



Securities Industry Association

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February 28, 2001

The Honorable Christopher J. Dodd
United States Senate
444 Russell Senate Office Building
Washington, DC 20510

Dear Senator Dodd:

I am writing to urge you to support the *Competitive Market Supervision Act of 2001* (S. 143). The legislation introduced by Senate Banking Committee Chairman Phil Gramm (R-TX) and Sen. Charles Schumer (D-NY) would provide adequate financial resources to the Securities Exchange Commission (SEC) and reduce the excessive fee revenue paid by investors. The Senate Banking Committee has scheduled a mark-up of the important legislation on March 1.

SIA strongly believes it is critical that Congress examine the issue of Securities and Exchange Commission (SEC) fees because the facts and assumptions on which enactment of the current statutory fee structure was based have changed. Fees that were developed several years ago to fund the cost of regulating the securities markets now exceed the government's cost of regulation to such a degree that they are a drag on capital formation, and a special burden on every American investor.

In FY 2000 SEC fee collections exceeded \$2.2 billion, \$1.89 billion more than the \$377 million SEC appropriation for FY 2000. That is more than six times the Commission's funding level. Fee collections are projected to exceed SEC appropriations by more than \$2 billion in FY 2001. In fact, fee collections are projected to exceed the cost to run the commission by more than \$2 billion for each year through FY 2005. If the current statutory fee collection continues American investors will shoulder the burden of more than \$15 billion in these fees over the next five years. We do not believe it is in the interest of investors — or, the nation's capital markets — for these fees to so grossly surpass the regulatory costs incurred. These transaction fees drain capital from the private markets — removing it at the very start of the capital-raising process — and divert it into the U.S. Treasury.

Four years ago, the industry was asked to “step up to the plate” and pay additional fees in order to help Congress move to a more reliable funding mechanism for the SEC. We agreed to do so because we believed it was in the long-term interests of the securities markets. The fee structure adopted as part of the National Securities Markets Improvement Act of 1996 (“NSMIA”) for the first time assessed transaction fees

on the Nasdaq markets. This provision was intended to establish parity between the fees assessed on exchange and Nasdaq markets. While it was expected that, as a result of these changes, the fees paid by investors and the industry would increase in the near term, the ultimate goal of NSMIA's fee provisions was to bring fees collected by the SEC more in line with the actual cost of running the agency.

At the time these provisions were enacted, no one anticipated the explosion of market activity that has taken place over the past several years and continues today. In particular, no one could have predicted the phenomenal influence that online investors would have on the equity markets. In 1996, the transaction fee, already levied on NYSE stocks, was first imposed on transactions of securities traded on the Nasdaq Stock Market.

The legislation brings the fees more in line with the actual cost of regulation, and ensures that investors are not burdened beyond that which is necessary for that purpose. It ensures adequate funding for the SEC, and it ensures that the SEC can recruit and retain the best-qualified regulators by creating pay parity between the SEC and Federal financial regulators. Experienced and well-qualified regulators are critical to the long-term stability of our financial markets. By bringing SEC pay in line with other agencies, such as the Federal Reserve Board and the FDIC, we can be certain that talented professionals will continue to offer their skills and experience to the SEC. Finally, we support preserving fee revenues from Nasdaq transactions as offsetting collections up to the latest CBO baseline numbers. We strongly endorse S. 143, and urge the Congress to move quickly to pass this important legislation.

Once again, we respectfully ask you to support S. 143 and we thank you for your consideration of this important matter.

Sincerely,

Steve Judge
Senior Vice President,
Government Affairs