Testimony on "Oversight of the U.S. Securities and Exchange Commission"
Before the
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Chairman Crapo, Ranking Member Brown and Senators of the Committee, thank you for the opportunity to testify before you today about the work of the U.S. Securities and Exchange Commission (SEC or Commission or Agency).[1] Chairing the Commission is a great privilege, and I am fortunate to be able to observe firsthand the incredible work done by the agency's almost 4,500 dedicated staff, approximately 41 percent of whom are outside of Washington, D.C., in our eleven regional offices.

Our people are our greatest assets, and they are our direct connection to the investors we serve. None of the important work described in this testimony would have been achieved without the solutions-oriented attorneys, accountants, examiners and economists at the SEC, whose work, in turn, is made possible thanks to the important, often behind-the-scenes work of the agency's administrative and operations personnel. The agency's supervisors and program managers also play a critical role in ensuring effective and efficient operations and activities.

Across the SEC, we recognize the importance of our capital markets to the U.S. economy and millions of diverse American households. Our people are skilled and committed. They accomplish a great deal with the resources at their disposal, and they are proud to serve. This testimony embodies the record of their work over the past year in pursuit of the SEC's tripartite mission of protecting investors, maintaining fair, orderly and efficient markets and facilitating capital formation.

New Strategic Plan

We recently released our Strategic Plan for 2018-2022, which outlines three goals that will guide the work of the SEC moving forward.[2] I hope you will agree that we have made meaningful progress over the past year toward satisfying these goals.

Our first goal, which has been a priority of mine since I became Chairman, is focusing on the interests of our long-term Main Street investors. The past year has presented many opportunities for me, my fellow Commissioners and SEC staff to interact directly with investors from across the country. Those discussions allowed us to better answer the question we ask ourselves every day: how does our work benefit the Main Street investor? Each proposal or action we take is guided by that principle.

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[1] The views expressed in this testimony are those of the Chairman of the U.S. Securities and Exchange Commission and do not necessarily represent the views of the President, the full Commission or any Commissioner.
[2] *See* U.S. Sec. and Exch. Comm'n Strategic Plan: Fiscal Years 2018-2022 (Oct. 2018), *available at* https://www.sec.gov/files/SEC_Strategic_Plan_FY18-FY22_FINAL.pdf.

Our second goal—to be innovative and responsive—reflects the changing nature of our markets. As technological advancements and commercial developments have changed how our securities markets operate, the SEC's ability to remain an effective regulator requires that we continually monitor the market environment and adapt our rules, regulations and oversight. This maxim applies to nearly every facet of what we do at the SEC. For example, it drove the establishment of a Cyber Unit in the Division of Enforcement (Enforcement or Division) in September 2017, a Fixed Income Market Structure Advisory Committee in November 2017, and more recently, our new Strategic Hub for Innovation and Financial Technology (FinHub).

Our third goal—elevating the agency's performance through technology, data analytics and human capital—embodies our commitment to maintaining an effective and efficient operation. We are using technology, analyzing data and promoting information-sharing and collaboration across the agency, while also maintaining the work environment that has resulted in consistent high levels of employee satisfaction. Maintaining a high level of staff engagement, performance and morale is critical to our ability to execute the SEC's mission. We are committed to continued investment in both new technology and human capital.

The Commission's Fiscal Year 2018 Initiatives and Upcoming Agenda

I am proud of what our people have accomplished in Fiscal Year (FY) 2018 and look forward to building on this work as we continually review and recalibrate our approach to accomplishing the SEC's mission. Overall, America's historic approach to our capital markets has produced a remarkably deep pool of capital with unprecedented participation. It is our Main Street investors and their willingness to commit their hard-earned money to our capital markets for the long term that have ensured that the U.S. capital markets have long been the deepest, most dynamic and most liquid in the world. Their capital provides businesses with the opportunity to grow and create jobs, and supplies the capital markets with the funds that give the U.S. economy a competitive advantage. In turn, our markets have provided American Main Street investors with better investment opportunities than comparable investors in other jurisdictions.

To place this historic achievement in perspective, I note that the United States has approximately 4.4 percent of the world's population, yet the U.S. markets are the primary home to 56 of the world's 100 largest publicly traded companies, and U.S. households have over $22.4 trillion invested in the world's equity markets.[3]

More significantly, at least 52 percent of U.S. households are invested directly or indirectly in our capital markets.[4] This level of retail investor participation stands out against other large industrialized countries and is especially important to keep in mind as our Main Street investors—whether they participate in our markets directly or through an intermediary

[3] Board of Governors of the Federal Reserve System, 2016 Survey of Consumer Finances (2016).

[4] *See* Jesse Bricker et al., "Changes in U.S. Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances," Federal Reserve Bulletin, vol. 103 (September 2017), *available at* https://www.federalreserve.gov/publications/files/scf17.pdf; *see also* Rel. No. 34-83063, *Form CRS Relationship Summary; Amendments to Form ADV; Required Disclosures in Retail Communications and Restrictions on the use of Certain Names or Titles* (Apr. 18, 2018) (for statistics except the mutual fund data); 2018 Investment Company Fact Book (mutual fund statistics), *available at* https://www.ici.org/pdf/2018_factbook.pdf.

such as an investment adviser or broker-dealer—now, more than ever, have a substantial responsibility to fund their own retirement and other financial needs. As a result of increased life expectancy and a shift from defined benefit plans (*e.g.*, pensions) to defined contribution plans (*e.g.*, 401(k)s and IRAs), the interests and needs of our Main Street investors have changed.

We are responding to that change. It is our obligation to preserve, foster and build on the successful history of our capital markets, and history and experience demonstrate our work is never complete. Markets change, and new risks to our markets and investors will emerge. We know we must continuously assess whether we are focused on the right areas and doing the right things, keeping the interests of our long-term Main Street investors top of mind.

My testimony summarizes our important FY 2018 initiatives, grouping them in five areas: (1) the regulatory and policy agenda; (2) enforcement and compliance; (3) enterprise risk and cybersecurity; (4) increasing our engagement with investors and other market participants; and (5) emerging market risks and trends. It also discusses a number of forward-looking initiatives that we are pursuing as our 2019 near-term agenda is now publicly available.[5] Continuing with the themes of transparency, accountability and clarity of mission, the 2019 near-term agenda focuses on the initiatives we reasonably expect to complete over the next 12 months. I welcome feedback from all interested parties on areas in need of focus and how we can best allocate our resources.

Regulatory and Policy Agenda

During my September 2017 testimony, I noted that the near-term Regulatory Flexibility Act agenda would be streamlined to increase transparency and accountability to the public and Congress, as well as to provide greater clarity to our staff. The 2017 agenda embodied a collective effort, benefiting from the input of my fellow Commissioners, our division and office heads and many members of our staff on key questions, including: (1) what initiatives the agency could reasonably expect to complete over the next 12 months, and (2) of those initiatives, which ones would have the most positive impact on our Main Street investors.

During the last year, the Commission advanced 23 of the 26 rules in the near-term agenda, a good result on both a percentage basis (88 percent) and an absolute basis.[6]

In addition, the Commission responded to major events and changes in the broader regulatory landscape by advancing several other initiatives not in the original agenda. For example, we issued guidance to public companies about disclosures of cybersecurity risks and incidents.[7] During FY 2018, the Commission also responded to a new congressional mandate from the Economic Growth, Regulatory Relief, and Consumer Protect Act by expanding a key registration exemption used by non-reporting companies to issue securities pursuant to

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[5] The agenda for 2019 rulemaking was published in the *Federal Register* on August 7, 2018, *available at* https://www.reginfo.gov/public/do/eAgendaMain?operation=OPERATION_GET_AGENCY_RULE_LIST&currentPub=true&agencyCode=&showStage=active&agencyCd=3235.*; see also* Appendix B.

[6] *See* Appendix A. Over the past 10 years, the Commission completed, on average, approximately one-third of the rules listed on the near-term agenda.

[7] *See* Press Release 2018-22, *SEC Adopts Statement and Interpretive Guidance on Public Company Cybersecurity Disclosures* (Feb. 21, 2018), *available at* https://www.sec.gov/news/press-release/2018-22.

compensatory arrangements,[8] and provided relief for those affected by Hurricane Florence.[9] In addition, to facilitate more accurate, clear and timely communications between issuers and shareholders, the staff released guidance on how to approach near-term financial reporting uncertainties resulting from tax law changes on the same day the bill was signed by the President.[10]

To be sure, statistics—such as an 88 percent completion rate—often fail to tell more than a narrow story. Main Street investors—the market participants we have at the front of our minds—will not assess our work by the number or percentage of rules and initiatives we complete, but rather will be looking at what our efforts substantively do for them. With this metric—the interests of our long-term Main Street investors—in mind, I will discuss in more detail a few examples of our work in 2018.

Standards of Conduct Proposals

In April 2018, the Commission proposed for public comment a significant rulemaking package designed to serve Main Street investors that would: (1) require broker-dealers to act in the best interest of their retail customers; (2) reaffirm, and in some cases clarify, the fiduciary duty owed by investment advisers to their clients; and (3) require both broker-dealers and investment advisers to state clearly key facts about their relationship, including their financial incentives.[11] This package of rulemakings is intended to enhance investor protection by applying fiduciary principles across the spectrum of investment advice, bringing the legal requirements and mandated disclosures of financial professionals in line with investor expectations.

Broker-dealers and investment advisers both provide investment advice to retail investors, but their relationships are structured differently and are subject to different regulatory regimes. However, it has long been recognized that many investors do not have a firm grasp of the important differences between broker-dealers and investment advisers—from differences in the types of services that they offer and how investors pay for those services, to the regulatory frameworks that govern their relationships. This confusion could cause investor harm if, for example, investors fail to select the type of service that is appropriate for their needs or if conflicts of interest are not adequately understood and addressed. Our proposals would work together to better align the standards of conduct and mandated disclosures for both broker-dealers and investment advisers with what investors expect of these financial professionals, while preserving investor access and investor choice.

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[8] Rule 701 — Exempt Offerings Pursuant to Compensatory Arrangements, 83 Fed. Reg. 34,940 (July 24, 2018)*; see also*, Concept Release on Compensatory Securities Offerings and Sales, 83 Fed. Reg. 34,958 (July 24, 2018).

[9] *See* Press Release 2018-202, *SEC Provides Regulatory Relief and Assistance for Hurricane Victims* (Sept. 19, 2018), *available at* https://www.sec.gov/news/press-release/2018-202.

[10] *See* Press Release, *Commission Staff Provides Regulatory Guidance for Accounting Impacts of the Tax Cuts and Jobs Act* (Dec. 22, 2017), *available at* https://www.sec.gov/news/press-release/2017-237.

[11] *See* Press Release 2018-68, *SEC Proposes to Enhance Protections and Preserve Choice for Retail Investors in Their Relationships with Investment Professionals* (Apr. 18, 2018), *available at* https://www.sec.gov/news/press-release/2018-68.

Specifically, proposed Regulation Best Interest would enhance broker-dealer standards of conduct by establishing an overarching obligation requiring broker-dealers to act in the best interests of the retail customer when making recommendations of any securities transaction or investment strategy involving securities. Simply put, under proposed Regulation Best Interest, a broker-dealer cannot put her or his interests ahead of the retail customer's interests. The proposal incorporates that key principle and goes beyond and enhances existing suitability obligations under the federal securities laws. To meet this requirement, the broker-dealer would have to satisfy disclosure, care and conflict of interest obligations.

Among other things, the obligations under proposed Regulation Best Interest would put greater emphasis on costs and financial incentives as factors in evaluating the facts and circumstances of a recommendation. Additionally, the proposed standard would require broker-dealers to establish, maintain and enforce written policies and procedures reasonably designed to identify and eliminate material conflicts of interest, or disclose and mitigate, material conflicts of interest related to financial incentives. This is a significant and critical enhancement as today the federal securities laws largely center on conflict disclosure rather than conflict management.

Proposed Regulation Best Interest and its "best interest" standard draw upon fiduciary principles in other contexts, including those underlying an investment adviser's fiduciary duty, recognizing that while their relationship models differ, both broker-dealers and investment advisers often provide advice in the face of conflicts of interest. These common principles are easier to compare given that we issued as another part of our reform package a proposed interpretation reaffirming—and, in some cases, clarifying—the fiduciary duty that investment advisers owe to their clients. This interpretation is designed to provide advisers and their clients with a reference point for understanding the obligations of investment advisers to their clients and, specifically, reaffirms that an investment adviser also must act in the best interests of her or his client.

While the two standards are based on common principles, under the proposal, some obligations of broker-dealers and investment advisers will differ because the relationship models of these financial professionals differ. But—importantly—the principles are the same, and I believe the outcomes under both models should be the same: retail investors receive advice provided with diligence and care that does not put the financial professional's interests ahead of the investor's interests. I believe our proposals are designed to make investors get just that whether they choose a broker-dealer or an investment adviser.

In order to hear first-hand from retail investors who will be directly impacted by the rulemaking package, the staff organized seven roundtables across the country to provide Main Street investors the opportunity to speak directly with me, my fellow Commissioners and senior SEC staff to tell us about their experiences and views on what they expect from their financial professionals. I had the opportunity to lead five of these discussions—in Houston, Atlanta, Miami, Denver and Baltimore—and attend another in Washington, D.C. These candid, experience-based conversations were incredibly valuable and are informing our work moving forward. The transcripts from these roundtables are included in our public comment file. We also have invited investors to view samples of the proposed disclosure form to share their insights and feedback with the Commission by going to https://www.sec.gov/tell-us. In addition, our Office of the Investor Advocate engaged RAND Corporation to perform investor testing of the proposed disclosure form. The results of the investor testing are available on the SEC's website in order to allow the public to consider and comment on this supplemental information.[12]

The staff of the Division of Trading and Markets and the Division of Investment Management are reviewing all of this information, and the more than 6,000 comment letters,[13] as they work diligently together to develop final rule recommendations.

Facilitating Capital Formation

The SEC took meaningful steps during FY 2018 to encourage capital formation for emerging companies seeking to enter our public capital markets while maintaining, and, in many cases, enhancing investor protections. Doing so provides greater investment opportunities for Main Street investors, as it is generally difficult and expensive for them to invest in private companies. As a result, Main Street investors may not have the opportunity to participate in the growth phase of these companies if they choose not to enter our public markets or do so only later in their life cycle. Additionally, it is my experience that companies that go through the SEC public registration and offering process often come out as better companies, providing net benefits to the company, investors and our capital markets.

As a result of the July 2017 expansion of the draft registration statement submission process to all first-time registrants and newly public companies conducting initial public offerings (IPOs) and offerings within one year of an IPO, the Division of Corporation Finance (Corporation Finance) has received draft submissions for more than 40 IPOs and from more than 75 existing reporting companies that have utilized the expanded accommodation. This change has given companies more control over their offering schedules and has limited their exposure to market volatility and competitive harm—providing a benefit to their shareholders without diminishing investor protection.

Additionally, in June 2018, the Commission voted to adopt amendments to the "smaller reporting company" definition that expand the number of companies that can qualify for certain existing scaled disclosure requirements.[14] The new definition recognizes that a one-size regulatory structure for public companies does not fit all and will allow approximately 1,000 additional companies to benefit from smaller reporting company status. The amended definition should benefit both smaller companies, by making the option to join our public markets more attractive, and Main Street investors, who, in turn, will have more investment options.

The Commission also has taken steps to simplify and update financial disclosures. In July 2018, we proposed amendments to financial disclosures to encourage guaranteed debt

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[12] *See* Press Release 2018-257, *Investor Testing of the Proposed Relationship Summary for Investment Advisers and Broker-Dealers* (Nov. 7, 2018), *available at* https://www.sec.gov/news/press-release/2018-257.
[13] *See* Comments on Proposed Rule: Regulation Best Interest, *available at https://www.sec.gov/comments/s7-07-18/s70718.htm*. Of the more than 6,000 comment letters, approximately 3,000 were unique letters.
[14] *See* Press Release 2018-116, *SEC Expands the Scope of Smaller Public Companies that Qualify for Scaled Disclosures* (June 28, 2018), *available at* https://www.sec.gov/news/press-release/2018-116.

offerings to be conducted on a registered rather than a private basis.[15] I believe these measures have the potential to save issuers significant time and expense, enhance the quality of disclosure and increase investor protection.

Further, in August 2018, the Commission adopted final rules that simplify and update disclosures by eliminating requirements that are outdated, overlapping or duplicative of other Commission rules or U.S. GAAP.[16] These amendments were part of a larger initiative by Corporation Finance to review disclosure requirements applicable to issuers and consider ways to improve the requirements for the benefit of investors and issuers. While these rule changes may appear technical, I anticipate that they will yield substantial benefits for public companies and investors, especially when taken together with other capital formation initiatives at the Commission. Importantly, they will not adversely affect the availability of material information and, in many cases, will enhance the quality of available information and increase investor protection.

Corporation Finance has several proposals on the horizon designed to encourage capital formation for emerging companies seeking to enter our public capital markets. Specifically, I anticipate the Commission will consider a proposal to amend the definition of "accelerated filer" that triggers Section 404(b) of the Sarbanes-Oxley Act of 2002, which requires registrants to provide an auditor attestation report on internal control over financial reporting, that if adopted will have the effect of reducing the number of companies that need to provide the auditor attestation report, while maintaining appropriate investor protections.[17] While Section 404(b) has become a familiar, and in many cases important, component of our public company regulatory regime, we have heard from market participants and our former Advisory Committee for Small and Emerging Companies that, particularly for smaller companies, the costs associated with this requirement can divert significant capital from the core business needs of companies without a corresponding investor benefit. I look forward to considering the staff's recommendations.

Additionally, I anticipate that the Commission will consider expanding the ability of companies that are contemplating raising capital to "test-the-waters" by engaging in communications with certain potential investors prior to or following the filing of a registration statement for an IPO. I have seen firsthand how this has benefitted companies considering an IPO, as they are able to engage investors earlier to explain their business and obtain feedback in advance of an offering. This also benefits investors and shareholders as companies are better able to determine the appropriate time for an offering and to more effectively size and price the offering. I look forward to the Commission considering this initiative in the coming year.

Further, I expect that the Commission will consider a proposal, as required by the Economic Growth, Regulatory Relief, and Consumer Protection Act, to expand Regulation A offering eligibility to public reporting companies.

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[15] *See* Press Release 2018-143, *SEC Proposes Rules to Simplify and Streamline Disclosures in Certain Registered Debt Offerings* (July 24, 2018), *available at* https://www.sec.gov/news/press-release/2018-143.
[16] *See* Press Release 2018-156, *SEC Adopts Amendments to Simplify and Update Disclosure Requirements* (Aug. 17, 2018), *available at* https://www.sec.gov/news/press-release/2018-156.
[17] *See* Amendments to Smaller Reporting Company Definition, 83 Fed. Reg. 31,992 (July 10, 2018).

Finally, I believe it is important to encourage long-term investment in our country. I expect that the Commission will soon consider a release soliciting input on how we can reduce compliance burdens on reporting companies with respect to quarterly reports while maintaining, and in some cases enhancing, investor protections. There is an ongoing debate regarding our approach to mandated quarterly reporting and the prevalence of optional quarterly guidance, and whether our reporting system more generally drives an overly short-term focus. I encourage all market participants to share their views and to let us know if there are other aspects of our regulations that drive short-termism inappropriately.

Beyond our public markets, I anticipate the Commission will take a fresh look at the exempt offering framework to consider whether changes should be made to harmonize and streamline the framework. Congress and the SEC have taken a number of steps to expand the options that small businesses have to raise capital. Small businesses today have more options to reach investors within their state using the intrastate exemption, or tap the "crowd" using the power of the Internet through Regulation Crowdfunding offerings. Small businesses can decide to limit their offerings to sophisticated investors in reliance on Regulation D, or open those offerings to retail investors using Regulation A.[18]

Additionally, pursuant to the Economic Growth, Regulatory Relief, and Consumer Protection Act, the SEC recently expanded the exemption that permits private companies to issue securities to employees, consultants and advisors as compensatory awards—a transaction that preserves cash for the company's operations and aligns the incentives of employees with the success of the company—and solicited comment on further ways to modernize the rules related to these compensatory arrangements.[19] The so-called "gig economy" has changed how companies and individuals design alternative work arrangements, and, therefore, individuals may not be "employees" eligible to receive securities as compensatory awards under our current exemption.

While the options to raise capital in exempt offerings have grown significantly since the JOBS Act, there has not been a comprehensive review of our exemptive framework to ensure that the system, as a whole, is rational, accessible, and effective. In fact, I doubt anyone would have come up with anything close to the complex system we have today if they were starting with a blank slate. So, I believe we should take a critical look at our exemption landscape, which can be fairly described as an elaborate patchwork.[20] The staff is working on a concept release

[18] *See* Remarks on Capital Formation at the Nashville 36|86 Entrepreneurship Festival (Aug. 29, 2018), *available at* https://www.sec.gov/news/speech/speech-clayton-082918. Since these rules have gone into effect, small businesses have conducted over 900 offerings that reported raising more than $90 million collectively using Regulation Crowdfunding. And there have been over 300 offerings that reported raising a total in excess of $1 billion pursuant to Regulation A. Those amounts, however, are eclipsed by the $147 billion reportedly raised in 2017 using Rule 506(c) of Regulation D, the new exemption that lifted the ban on general solicitation. And even that is dwarfed by use of the traditional private placement exemption in Rule 506(b) of Regulation D to raise over $1.7 trillion in 2017. *Id.*

[19] *See* Press Release 2018-135, *SEC Adopts Final Rules and Solicits Public Comment on Ways to Modernize Offerings Pursuant to Compensatory Arrangements* (July 18, 2018), *available at* https://www.sec.gov/news/press-release/2018-135.

[20] As we embark on this project, I believe there are several things we should consider. We should evaluate the level of complexity of our current exemptive framework for issuers and investors alike, and consider whether changes

that I expect will bring to the forefront these and other topics on how we can harmonize exempt offerings. Receiving input from investors, startups, entrepreneurs and other market participants who have first-hand experience with our framework is extremely important to make sure we get it right.

Improving the Proxy Process

Another significant initiative for 2019 is improving the proxy process. Last month, the SEC staff held a proxy roundtable to discuss: (1) the proxy solicitation and voting process; (2) shareholder engagement through the shareholder proposal process; and (3) the role of proxy advisory firms.[21] I was pleased with this solutions-oriented event, which included a diverse group of panelists representing the views of investors, companies and other market participants. While we heard a wide range of views, we saw more agreement than disagreement, and I believe that we should act to improve each of these areas.

There was consensus among the panelists that the proxy "plumbing" needs a major overhaul. I encourage market participants to explore what such an overhaul would entail and to consider how technology, including distributed ledger technology, could improve the proxy plumbing. I realize a major overhaul could take time. So, I believe we should focus on what the Commission can do in the interim to improve the current system. The comment box for the roundtable remains open, and I encourage all those interested in improving the proxy plumbing to share their thoughts, particularly regarding actionable, interim improvements.

I also believe it is clear that we should consider reviewing the ownership and resubmission thresholds and related criteria for shareholder proposals. The current $2,000 ownership threshold and related criteria were adopted 20 years ago in 1998, and the resubmission thresholds have been in place since 1954. A lot has changed since then. We need to be mindful of these changes, and make sure our approach to the very important issue of shareholder engagement reflects the realities of today's markets and today's investors. As I have said before, when looking at the ownership and resubmission thresholds and related criteria, we need to consider the interests of the long-term retail investors who invest directly in public companies and indirectly through mutual funds, ETFs and other products. With these long-term, retail investors in mind, we also should consider whether there are factors, in addition to the amount invested and the length of time shares are held, that reasonably demonstrate that the proposing shareholder's interests are aligned with those of a company's long-term investors.

For proxy advisory firms, I believe there is growing agreement that the current dynamics among four parties, (1) proxy advisory firms, (2) investment advisers who employ those firms

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should be made to rationalize and streamline the framework. For example, do we have overlapping exemptions that create confusion for companies trying to navigate the most efficient path to raise capital? Are there gaps in our framework that impact the ability of small businesses to raise capital at key stages of their business cycle? We also should consider whether current rules that limit who can invest in certain offerings should be expanded to focus on the sophistication of the investor, the amount of the investment, or other criteria rather than just the wealth of the investor. And we should take a look at whether more can be done to allow issuers to transition from one exemption to another and, ultimately, to a registered IPO, without undue friction.

[21] *See* November 15, 2018: Roundtable on the Proxy Process, *available at* https://www.sec.gov/proxy-roundtable-2018.

and have a fiduciary duty to their investors, (3) issuers and (4) investors at large, including our Main Street investors, can be improved. For example, there should be greater clarity regarding the division of labor, responsibility and authority between proxy advisors and the investment advisers they serve. We also need clarity regarding the analytical and decision-making processes advisers employ, including the extent to which those analytics are company or industry specific. On this last point, it is clear to me that some matters put to a shareholder vote can only be analyzed effectively on a company-specific basis, as opposed to applying a more general market or industry-wide policy.

Finally, there were other issues raised at the roundtable that we should consider, including: (1) the framework for addressing conflicts of interests at proxy advisory firms, and (2) ensuring that investors have effective access to issuer responses to information in certain reports from proxy advisory firms.

The staff is looking at these and other issues, and I have asked them to formulate recommendations for the Commission's consideration. On timing, it is clear to me that these issues will not improve on their own with time, and I intend to move forward with the staff recommendations, prioritizing those initiatives that are most likely to improve the proxy process and our markets for our long-term Main Street investors.

Modernizing Trading and Market Structure

Another area of focus for the Commission is ensuring fair and efficient trading markets for our Main Street investors. We know that transparency is a bedrock of healthy and vibrant markets, and I am pleased to report that we have taken significant steps to make our trading markets more transparent.

In July 2018, we adopted amendments that enhance the transparency requirements governing alternative trading systems, commonly known as "ATSs."[22] These amendments provide investors, brokers and other market participants—and the Commission—with increased visibility into the operations of these important markets for equity trading. Additionally, last month, the Commission adopted amendments to Regulation NMS to provide investors with greater transparency concerning how brokers handle and execute their orders.[23]

Further, in March 2018, the Commission proposed a transaction fee pilot for National Market System (NMS) stocks, which, if adopted, would provide the Commission with data to help us analyze the effects of exchange fees and rebates on order routing behavior, execution quality and our market structure generally.[24] This topic has received significant attention ever since the implementation of Regulation NMS. More recently, the development of a pilot program on transaction fees was one of the SEC's Equity Market Structure Advisory

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[22] *See* Press Release 2018-136, *SEC Adopts Rules to Enhance Transparency and Oversight of Alternative Trading Systems* (July 18, 2018), *available at* https://www.sec.gov/news/press-release/2018-136.
[23] *See* Press Release 2018-253, *SEC Adopts Rules That Increase Information Brokers Must Provide to Investors on Order Handling* (Nov. 2, 2018), *available at* https://www.sec.gov/news/press-release/2018-253.
[24] *See* Press Release 2018-43, *SEC Proposes Transaction Fee Pilot for NMS Stocks* (Mar. 14, 2018), *available at* https://www.sec.gov/news/press-release/2018-43.

Committee's most prominent recommendations to the Commission.[25] In my view, the proposed pilot—which I expect the Commission to consider for adoption in the near future—would lead to a more thorough understanding of these issues, which would help the Commission make more informed and effective policy decisions in the future, all to the benefit of retail investors.

Our fixed income markets are also critical to our economy and Main Street investors, though historically, less attention has been focused on these relative to the equity markets. With large numbers of Americans retiring every month and needing investment options, fixed income products attract more and more Main Street investors. Yet, many of those investors may not appreciate that fixed income products are part of markets that differ significantly from the equity markets.

In November 2017, the SEC created the Fixed Income Market Structure Advisory Committee (FIMSAC) to provide diverse perspectives on the structure and operations of the U.S. fixed income markets, as well as advice and recommendations on fixed income market structure. The Committee has held four public meetings and has provided the Commission with five thoughtful recommendations on ways to improve our fixed income markets.[26] I look forward to an equally successful second year.

Finally, new FINRA and MSRB requirements regarding the disclosure of corporate and municipal bond mark-ups and mark-downs went into effect, and I am pleased that investors now have substantially greater transparency into the costs of participating in those markets. I believe this transparency will increase competition and reduce trading costs, all to the benefit of Main Street investors.

Consolidated Audit Trail

Another market structure initiative that is garnering significant staff attention is the implementation of the Consolidated Audit Trail (CAT). The CAT is designed to provide a single, comprehensive database that, when fully implemented, will allow regulators to more efficiently and accurately track trading in equities and options throughout the U.S. markets. Among other things, the CAT is intended to allow the Commission to better carry out its oversight responsibility by improving our ability to reconstruct trading activity following a

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[25] *See* Equity Market Structure Advisory Committee, Recommendation for an Access Fee Pilot (July 8, 2016), *available at* https://www.sec.gov/spotlight/emsac/recommendation-access-fee-pilot.pdf.

[26] *See* Fixed Income Market Structure Advisory Committee, *available at* https://www.sec.gov/spotlight/fixed-income-advisory-committee. FIMAC's recommendations include the following: (1) the development of a pilot program to delay public dissemination for 48 hours of trades in any investment grade corporate bond above $10 million and any high-yield corporate bond above $5 million (requires Financial Industry Regulatory Authority (FINRA) rulemaking); (2) the formation of a joint SEC, FINRA and Municipal Securities Rulemaking Board (MSRB) working group to review the regulatory framework for electronic trading platforms in corporate and municipal bonds; (3) the adoption of a comprehensive classification scheme for exchange traded products; (4) for the SEC to encourage the formation of an industry group to promote investor education and work towards the establishment of a centralized and widely accessible database of key ETF data; and (5) that the SEC, in conjunction with FINRA, establish a new issue reference data service for corporate bonds that would be widely accessible on commercially reasonable terms.

market disruption or other event, which in turn would allow us to more quickly understand the causes of such an event and respond appropriately.

Under the CAT NMS Plan, the self-regulatory organizations (SROs)—the national securities exchanges and FINRA—are responsible for developing and implementing the CAT and were required to begin reporting data to the CAT by November 15, 2017. The SROs missed that deadline. While the CAT has now begun receiving equity and options data with limited functionality, the SROs remain out of compliance with the CAT NMS Plan today.

The SROs are making some progress, but the development and implementation process remains slow and cumbersome due largely to what I believe are project governance and project management issues experienced by the SROs. While, pursuant to SEC staff requests, the SROs recently set forth a revised timeline with detailed milestones, more recently Thesys (the plan processor) informed the SROs that it does not plan to deliver full functionality of CAT's first phase in accordance with these milestones. The SROs have reported to our staff that they currently expect to deliver the first phase of CAT (which, again, was required to be delivered by November 15, 2017) by March 31, 2019. We remain frustrated with failure of the SROs to meet their obligations and the delays in the development of the CAT.

I know there are substantial concerns about the protection of investors' personally identifiable information (PII) that would be stored in the CAT. I have the same concerns and continue to make the protection of CAT data, particularly any form of PII, a threshold issue. In November 2017, I asked the Commission staff to evaluate the need for PII in the CAT. This evaluation includes consideration of, among other things, what PII data elements need to be collected and retained in the CAT in order to achieve the regulatory goals of the CAT, and how PII in the CAT would be used by the SEC and the SROs. We are considering what alternatives to the scope of PII that would be collected and retained by the CAT under the current plan could provide the Commission and the SROs with the market surveillance and reconstruction data necessary to conduct our regulatory and enforcement functions. As I have stated before, as the SROs continue to make progress in the development, implementation and operation of the CAT, I believe that the Commission, the SROs and the plan processor must continuously evaluate their approach to the collection, retention and protection of PII and other sensitive data. More generally, I have made it clear that the SEC will not retrieve sensitive information from the CAT unless we have a regulatory need for the information and believe appropriate protections to safeguard the information are in place.

Distributed Ledger Technology, Digital Assets and Initial Coin Offerings

The Commission and its staff have been focusing a significant amount of attention and resources on digital assets and initial coin offerings (ICOs). I am optimistic that developments in distributed ledger technology can help facilitate capital formation, providing promising investment opportunities for both institutional and Main Street Investors. Overall, I believe we have taken a balanced regulatory approach that both fosters innovation and protects investors. For example, our staff meets regularly with entrepreneurs and market professionals interested in developing new and innovative investment products in compliance with the federal securities laws. Recently, Corporation Finance's Director, Bill Hinman, outlined factors for participants to consider when evaluating whether a digital asset is a security[27] and also named a new Associate Director in Corporation Finance to serve as the Senior Advisor for Digital Assets and Innovation and coordinate efforts in this area across the agency.[28] SEC staff is also meeting regularly with staff from other regulatory agencies to coordinate efforts and identify any areas where additional regulatory oversight may be needed. Divisions and offices across the Commission have worked together, as well as with other regulators, to issue public statements regarding ICOs and virtual currencies.[29]

In an effort to further coordinate the Commission's work on these important issues, in October of this year the SEC announced the formation of a FinHub within the agency.[30] Staffed by representatives from across the Commission, the FinHub will serve as a public resource for fintech-related issues at the SEC, including matters dealing with distributed ledger technology, automated investment advice, digital marketplace financing and artificial intelligence/machine learning. In addition to serving as a portal for public engagement, FinHub will also serve as an internal resource within the SEC, coordinating the agency staff's work on these and other fintech-related issues. As the work of FinHub and our other activities demonstrate, the agency is focused on issues presented by new technologies, and our door remains open to those who seek to innovate and raise capital in accordance with the law.

Unfortunately, while some market participants have engaged with our staff constructively and in good faith with questions about the application of our federal securities laws, others have sought to prey on investors' excitement about cryptocurrencies and ICOs to commit fraud or other violations of the federal securities laws. Enforcement has recently brought a number of landmark cases in this area, and I have asked the Division's leadership to continue to police these markets vigorously and recommend enforcement actions against those who conduct ICOs or engage in other actions relating to digital assets in violation of the federal securities laws. The Commission acted swiftly to crack down on allegedly fraudulent activity in this space, particularly where the misconduct has targeted Main Street investors. Regardless of the promise of this technology, those who invest their hard-earned money in opportunities that fall within the scope of the federal securities laws deserve the full protections afforded under those laws.

Modernizing Asset Management Regulations

In June 2018, the Commission proposed for public comment a new rule to replace the process of individually issued orders for exemptive relief for certain exchange traded funds (ETFs).[31] The proposal is designed to create a consistent, transparent and efficient regulatory framework for ETFs would facilitate greater competition and innovation among these products.

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[27] *See* William Hinman, Digital Asset Transactions: When Howey Met Gary (Plastic) (June 14, 2018), *available at* https://www.sec.gov/news/speech/speech-hinman-061418.

[28] *See* Press Release 2018-102, *SEC Names Valerie A. Szczepanik Senior Advisor for Digital Assets and Innovation* (June 4, 2018), *available at* https://www.sec.gov/news/press-release/2018-102.

[29] *See* Statement on Digital Asset Securities Issuance and Trading (Nov. 16, 2018), *available at* https://www.sec.gov/news/public-statement/digital-asset-securites-issuuance-and-trading.

[30] *See* Press Release 2018-240, *SEC Launches New Strategic Hub for Innovation and Financial Technology* (Oct. 18, 2018), *available at* https://www.sec.gov/news/press-release/2018-240.

[31] *See* Press Release 2018-118, *SEC Proposes New Approval Process for Certain Exchange-Traded Funds* (June 28, 2018), *available at* https://www.sec.gov/news/press-release/2018-118.

The ETF market, which has a volume of approximately $3.6 trillion, currently operates under more than 300 individually issued exemptive orders that have varied over time in wording and terms. I anticipate that the Commission will consider recommendations to adopt a final ETF rule in the coming year, which will enable staff to focus more time and attention on novel or unusual ETF products instead of more routine ETF-related issues.

The agency is working to promote research in the ETF market and provide investors greater access to that research. On November 30, 2018, the Commission adopted rules and amendments that are intended to reduce obstacles to providing research on investment funds in furtherance of the Fair Access to Investment Research Act of 2017. The adopted rules seek to harmonize the treatment of investment fund research with research on other public companies by establishing a safe harbor for a broker-dealer to publish or distribute research reports on investment funds under certain conditions. Overall, these rules aim to promote research on mutual funds, ETFs, registered closed-end funds, business development companies (BDCs) and similar covered investment funds and provide investors with greater access to research to aid them in making investment decisions.

Additionally, the Small Business Credit Availability Act directs the Commission to revise certain securities offering and proxy rules in order to harmonize existing registration and reporting requirements to allow BDCs to be treated in the same manner as public corporate issuers. The Economic Growth, Regulatory Relief, and Consumer Protection Act similarly directs the Commission to issue rules to allow certain registered closed-end funds to use the securities offering and proxy rules that are available to public corporate issuers. The Division of Investment Management is working to develop rule recommendations related to these two bills.

Improving the Investor Experience

The Division of Investment Management is leading a long-term project to explore modernization of the design, delivery and content of fund disclosures and other information for the benefit of investors. These initiatives are an important part of how the Commission can serve investors in the 21st century. Fund disclosures are especially important because millions of Americans invest in funds to help them reach personal financial goals, such as saving for retirement and their children’s educations. As of the end of 2017, over 100 million individuals representing nearly 60 million households, or 45 percent of U.S. households, owned funds (generally ETFs or open-ended mutual funds).[32]

In June 2018, the Commission issued a request for comment on enhancing disclosures by mutual funds, ETFs and other types of investment companies to improve the investor experience and to help investors make more informed investment decisions (Fund Disclosure RFC).[33] The Fund Disclosure RFC seeks input from retail investors and others on how they use fund disclosures and how they believe funds can improve disclosures to aid investment decision-making. In order to facilitate retail investor engagement and comment on improving fund

[32] 2018 Investment Company Fact Book, *supra* note 4, at ii.
[33] *See* Press Release 2018-103, *SEC Modernizes the Delivery of Fund Reports and Seeks Public Feedback on Improving Fund Disclosure* (June 5, 2018), *available at* https://www.sec.gov/news/press-release/2018-103.

disclosure, the Commission has provided a short Feedback Flier on Improving Fund Disclosure, which can be viewed and submitted at www.sec.gov/tell-us.

The Commission also adopted a new rule that creates an optional "notice and access" method for delivering fund shareholder reports.[34] The reforms include protections for those without internet access or who simply prefer paper by preserving the ability to continue to receive reports in paper. Under the rule, a fund may deliver its shareholder reports by making them publicly accessible on a website, free of charge, and sending investors a paper notice of each report's availability by mail. To inform investors in advance of this new delivery method, there is an extended transition period so that the earliest a fund could begin to rely on the rule would be January 1, 2021. During this time, funds that choose to implement the new delivery method must provide prominent disclosures in prospectuses and certain other shareholder documents that will generally notify investors of the upcoming change in delivery format on a recurring basis for a period of two years.

Security-Based Swaps and Other Interagency Efforts

With respect to our security-based swap regime, the Commission has finalized many, but not all, of the security-based swap rules mandated by Title VII of the Dodd-Frank Act. In the coming year, I anticipate that the Commission will continue with our efforts to lay out a coherent package of rules to finalize our statutory security-based swap rulemaking obligations.

As part of this effort, our staff has been actively engaged with our counterparts at the Commodity Futures Trading Commission (CFTC) to explore ways to further harmonize our respective security-based swap rules with the swap rules developed by the CFTC to increase effectiveness and reduce complexity and costs. I am pleased to note that earlier this year CFTC Chairman Giancarlo and I executed a memorandum of understanding (MOU) between our two agencies.[35] The MOU explicitly acknowledges where we have shared regulatory interests, including but not limited to Title VII, and reconfirms our commitment to work together to facilitate efficient markets for the benefit of all market participants.

In addition to continued discussions with the CFTC regarding Title VII harmonization, the Commission and staff has engaged with our fellow financial regulators to address the key issues in our markets in a holistic, consistent manner. These efforts will continue, including efforts to simplify, tailor and make more effective the Volcker Rule, cooperate on innovative issues like distributed ledger technology and digital assets and address emerging risks to the financial sector through the Financial Stability Oversight Council.

Other Dodd-Frank Act Issues

The Commission also has several other outstanding mandates from the Dodd-Frank Act. Earlier this year, I addressed how I plan to prioritize and tackle these remaining

[34] *Id.*
[35] *See* Press Release 2018-114, *SEC and CFTC Announce Approval of New MOU* (June 28, 2018), *available at* https://www.sec.gov/news/press-release/2018-114.

responsibilities.[36] Generally speaking, in addition to the Title VII regime, there are three categories of Dodd-Frank Act-mandated rules remaining:

(1) executive compensation rules for both public companies and SEC-regulated entities, for which, as a result of the complexity and scope of the existing executive compensation disclosure regime, as well as the nature of the mandates, I believe a serial approach is likely to be most efficient and best serve the SEC's mission;

(2) specialized disclosure rules, such as resource extraction disclosure, which pose additional challenges, including how the SEC can meet its obligations under the Administrative Procedure Act and, in the case of resource extraction, the Congressional Review Act; and

(3) mandates, some of which overlap with examples given above, for which market developments—including developments resulting from shareholder engagement—have, at least in part, mitigated some of the concerns that motivated the statutory requirements.37 Our rulemaking priorities, as well as the rules themselves, should reflect these observable developments.

Several of these, including hedging disclosure and resource extraction disclosure, are on the Commission's near-term agenda. Overall, it is the SEC's obligation to complete the rules mandated by Congress in Dodd-Frank, and I intend to do so.

Enforcement and Compliance

Pursuing Enforcement Matters that are Meaningful to Main Street Investors

The ongoing efforts made by Enforcement to deter misconduct and punish securities law violators are critical to safeguarding millions of investors and instilling confidence in the integrity of our markets. The nature and quality of the SEC's enforcement actions during the last year speak volumes to the hard work of the women and men of the agency. The efforts of the Enforcement staff over the past year have made our capital markets a safer place for investors to put their hard-earned money to work.

As noted by Enforcement's Co-Directors, Stephanie Avakian and Steven Peikin, in their Annual Report, our success is best judged both quantitatively and qualitatively and over various periods of time.[38] Relevant qualitative factors include, among other things, asking whether we are: bringing meaningful actions that target the most serious violations, pursuing individual sanctions in appropriate cases, obtaining punishments that deter unlawful conduct and returning money to harmed investors. Based on such an evaluation—and in my opinion by any measure—

[36] *See* Opening Remarks at the Securities Regulation Institute (Jan. 22, 2018), *available at* https://www.sec.gov/news/speech/speech-clayton-012218.
[37] For example, several companies already have made public their policies regarding compensation clawbacks. Some of these policies go beyond what would be required under Dodd-Frank. We have seen a few companies attempt to claw back compensation from their executives under these policies.
[38] *See* U.S. Sec. & Exch. Comm'n, Div. of Enforcement, Annual Report: A Look Back at Fiscal Year 2018 (Nov. 2, 2018), *available at* https://www.sec.gov/files/enforcement-annual-report-2018.pdf.

Enforcement has been successful. I can assure you that the Division will continue its vigorous enforcement of the federal securities laws and hold bad actors accountable, whether on Main Street or Wall Street.

I would like to highlight the work of four investor-oriented enforcement initiatives over the past year that show the Enforcement staff's commitment to investor protection: (1) the Retail Strategy Task Force, (2) the Cyber Unit, (3) the Share Class Selection Disclosure Initiative and (4) Enforcement's work in returning funds to harmed investors.

In September 2017, the SEC announced the formation of a Retail Strategy Task Force (RSTF), which has two primary objectives: (1) to develop data-driven, analytical strategies for identifying practices in the securities markets that harm retail investors and generating enforcement matters in these areas; and (2) to collaborate within and beyond the SEC on retail investor advocacy and outreach.[39] Each of these objectives directly impacts the lives of Main Street investors and involves collaboration between many divisions and offices. We anticipate that new data-driven approaches will yield significant efficiencies in case generation and resource allocation by targeting enforcement efforts where the risks to Main Street investors are the most significant. Although it has been operative for only a little over a year, the RSTF has already undertaken a number of lead-generation initiatives built on the use of data analytics (*i.e.*, promptly searching for matters to investigate on behalf of retail investors).

Enforcement also in September 2017 announced the creation of a Cyber Unit to combat cyber-related threats. The Cyber Unit focuses the Division's resources and expertise on, among others things, hacking to obtain material, non-public information, violations involving distributed ledger technology and cyber intrusions.[40] Together with the FinHub, discussed above, the resources we have dedicated to the Cyber Unit's important work demonstrate the high priority that we continue to place on cyber-related issues affecting investors and our markets. In its first year, the Cyber Unit led investigations that resulted in several emergency actions to stop ongoing alleged frauds against retail investors that involved ICOs, as well as charges against a bitcoin-denominated platform and its operator for running an unregistered securities exchange and defrauding users of that exchange.

Beyond ICOs and digital assets, the Cyber Unit also led important investigations that resulted in SEC actions involving alleged cyber-related market manipulations, account takeovers and other cyber-related trading violations. The cases brought by the SEC in FY 2018 included charges for allegedly scheming to manipulate the price of a stock by making a phony regulatory filing and for allegedly hacking into over 100 online customer brokerage accounts and making unauthorized trades to manipulate stock prices and profit from the artificial price movements.

Additionally, Enforcement expanded its efforts to identify advisers that did not disclose conflicts as a result of their receipt of compensation in the form of 12b-1 fees. Prior efforts by Enforcement and the Office of Compliance Inspections and Examinations (OCIE) suggested that many investment advisers were not disclosing conflicts of interest to their retail customers

[39] *See* Press Release 2017-176, *SEC Announces Enforcement Initiatives to Combat Cyber-Based Threats and Protect Retail Investors* (Sept. 25, 2017), *available at* https://www.sec.gov/news/press-release/2017-176.
[40] *Id.*

relating to the selection of more-expensive mutual fund share classes, which involved the receipt of 12b-1 fees, when cheaper alternatives were available. Enforcement announced a Share Class Selection Disclosure Initiative in February 2018, representing an innovative approach intended to facilitate the efficient return of money to harmed investors and prompt remediation of misconduct.[41]

Finally, in my view, protecting retail investors also means, whenever possible, putting money back in their pockets when they are harmed by violations of the federal securities laws. In FY 2017 and FY 2018, the Commission returned $1.07 billion and $794 million to harmed investors, respectively. We remain committed to this important part of our work, and we expect to continue our efforts to return funds to victims this year as well.

The unanimous Supreme Court decision in *Kokesh v. SEC*, however, has impacted our ability to return funds fraudulently taken from Main Street investors. In *Kokesh*, the Supreme Court found our use of the disgorgement remedy operated as a penalty, which time-limited the ability of the Commission to seek disgorgement of ill-gotten gains beyond a five-year statute of limitations applicable to penalties.

I do not believe it is productive to debate the merits of the *Kokesh* decision. I agree that statutes of limitation serve many important functions in our legal system, and certain types of actions as well as penalties and certain other remedies should have reasonable limitations periods. Civil and criminal authorities, including the SEC, should do everything in their power to bring appropriate actions swiftly, and, in our markets, particularly our public markets, the certainty brought by reasonable limitations periods has value for investors.

However, as I look across the scope of our actions, including most notably Ponzi schemes and affinity frauds, I am troubled by the substantial amount of losses that we may not be able to recover for retail investors. Said simply, if the fraud is well-concealed and stretches beyond the five-year limitations period applicable to penalties, it is likely that we will not have the ability to recover funds invested by our retail investors more than five years ago. Allowing clever fraudsters to keep their ill-gotten gains at the expense of our Main Street investors—particularly those with fewer savings and more to lose—is inconsistent with basic fairness and undermines the confidence that our capital markets are fair, efficient and provide Americans with opportunities for a better future.

I welcome the opportunity to work with Congress to address this issue to ensure defrauded retail investors can get their investment dollars back. I believe that any such authority should be narrowly tailored to that end while being true to the principles embedded in statutes of limitations.

Protecting Main Street Investors and Improving Investment Options by Promoting Compliance

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[41] *See* Press Release 2018-15, *SEC Launches Share Class Selection Disclosure Initiative to Encourage Self-Reporting and the Prompt Return of Funds to Investors* (Feb. 12, 2018), *available at* https://www.sec.gov/news/press-release/2018-15.

Earlier this year, our OCIE published its 2018 examination priorities, which reflected a continued focus on the SEC's commitment to protecting retail investors.[42] In particular, OCIE has looked closely at products and services offered to retail investors, the disclosures they receive about those investments and the financial services professionals who serve them. OCIE has also focused its attention on several other areas that present heightened risks, including: (1) compliance and risks in critical market infrastructure, such as exchanges and clearing agencies; (2) the continued growth of cryptocurrencies and ICOs; (3) cybersecurity; and (4) anti-money laundering programs.

OCIE conducts risk-based examinations of SEC-registered entities, including broker-dealers, investment advisers, investment companies, municipal advisors, national securities exchanges, clearing agencies, transfer agents and FINRA, among others. During FY 2018, OCIE conducted over 3,150 examinations, an overall increase of 11 percent from FY 2017. This includes a 17 percent coverage ratio for investment advisers—which increased 13 percent from FY 2017, even as the number of registered investment advisers increased by approximately 5 percent. OCIE also continued to leverage data analysis to identify potentially problematic activities and firms as well as to determine how best to scope the examinations of those activities and firms.

In conjunction with our examination activities, OCIE published a number of risk alerts to inform registered firms and investors of common compliance issues we observed.[43] This year, OCIE risk alerts addressed topics ranging from municipal advisor examinations to fee and expense compliance issues for investment advisers. These alerts sharpen the identification and correction of potentially deficient practices, maximize the impact of our examination program and better protect the interests of Main Street investors.

Enterprise Risk and Cybersecurity

Cybersecurity at the SEC continues to be a top priority. The SEC and other agencies are the frequent targets of attempts by threat actors who seek to penetrate our systems, and some of those actors may be backed by substantial resources. Recognizing the twin realities that electronic data systems are essential to our mission and no system can ever be entirely safe from a cyber intrusion, it is incumbent upon us to devote substantial resources and attention to cybersecurity, including the protection of PII. Over the past year, we have been focused on a number of areas for improvement, including with respect to IT governance and oversight, security controls, risk awareness related to sensitive data, incident response and reliance on legacy systems—and much work remains to be done.

We are closely scrutinizing how we can reduce any potential exposure of PII contained in SEC systems, including EDGAR. In this regard, earlier this year, the Commission acted to eliminate the collection of social security numbers and dates of birth on a number of EDGAR

[42] U.S. Sec. & Exch. Comm'n, Off. of Compliance Inspections and Examinations, 2018 Nat'l Exam Program Examination Priorities (Feb. 7, 2018), *available at* https://www.sec.gov/about/offices/ocie/national-examination-program-priorities-2018.pdf.
[43] U.S. Sec. & Exch. Comm'n, Off. of Compliance Inspections and Examinations, Risk Alerts, *available at* https://www.sec.gov/ocie.

forms where we concluded that the information was not necessary to our mission.[44] Moreover, return copies of test filings are no longer stored within the EDGAR system. The staff also continues to explore alternatives to the current approach, including the possibility of implementing a new electronic disclosure solution.

The agency has also focused closely on its cybersecurity risk governance structure. We now have a Chief Risk Officer who helps coordinate our risk management efforts across the agency. We have worked to promote a culture that emphasizes the importance of data security throughout our divisions and offices. The staff has also been engaging with outside experts to assess and improve our security controls. For example, on a technical level, these efforts include the deployment of enhanced security capabilities, additional penetration testing and code reviews, investment in new technologies and experienced cybersecurity personnel and acceleration of the transition of certain legacy information technology systems to modern platforms. We will also continue to coordinate and partner with both other federal agencies to identify and mitigate risks to our information technology environment and assets.

We also look at cybersecurity from perspectives outside of our internal risk profile. From an issuer disclosure perspective, it is important that investors are sufficiently informed about the material cybersecurity risks and incidents affecting the companies in which they invest. Earlier this year, the Commission issued interpretive guidance to assist public companies in preparing these types of disclosures.[45] The guidance also emphasized the importance of disclosure controls and procedures that enable public companies to make accurate and timely disclosures about material cybersecurity events, as well as policies that protect against corporate insiders trading in advance of company disclosures of material cyber incidents. Further, the guidance expanded on prior staff guidance by addressing the board's oversight functions. Existing SEC rules require a company to disclose the extent of the board's role in risk oversight. The guidance noted that this disclosure should specifically include a discussion of the board's role in overseeing cybersecurity risk management, to the extent those risks are material. We are monitoring the market's response to our guidance.

From a market oversight perspective, we continue to prioritize cybersecurity in our examinations of market participants, including broker-dealers, investment advisers and critical market infrastructure entities. In assessing how firms prepare for a cybersecurity threat, safeguard customer information and detect red flags for potential identity theft, for example, we have focused on areas including risk governance, access controls, data loss prevention, vendor management and training, among others. And given the interconnectedness of our markets, we will continue to work closely with our counterparts at other federal financial regulatory agencies and the international community to discuss cybersecurity risks and coordinate potential response efforts.

From an enforcement perspective, as previously mentioned, our Cyber Unit is dedicated to targeting cyber-related misconduct in our markets, including failures by issuers to make

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[44] Amendments to Forms and Schedules To Remove Provision of Certain Personally Identifiable Information, Rel. Nos. 33–10486, 34–83097, IC–33077 (Apr. 24, 2018), *available at* https://www.sec.gov/rules/final/2018/33-10486.pdf.

[45] Press Release 2018-22, *supra* note 7.

material disclosures.[46] And finally, from an investor education perspective, our Office of Investor Education and Advocacy has worked hard to inform investors about cybersecurity hygiene and red flags of cyber fraud, in order to prevent investors from becoming victims in the first place.

Increasing Engagement with Investors and Other Market Participants

To effectively fulfill our responsibility to American investors and markets, it is essential that the SEC maintain an open line of communication with investors and other market participants. In FY 2018, the SEC substantially increased its engagement with an array of market participants to help us improve our work and better focus our resources and efforts.

Engagement with Main Street Investors

Over the past year, SEC staff, my fellow Commissioners and I have engaged directly with Main Street investors from around the country through town halls, outreach tours, new digital tools, and other methods.

In a first-of-its-kind event, on June 13, 2018, the full Commission—all five Commissioners—and SEC leadership met with more than 400 members of the public during an investor town hall at the Georgia State University College of Law in Atlanta, Georgia. This event, organized by the SEC's Office of the Investor Advocate and the Atlanta Regional Office, marked the first time the full Commission met with Main Street investors outside of Washington, D.C. During the main session of the town hall meeting, Commissioners provided a range of information to investors and answered questions from attendees. My fellow Commissioners, other SEC leaders and I also participated in break-out sessions with smaller groups of investors to hear their views on specific investor-oriented topics such as combating fraud. The following day, the agency's Investor Advisory Committee hosted a meeting at the same location, providing another opportunity for the public to engage with the Commission.

This event kicked off the SEC's "Tell Us" campaign, which included the additional roundtable meetings with retail investors I mentioned in Houston, Miami, Washington, D.C., Philadelphia, Denver, and Baltimore. As mentioned, to complement these open discussions, the agency also developed a new "Tell Us" website and feedback flier, specifically designed for Main Street investors to provide feedback on the proposed disclosures in the standards of conduct proposals without needing to write a formal letter.

The SEC also conducted investor research and surveys in FY 2018 in order to better understand how investors interact with markets. The agency conducted eight surveys and conducted four rounds of qualitative research involving focus groups and one-on-one interviews. In addition to these events, day in and day out the SEC staff engages with individual investors as well as with investor groups to promote awareness of the SEC's work and to solicit feedback.

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[46] *See* Press Release 2018-71, *Altaba, Formerly Known as Yahoo!, Charged with Failing to Disclose Massive Cybersecurity Breach; Agrees to Pay $35 Million* (Apr. 24, 2018), *available at* https://www.sec.gov/news/press-release/2018-71.

Empowering Main Street Investors through Information and Education

Across our seven investor town halls, one common theme—regardless of demographics and geography—was that investors wished they had known more about investing and our markets earlier in their lives. This sentiment was universal and deeply held and, while not entirely within the purview of the Commission to address, will continue to resonate with me during my tenure at the Commission.

The SEC promotes informed investment decision-making through education initiatives aimed at providing Main Street investors with a better understanding of our capital markets and the opportunities and risks associated with the array of investment choices presented to them. Our Office of Investor Education and Advocacy spearheads these efforts and participation extends throughout our divisions and offices.

In FY 2018, the SEC conducted over 150 in-person investor education events focused toward various segments of the population, including senior citizens, military personnel, younger investors and affinity groups. In addition to in-person education events, we developed informative, innovative and accessible educational initiatives.

A primary focus of our educational efforts is preventing fraud. Unfortunately, it does not cost much to finance a scam, and it often is easy for bad actors to reach their targets, particularly over the internet. If investors know that, as well as some of the hallmarks of fraud and key questions to ask before they invest or provide personal information, they are less likely to become victims.

We use a variety of channels to deliver this message to investors. For example, we created a website to educate the public about frauds involving ICOs and just how easy it is for bad actors to engineer this type of fraud—Our HoweyCoins.com mock website promoted a fictional ICO.[47] The website was created in-house, very quickly and with few resources. It attracted over 100,000 people within its first week. We also published a variety of investor alerts and bulletins to warn Main Street investors about other possible schemes, including certain using celebrity endorsements, self-directed individual retirement accounts, the risks in using credit cards to purchase an investment and the potential harm resulting from sharing their personal contact information with online investment promoters.

We also continued to promote our national public service campaign, "Before You Invest, Investor.gov". This initiative encourages investors to research the background of their investment professional. Our experience demonstrates that working with unlicensed promoters who have a history of misconduct greatly increases the risk of fraud and losses. In May 2018, we supplemented this information service with a new online search tool, the SEC Action Lookup for Individuals—or SALI.[48] This tool enables investors to find out if the individual or firm he or she is dealing with has been sanctioned as a result of SEC action, for both registered and

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[47] *See* Press Release 2018-88, *The SEC Has an Opportunity You Won't Want to Miss: Act Now!* (May 16, 2018), *available at* https://www.sec.gov/news/press-release/2018-88.

[48] *See* Press Release 2018-78, *SEC Launches Additional Investor Protection Search Tool* (May 2, 2018), *available at* https://www.sec.gov/news/press-release/2018-78.

unregistered individuals. SALI continues to be updated on an ongoing basis, making it an ever better resource for Main Street investors. We are encouraged by the fact that unique page views on Investor.gov increased by 45 percent compared to FY 2017.

SEC regional offices also engaged in investor initiatives in their local communities. For example, the San Francisco Regional Office has conducted extensive outreach to California teachers through its Teacher Investment Outreach Initiative. This project seeks to help teachers make informed decisions on investment portfolio options, fees and risk. Regional staff, many of whom have personal connections to the teaching community, created this initiative in response to learning about the limitations of the investment options offered to public school teachers under the defined contribution portion of their retirement plans.

Engagement with Market Participants

Our capital markets are far different today than they were a decade ago. They are increasingly global and highly data dependent. Investments are channeled through intermediaries and vehicles, such as mutual funds and ETFs, to a much greater extent. Our markets also are ever changing and the pace of that change has increased. It is essential that the SEC understand the markets of today and continually prepare for and adjust to market developments. As a result, engagement with those who participate in our markets extensively, including public and private companies, institutional investors, broker-dealers and auditors, as well as those who monitor and oversee markets, including U.S. and foreign authorities, elected officials and academics, is essential.

In 2018, the SEC held numerous public roundtables at which the Commission and SEC staff engaged in an open forum with market participants on some of the most salient issues affecting our markets today.

- In April, the Division of Trading and Markets hosted a roundtable on market structure for thinly-traded securities, both equities and exchange-traded products. The panelists discussed the challenges faced by participants in the market for thinly-traded exchange-listed securities, including small and medium-sized companies looking to enter our public markets, and potential actions to address those concerns. The staff is analyzing a number of the suggestions and comments made at that roundtable, and, more generally, is considering ways to improve secondary market liquidity for smaller companies.

- In September, the Division of Trading and Markets hosted a roundtable on regulatory approaches to combating retail investor fraud. At this event, a broad range of market participants, regulators and industry experts shared their views on potential steps that might be taken to enhance the ability of regulators, broker-dealers and others to combat retail investor fraud.

- In October, the Division of Trading and Markets hosted a roundtable on market data and market access. At this event, a diverse group of panelists, representative of a broad spectrum of perspectives and views—including those of exchanges, market participants and various industry experts—discussed the current landscape of market data products and market access services. The panelists also provided views on potential steps to improve market data products and access services.

- In November, the Divisions of Corporation Finance and Investment Management held a roundtable, discussed above, focusing on key aspects of the U.S. proxy system.

In addition to events of this type, the leadership in our divisions and offices, as well as our dedicated staff, is open to hearing from and meeting with investors and market participants on areas where our markets are not working as they should or can be improved—particularly as it relates to our long-term Main Street investors.

Emerging Market Risks and Trends

I want to briefly discuss two risks, in addition to cybersecurity risks, we are monitoring closely: the impact to reporting companies of the United Kingdom's exit from the European Union, or "Brexit"; and the transition away from the London Interbank Offered Rate, or "LIBOR," as a reference rate for financial contracts. While these are not the only areas of market risk that the Commission is monitoring, their impacts are likely significant for American investors.

Brexit

First, the potential effects of Brexit on U.S. investors and securities markets, and on global financial markets more broadly, is a matter of increased focus for me and many of my colleagues at the SEC. To be direct, I am concerned that:

(1) The potential adverse effects of Brexit are not well understood and, in the areas where they are understood, are underestimated.[49]

(2) The actual effects of Brexit will depend on many factors, some of which may prove to be beyond the control of the U.K. and E.U. authorities.

(3) Our markets, at many levels—from multinational companies, to market infrastructure, to investment products and services—are international, and the effects of Brexit will be international, including on U.S. markets and our Main Street investors.

(4) The actual effects of Brexit are likely to manifest themselves in advance of implementation dates and, based on corporate disclosures, some of those effects are upon us.

(5) The actual effects of Brexit will depend in large part on the ability of U.K., E.U. and E.U. member state officials to provide a path forward that allows for adjustment without undue uncertainty, disruption or cost. That is a tall order that I believe requires: (a) a broad

[49] Chris Giles and Sylvia Pfeifer, *BoE Sounds Alarm over No-Deal Brexit Planning*, FIN. TIMES, Nov. 29, 2018 (noting that the Bank of England's Governor Mark Carney says that less than half of the businesses in the U.K. are not prepared for the risk of a no-deal Brexit).

understanding of market interdependencies—knowledge that goes well beyond the labor and financial markets; (b) foresight—people and firms will act in their own interests and the interests of their shareholders; and (c) flexibility—miscalculations are inevitable and will need to be addressed promptly. More generally, limiting the adverse effects of Brexit requires a willingness of governmental authorities to look beyond potential immediate, local economic and other opportunities provided by a blunt transition and pursue a course that focuses on broad, long-term economic performance and stability. While many involved in the Brexit process agree with this perspective, and some important steps have been taken,[50] I do not yet see wide acceptance of this principle.

To be clear, these are my personal views, but it is appropriate to share them as they are reflective of the SEC's approach to Brexit. The SEC's responsibility is primarily related to the effects of Brexit on our capital markets. For example, I have directed the staff to focus on the disclosures companies make about Brexit and the functioning of our market utilities and other infrastructure.

We have seen a wide range of disclosures, even within the same industry. Some companies have fairly detailed disclosures about how Brexit may impact them, while others simply state that Brexit presents a risk. I would like to see companies providing more robust disclosure about how management is considering Brexit and the impact it may have on the company and its operations.

With regard to market utilities and infrastructure, following the 2016 Brexit vote, SEC staff commenced discussions with other U.S. financial authorities, with our U.K. and E.U. counterparts, and with market participants, all with an eye toward identifying and planning for potential Brexit-related impacts on U.S. investors and markets. These discussions are ongoing, and I expect their pace to increase.

Transition Away from LIBOR

The second risk that I want to highlight relates to the transition away from LIBOR as a benchmark reference for short-term interest rates. LIBOR is used extensively in the U.S. and globally as a benchmark for various commercial and financial contracts, including interest rate swaps and other derivatives, as well as floating-rate mortgages and corporate debt. It is likely, though, that the banks currently reporting information used to set LIBOR will stop doing so after 2021, when their commitment to reporting information ends. The Federal Reserve estimates that in the cash and derivatives markets, there are approximately $200 trillion in notional transactions referencing U.S Dollar LIBOR and that more than $35 trillion will not mature by the end of 2021.[51]

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[50] European Commission Communication, Preparing for the withdrawal of the United Kingdom from the European Union on 30 March 2019: a Contingency Action Plan (Nov. 13, 2018), *available at* https://ec.europa.eu/info/publications/communication-preparing-withdrawal-united-kingdom-european-union-30-march-2019-contingency-action-plan-13-11-2018_en.

[51] These estimates are as of the end of 2016. Of the $200 trillion in notional exposure, approximately 95% relates to derivatives products. Over $8 trillion of exposure relates to business loans, consumer loans, floating/variable rate notes, and securitizations. *See* Second Report of the Alternative Reference Rates Committee (March 2018), *available at* https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2018/ARRC-Second-report.com.

The Alternative Reference Rate Committee (Committee)—a group convened by the Federal Reserve that includes major market participants, and on which SEC staff and other regulators participate—has proposed an alternative rate to replace U.S. Dollar LIBOR—the Secured Overnight Financing Rate, or "SOFR." The Committee has identified benefits to using SOFR as an alternative to LIBOR. For example, SOFR is based on direct observable transactions and based on a market with very deep liquidity, reflecting overnight Treasury repurchase agreement transactions with daily volumes regularly in excess of $700 billion.

A significant risk for many market participants—whether public companies who have floating-rate obligations tied to LIBOR, or broker-dealers, investment companies or investment advisers that have exposure to LIBOR—is how to manage the transition from LIBOR to a new rate such as SOFR, particularly with respect to those existing contracts that will still be outstanding at the end of 2021. Accordingly, although this is a risk that we are monitoring with our colleagues at the Federal Reserve, Treasury Department and other financial regulators, it is important that market participants plan and act appropriately.

For example, if a market participant manages a portfolio of floating rate notes based on LIBOR, what happens to the interest rates of these instruments if LIBOR stops being published? What does the documentation provide? Does fallback language exist and, if it exists, does it work correctly in such a situation? If not, will consents be needed to amend the documentation? Consents can be difficult and costly to obtain, with cost and difficulty generally correlated with uncertainty.

In the area of uncertainties, we continue to monitor risks related to the differences in the structure of SOFR and LIBOR. SOFR is an overnight rate, and more work needs to be done to develop a SOFR term structure that will facilitate the transition from term-based LIBOR rates.[52]

To be clear, a lot of progress has been made to facilitate the transition from LIBOR to SOFR. We have started to see more SOFR-based debt issuances, and we have seen promising developments in the SOFR swaps and futures markets.[53] But I want to make sure that market participants are aware of the need to plan for this important transition, as a lot of the work will fall on them.

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[52] Relying on daily compounding over a three-month period, for example, may result in issuers not having certainty about the size of their interest payment until the end of the period. Also, SOFR does not correspond one-to-one with LIBOR; LIBOR incorporates a credit risk premium whereas SOFR is a secured rate. In a transition, a methodology needs to be developed to determine fair spreads between the two rates.

[53] For example, trading in SOFR futures in the U.S. commenced in May. *See* CME Group Announces First Trades of New SOFR Futures (May 8, 2018), *available at* https://www.cmegroup.com/media-room/press-releases/2018/5/08/cme_group_announcesfirsttradesofnewsofrfutures.html. The market's first-ever SOFR-linked debt securities were issued in July, and since then additional issuances have occurred. *See* Fannie Mae Pioneers Market's First-Ever Secured Overnight Financing Rate (SOFR) Securities (July 26, 2018), *available at* http://www.fanniemae.com/portal/media/financial-news/2018/fannie-mae-pioneers-sofr-securities-6736.html. In addition, central counterparties have commenced clearing of SOFR swaps. *See* LCH Clears First SOFR Swaps (July 18, 2018), *available at* https://www.lch.com/resources/news/lch-clears-first-sofr-swaps. *See also* CME Group Announces First OTC SOFR Swaps Cleared (Oct. 9, 2018), *available at* https://www.cmegroup.com/media-room/press-releases/2018/10/09/cme_group_announcesfirstotcsofrswapscleared.html.

Conclusion

Thank you for the opportunity to testify today and for the Committee's continued support of the SEC, its mission and its people. I look forward to working with each of you to advance our mission to the benefit of our capital markets and our Main Street investors.

Appendix A

FY 2018 One-Year Agenda (Published in the Fall of 2017)[54]

(Strikeouts Reflect Completion of Indicated Stage of Rulemaking)

Agency	Agenda Stage of Rulemaking	Title	RIN
SEC	Proposed Rule Stage	Amendments to Financial Disclosures About Acquired Businesses[55]	3235-AL77
SEC	Proposed Rule Stage	Guide 3 Bank Holding Company Disclosure[56]	3235-AL79
~~SEC~~	~~Proposed Rule Stage~~	~~Amendments to Implement FAST Act Report~~	~~3235-AM00~~
SEC	Proposed Rule Stage	Disclosure of Payments by Resource Extraction Issuers[57]	3235-AM06
~~SEC~~	~~Proposed Rule Stage~~	~~Amendments to the Financial Disclosures for Registered Debt Security Offerings~~	~~3235-AM12~~
~~SEC~~	~~Proposed Rule Stage~~	~~Exchange-Traded Funds~~	~~3235-AJ60~~
~~SEC~~	~~Proposed Rule Stage~~	~~Enhanced Disclosure for Separate Accounts Registered as Unit Investment Trusts and Offering Variable Annuities~~	~~3235-AK60~~
~~SEC~~	~~Proposed Rule Stage~~	~~Personalized Investment Advice Standard of Conduct~~	~~3235-AL27~~
~~SEC~~	~~Proposed Rule Stage~~	~~Amendments to Securities Act Rules Under the Fair Access to Investment Research Act of 2017~~	~~3235-AM24~~
~~SEC~~	~~Proposed Rule Stage~~	~~Transaction Fee Pilot~~	~~3235-AM04~~
~~SEC~~	~~Proposed Rule Stage~~	~~Prohibitions and Restrictions on Proprietary Trading and Certain Relationships With Hedge Funds and Private Equity Funds~~	~~3235-AM10~~
~~SEC~~	~~Proposed Rule Stage~~	~~Harmonization of Certain Title VII Rules~~[58]	~~3235-AM13~~
~~SEC~~	~~Proposed Rule Stage~~	~~Auditor Independence With Respect to Loans or Debtor-Creditor Relationships~~	~~3235-AM01~~

54 The list in Appendix A reflects the near-term initiatives identified in the fall of 2017 for completion by the fall of 2018.

55 I estimate completion of this initiative by April 30, 2019.

56 I estimate completion of this initiative by April 30, 2019.

57 I estimate completion of this initiative by September 30, 2019.

58 In October 2018, the Commission issued a statement on certain provisions of business conduct standards for security-based swap dealers and major security-based swap participants, which was the culmination of outreach by Commission staff and their counterparts at the U.S. Commodity Futures Trading Commission, consistent with the agencies' shared commitment to achieving greater harmonization of the Title VII rules. Other harmonization initiatives are ongoing.

~~SEC~~	~~Proposed Rule Stage~~	~~Proposed Amendment to Rule for Nationally Recognized Statistical Rating Organizations~~	~~3235-AM05~~
~~SEC~~	~~Proposed Rule Stage~~	~~Amendments to the Commission's Whistleblower Program Rules~~	~~3235-AM11~~
~~SEC~~	~~Final Rule Stage~~	~~Treatment of Certain Communications Involving Security-Based Swaps That May be Purchased Only by Eligible Contract Participants~~	~~3235-AL41~~
~~SEC~~	~~Final Rule Stage~~	~~Amendments to Interactive Data (XBRL) Program~~	~~3235-AL59~~
~~SEC~~	~~Final Rule Stage~~	~~Modernization of Property Disclosures for Mining Registrants~~	~~3235-AL81~~
~~SEC~~	~~Final Rule Stage~~	~~Disclosure Update and Simplification~~	~~3235-AL82~~
~~SEC~~	~~Final Rule Stage~~	~~Amendments to Smaller Reporting Company Definition~~	~~3235-AL90~~
~~SEC~~	~~Final Rule Stage~~	~~Investment Company Reporting Modernization; Option for Website Transmission of Shareholder Reports~~	~~3235-AL42~~
~~SEC~~	~~Final Rule Stage~~	~~Amendments to Investment Advisers Act Rules to Conform to the FAST Act~~	~~3235-AM02~~
~~SEC~~	~~Final Rule Stage~~	~~Regulation of NMS Stock Alternative Trading Systems~~	~~3235-AL66~~
~~SEC~~	~~Final Rule Stage~~	~~Disclosure of Order Handling Information~~	~~3235-AL67~~
~~SEC~~	~~Final Rule Stage~~	~~Covered Securities Pursuant to Section 18 of the Securities Act of 1933~~	~~3235-AM07~~
~~SEC~~	~~Final Rule Stage~~	~~Amendments to Municipal Securities Rules~~	~~3235-~~

Appendix B

FY 2019 One-Year Agenda (Published in the Spring and Fall of 2018)[59]

(Strikeouts Reflect Completion of Indicated Stage of Rulemaking)

Agency	Agenda Stage of Rulemaking	Title	RIN
~~SEC~~	~~Prerule Stage~~	~~Fund Retail Investor Experience and Disclosure Request for Comment~~	~~3235-AM28~~
SEC	Prerule Stage	Harmonization of Exempt Offerings	3235-AM27
SEC	Prerule Stage	Earnings Releases/Quarterly Reports	3235-AM40
SEC	Proposed Rule Stage	Modernization of Investment Company Disclosure	3235-AM28
SEC	Proposed Rule Stage	Amendments to Financial Disclosures About Acquired Businesses	3235-AL77
SEC	Proposed Rule Stage	Business, Financial and Management Disclosure Required By Regulation S-K	3235-AL78
SEC	Proposed Rule Stage	Guide 3 Bank Holding Company Disclosure	3235-AL79
SEC	Proposed Rule Stage	Filing Fee Processing	3235-AL96
SEC	Proposed Rule Stage	Disclosure of Payments by Resource Extraction Issuers	3235-AM06
SEC	Proposed Rule Stage	Extending the Testing the Waters Provision to Non-Emerging Growth Companies	3235-AM23
SEC	Proposed Rule Stage	Accelerated Filer Definition	3235-AM41
SEC	Proposed Rule Stage	Regulation A	3235-AM42
~~SEC~~	~~Proposed Rule Stage~~	~~Exchange-Traded Funds~~	~~3235-AJ60~~
~~SEC~~	~~Proposed Rule Stage~~	~~Enhanced Disclosure for Separate Accounts Registered as Unit Investment Trusts and Offering Variable Insurance Products~~	~~3235-AK60~~
SEC	Proposed Rule Stage	Use of Derivatives by Registered Investment Companies and Business Development Companies	3235-AL60
SEC	Proposed Rule Stage	Amendments to the Marketing Rules Under the Advisers Act	3235-AM08

59 The list in Appendix B reflects a combination of the near-term initiatives identified in the spring of 2018 and the fall of 2018 for completion by April and October 2019, respectively.

SEC	Proposed Rule Stage	Fund of Funds Arrangements	3235-AM29
SEC	Proposed Rule Stage	Offering Reform for Business Development Companies under the Small Business Credit Availability Act and Closed-end Funds under the Economic Growth, Regulatory Relief, and Consumer Protection Act	3235-AM31
SEC	Proposed Rule Stage	Transfer Agents	3235-AL55
SEC	Proposed Rule Stage	Harmonization of Certain Title VII Rules	3235-AM13
SEC	Proposed Rule Stage	Volcker Rule Community Bank Relief and Removing Naming Restrictions	3235-AM43
~~SEC~~	~~Proposed Rule Stage~~	~~Investment Company Liquidity Disclosure~~	~~3235-AM30~~
SEC	Final Rule Stage	Disclosure of Hedging by Employees, Officers and Directors	3235-AL49
~~SEC~~	~~Final Rule Stage~~	~~Modernization of Property Disclosures for Mining Registrants~~	~~3235-AL81~~
~~SEC~~	~~Final Rule Stage~~	~~Disclosure Update and Simplification~~	~~3235-AL82~~
SEC	Final Rule Stage	Amendments to Implement FAST Act Report	3235-AM00
~~SEC~~	~~Final Rule Stage~~	~~Amendments to the Commission's Freedom of Information Act Regulations~~	~~3235-AM25~~
SEC	Final Rule Stage	Form CRS Relationship Summary; Amendments to Form ADV; Required Disclosures to Retail Communications and Restrictions on the use of Certain Names or Titles	3235-AL27
~~SEC~~	~~Final Rule Stage~~	~~Amendments to Securities Act Rules Under the Fair Access to Investment Research Act of 2017~~	~~3235-AM24~~
SEC	Final Rule Stage	Commission Interpretation Regarding Standard of Conduct for Investment Advisers; Request for Comment on Enhancing Investment Adviser Regulation	3235-AM36
SEC	Final Rule Stage	Capital, Margin, and Segregation Requirements for Security-Based Swap Dealers and Capital Requirements for Broker-Dealers	3235-AL12
SEC	Final Rule Stage	Reporting and Recordkeeping Requirements for Security-Based Swap Dealers and Major Security-Based Swap Participants	3235-AL45
SEC	Final Rule Stage	Definition of "Covered Clearing Agency"	3235-AL48
~~SEC~~	~~Final Rule Stage~~	~~Disclosure of Order Handling Information~~	~~3235-~~

			~~AL67~~
SEC	Final Rule Stage	Applications by Security-Based Swap Dealers or Major Security-Based Swap Participants for Statutorily Disqualified Associated Persons to Effect or Be Involved in Effecting Security-Based Swaps	3235-AL76
SEC	Final Rule Stage	Transaction Fee Pilot	3235-AM04
SEC	Final Rule Stage	Prohibitions and Restrictions on Proprietary Trading and Certain Relationships With Hedge Funds and Private Equity Funds	3235-AM10
SEC	Final Rule Stage	Regulation Best Interest	3235-AM35
~~SEC~~	~~Final Rule Stage~~	~~Amendments to Municipal Securities Disclosure~~	~~3235-AL97~~
SEC	Final Rule Stage	Auditor Independence With Respect to Loans or Debtor-Creditor Relationships	3235-AM01
SEC	Final Rule Stage	Amendments to the Commission's Whistleblower Program Rules	3235-AM11

Appendix C

[U.S. Securities and Exchange Commission, Division of Enforcement Annual Report, 2018]

[U.S. Securities and Exchange Commission, Office of Compliance Inspections and Examinations, 2018 National Exam Program Examination Priorities]