# Will the SEC use its extra funding to strengthen adviser oversight?

**Now that it looks like the SEC will get an additional $150 million in funding, speculation is mounting on how the funds will be deployed. Is increasing adviser oversight going to be a priority?**

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- By Mark Schoeff Jr.



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The budget bill moving through Congress will give the Securities and Exchange Commission a fairly significant funding boost that may help strengthen oversight of investment advisers.

The Senate is expected over the weekend or early next week to pass a $1.1 trillion appropriations bill that barely got through the House Thursday night before a temporary spending measure expired. The legislation treated the SEC better than most agencies, providing a $150 million increase in its budget, for a total of $1.5 billion.

The SEC spending level for fiscal 2015 is $100 million more than the Republican-majority House approved earlier this year, but $200 million less than the Obama administration requested. In seeking its original request, the SEC told legislators it needed the money in part to hire more investment adviser examiners. The agency currently examines 10% of the more than 11,000 registered advisers annually.

Now that the SEC will have $150 million more in its coffers, investment advisers may get more attention.

"We're pleased the SEC was able to get some additional resources and are hopeful that some will go toward investment adviser oversight," said Neil Simon, vice president of government relations at the Investment Adviser Association.

The SEC would not reveal details of its spending plans.

"These funds are critical to the SEC's ability to fulfill its important mission, including permitting us to increase our examination coverage and to continue to hire industry experts and modernize our technology," the agency said in a statement. "We will continue to do our utmost to maximize the sources provided to us for the benefit of the nation's investors and markets."

The SEC has been under pressure from House Republicans to beef up adviser regulation without more money. In a Nov. 24 letter to SEC Chairman Mary Jo White, the chairman of the House Financial Services Committee, Rep. Jeb Hensarling, R-Texas, and a subcommittee chairman Rep. Scott Garrett, R-N.J., told the agency to reallocate resources to adviser examinations rather than ask for more funding.

Now that the SEC does have more funds, it should put them toward adviser oversight, said Barbara Roper, director of investor protection at the Consumer Federation of America.

“If [Ms. White] doesn’t use a significant portion of the increased funding for that purpose, it’s going to be difficult to persuade members of Congress that there’s an unmet funding need,” Ms. Roper said. “She wouldn’t have credibility with the people she needs to convince. I’m confident she understands that.”

Some strings are attached to the new SEC money. For instance, the agency is mandated to increase the budget for its Division of Economic and Risk Analysis by $11 million to $56.6 million. Republicans have been pushing the agency to improve its cost-benefit analysis of regulations.

“In a way, it’s robbing Peter to pay Paul,” said Duane Thompson, senior policy analyst at Fi360, a fiduciary-duty training firm. “In terms of investment adviser inspections, I don’t think the SEC has a whole lot to work with to increase staff. The New Year’s message for investment advisers is, don’t expect to see much in the way of change in the current inspection cycle.”

The Financial Planning Coalition said the additional funding for fiscal 2015 is not enough for the SEC to meaningfully increase adviser exams.

“The SEC’s resources remain woefully inadequate and prevent it from conducting the oversight of investment advisers that investors expect and deserve,” the coalition said in a statement. “This continued budget shortfall only highlights the need for Congress to authorize the SEC to collect reasonable user fees in order for the commission to have the necessary resources to fulfill this important part of its investor protection mission.”

The coalition is comprised of the Financial Planning Association, the National Association of Personal Financial Advisors and the Certified Financial Planner Board of Standards Inc.

As occurs with most big spending bills, proponents of various policies that didn’t make it through Congress this year tried to attach so-called riders to the appropriations measure.

One that failed was a rider to halt a pending rule at the Department of Labor that would require that advisers to retirement plans act in a fiduciary capacity on behalf of their clients, including brokers who sell individual retirement accounts. The language was pulled out of the spending bill during negotiations.

The DOL is expected to repropose the rule early next year.

A measure that was successfully added to the spending bill as an amendment purports to save underfunded multi-employer pension plans by permitting trustees to cut benefits for retirees. Opponents said that such a major policy change should have gone through the full legislative process rather than getting tacked on to a must-pass bill at the last moment.