers "user fees" or requiring them to pay third parties to conduct examinations) has so far proved elusive. Accordingly, although this year the SEC is expected to add personnel who will be available to examine investment advisers, it has indicated that, absent further budget increases, the percentage of advisers examined each year is likely to remain around 10 percent.

Related Practices

Securities Litigation and Enforcement
Financial Services Regulatory
Securities Transactions and Compliance
Securities Litigation and Enforcement