

SECURITIES AND EXCHANGE COMMISSION
AUTHORIZATION ACT OF 1997

SEPTEMBER 26, 1997.—Committed to the Committee of the Whole House on the
State of the Union and ordered to be printed

Mr. BLILEY, from the Committee on Commerce,
submitted the following

REPORT

[To accompany H.R. 1262]

[Including cost estimate of the Congressional Budget Office]

The Committee on Commerce, to whom was referred the bill (H.R. 1262) to authorize appropriations for the Securities and Exchange Commission for fiscal years 1998 and 1999, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

CONTENTS

	Page
Purpose and Summary	1
Background and Need for Legislation	2
Hearings	3
Committee Consideration	3
Rollcall Votes	3
Committee Oversight Findings	3
Committee on Government Reform and Oversight	3
New Budget Authority and Tax Expenditures	3
Committee Cost Estimate	4
Congressional Budget Office Estimate	4
Federal Mandates Statement	5
Advisory Committee Statement	5
Constitutional Authority Statement	5
Applicability to Legislative Branch	6
Section-by-Section Analysis of the Legislation	6
Changes in Existing Law Made by the Bill, as Reported	6

PURPOSE AND SUMMARY

The purpose of H.R. 1262, the Securities and Exchange Commission Authorization Act of 1997, is to provide authorization for fund-

ing the Securities and Exchange Commission (SEC) for Fiscal Years 1998 and 1999.

The Committee believes that these authorizations will provide flexibility to the SEC in the event of a market emergency. The Committee is authorizing the SEC at a level of \$320 million and \$342.7 million for Fiscal Year 1998 and Fiscal Year 1999, respectively. The authorization for Fiscal Year 1998 is relatively unchanged from the Committee-approved authorization of \$317 million for Fiscal Year 1997.

BACKGROUND AND NEED FOR LEGISLATION

The SEC is statutorily charged with the supervision of the Nation's securities markets. This legislation is necessary to reauthorize the work of the SEC to enable it to continue its mission of protecting investors and promoting efficiency, competition, and capital formation.

The U.S. securities markets are widely regarded as the deepest, most liquid, and fairest markets in the world. Last year, registered public offerings grew to \$1.045 trillion, an increase of 36 percent from 1995 offerings, and initial public offerings grew to \$50 billion, a 67 percent increase from 1995, continuing the longest and most vigorous bull market in history. The SEC has continued its thorough supervision of these markets, notwithstanding this unprecedented growth.

The Securities and Exchange Commission was last authorized by the Committee in 1996 for Fiscal Year 1997 in Title IV of the National Securities Markets Improvement Act of 1996 (P.L. 104-290). The legislation authorized appropriations of \$300 million for Fiscal Year 1997 (section 403) in addition to \$20 million for Fiscal Years 1997 and 1998 specifically for enforcement of the Investment Advisors Act of 1940 (section 302).

The SEC has requested an increase in the authorization for Fiscal Year 1999 of \$22.7 million (for a total authorization of \$342.7 million). The Committee has found the following justifications for this increase: (1) hiring additional staff in the Office of the Chief Economist to implement the cost benefit analysis requirements of section 106 of the National Securities Markets Improvement Act; (2) implementing additional investor protection measures such as enhancing money market fund oversight, developing improved tracking systems to enhance inspection activity, responding to the increase in Internet-related securities violations, and improving disclosure to investors by mutual funds; and (3) modernizing the regulatory schemes for capital raising.

The authorization is consistent with the provisions of the Bliley-Rogers-Archer SEC-fee reduction agreement as enacted in Title III of the National Securities Markets Improvement Act. Pursuant to that agreement, the SEC is to be funded increasingly by an appropriation each year to offset decreasing fee revenues collected by the agency. This mechanism is intended to provide the SEC with stable funding, while reducing fees imposed on investors that impede the capital formation process.

The Committee is concerned that the reliance on excess fee revenue, carried over and applied to the following fiscal year's budget, will allow the appropriators to delay increasing needed appropria-

tions for the SEC. The National Securities Markets Improvement Act anticipates a gradual increase in the appropriation for the SEC over ten years while reducing the fee revenue that can be used to fund the balance of its budget.

HEARINGS

The Subcommittee on Finance and Hazardous Materials held a hearing on reauthorization of the Securities and Exchange Commission on March 6, 1997. The Subcommittee received testimony from Chairman of the Securities and Exchange Commission Arthur Levitt, Commissioner Steve Wallman, Commissioner Isaac Hunt, and Commissioner Norman Johnson.

COMMITTEE CONSIDERATION

On May 21, 1997, the Subcommittee on Finance and Hazardous Materials met in open markup session and approved H.R. 1262, the Securities and Exchange Commission Authorization Act of 1997, for Full Committee consideration, without amendment, by a voice vote. On July 23, 1997, the Full Committee met in open markup session and ordered H.R. 1262, reported to the House, without amendment, by a voice vote.

ROLLCALL VOTES

Clause 2(1)(2)(B) of rule XI of the Rules of the House requires the Committee to list the recorded votes on the motion to report legislation and amendments thereto. There were no recorded votes taken in connection with ordering H.R. 1262 reported. A motion by Mr. Bliley to order H.R. 1262 reported to the House, without amendment, was agreed to by a voice vote, a quorum being present.

COMMITTEE OVERSIGHT FINDINGS

Pursuant to clause 2(1)(3)(A) of rule XI of the Rules of the House of Representatives, the Committee held a legislative hearing and made findings that are reflected in this report.

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

Pursuant to clause 2(1)(3)(D) of rule XI of the Rules of the House of Representatives, no oversight findings have been submitted to the Committee by the Committee on Government Reform and Oversight.

NEW BUDGET AUTHORITY AND TAX EXPENDITURES

In compliance with clause 2(1)(3)(B) of rule XI of the Rules of the House of Representatives, the Committee finds that H.R. 1262, the Securities and Exchange Authorization Act of 1997, would result in no new or increased budget authority or tax expenditures or revenues.

COMMITTEE COST ESTIMATE

The Committee adopts as its own the cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 403 of the Congressional Budget Act of 1974.

CONGRESSIONAL BUDGET OFFICE ESTIMATE

Pursuant to clause 2(1)(3)(C) of rule XI of the Rules of the House of Representatives, the following is the cost estimate provided by the Congressional Budget Office pursuant to section 403 of the Congressional Budget Act of 1974:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, July 29, 1997.

Hon. TOM BLILEY,
*Chairman, Committee on Commerce,
House of Representatives, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 1262, the Securities and Exchange Commission Authorization Act of 1997.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Rachel Forward.

Sincerely,

JUNE E. O'NEILL, *Director.*

Enclosure.

*H.R. 1262—Securities and Exchange Commission Authorization Act
of 1997*

Summary: H.R. 1262 would authorize appropriations for fiscal years 1998 and 1999 for the Securities Exchange Commission (SEC). Assuming appropriation of the authorized amounts, CBO estimates that enacting H.R. 1262 would result in net new discretionary spending of \$30 million over the 1998–2002 period. The legislation would not affect direct spending or receipts; therefore, pay-as-you-go procedures would not apply. H.R. 1262 contains no inter-governmental or private-sector mandates as defined in the Unfunded Mandates Reform Act of 1995 (UMRA), and would not affect the budgets of state, local, or tribal governments.

Estimated Cost to the Federal Government: For the purposes of this estimate, CBO assumes that H.R. 1262 will be enacted by the end of fiscal year 1997 and that the authorized amounts will be appropriated by the start of each fiscal year. Outlays have been estimated on the basis of historical spending patterns for the SEC. Gross spending of the SEC would be authorized to increase under H.R. 1262, from about \$300 million in 1997 to about \$340 million in each of the next two fiscal years. That increase would be more than offset, however, by an expected increase in fee collections by the agency. As a result, CBO estimates that the net SEC spending would decline from the \$47 million estimated for the current year. Net discretionary spending for 1996 was \$42 million.

Under current law, the SEC collects both a securities transaction fee and a securities registration fee and is authorized to spend a certain amount of the fees to the extent provided in advance in ap-

propriations acts. The bill would authorize funding levels of \$320 million for 1998 and \$343 million for 1999, but most of those amounts would be offset by collections of fees, as shown in the following table.

[By fiscal year, in millions of dollars]

	1996	1997	1998	1999	2000	2001	2002
SPENDING SUBJECT TO APPROPRIATION							
SEC spending under current law:							
Estimated budget authority ^{1,2}	346	261	27	0	0	0	0
Less: offsetting collections	-243	-250	0	0	0	0	0
Net budget authority	103	11	27	0	0	0	0
Estimated outlays	42	47	62	6	0	0	0
Proposed changes:							
Authorization level	0	0	320	343	0	0	0
Less: offsetting collections	0	0	-316	-311	0	0	0
Net authorization level	0	0	4	32	0	0	0
Estimated outlays	0	0	-41	26	45	0	0
SEC spending under H.R. 1262:							
Net authorization level	103	11	31	32	0	0	0
Estimated outlays	42	47	21	32	45	0	0

¹The 1996 and 1997 levels are the amounts appropriated for those years. For 1996, SEC had the authority to spend all of the \$243 million in fees that were credited as offsetting collections to appropriations, plus an additional \$103 million. The 1997 spending authority includes \$223 million from offsetting collections, plus an additional \$38 million.

²In 1997, the SEC is authorized to spend only \$223 million of the fees that are credited as offsetting collections to appropriations. Because CBO estimates 1997 collections of \$250 million and because the SEC is authorized to spend—after this year—any amounts collected in 1997 that are in excess of \$223 million, the remaining \$27 million of estimated fees is available for spending in 1998.

The costs of this legislation fall within budget function 370 (commerce and housing credit).

Pay-as-you-go considerations: None.

Intergovernmental and private-sector impact: H.R. 1262 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

Estimate prepared by: Rachel Forward.

Estimate approved by: Robert A. Sunshine, Deputy Assistant Director for Budget Analysis.

FEDERAL MANDATES STATEMENT

The Committee adopts as its own the estimate of Federal mandates prepared by the Director of the Congressional Budget Office pursuant to section 423 of the Unfunded Mandates Reform Act.

ADVISORY COMMITTEE STATEMENT

No advisory committees within the meaning of section 5(b) of the Federal Advisory Committee Act were created by this legislation.

CONSTITUTIONAL AUTHORITY STATEMENT

Pursuant to clause 2(1)(4) of rule XI of the Rules of the House of Representatives, the Committee finds that the Constitutional authority for this legislation is provided in Article I, section 8, clause 3, which grants Congress the power to regulate commerce with foreign nations, among the several States, and with the Indian tribes.

APPLICABILITY TO LEGISLATIVE BRANCH

The Committee finds that the legislation does not relate to the terms and conditions of employment or access to public services or accommodations within the meaning of section 102(b)(3) of the Congressional Accountability Act.

SECTION-BY-SECTION ANALYSIS OF THE LEGISLATION

SECTION 1. SHORT TITLE

Section 1 states the short title is the Securities and Exchange Commission Authorization Act of 1997.

SECTION 2. AUTHORIZATION OF APPROPRIATIONS

Section 2 amends Section 35 of the Securities Exchange Act of 1934 (15 U.S.C. 78kk) and authorizes appropriations for the SEC for two years at the following levels: \$320,000,000 for Fiscal Year 1998 and \$342,700,000 for Fiscal Year 1999. Section 2 also places limitations on funding levels for certain miscellaneous expenses.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

**SECTION 35 OF THE SECURITIES EXCHANGE ACT OF
1934**

[SEC. 35. AUTHORIZATION OF APPROPRIATIONS.

[There are authorized to be appropriated to carry out the functions, powers, and duties of the Commission \$300,000,000 for fiscal year 1997, in addition to any other funds authorized to be appropriated to the Commission.**]**

SEC. 35. AUTHORIZATION OF APPROPRIATIONS.

(a) IN GENERAL.—In addition to any other funds authorized to be appropriated to the Commission, there are authorized to be appropriated to carry out the functions, powers, and duties of the Commission—

- (1) \$320,000,000 for fiscal year 1998; and*
- (2) \$342,700,000 for fiscal year 1999.*

(b) MISCELLANEOUS EXPENSES.—Funds appropriated pursuant to this section are authorized to be expended—

- (1) not to exceed \$3,000 per fiscal year, for official reception and representation expenses;*
- (2) not to exceed \$10,000 per fiscal year, for funding a permanent secretariat for the International Organization of Securities Commissions; and*
- (3) not to exceed \$100,000 per fiscal year, for expenses for consultations and meetings hosted by the Commission with foreign governmental and other regulatory officials, members of their delegations, appropriate representatives, and staff to exchange views concerning developments relating to securities matters, for*

development and implementation of cooperation agreements concerning securities matters and provision of technical assistance for the development of foreign securities markets, such expenses to include necessary logistic and administrative expenses and the expenses of Commission staff and foreign invitees in attendance at such consultations and meetings, including—

(A) such incidental expenses as meals taken in the course of such attendance;

(B) any travel or transportation to or from such meetings;

and

(C) any other related lodging or subsistence.

