Consumer Federation of America
1620 I Street, N.W., Suite 200 * Washington, DC 20006

December 7, 2010

Urgent: Fund the SEC and CFTC at Levels Approved by Appropriators
Success of Dodd-Frank Reforms is at Stake

Dear Representative:

Unless Congress acts before year-end to significantly increase 2011 funding for the Securities and Exchange Commission (SEC) and Commodity Futures Trading Commission (CFTC), these agencies' ability to fulfill the important new responsibilities entrusted to them by Congress under the Dodd-Frank Wall Street Reform and Consumer Protection Act will be doomed to failure. **Whether through an omnibus spending bill or as exceptions in a continuing resolution, we urge you to fund these agencies at the levels already approved by appropriators -- $286 million for the CFTC and $1.3 billion for the SEC.**

The plight of the CFTC is particularly dire. The agency's current budget is just $168.8 million, which supports a staffing level of just 650 full-time equivalents (FTEs). This represents a mere 30 percent increase in staffing since the agency was created in 1975. In just the last decade, however, trading volume in the markets overseen by the agency has increased almost five-fold, the number of actively traded futures and options contracts has increased seven-fold (and the complexity of many of these contracts has increased as much if not more), while the market itself has been transformed by both technological innovation and globalization.

Now, this tiny agency has been given new responsibility for oversight of a vast, multi-trillion dollar swaps market. Indeed, the swaps market is estimated to be seven to nine times the size of the markets the CFTC currently regulates. When it passed the Dodd-Frank Act, Congress charged the CFTC with creating an entirely new regulatory regime that includes overseeing the dealers and major swaps market participants who dominate these markets as well as the clearinghouses through which most swaps will be required to trade, reviewing swaps to determine which are required to clear, developing and enforcing business conduct rules, and implementing disclosure requirements to improve market transparency. The agency is forging ahead writing the rules to implement the new law, but it cannot effectively enforce those rules and oversee these markets without a substantial funding increase.

The SEC, while many times larger than the CFTC, nonetheless faces significant funding challenges of its own. These are the result of three decades of under-funding while the securities markets overseen by the agency grew exponentially, were transformed by technology and globalization, and went from being the purview of a small, wealthy few to the primary means by which Americans fund their retirement.

Once again, the numbers help tell the story. Since 1980 the staffing level of the SEC has grown roughly 85 percent (from 2,050 FTEs in 1980 to 3,800 FTEs today). During the same period, however, the number of investment adviser firms overseen by the agency has grown by more than 150 percent, the number of mutual funds overseen by the agency has grown by more than 430 percent, and, while the number of broker-dealer firms has decreased by 20 percent, the number of registered representatives they employ and the number of branch offices from which they operate has grown by roughly 225 percent and 2,100 percent respectively. Meanwhile, the value of the assets these professionals manage has grown even faster, by roughly 7,400 percent in the case of investment advisers, for example. Moreover, while the SEC received a generous funding increase after the passage of the Sarbanes-Oxley Act, even that funding boost did not erase years of neglect, and funding since has not kept pace with continuing growth in the agency's workload.

Now, Congress has given the agency new responsibilities under the Dodd-Frank Act. In addition to the many studies it is required to conduct and the rules it is required to adopt, the agency is also required to create a new office of investor advocate as well as a new office to oversee credit rating agencies. It also has new oversight responsibility for securities-based swaps on the one hand and hedge funds and private equity funds on the other. Unless it receives the increased funding promised by Congress when it adopted the Dodd-Frank Act, the agency will be forced to rob other already underfunded priorities to fulfill these new responsibilities.

There is widespread agreement that our recent financial collapse was caused in part because regulators who had the authority to rein in bad practices did not do so. But just as regulators need the will to regulate, they also need sufficient funding so that their respective agencies can operate effectively and efficiently. It is not enough for Congress to increase the authority and responsibilities of these agencies without giving them the funding they need to fulfill those responsibilities. **We therefore strongly urge Congress, as it finalizes its 2011 spending plans, to include the $286 million for the CFTC and $1.3 billion for the SEC included in Senate appropriations bills.**

Sincerely,

Barbara Roper

Barbara Roper
Director of Investor Protection