Speech

An Update on FY 2020 Results – Remarks at SEC Speaks

Chairman Jay Clayton

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Introduction

Thank you, Stephanie [Avakian], for that kind introduction. I am pleased that this annual event can continue in our new virtual environment. Thank you all for taking the time to participate today and for your continued interest in the work of the Commission. As always, these views are my own and do not necessarily reflect the views of the Commission, my fellow Commissioners, or the SEC staff.

At last year's SEC Speaks, I spoke about our goals and accomplishments through the "eyes of management," similar to what public companies do in the "Management's Discussion and Analysis," or "MD&A" section of SEC filings. During those remarks, I identified several factors that could cause the Commission's actual results to differ from expected results. One of those factors was "[t]he need to divert resources to respond to major or unexpected events." One year later, of course, we faced a "major and unexpected event" in the form of the COVID-19 global pandemic. In addition to first, and promptly, doing everything practicable to protect the health and safety of the SEC staff, we were faced with responding to severe operational and performance stresses in our markets and the economy more broadly.

In spite of these stresses and our rapid move to a mandatory telework environment in early March, the SEC remained fully operational and met each challenge presented head on. We were able to do so, in short, because of our people. I could go on and on about the caliber of our people and how they rose to the occasion time and time again. The superlatives are not necessary because their work – which I highlight – speaks for itself. On a personal level, I want to acknowledge how proud I am to work with such dedicated public servants.

So, how did we do in FY 2020? I am pleased to report that while the pandemic significantly impacted *how* we do our work, it did not negatively impact the work itself. Our planned oversight, examination, rulemaking, and enforcement work continued with vigor, rigor and transparency. At the same time, we added to our work load. We (1) provided targeted regulatory relief to ensure the continued operation of our markets, (2) worked continuously with our domestic and foreign regulatory counterparts to monitor and mitigate the impacts of COVID-19, and (3) increased oversight and engagement in key areas of stress.

FY 2020 Commission Operations

To elaborate on the "results speak for themselves" point, I would like to summarize some recent statistics I shared with our staff.

Starting with the **Division of Enforcement**, the Commission brought over 700 actions in FY 20, a significant percentage of which were brought after March 15. The Commission obtained financial remedies of more than $4 billion; an amount above that of last year. The Division's activities during the pandemic have included three dozen trading suspensions, six COVID-related fraud actions, and over 150 newly opened COVID-related investigations and inquiries. What's more, the Commission awarded a record 39 individual whistleblowers approximately $175 million — more, much more, than in any prior fiscal year.

In FY 2020, the **Office of Compliance Inspections and Examinations** conducted examinations that covered 15 percent of all SEC-registered investment advisers. OCIE also continued its complementary and highly effective asset verification program — in the same time period of FY 2020, OCIE verified 4.8 million investor accounts totaling $3.4 trillion in assets. In FY 2020 OCIE conducted over 300 outreach events, issued a report on Cybersecurity and Resiliency Observations, and published eight risk alerts. I am a firm believer that OCIE's engagement, including their highly informative risk alerts, stops problems before they start. There are no statistics for "problems prevented." Yet, we all know the most effective regulatory environment is one that drives a culture of compliance. That is just what OCIE does.

On maintaining, improving and modernizing our time-tested regulatory framework, overall, in FY 2020, the Commission issued 20 proposals and 25 final rules from across all divisions and offices. I know of no other agency — of any size — that does so much to maintain its effectiveness and efficiency in the face of change. The figures are impressive in their own right, but when you consider the complexity of the issues and examine the quality of the product, they are truly remarkable.

Diving in more deeply, in FY 2020, **Trading and Markets** executed its responsibility for maintaining fair, orderly, and efficient markets by engaging in 10 rulemaking initiatives addressing, among other things, (1) retail investor fraud in the "penny stock" market, (2) standing up the Dodd-Frank Act Title VII regime, (3) modernizing the National Market System, and (4) enhancing transparency and oversight for ATSs that trade government securities. Additionally, the Division processed over 2,000 self-regulatory organization rule filings, issued 25 exemptive orders and 12 no-action letters, and published or updated over 75 Frequently Asked Questions & Answers.

Turning to **Investment Management**, on the disclosure review front, in FY 2020 the Division reviewed disclosures relating to more than 10,700 funds, including more than 1,200 new funds — an increase of 7% over last year. Investment Management staff also took the lead on a total of 14 rulemaking-related releases, including proposals, final rules, a request for comment, and Commission guidance, in FY 2020. And with respect to COVID-related relief specifically, Investment Management staff contributed to more than 20 temporary rules, exemptive orders, no-action letters, and staff guidance statements. Those actions have been relied upon by an estimate of close to 700 investment advisers and investment companies — I expect the actual number is much higher.

And, as we have seen in the financial news just about every day, **Corporation Finance** has remained committed as ever to promoting the high-quality corporate disclosure that is at the heart of our mission. Corporation Finance staff continued to maintain an engaged, rigorous and investment decision-oriented review presence. In FY 2020, the Division reviewed the filings of more than 3,500 reporting companies and the registration statements of more than 800 IPOs and initial registrations. In addition, Division staff assessed the filings of the more than 1,000 companies that sought to take advantage of the Commission's extension of certain filing deadlines. Importantly, the Division issued proactive COVID-19-related disclosure guidance which has substantially contributed to the quality and breadth of current and periodic reporting.

Further, in FY 2020, Corporation Finance took the lead on 19 rulemaking-related releases, including proposals, final rules, and Commission guidance, to modernize current rules, adopt new rules, and provide important disclosure guidance as well as temporary relief to companies relying on Regulation A and Regulation Crowdfunding to raise capital during the COVID-19 crisis.

And, going back to quality, for analysis and insight into the work of the Commission and staff, we rely on the work of our colleagues in the **Division of Economic and Risk Analysis.** They have been tireless. DERA has provided more than 3,650 responses to requests from nearly every office and division within the Commission. DERA economists, lawyers, and data specialists completed over 145 policy-related projects, including economic analyses of rulemakings, as well as analyses of SRO rule filings, new products and 10-year retrospective rule reviews. DERA also contributed to the Commission's enforcement mission, conducting economic analyses for more than 175 new enforcement matters and 80 distributions. In addition, DERA staff published three editions of the DERA Economic and Risk Outlook and conducted analysis of substantial amounts of data, including in connection with 12 risk-related projects related to the COVID-19 economic shock. Also, I would be remiss not to mention staff's recent report on our credit markets and the impact of COVID-19. It is a remarkable piece of insightful work, and I will return to this topic at the end of my remarks.

None of this or our other work would go into effect or reach the public without the work of the **Office of the Secretary**. They are essential to our success, and have continued their exemplary work in the face of incredible logistical obstacles and an enormous workload. FY 2020 set a record in terms of the number of unique comment letters, processing more than 13,000 this year, which is the most since we started tracking them. For comparison purposes, ten years ago, we received 589. OS also processed nearly 2,000 Federal Register submissions and 6,000 releases and orders, and that's only a portion of their work. The Office of the Secretary also completed an important modernization effort this fiscal year. On March 9, just days before the Commission began full-time telework, the Office of the Secretary instituted a new paperless voting system for Commission actions. For those of you who previously worked at the Commission, you likely remember that all Commissioner votes were recorded in paper – multiple copies of the rule or enforcement action were printed and delivered to each Commissioner's office and each Commissioner recorded their vote by manual signature. The Commission's transition to electronic voting, meticulously planned and executed, couldn't have come a better time.

As we are well aware, our agency does not do its work in a vacuum. As I often say, "independent" does not mean "isolated." In fact, I firmly believe that engagement, broad engagement, enhances independence, quality and efficiency. In this regard, our Office of Legislative and Intergovernmental Affairs and our Office of International Affairs helped us maintain strong relationships and engagement with Congress and other regulators, domestic and international.

The **Office of Legislative and Intergovernmental Affairs** helped secure funding in FY 2020 to support new positions in key areas. I relied on them to prepare for hearings before the House Financial Services Committee and Senate Banking Committee, as did OMWI Director Pam Gibbs for a hearing before the House Financial Services Committee. OLIA also successfully guided two SEC Commissioners — Commissioners Crenshaw and Peirce — through a Senate nomination hearing and the confirmation process. The office responded to 58 congressional letters and over 175 technical assistance and briefing requests from Congress and other federal agencies and worked with colleagues across the agency to help ensure the SEC had tools and flexibility to navigate the COVID-19 pandemic.

More globally, the **Office of International Affairs** observed a significant increase in requests from foreign authorities for Commission assistance (nearly 700 of them) and requests for Commission staff to assist (approximately 1,684) this year, clearly showing that the SEC staff's expertise is becoming increasingly recognized on a global scale.

I unfortunately only have time to mention a few offices and divisions - there are many other offices in the Commission whose work continues apace. How was the Commission able to adapt so quickly in response to COVID-19, both in terms of our operations (transitioning quickly to a remote workforce) and in terms of our market engagement and oversight (providing timely and impactful regulatory relief, analysis and oversight)? The answer is simple – our focus on risk planning and operational flexibility, outlined in last year's remarks, coupled with the Commission's most important asset, our human capital, meant we have been able to meet these new challenges head on. That said, we must remain vigilant as I am certain the current challenges will present additional surprises and there will be new challenges ahead.

Engagement with Domestic and International Regulatory Partners

Today, I'd also highlight another facet of our response to COVID-19 that I briefly touched on earlier. As I have explained publicly throughout the pandemic, from a systemic risk point of view, the Commission's primary responsibilities during this time of market stress are three-fold:

1. *Market function*. This involves using our authority, expertise and experience to help ensure the continuing fair, orderly and efficient functioning of the securities markets—including with respect to equities, fixed income securities, funds and other products;
2. *Market monitoring*. This involves monitoring market prices and price movements, flows of capital and the availability of credit to assess the functionality and resiliency of our capital markets, This also involves taking action, including providing regulatory relief and guidance, as appropriate; and
3. *Facilitating high-quality corporate and other issuer disclosure*. This involves monitoring and providing guidance concerning, and emphasizing, timely and accurate issuer and other disclosures, recognizing that transparency and broad disclosure of material information are fundamental to market function and resiliency.

An important component of ensuring that we are meeting these responsibilities is our external engagement with domestic and international regulatory partners focusing on market and systemic risks. For a number of reasons, at a personal level, our world may seem smaller – many of us are working remotely, travel is curtailed, children are at home. But our country's recovery from the economic effects of COVID-19 is inextricably linked to the broader domestic and global economy. The Commission's external engagement at this time, including with our international counterparts, is a fundamental component of our efforts to support investors, policy makers and our markets, as we strive to recover from the economic effects of COVID-19.

Much of this work has occurred through the Financial Stability Oversight Council, the President's Working Group on Financial Markets, the International Organization of Securities Commissions, and the Financial Stability Board. I'll start first with our domestic regulatory partners.

Financial Stability Oversight Council

The Dodd-Frank Act established the Financial Stability Oversight Council ("FSOC") to bring together financial regulators in the United States to, among other things, respond to emerging risks to the stability of our nation's financial system.

Since the start of the pandemic, the FSOC principals have met four times. At those meetings, we discussed and shared information about the actions that our respective agencies have been taking and considering to respond to the impacts of COVID-19. We also discussed specific markets in detail, including the treasury market and secondary mortgage markets. In addition, there have been numerous meetings of the FSOC deputies – senior staff at the various agencies – as well as staff working groups and committees. This does not take into account the innumerable bi-lateral discussions among my counterparts and me, as well as our key staff, over the course of the COVID-19 economic shock.

President's Working Group on Financial Markets

Next, let's talk about some of our work with the President's Working Group on Financial Markets (or the "PWG"). The PWG consists of the Chairs of the SEC, the Federal Reserve, and the CFTC, as well as the Treasury Secretary, and our meetings often also include the heads of the OCC and the FDIC. We have worked collaboratively during this time of market stress, both in connection with regulatory responses to COVID-19, as well as in formulating a series of recommendations focused on the risks of investing in emerging markets, including China. With respect to emerging markets, the PWG has recommended, among other things, (1) that there be enhanced listing standards at U.S. exchanges that would require as a condition to initial and continued exchange

listing, sufficient PCAOB access to audit workpapers; and (2) enhanced issuer and fund disclosures regarding investing in emerging markets.[1]

To this end, I have directed Commission staff to actively consider the PWG recommendations that seek to strengthen protections for investors and promote the integrity of our capital markets by (1) leveling the playing field for all companies listed on U.S exchanges; and (2) improving disclosure regarding, and consideration by fiduciaries and other market professionals of, the risks of investing in emerging markets, including China.[2]

We have also worked with our fellow PWG agencies to discuss important issues related to cybersecurity and incident response coordination. As cyber threats have increased over the years, including from threat actors backed by significant resources, the PWG has been an important focal point for information sharing and response coordination.

Financial Stability Board and International Organization of Securities Commissions

We also work closely with our international regulatory partners on systemic risk issues, namely through the Financial Stability Board ("FSB") and the International Organization of Securities Commissions ("IOSCO"). Since the start of the COVID-19 pandemic, other Commissioners, staff, or I have participated in over 50 meetings of the FSB and IOSCO. Indeed, earlier this morning, I participated in a teleconference of the FSB's steering committee on non-bank financial intermediation to discuss further market stress in March of this year. SEC staff are active in numerous FSB and IOSCO work streams, including multiple COVID-19 initiatives coordinated by the FSB's Standing Committee on Assessment of Vulnerabilities and Standing Committee on Supervisory and Regulatory Cooperation, as well as IOSCO's Financial Stability Engagement Group.

An important part of our engagement here is also through IOSCO's Monitoring Group, which is co-chaired by our own Chief Accountant, Sagar Teotia. Through the Monitoring Group, we work with our foreign counterparts to advance the public interest in areas related to international audit standard setting and audit quality. Earlier this year, as the result of a review effort that began in 2015, the Monitoring Group published a number of recommendations to strengthen the international audit and ethics standard-setting system.[3] Yes, again, our staff, our people, brought a long-standing review to a high-quality, principles-oriented conclusion.

Additional Engagement

These are just a few examples of the ways in which we work with other domestic and foreign regulators. We are also engaged in a large number of bilateral discussions and workstreams around various issues. For example, we have been actively working with a number of key jurisdictions on substituted compliance applications in connection with our standing up of the Title VII regime for the regulation of security-based swaps. We also continue to work with foreign regulators on enforcement matters and to provide technical assistance where we can be helpful.

The Credit Market Interconnectedness Project

Finally, I'd like to close with a short discussion of an important recent initiative. Earlier this year, and informed by our discussions with these domestic and international partners, Commission staff undertook an ambitious and important project. The staff sought to bring greater understanding to the character and dynamics of our $54 trillion credit markets. Staff mapped credit from its creation, through its distribution and secondary trading, with an eye toward identifying areas of both vulnerability and stability. Earlier this week, the staff debuted its report on Interconnectedness and Risk in U.S. Credit Markets.[4] This report analyzes the interconnectedness among markets and market participants — e.g., banks, non-bank financial intermediaries and investors of various types — in the U.S. credit markets. The report focuses on risk distribution and transmission, including in particular, during the spring 2020 COVID-19 market turmoil.

Next week, on October 14, staff will host a roundtable to discuss the report. That roundtable brings together an impressive group of market participants, as well as domestic and international regulators. We expect that the

initial efforts in this area will facilitate further engagement on systemic risk and financial sector vulnerabilities, in both the domestic and international areas. We hope you will listen in to the roundtable and review the report with an eye toward improving our work moving forward.

Diversity, Inclusion, and Opportunity – Work to Date and More to Come

In closing, I hope you agree that the Commission staff should be very proud of their efforts this year not only in advancing our tripartite mission, but also in supporting each other through all of 2020's challenges. Some of those challenges relate to longstanding racial inequities, the contours of which have been put in stark relief this year. Our Office of Minority and Women Inclusion, Diversity Council, and others have been leaders supporting our Commission-wide effort to promote diversity, inclusion, and opportunity in our workplace, and in our work. I hope you'll join me in a few moments for my discussion with Pam Gibbs and Robert Marchman where we will explore our successes and challenges in more detail, hopefully in a way that can also be helpful to you and your work.

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[1] *See* President's Working Group on Financial Markets, Report on Protecting United States Investors from Significant Risks from Chinese Companies (July 24, 2020), *available at* https://home.treasury.gov/system/files/136/PWG-Report-on-Protecting-United-States-Investors-from-Significant-Risks-from-Chinese-Companies.pdf.

[2] Additional information is available at https://www.sec.gov/news/public-statement/statement-presidents-working-group-financial-markets.

[3] *See* IOSCO Monitoring Group, Monitoring Group Publishes its Recommendations to Strengthen the International Audit and Ethics Standard-Setting System (July 14, 2020), *available at* https://www.iosco.org/about/monitoring_group/pdf/2020-07-Monitoring-Group-Recommendations-to-Strengthen-the-International-Audit-and-Ethics-Standard-Setting-System.pdf.

[4] SEC Staff Releases Report on U.S. Credit Market Interconnectedness and the Effects of the COVID-19 Economic Shock (Oct. 5, 2020), available at https://www.sec.gov/news/press-release/2020-245-0.