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Time to Update SEC Disclosure Requirements, Agency Official Says in Defending Budget

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Senior Securities and Exchange Commission officials today defended the agency's request for a $264 million budget increase in fiscal 2012, saying the extra money is needed to carry out the financial reform law as well as updating corporate disclosure requirements which have remained unchanged for nearly three decades.

Meredith Cross, director of the SEC's corporation finance division, told a House subcommittee hearing that her office plans to recommend modifying "core disclosure requirements" by companies which now must notify investors of any material events in addition to filing quarterly and annual reports. "In determining what information is useful to today's investors, the Division expects to conduct roundtables and other direct contact with professional and non-professional investors," Cross said in her testimony.

Disclosure documents are publicly available moments after companies electronically file them to the agency's Edgar database, and are often considered a key investor protection tool. Updating the disclosure requirements will take place in phases over several years, she said.

What kinds of additional disclosures may be required?

Cross said her office may recommend that the SEC adopt rules requiring companies to disclose more credit rating information, including "shopping" for favorable credit ratings. It may also urge the SEC to make changes in the now-quarterly disclosure obligations of big investors and how they use derivatives and short sales, she said.

Last year, the agency's watchdog criticized the SEC for failing to monitor the 13F forms submitted by sophisticated investors such as George Soros, John Paulson, and others that detail their market-sensitive stock picks. Errors in the 13F disclosure forms were found only when an alert member of the public spotted something and phoned the SEC, the watchdog said.

Meanwhile, the Dodd-Frank law mandates new SEC rules requiring disclosures by companies of policies related to employee and director hedging activities, as well as disclosures of conflict of interest standards that boards must follow when hiring compensation consultants, she said.

The SEC proposal to boost its fiscal 2012 budget to $1.4 billion – which would pay for 780 new jobs—was received skeptically by the House Financial Services subcommittee led by Republican Scott Garrett of New Jersey. He and other Republicans want to cut spending government-wide, and have dismissed SEC's pleas that its budget is deficit-neutral because it is offset by fees collected on securities transactions.

> "Before we even think about giving this agency yet another funding increase, at minimum, the agency will need to show major progress in implementing recommended reforms," Garrett said.

Robert Khuzami, head of the agency's enforcement division, said overall SEC staffing is just now returning to the level of 2005 at the same time the agency is responsible for overseeing about 35,000 investment advisers, mutual funds, broker-dealers, and the disclosures of about 10,000 companies.

In addition to new staff, the SEC also needs better technology to manage data and protect investors, Khuzami said. For example, the enforcement division receives about 3 terabytes of electronic data each month from subpoenas and other information gathering. The book collection of the U.S. Library of Congress, by comparison, is the equivalent of 20 terabytes of data.

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