

United States Senate
WASHINGTON, DC 20510

May 7, 2008

Senator Richard J. Durbin
Chair
Subcommittee on Financial Services
and General Government
Committee on Appropriations
United States Senate
Washington, DC 20510

Senator Sam Brownback
Ranking Member
Subcommittee on Financial Services
and General Government
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Chairman Durbin and Ranking Member Brownback:

As you consider the fiscal year (FY) 2009 Financial Services and General Government Appropriations bill, we urge you to ensure the Securities and Exchange Commission (SEC) is adequately funded. We are concerned the President's budget proposal, which includes a less than one-percent increase over the FY 2008 funding level, falls short of what is needed for the SEC to be effective.

As you may know, the President's budget proposal for the SEC is unchanged, on a constant inflated adjusted dollars basis, from the amount budgeted for the agency in 2005, and yet the markets have seen a continuing increase in the number of complex securities products and market participants. The problems in credit markets as a result of subprime lending have also brought on allegations that require thorough investigation and possible enforcement actions. According to former SEC Chairmen Donaldson, Levitt, and Ruder, today's SEC "lacks the money, manpower, and tools it needs to do its job." As such, we are writing to request that the Subcommittee provide \$963 million for the SEC, an increase of \$50 million above the President's budget request.

Since its inception in 1934, the SEC has been tasked with the authority to regulate and maintain fair and orderly securities markets. At a time when U.S. capital markets are facing a loss of confidence in the wake of the subprime crisis and when investors are questioning if the nation's top securities cop is "on the beat," we believe that the SEC needs robust funding to address gaping holes in the regulation of our capital markets, ensure adequate supervision of market participants, allow the agency to overcome and address staff retention challenges, and provide the Commission with necessary tools to carry out its mandate. Unfortunately, the President's budget falls short as it provides for 378 fewer employees than in 2005 when the agency received additional funding due to Enron and other corporate scandals and almost 100 less full-time employees than provided for this year.

Specifically, the SEC Division of Enforcement needs a boost as it has seen a reduction in actual staffing of over 11 percent since 2005 and its funding would remain

nearly frozen in the President's budget request. This Division is tasked with executing the law enforcement function of the SEC, an important role as investigations are likely to uncover more violations. Its responsibilities also include conducting and cooperating with international investigations as the capital markets have seen an increase in foreign participants in the U.S. capital markets, as well as U.S. listed companies with significant portions of their operations abroad.

It is also critical that we increase staffing in the Office of Risk Management and across the agency. In 2004, this Office had 15 budgeted positions, but has only employed a third or fewer of this amount since its inception. It is of utmost concern that this Office, which is responsible for identifying risks in the capital markets for all offices and divisions of the SEC, has only two employees.

The Office of Compliance, Inspections, and Examinations is budgeted to be at fewer than 800 personnel for 2009, down from 880 at the end of FY 2006 and the 825 employed at the end of FY 2004. This Office administers the SEC's nationwide examination and inspection program for registered self-regulatory organizations, broker-dealers, transfer agents, clearing agencies, investment companies, and investment advisers. The Office conducts inspections to foster compliance with the securities laws, detect violations of the law, and keep the Commission informed of developments in the regulated community. Among the more important goals of the examination program is the quick and informal correction of compliance problems. During a time period when the subprime crisis has called into question the compliance of market participants with our securities laws, it is important that this Office receive sufficient funding to fulfill its mission and obligations to investors. Ensuring that the SEC has sufficient staff with requisite expertise to review advanced risk models and complex structured finance products must be a priority given the failures in risk management and write downs resulting from the current market conditions.

Additionally, as oversight of credit rating agencies is strengthened in response to issues involving structured finance instruments, we need to ensure that the SEC has sufficient staff to evaluate the performance of new regulations and the quality of information that is available to investors. Given the high-level of expertise required to oversee credit rating agencies, we believe that a strong and fully staffed group to oversee the credit rating agencies is critical.

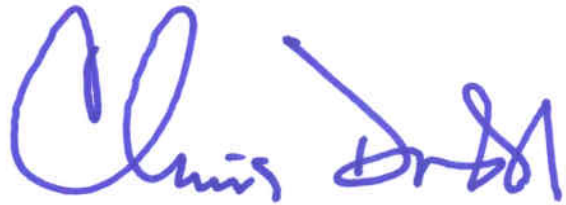
Finally, through its Consolidated Supervised Entity (CSE) Program, the SEC undertakes supervision "to monitor for, and act quickly in response to, financial or operational weakness in a Consolidated Supervised Entity (CSE) holding company or its unregulated affiliates that might place regulated entities, including U.S. and foreign-registered banks and broker-dealers, or the broader financial system at risk." The CSE regime has been tested throughout this crises and it is clear that additional resources are needed for the SEC to strengthen its regulatory supervision of liquidity risk, risk management, and asset valuation practices of the CSE entities.

Fair and orderly securities markets are critical to restoring confidence and integrity in our capital markets and the economy. We recognize that your Subcommittee has the difficult job of prioritizing among numerous needs. We appreciate your consideration of this request and we look forward to working with you on this important matter.

Sincerely,



JACK REED
United States Senator



CHRISTOPHER J. DODD
United States Senator



TIM JOHNSON
United States Senator



CHARLES E. SCHUMER
United States Senator



THOMAS R. CARPER
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