



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

THE CHAIRMAN

January 31, 2011

The Honorable Darrell E. Issa  
Chairman  
Committee on Oversight and Government Reform  
United States House of Representatives  
2157 Rayburn House Office Building  
Washington, DC 20515

Dear Chairman Issa:

Thank you for your letter of January 5, 2011 and the opportunity to meet with you to discuss ways to improve the SEC.

As you know from our discussions, in the past two years the SEC has taken decisive and comprehensive steps to reform the way it operates. We have brought in new leadership and senior management, revitalized and restructured our enforcement and examination operations, revamped our handling of tips and complaints, taken steps to break down internal silos and create a culture of collaboration, improved our risk assessment capabilities, recruited more staff with specialized expertise and real world experience, and enhanced safeguards for investors' assets, among other things. Our efforts are paying dividends. Last fiscal year, for example, there was \$2.8 billion in disgorgement and penalties ordered in SEC enforcement actions, a 163 percent increase over the amounts ordered in fiscal year 2008. Similarly, in fiscal year 2010, we distributed an estimated \$2.2 billion to harmed investors, a 120 percent increase over the amount distributed in fiscal year 2008.

Despite these improvements, much work remains to be done. We already have moved to implement a number of recommendations provided by the Commission's Office of Inspector General and the Government Accountability Office, and we look forward to receiving the independent organizational study mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act. Suggestions to improve our operations are always appreciated, and I look forward to discussing with you additional efficiencies that might be gained. I also welcome the opportunity to respond to the specific questions contained in your letter.

**Implementation of Data Standardization**

It is imperative that the SEC be able to make timely and efficient use of the information it gathers from filers. Standardizing data is important because it enables us to ensure that we are comparing "like with like," which in turn promotes sound analysis at the entity, industry, and systemic levels. Standardizing data can make it easier for both the SEC and investors to

understand the implications of financial statements and other reports, while enabling comparisons between filers and among industries.

The Commission has incorporated data tagging requirements into several of its most significant rulemaking initiatives so as to increase the ability of parties to analyze the data that filers are required to provide. Among these are the Commission's rules on Interactive Data to Improve Financial Reporting (Jan. 30, 2009) and the rules on Interactive Data for Mutual Fund Risk/Return Summary (Feb. 6, 2009). The Commission also included data tagging requirements in amendments to its Nationally Recognized Statistical Rating Organizations rules (Feb. 2 & Nov. 23, 2009), its rule on Money Market Fund Reform (Feb. 23, 2010), as well as in its proposed rules on Asset-Backed Securities (Apr. 7, 2010), Disclosure of Payments for Resource Extraction Issuers (Dec. 15, 2010) and Security-Based Swap Data Repository Registration (Nov. 19, 2010).<sup>1</sup>

It is critical that the SEC be able to benefit from our data-tagging initiatives, both in terms of enhanced analytics and increased efficiencies. To enable prompt and effective analysis of such tagged data, I directed staff early in my tenure to identify, acquire, and begin to train our reviewing staff on how to use new analytic tools that may be available. I understand that staff from the SEC's Division of Risk, Strategy, and Financial Innovation demonstrated the capabilities of certain of these tools to members of your staff last October. Unfortunately, the SEC's current budget situation has reduced our ability to staff fully the desired interactive data platform.

I am confident the Commission will continue to promote transparency through data standardization techniques such as data tagging with the goal of improving the intelligibility and analyzability of filings. However, this effort, like our other IT initiatives, will be dependant in part on future resources. Moreover, I expect that, as the utility of tagged data in promoting our analytic objectives becomes more widely known, the market will offer additional analytic tools and develop new taxonomies, while continuing to refine existing ones.<sup>2</sup>

Your legislation, the Financial Industry Transparency Act, contains provisions that would require the Commission and other financial regulators to adopt consistent and interoperable data standards for information included in a variety of third-party filings, and to adopt rules requiring that information to be filed in a form consistent with those data standards. I share with you the desire to increase the volume of information filed with the Commission in an interoperable electronic data format. As described above, the Commission already has begun to collect data in

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<sup>1</sup> The Commission also discussed the importance of standardizing data in its Concept Release on the U.S. Proxy System (July 14, 2010), inquiring into the feasibility of requiring data-tagging for proxy-related materials.

<sup>2</sup> In order to signal and stimulate a market for tagged data and associated analytic tools, the Commission played a lead role in developing the earliest xbrl taxonomy for tagging financial reports made in accordance with U.S. GAAP. A private market has since developed, offering new taxonomies and analytic tools to exploit such tagged data. As a result, it is unlikely that the Commission will take a lead role in developing complex tagging taxonomies and related tools in the future.

these formats, and I expect the variety and volume of data to be filed in these formats will increase in the future. We will soon be evaluating which, if any, legislative recommendations, we will make to Congress in the coming year, and you can be assured that we will certainly include consideration of the Act in our deliberations.

Finally, I would welcome the Office of Financial Research – or other cross- agency coordination – to help financial regulators better use and share information. Staff of the Commission would be happy to contribute our expertise to any cross-agency working group created to work on common data standards for financial regulators.

### **Employee Discipline**

In the year before I became Chairman, the SEC did not terminate the employment of any employees. In 2009, the SEC terminated the employment of nine employees, and during 2010, the SEC terminated the employment of two employees. Also in 2010, an additional three employees resigned – and one retired – in lieu of termination, while an additional four employees resigned, and four retired, after receiving notice that the agency had begun or intended to initiate disciplinary action. The Commission did not terminate any temporary employees in 2010.

From 2008 to the present, the Commission's Inspector General issued 84 reports in which he recommended disciplinary action or the consideration of disciplinary action against Commission employees or contractors. Attached to this letter is a spreadsheet with information regarding the action taken by the SEC with respect to these recommendations.

With regard to whether any laws, policies or procedures impede the SEC's ability to remove staff, I am not aware of any that prevent us from doing so, though there is a process that must be followed when seeking to impose discipline of this nature. Like most other federal agencies, the Commission is required to follow the termination procedures set forth in Chapters 43 and 75 of Title 5 of the United States Code. These statutes create various procedural requirements, including providing the employee a specification of the charge, providing the employee an opportunity to respond to the charge orally and in writing, and a written decision by the deciding official. If the discipline imposed is greater than a 14 day suspension, the employee has a right to appeal to the Merit Systems Protection Board (MSPB), including the right to an evidentiary hearing before the MSPB. Obviously, before terminating an employee, the Commission must of course meet the requisite burden of evidentiary proof.

Similarly, consistent with the statutorily mandated processes and protections, I am not aware of any provisions in the collective bargaining agreement between the Commission and the National Treasury Employees Union that prevent the agency from removing staff where warranted.

With regard to unnecessary positions, I am not aware of any laws, policies, or procedures that would prevent the agency from reducing unnecessary positions.

### **Improving Financial Management**

As you and I discussed, it is unacceptable that the GAO has identified material weaknesses in the SEC's internal controls over financial reporting. The root causes of these material weaknesses are gaps in the security and functionality of the agency's financial system. Rather than incur the development risks of creating new technology and systems, we made the decision to outsource this function by migrating to one of the Office of Management and Budget's designated Federal Shared Service Providers (FSSP), under the Financial Management Line of Business (FMLoB) model. Although dependent on adequate resources, the FMLoB solution will meet the following criteria:

- remediate the agency's material weaknesses and other audit deficiencies in controls;
- establish a single data model for transaction processing and reporting;
- host a system capable of producing the SEC's financial statements as published in the Performance and Accountability Report (PAR) and management and analytical reports;
- host a system compliant with the Office of Management and Budget (OMB) Circular No. A-127, Financial Management Systems;
- minimize the processing of transactions that use current manual workarounds, spreadsheets and external databases, as they are resource intensive and prone to error;
- provide improvements in routine accounting reports; and
- provide a flexible system architecture that supports changing business processes and requirements.

After detailed analysis and careful consideration, the Commission selected as its FSSP the Department of Transportation's (DOT) Enterprise Service Center (ESC). Through the implementation of the new financial system, the Commission will reap the benefits of expanded functional capability; full integration of critical system components; business process reengineering, where appropriate; and high-quality production and customer support. The new system also will address our need for better integration of program, financial, and budgetary information to support more efficient and effective operations.

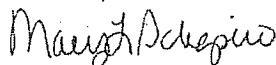
On November 15, 2010, the SEC signed an Interagency Agreement with DOT to work through the planning phase of the financial management improvement project. This phase includes the identification of key issues important to the Commission in overall ESC system implementation planning; the development of a detailed project plan for the full implementation of the ESC solution; and the identification of unique Commission requirements. By the end of the planning phase on February 13, 2011, we will be in a position to make the final decision whether to enter into a second interagency agreement with DOT and proceed with the full implementation of the ESC solution.

We expect that the implementation phase will be completed during the second quarter of Fiscal Year 2012.

This project and a number of other programs are being directed by Jeffrey Heslop, our new Chief Operating Officer. Mr. Heslop joined the SEC in May 2010 from Capital One Financial Corporation, where he was responsible for the company's information and resiliency risk management. He, along with our new Chief Information Officer (Thomas Bayer, who joined the Commission in October 2010 from his practice advising banking and financial services clients on technology strategy, software development, and program management solutions) are applying private sector techniques and methods to increase the Commission's efficiency and processes. Staff in our Office of Legislative and Intergovernmental Affairs will contact your staff to arrange a mutually agreeable date and time for Mr. Heslop and, if you so desire, Mr. Bayer to meet with members of the Committee on Oversight and Government Reform.

Please call me at (202) 551-2100 or have your staff call Tim Henseler, Deputy Director of the Office of Legislative and Intergovernmental Affairs, at (202) 551-2015 if you have any questions or comments.

Sincerely,



Mary L. Schapiro  
Chairman

Attachment

**Treatment of Disciplinary Recommendations  
Made by the Office of Inspector General (OIG) 2008-Present**

<b>Date of OIG Report</b>	<b>Title of OIG Report</b>	<b>Employee Titles</b>	<b>Action Taken by the SEC</b>
1/23/2008	OIG-462: Misuse of Government Computer Resources and Official Time	Staff Accountant	Resigned in lieu of termination
1/30/2008	PI-08-14: Misuse of Government Computer Resources and Official Time	Human Resources Specialist	Counseling
1/30/2008	PI-08-15: Misuse of Government Computer Resources and Official Time	Legal Instruments Examiner	Counseling
1/31/2008	PI-08-13: Misuse of Government Computer Resources and Official Time	Attorney Advisor	Counseling
2/13/2008	PI-08-16: Misuse of Government Computer Resources	Confidential Assistant	Counseling
3/11/2008	PI-08-24: Misuse of Government Computer Resources and Official Time	Attorney Advisor	Resigned
3/11/2008	PI-08-25: Misuse of Government Computer Resources and Official Time	Staff Accountant	Reprimand
3/13/2008	OIG-466: Abuse of Time and Attendance at the New York Regional Office	Program Analyst	Resigned in lieu of termination; reimbursed agency for amounts received during unauthorized absence from duty
3/25/2008	OIG-473: Misuse of Government Computer Resources and Official Time	Senior Counsel	10-day suspension
3/25/2008; Supp. 5/23/2008	OIG-456: Misuse of Government Parking Permit	Program Management Specialist	Termination

Date of OIG Report	Title of OIG Report	Employee Titles	Action Taken by the SEC
3/27/2008	OIG-465: Misrepresentation of Professional Credentials and Misuse of Government Computer Resources and Official Time at Headquarters	Staff Accountant	3-day suspension
4/30/2008	OIG-468: Misuse of Government Computer Resources and Official Time at NYRO	Staff Accountant	14-day suspension
12/31/2007; Supp. 6/2/2008	OIG-472: Disruptive Act at the Workplace; Intimidating and Controlling Behavior; Lack of Candor	Associate Director/Chief Counsel and an Assistant Chief Counsel	The Associate Director/Chief Counsel was removed from Chief Counsel position and received counseling; the Assistant Chief Counsel received counseling
6/5/2008	OIG-469: Conflict of Interest, Improper Solicitation, and Receipt of Gifts from a Prohibited Source, Misuse of Official Position and Other Misconduct	Deputy Chief Information Officer and a Branch Chief	No action as to the Deputy Chief Information Officer; the Branch Chief resigned
6/24/2008	OIG-493: Falsification of Employment Application and Personnel Forms	Program Analyst	Termination
7/1/2008	PI-08-48: Misuse of Government Computer Resources and Official Time	Human Resources Specialist	Counseling
7/2/2008	PI-08-49: Misuse of Government Computer Resources and Official Time	Contractor	Removed from contract
7/9/2008	OIG-484: Misuse of Government Computer Resources and Official Time at Chicago Regional Office	Securities Compliance Examiner	Resigned in lieu of termination

Date of OIG Report	Title of OIG Report	Employee Titles	Action Taken by the SEC
7/18/2008	OIG-476: Misuse of Government Resources and Official Time at Headquarters	Document Information Assistant	14-day suspension
7/24/2008	OIG-464: Misuse of Government Resources and Official Time	Market Surveillance Specialist	9-day suspension
7/30/2008	OIG-490: No Merit to Complaint of Orders to Falsify a Government Record and Need to Address Personnel Issues in the Security Branch	Security Branch	No measures required because staff member at issue resigned
8/4/2008	OIG-457: Misuse of Government Resources, Appearance of Conflict of Interest and Lack of Candor at the Chicago Regional Office	Senior Attorney	Counseling
8/12/2008	OIG-480: Misuse of Official Government Position	Acting Secretary/Deputy Secretary	Reprimand
8/12/2008	OIG-497: Misuse of Government Resources and Official Time	Attorney Advisor	Reprimand
8/14/2008	OIG-479: Misuse of Government Resources and Official Time	Contractor	Written counseling
9/30/2008	OIG-431: Re-Investigation of Claims by Gary Aguirre of Improper Preferential Treatment and Retaliatory Termination	Division Director, an Assistant Director, and a Branch Chief	The Assistant Director retired; for the Division Director and Branch Chief, an Administrative Law Judge determined formal disciplinary action was not appropriate
11/7/2008	OIG-488: Misuse of Government Resources and Official Time at Headquarters	Information Technology Specialist	9-day suspension



Date of OIG Report	Title of OIG Report	Employee Titles	Action Taken by the SEC
11/26/2008	OIG-503: Misuse of Government Computer Resources and Official Time at Los Angeles Regional Office	Assistant Regional Director	Reprimand; employee has since resigned
12/12/2008	PI-09-19: Misuse of Government Computer Resources and Official Time	Contractor	Removed from contract
12/12/2008	PI-09-20: Misuse of Government Computer Resources and Official Time	Contractor	Removed from contract
12/12/2008	PI-09-21: Misuse of Government Computer Resources	Contractor	Removed from contract
12/12/2008	PI-09-25: Misuse of Government Computer Resources and Official Time	Staff Accountant	Counseling
12/15/2008	OIG-495: Violation of D.C. Metropolitan Police Security Officers Management Branch Rules, Improper Issuance of Waiver from Contractual Requirements and Other Inappropriate Conduct Involving Commission Security Operations	Contractor and a Security Specialist	Contractor removed from contract and employee reprimanded

Date of OIG Report	Title of OIG Report	Employee Titles	Action Taken by the SEC
3/3/2009	OIG-481: Employees' Securities Transactions Raise Suspicions of Insider Trading and Create Appearances of Impropriety; Violations of Financial Reporting Requirements; and Lack of SEC Employee Securities Transactions Compliance System	2 Attorneys	Pending
3/5/2009	OIG-499: Appearance of Lack of Partiality in the Performance of Official Duties	Assistant Director	Reprimand
3/17/2009	OIG-477: Allegations of Perjury and Obstruction of Justice by Former SEC Enforcement Attorney	Administrative Contact	Counseling
3/18/2009	OIG-492: Abuse of Time and Attendance by SK-12 Employee of the Division of Investment Management	Financial Analyst	Termination
3/30/2009	OIG-501: Disclosure of Nonpublic Information	Staff Attorney	Counseling received prior to completion of OIG report; no action taken thereafter
6/5/2009	PI-09-81: Misuse of Government Computer Resources and Official Time	Information Technology Specialist	1-day suspension
6/8/2009	PI-09-82: Misuse of Government Computer Resources and Official Time	Branch Chief	Written reprimand and donation of 8 hours of annual leave to leave bank
6/15/2009	PI-09-85: Misuse of Government Computer Resources and Official Time	Contractor	Removed from contract

Date of OIG Report	Title of OIG Report	Employee Titles	Action Taken by the SEC
6/16/2009	PI-09-83: Misuse of Government Computer Resources and Official Time	Contractor	Warning
6/16/2009	PI-09-84: Misuse of Government Computer Resources and Official Time	Contractor	Warning
6/24/2009	PI-09-76: Misuse of Government Computer Resources and Official Time	Assistant Director	No action taken
7/1/2009	PI-08-39: Misuse of Government Computer Resources and Official Time	Legal Instruments Examiner	Counseling
7/9/2009	OIG-506: Misuse of Government Computer Resources and Official Time at the Atlanta Regional Office	Supervisory Staff Accountant	5-day suspension
7/9/2009	OIG-514: Possession of a Dangerous Weapon in a Federal Facility by Division of Enforcement SK-14 Employee	Assistant Chief Accountant	30-day suspension and signed an agreement providing for abridged disciplinary process in the event of future misconduct; resigned prior to serving entire suspension
8/5/2009	OIG-08-37: Misuse of Government Computer Resources and Official Time	Information Technology Specialist	Counseling
8/31/2009	OIG-509: Investigation of Failure of the SEC To Uncover Bernard Madoff's Ponzi Scheme	Certain OCIE and ENF staff	Pending
9/15/2009	OIG-494A: Allegations of Retaliatory Personnel Actions	Associate Director and a Regional Office Director	No action taken

Date of OIG Report	Title of OIG Report	Employee Titles	Action Taken by the SEC
9/25/2009	OIG-494B: Violation of Standards of Ethical Conduct in Regards to Official Government Travel	Associate Director	Reprimand
9/30/2009	OIG-504: Misuse of Government Computer Resources and Violation of the Standards of Ethical Conduct for Employees	Support Services Supervisor	Employee retired prior to completion of OIG report
9/30/2009	OIG-519: Misuse of Position, Government Resources and Official Time in Denver Regional Office and Home Office	Senior Special Counsel and a Research Specialist	The Senior Special Counsel received 14-day suspension and mandatory ethics training; the other employee received counseling
11/24/2009	OIG-515: Disclosure of Non-Public Procurement Information and Lack of Candor at Headquarters	Contractor and a Branch Chief	No action taken as to the contractor and a reduction in pay and grade as to the Branch Chief
12/17/2009	OIG-517: Misuse of Government Resources and Official Time at Headquarters	Procurement Analyst	30-day suspension
1/12/2010	OIG-512: Unauthorized Disclosure of Non-Public Information	2 Staff Attorneys	Counseling as to both
2/26/2010	OIG-505: Failure to Timely Investigate Allegations of Financial Fraud	Enforcement Staff	Two employees received counseling; management discussed issues with working-group to ensure future tips are reviewed in a timely manner
3/8/2010	PI-10-20: Misuse of Computer Resources	Attorney Advisor	Counseling

Date of OIG Report	Title of OIG Report	Employee Titles	Action Taken by the SEC
3/8/2010	PI-10-21: Misuse of Computer Resources	Attorney Advisor	Reprimand
3/8/2010	PI-10-22: Misuse of Computer Resources	Attorney Advisor	30-day suspension
3/29/2010	OIG-508: Allegations of Inappropriate and Unprofessional Conduct by a Current SEC Employee and Unauthorized Computer Access by a Former SEC Employee	Branch Chief	Counseling
3/31/2010	OIG-526: Investigation of the SEC's Response to Concerns Regarding Robert Allen Stanford's Alleged Ponzi Scheme	Certain ENF and OCIE staff	Pending
4/30/2010	PI-10-30: Misuse of Computer Resources and Official Time	Disclosure Assistant	30-day suspension
4/30/2010	PI-10-31: Misuse of Computer Resources and Official Time	Human Resources Specialist	Resigned in lieu of termination
4/30/2010	PI-10-32: Misuse of Computer Resources and Official Time	Legal Instrument Examiner	30-day suspension
6/10/2010	OIG-530: Unprofessional Conduct by Supervisor While Conducting an Investment Adviser Examination	Branch Chief	Resignation prior to issuance of OIG report

Date of OIG Report	Title of OIG Report	Employee Titles	Action Taken by the SEC
6/29/2010	PI-09-04: Appearance of Impropriety With Respect to Acts Affecting a Personal Financial Interest	Branch Chief	No action taken; employee retired
7/9/2010	PI-10-59: Misuse of Government Computer Resources and Work Time	Contractor	Removed from contract
8/9/2010	PI-10-54: Enforcement Attorney Engaged in Prohibited Political Activity	Attorney	No action taken; the Office of Special Counsel ("OSC") has sole jurisdiction to pursue violations of the Hatch Act; OSC did not take action because employee withdrew from election
9/1/2010	OIG-520: Corporation Finance Attorney Suspended from State Bars, Misrepresented Bar Status. Lacked Candor, Abused Full-Time Telework Medical Accommodation and Leave and Engaged in Conflicts of Interest	Attorney Advisor	Pending
9/8/2010; 11/23/2010 Supp.	OIG-541: Alleged Misrepresentation of Identity and Lack of Bar Membership by Chicago Regional Office Staff Attorney	Staff Attorney	Resigned in lieu of disciplinary action
9/30/2010	Memorandum Report: Improper Pre-Selection of Contractor	Associate Executive Director	No action taken
10/22/2010	OIG-547: Misuse of Government Computer Resources and Official Time	Staff Accountant	Pending

Date of OIG Report	Title of OIG Report	Employee Titles	Action Taken by the SEC
10/26/2010	OIG-533: Report of Investigation, Investigation of the Failure of the SEC's LARO to Uncover Fraud in Westridge Capital Management Notwithstanding Investment Adviser Examination Conducted in 2005 and Inappropriate Conduct on Part of Senior Los Angeles Official	Assistant Regional Director	Resigned
10/26/2010	OIG-533: Report of Investigation, Investigation of the Failure of the SEC's LARO to Uncover Fraud in Westridge Capital Management Notwithstanding Investment Adviser Examination Conducted in 2005 and Inappropriate Conduct on Part of Senior Los Angeles Official	Certain LARO examination staff	Pending
11/10/2010	OIG-537: Abusive and Intimidating Behavior Within the Securities and Exchange Commission Security Branch, Inappropriate Personal Relationship Between Security Specialist and Contractor Employee, and Inadequate Management of Security Branch	Security Specialist	Pending
11/10/2010	OIG-537: Abusive and Intimidating Behavior Within the Securities and Exchange Commission Security Branch, Inappropriate Personal Relationship Between Security Specialist and Contractor Employee, and Inadequate Management of Security Branch	Contractor, a Chief of the Security Branch, and a Security Specialist	Pending

Date of OIG Report	Title of OIG Report	Employee Titles	Action Taken by the SEC
11/23/2010	PI-09-113: Improper Travel Expenditures and Lack of Supervisory Review	2 Branch Chiefs	Pending
12/14/2010	OIG-523: Improprieties in the Selection of Information Technology and the Award of a Sole-Source Contract	Deputy Director, Assistant Director, and 2 Contract Specialists	Pending
12/28/2010	PI-10-05: Falsification of Time and Attendance Records, Abuse of Telework and Lack of Supervisory Review	Associate Director and Case Management Specialist	Pending
1/6/2011	PI-11-06: Misuse of Government Computer Resources and Work Time	Contractor	Removed from contract
1/11/2011	PI-11-05: Misuse of Government Computer Resources and Official Time	Senior Attorney	Resigned prior to completion of OIG report
1/13/2011	PI-11-07: Misuse of Government Computer Resources and Official Time	Senior Counsel	Pending
1/20/2011	OIG-544: OIT Contract Employees Given Access to SEC Buildings and Computer Systems for Several Weeks before Background Investigation Clearance	Project Manager and Contractor	Pending