

Updated June 12, 2025

Introduction to Financial Services: The Securities and Exchange Commission (SEC)

Congress passed the Securities Exchange Act of 1934 (P.L. 73-291) to create the Securities and Exchange Commission (SEC) in the wake of the stock market crash in 1929 to help restore confidence in capital markets. The SEC is an independent federal regulatory agency responsible for administering federal securities laws. It has broad regulatory authority over significant parts of the securities industry, including securities offering and trading, asset management, and investment advisory.

The SEC oversees federal securities laws broadly aimed at a three-part mission: (1) capital formation; (2) investor protection; and (3) maintaining fair, orderly, and efficient markets. The SEC's regulatory structure provides rules for honest dealing among securities market participants, including disclosure requirements for public companies, oversight of key market intermediaries, and prohibitions of fraud and market manipulation.

Budget

The SEC's budget is set through the congressional appropriations process. Sale fees on stock and other securities transactions that the SEC collects from securities exchanges offset the appropriations. Annual collections, which historically exceeded the SEC's annual appropriations, go directly to the U.S. Treasury's General Fund. The SEC's enacted annual budget for FY2024 was approximately \$2.1 billion.

Organizational Structure

The SEC is led by five presidentially appointed commissioners, including a chair, all of whom are subject to Senate confirmation. Commissioners have staggered five-year terms, and no more than three commissioners may belong to the same political party. For FY2024, the SEC had around 5,300 positions and 5,000 full-time-equivalent employees across six divisions, one independent office, 10 regional field offices, and other program offices (such as the *Advocate for Small Business Capital Formation* and the *Strategic Hub for Innovation and Financial Technology*).

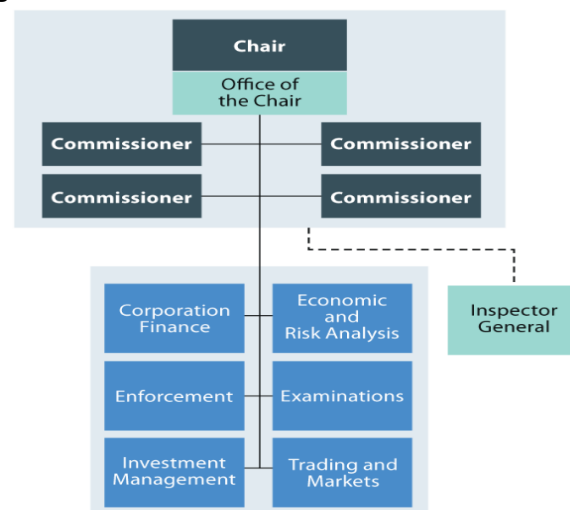
Figure 1 illustrates the SEC's main divisions:

- The **Corporation Finance Division** is responsible for the review of securities issuer filings and disclosure.
- The **Enforcement Division** takes actions to deter misconduct and punish securities law violations.
- The **Examinations Division** conducts the SEC's National Exam Program that involves onsite examinations of market participants such as investment management companies and advisers, broker-dealers,

clearing agencies, and self-regulatory organizations (SROs).

- The **Investment Management Division** regulates investment management companies and advisers pursuant to the Investment Company Act of 1940 and Investment Advisers Act of 1940 (P.L. 76-768).
- The **Trading and Markets Division** oversees capital market infrastructure and its participants to help maintain fair, orderly, and efficient markets.
- The **Economic and Risk Analysis Division** provides cross-divisional support for the agency on research, economic analysis, and data analytics.

Figure 1. SEC Divisions



Source: SEC.

Note: See the complete SEC organizational chart at <https://www.sec.gov/about/secorg.pdf>.

Securities Laws and Regulation

The SEC oversees an array of securities laws, including those described below.

Securities Act of 1933 (P.L. 73-22). This act sought to ensure that investors are given salient information on securities offered for public sale and to ban deceit, misrepresentations, and other kinds of fraud in the sale of securities. The act requires issuing companies to disclose information deemed *material* to investors as part of the mandatory SEC registration of the securities that those companies offer for sale to the public. Certain offerings are exempt from full registration requirements, such as private

securities offerings to financial institutions or to sophisticated institutions.

Securities Exchange Act of 1934 (P.L. 73-291). In addition to creating the SEC, the act governs securities transactions on the secondary market and gives the agency regulatory oversight over SROs, including stock exchanges such as NASDAQ, that have quasi-governmental authority to police their members and attendant securities markets. The Financial Industry Regulatory Authority, the principal regulator of broker-dealers, is also an SRO.

Investment Company Act of 1940 (P.L. 76-768). This act regulates the organization of investment companies, such as mutual funds. Investment companies are primarily engaged in the investment of assets from other institutional or retail investors. In an attempt to minimize the potential conflicts of interest that may arise due to the operational complexity of investment companies, the act generally requires investment companies to register with the SEC and publicly disclose key information on their investment objectives, structure, operations, and financial status.

Investment Advisers Act of 1940 (P.L. 76-768). Investment advisers are firms or sole practitioners that are compensated for advising others about securities investments, including advisers to mutual funds and hedge funds. In general, under the act, advisers managing a certain amount of assets must register with the SEC and conform to the act's regulations aimed at protecting investors.

Sarbanes-Oxley Act of 2002 (P.L. 107-204). Passed in the aftermath of accounting scandals at firms such as Enron and WorldCom during 2001 and 2002, Sarbanes-Oxley sought to improve the reliability of financial reporting and the quality of corporate audits at public companies. Among other things, it created the Public Company Accounting Oversight Board to oversee the quality of corporate accountants and auditors and shifted responsibility for the external corporate auditor from corporate management to independent audit committees.

Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203). Enacted in the wake of the 2007-2009 financial crisis, the 2010 Dodd-Frank Act mandated sweeping financial regulatory changes, many of which affected the SEC. The act required the SEC to adopt rules to help ensure that those who securitize certain debt retain a share of the risk in assets that they transfer, reformed the regulation of credit rating agencies, required hedge fund advisers to register with the SEC, and created an interagency financial risk monitoring panel—the Financial Stability Oversight Council—with the SEC chair as a member.

Jumpstart Our Businesses Startup Act (P.L. 112-106). This 2012 act was broadly aimed at stimulating capital formation for companies, particularly newer and smaller firms. It also eased regulatory requirements for certain initial public offerings through the creation of a new entity called an *emerging growth company* and through *Regulation Crowdfunding*, which permits companies to

provide securities to retail investors through regulatory exemptions under the Securities Act of 1933.

Policy Issues for Congress

New Directions at the SEC

The SEC has been undergoing changes related to operational shifts and regulatory and enforcement priorities. The SEC has formed a Crypto Task Force to conduct industry outreach and develop new regulatory frameworks for digital assets. It withdrew multiple crypto enforcement actions, ended the defense of the climate disclosure rule, and removed personally identifiable information from the Consolidated Audit Trail. It also relaxed a staff position that limits closed-end funds' investments in private funds (H.R. 3383 would require a similar change) and extended the compliance dates to Treasury securities central clearing rules. The SEC has also reported it has reduced its staff by 15% between October 2024 and May 2025.

SEC Reserve Fund

The Dodd-Frank Act established the SEC Reserve Fund to be used as the SEC “determines is necessary to carry out the functions of the Commission.” The SEC can deposit \$50 million into the reserve fund annually, and the total amount must not exceed \$100 million. The reserve fund is not subject to annual appropriation or apportionment. The fund is often used to cover technology and operational enhancement projects. The SEC has discretion in using the fund absent direct congressional oversight and approval. It states that the continued access to the reserve fund allows the agency to support long-term technology initiatives that would otherwise be influenced by budgetary changes. Opponents of the fund propose to enhance the SEC's accountability to Congress by abolishing it. The Senate Banking Committee has proposed terminating the fund and transferring remaining balances to the Treasury General Fund as part of H.R. 1 reconciliation.

SEC's Authority Over SROs

Securities industry SROs are private sector self-governing organizations that set and enforce standards of conduct for their members, subject to the oversight of the SEC. SROs include national securities exchanges, the Financial Industry Regulatory Authority, the Municipal Securities Rulemaking Board, and registered clearing agencies. SROs are an integral part of the securities industry regulatory framework, with some commentators describing them as akin to a fifth branch of government. The SRO model appears to present a trade-off between the efficiency and information benefits regarding SROs' understanding of market developments and the need to ensure that SROs are not abusing their delegated authority to benefit the industry at the expense of the public. Despite the long-term existence of the SRO framework, some commentators have supported shifting power away from SROs to the SEC or strengthening SEC oversight. For more policy issues, see CRS Report R48521, *Capital Markets and Securities Regulation: Overview and Policy Issues*, by Eva Su.

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