

United States House of Representatives
Committee on Financial Services
Washington, D.C. 20515

July 11, 2014

The Honorable Jeb Hensarling
Chairman
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

Despite Americans increasingly relying on the financial advice of investment advisers to save for retirement, college, and other investment decisions, the Securities and Exchange Commission (SEC) only examines 9% of these advisers a year. Such an abysmal examination record does nothing to promote confidence in these advisers, let alone in our markets. Accordingly, I respectfully request that you convene a full Financial Services Committee hearing to consider various legislative proposals, including H.R. 1627, the Investment Adviser Examination Improvement Act, to increase the levels of examinations of investment advisers.

Today, even though SEC is responsible for overseeing 11,000 advisers that manage nearly \$50 trillion in assets, the agency examines these advisers only once every 12 years, and 40% of advisers have never been examined. To put this in perspective, brokers and dealers registered with the Financial Industry Regulatory Authority (FINRA) are examined every other year. Though the vast majority of investment advisers operate with integrity, Congress, the adviser community, investor advocates and the SEC all agree that the SEC's levels of examination need to improve to help restore trust in our financial markets.

Congress recognized these concerns when it passed the Dodd-Frank Wall Street Reform and Consumer Protection Act, directing the SEC to study the issue. The SEC concluded adviser exams needed to be increased, but that funding challenges prevented the SEC from doing so, and provided three options to Congress. Building on the first recommendation, Representative Delaney and I introduced H.R. 1627 to authorize the SEC to levy user fees on advisers to solely fund additional examinations. This approach has been endorsed by SEC's Investor Advisory Committee, the investment adviser community and investor advocates. In the previous Congress, Representative Bachus proposed a discussion draft that incorporated the SEC's other two recommendations to create a self-regulatory organization (SROs) or multiple SROs, charged with examining advisers. This proposal was echoed in part recently by Commissioner Gallagher, who argued that third-party consultants could be used to increase oversight.

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I note that the Committee's oversight plan for the 113th Congress states that the "Committee will review proposals that would harmonize the frequency of examinations of broker-dealers and investment advisers." I believe the time is right for the Committee to conduct this review. Hardworking Americans saving for the future, as well as the investor adviser community, deserve to know that everyone is complying with the law.

I appreciate your attention to this request.

Sincerely,

A handwritten signature in blue ink, appearing to read "Maxine Waters", with a long horizontal flourish extending to the right.

MAXINE WATERS

Ranking Member