

WORKING RELATIONSHIPS

Strong working relationships with other organizations and jurisdictions involved in commodity futures and option trading, law enforcement, and domestic and international financial regulation increase the Commission's ability to build knowledge, develop insight, share information, and participate in developing standard practices and policies across these industries.

President's Working Group on Financial Markets

The President's Working Group on Financial Markets (Working Group) is a forum for the coordination of federal financial regulation across markets. It brings together the leaders of the federal financial regulatory agencies, including the Secretary of the Treasury, who chairs the group, and chairs of: the FRB, the CFTC, and the SEC. In addition to the four primary financial regulators, the Working Group also includes the heads of the National Economic Council (NEC), the Council of Economic Advisors, the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), Federal Reserve Bank of New York, and the Office of Thrift Supervision. Issues considered by the working group and its staff have included individual and coordinated agency initiatives concerning risk assessment, capital requirements, internal controls, disclosure, accounting, market practices relating to trading in derivative instruments, bankruptcy law revisions, and contingency planning for market emergencies.

During FY 2000, the Working Group made legislative recommendations to Congress designed to provide legal certainty for OTC derivatives, remove impediments to innovation, and reduce systemic risk. In addition, the Working Group encouraged the development of electronic trading systems and appropriately regulated clearing systems for OTC derivatives. Consistent with these recommendations, Congress enacted and the President signed into law the CFMA.

Information Sharing with Other Financial Regulators

The Commission benefits from established intergovernmental partnerships, sharing information and consulting on issues of importance to the Commission and other organizations. Regulatory coordination with the SEC will increase with the advent of security futures products in FY 2002.

The Commission routinely shares information with other financial market regulators, particularly the SEC, the US Treasury, the FRB, the New York Federal Reserve Bank, and the FDIC. Biweekly staff conference calls are held with these organizations to review developments in the cash and futures markets for US Treasury securities. Quarterly staff meetings also are held to review major expirations of financial futures markets. Staff of the US Department of Agriculture (USDA) and the Department of Energy (DOE) regularly attend weekly market surveillance briefings of the Commission and share pertinent

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data as needed. The Commission routinely shares information regarding contract market terms and conditions with these and other financial market regulators and other agencies pursuant to statutory requirements for consultation and to obtain information from other agencies that have expertise with regard to a particular commodity under review.

The Commission has played a consulting role in the USDA Risk Management Education initiative which was authorized by the 1996 Federal Agricultural Improvement and Reform (FAIR) Act.

National Futures Association

NFA is an industry-wide SRO for the futures industry and the only registered futures association. The CEA authorizes the Commission to delegate registration functions to NFA and requires that NFA perform certain self-regulatory functions. NFA is the principal direct regulator, under Commission oversight, of those industry professionals who are not members of another SRO. Except for certain securities broker-dealers who are registered as an FCM solely to engage in security futures products transactions, Commission Rule 170.15 specifically requires membership in a registered futures association of each person required to register as an FCM. That rule, combined with the by-laws of the NFA, operates to compel membership in a registered futures association by all industry professionals who deal with the public with respect to commodity interest transactions.

During FY 2002, certain securities broker-dealers will register as FCMs solely to engage in security futures transactions through a simplified, notice registration process. The CFMA exempts these firms from NFA membership. The statutory structure is designed to promote a partnership between any registered futures association and the Commission to assure high standards for industry professionals. NFA monitors registrants for compliance with the CEA and rules promulgated thereunder, as well as NFA rules. NFA also monitors the activities of NFA members registered as CPOs, CTAs, IBs, and FCMs who are not members of a futures exchange, as well as APs of any of the foregoing.

The Commission specifically has delegated to NFA virtually all of its registration functions, including processing registration applications and related documentation and taking adverse actions against registrants and applicants for registration based upon disqualifying conduct. The authority delegated by the Commission covers all registrants, even those over whom NFA does not exercise primary front-line jurisdiction, such as FCMs who are exchange members, FBs, FTs, and CTAs who are not NFA members. The most recent Commission delegation of authority to NFA concerning registration involves agricultural trade options merchants (ATOMs) and their APs, a delegation made in April 1998 in connection with the Commission's promulgation of rules to govern a three-year pilot program of trading agricultural trade options. In addition, on April 13, 2000, the Com-

mission issued a revised "Guidance Letter" to NFA, advising NFA to cease using Commission Rule 1.63 as the basis for determining whether the disciplinary history of an FB or floor trader (FT) should disqualify them from registration, and instead to use the standard articulated in *In re Clark* (statutory disqualification (SD) may arise if the disciplinary history consists of a pattern of exchange disciplinary actions alleging serious rule violation that resulted in significant sanctions).

The Commission oversees the NFA registration program through frequent contacts with NFA staff members on specific matters, as well as through formal reviews by the Commission of NFA programs. Reviews are presented to the Commission and made public. In late 1995, the Registration Working Group (RWG) was established that includes staff members of the Commission and NFA. This group convenes quarterly to discuss issues of mutual interest concerning registration.

The Commission has forged partnerships with NFA in other areas by delegating additional responsibilities while maintaining vigorous oversight programs to assure that newly delegated responsibilities are discharged fairly and effectively.

For example, beginning in 1993, all individual registrants were required to attend ethics training. In December 1995, the Commission delegated to NFA functions relating to: 1) reviewing certifications required to be filed by persons seeking to become ethics trainers; 2) monitoring activities of ethics trainers; and 3) maintaining records of registrants' attendance at ethics training sessions. As part of regulatory reform, the Commission intends to amend its rules to permit registrants greater flexibility in complying with continuing education requirements. (In September 1997, the Commission delegated the review of applications of individual foreign firms for an exemption from registration, as well as certain other tasks related to activities in the foreign futures and option areas. In November 1997, the Commission also delegated to NFA the function of reviewing CPO and CTA disclosure documents.)

Beginning in FY 1999, the Commission has also delegated to NFA the responsibility for monitoring the payment of restitution in certain enforcement actions that is to be paid pursuant to multi-year payment plans in which the amount paid by the defendant/respondent is based upon the level of his/her income. By having NFA assume the duties that traditionally were delegated to a receiver, the Commission has saved resources and preserved customer assets.

The Commission is also working with NFA to provide enhancements to the design and execution of programs operated by NFA and various regulatory issues. The projects include enhancement to the Background Affiliation Status Information Center (BASIC), which is the disciplinary information database. BASIC was put on-line in February 1999 to enhance public access to disciplinary information on registrants, including providing access to such information

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through the Internet. In July 1999, the Commission delegated to NFA regulatory responsibilities associated with Commission Regulation 9.11. The Commission also is working with NFA on performance reporting and disclosure enhancements, sales practice and telemarketing issues, audit priority system enhancements, arbitration rule amendment proposals, and a redesign of the comprehensive registration database, the Membership Registration Receivables System (MRRS), including new registration forms and a transition to a "paperless" registration system.

US Department of Agriculture

Consistent with the mandate of the FAIR Act of 1996, the Commission and its staff have been working with the USDA Risk Management Agency, the USDA Cooperative State Research, Education, and Extension Service, and the USDA Office of Outreach in a risk management education effort. The FAIR Act initiated a phase-out of the price support programs that had provided a safety net for American agriculture since the 1930s. Recognizing that the disappearance of these programs would force producers to become more self-reliant in risk management, the FAIR Act required the Secretary of Agriculture, "in consultation with the Commodity Futures Trading Commission," to provide producers with appropriate "...education in management of the financial risks inherent in the production and marketing of agricultural commodities... ."

This risk management education effort is intended to be broad in scope and content, focusing on integrating basic information from all relevant sectors, including crop insurance, futures, and options. Recent initiatives include development of educational materials and programs for ultimate delivery to farmers through the funding of a number of grants for risk management education projects as well as planning and conducting a number of regional risk management education conferences and seminars. Longer term strategies for the delivery of educational materials to producers currently are being developed and implemented and include the establishment of Web site tutorials, the use of television and radio infomercials, and local meetings and seminars. Commissioner David Spears serves as the Commission's designee to the Risk Management Education Steering Committee which oversees this entire risk management education effort.

Educational Opportunities & Outreach Efforts

Commission staff have provided technical assistance to foreign market authorities and foreign exchange representatives to promote the creation of effective international regulatory standards by allowing other regulators to benefit from the vast regulatory experience of the Commission. Each year, the Commission hosts numerous delegations from foreign jurisdictions seeking to learn about various aspects of the Commission's regulatory program. Each year, the Commission also conducts a one-week training seminar for foreign regu-

lators and exchange representatives. The seminar provides intensive training on the full scope of the Commission's regulatory program and broader policy issues.

The Commission has authorized staff to travel to foreign locations to provide on-site assistance to foreign regulatory authorities. Commission staff participated in numerous training initiatives by: the Asian Development Bank (ADB); Asian Pacific Regulators (Malaysia); the Japanese Ministry of Finance and the Organization for Economic Cooperation and Development (Japan); the Asian Pacific Economic Council (APEC) in Korea and the Philippines; IOSCO on manipulation (Mauritius); the Toronto Centre (Canada) on regulatory oversight and crisis management; the Brazilian Securities Commission; and the Polish Securities and Exchange Commission. In these instances, Commission staff provided information on market surveillance and market integrity issues. Commission staff participated in forums organized by international regulatory bodies and foreign governmental regulators regarding audit and financial issues, including presentations to Russia and the Philippines.

Staff have provided assistance to the World Bank International Task Force on Commodity Risk Management regarding ways to help developing countries manage the risks related to commodity price volatility.

Each year, the Commission sponsors a meeting of international regulators that takes place in conjunction with the FIA's Annual Spring Conference. The meeting is an opportunity for international regulators to discuss issues of current practical concern, such as the structural and regulatory changes occurring as a result of technology and global markets. These meetings foster greater cross-border cooperation among regulators and permit regulators to take the global perspective into account when approaching domestic regulatory issues. The meeting in 2001 discussed practical methods to reduce inconsistent or unnecessary duplication of regulatory efforts in order to facilitate cross-border access and effective supervision. The meeting included discussions with futures industry representatives concerning obstacles to cross-border business.

Upon request from various international financial regulators, the Commission provides information on the Commission's programs and comments on various reports. For example, comments were provided to the International Monetary Fund regarding several interim draft codes, including its Code of Good Practices on Transparency and Monetary and Financial Policies and to the Organization for Economic Cooperation and Development (OECD) regarding the OECD Code of Liberalization of Capital Movements.

The Chicago Federal Reserve Bank has supported the Commission's training seminar for foreign regulators by permitting the Commission to use the Chicago Federal Reserve's facilities and by participating in the first day plenary session. Similarly, the International Finance

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Corporation, a division of the World Bank, co-sponsors with the Commission a one-day seminar in Washington, DC on the fundamentals of creating successful derivatives markets in developing capital markets.

The Commission also participated in multiple forums of industry professionals, attorneys, and accountants who practice in the futures area, as well as end-users of futures markets. The forums included discussions of the CEA, Commission rules, pending rule changes and market developments. Commission members or staff have made presentations at conferences sponsored by the Chicago-Kent College of Law, the World Economic Development Forum, the SEC, the Practicing Law Institute, the American Institute of Certified Public Accountants (AICPA), the Securities Industry Association (SIA), IOSCO, the Managed Funds Association, and the FIA.

Agricultural Advisory Committee

The AAC represents a vital link between the Commission, which regulates agricultural futures and option markets, and the agricultural community, which depends on those markets for hedging and price discovery. The 25 member organizations of the AAC represent a major portion of the American agricultural community. Since 1985, the meetings of the AAC have fostered an ongoing dialogue between that community and the Commission.

The AAC's most recent meetings, its 28th and 29th, took place on July 19, 2000, and March 28, 2001. At the July 19, 2000 meeting, the committee heard presentations from, and engaged in substantive discussions with, both Commission staff and representatives of each US exchange that trades agricultural products concerning the Commission's "regulatory reinvention" proposal. The committee also received a legislative update from staff members of the House and Senate agriculture committees and presentations on "recent innovations in agricultural risk management and marketing" from representatives of three firms that sponsor new electronic systems for trading agricultural products.

At the March 28, 2001, meeting, the committee was briefed on the major restructuring of futures regulation mandated by the CFMA. The committee members then engaged in substantive discussions with industry witnesses, Commission staff and each other concerning the usage of, and appropriate regulatory structure for, agricultural trade options and other risk management alternatives in light of the CFMA and proposed regulatory changes. They also heard presentations on the Warehouse Act of 2000 as it applies to agricultural futures and current activities of USDA's Risk Management Agency.

Technology Advisory Committee

In October 1999, the Commission established an advisory committee on technology to advise the Commission on the impact and implications of technological innovation in the financial services and commodity markets. The Technology Advisory Committee, led by Commissioner Erickson as chair, is a successor to the former Financial Product Advisory Committee. More specifically, the advisory committee objectives include: 1) assisting the Commission in reviewing emerging technologies utilized by financial services and commodity markets; 2) identifying technology providers for the financial services and commodity markets; 3) analyzing the impact of emerging technologies on the financial services and commodity markets, as well as on the market professional and market users, particularly in the areas of system capacities and readiness, order flow practices, and clearing and payment activities; 4) reviewing the CEA, as amended by the CFMA, and the regulations promulgated thereunder to assess their applicability to electronic issues and to ensure the Commission's ability to exercise appropriate fraud and manipulation authority; and 5) examining ways that the Commission may respond to the increasing use of technology and financial services and commodity markets through appropriate legislative proposals and/or regulatory reform.

Global Markets Advisory Committee

The GMAC was created by the Commission on February 25, 1998, for the purpose of obtaining input on international market issues that affect the integrity and competitiveness of US markets and firms engaged in global business. As stated in GMAC's charter, "[t]he objectives and scope of activities of [GMAC] shall be to conduct public meetings and to submit reports and recommendations on matters of concern to the exchanges, firms, market users, and the Commission regarding the regulatory challenges of a global marketplace ... including ... avoiding unnecessary regulatory or operational impediments faced by those doing global business." Membership of GMAC consists of 23 individuals representing US futures exchanges, self-regulators, financial and commodity intermediaries, market users, and traders.

During FY 2000, the Committee met on March 9, 2000. At that meeting, two of the Committee's working groups reported to the full Committee on the placement of foreign trading terminals in the US, on recent activities of IOSCO's Technical Committee, and on the agenda for the annual IOSCO meeting. Also during the meeting, Commission staff presented to the Committee six updates on regulatory issues of overriding global significance. The staff updates covered developments in the Griffin Trading Company bankruptcy case, the status of requests for staff no-action positions on the placement of trading terminals of foreign exchanges in the US, standards under recently adopted rules governing the use of electronic signatures by commodity customers, issues identified in the notice of proposed rulemaking concerning expanded QEP and qualified eligible client

(QEC) definitions, current standards governing the accounting treatment of customer funds under Part 30 of the Commission's regulations, and the Commission staff's recommendations for revising regulation of markets for derivative instruments.

Memoranda of Understanding, International Arrangements

During the past year, the Commission continued to cooperate with a variety of foreign regulatory and enforcement authorities through formal memoranda of understanding (MOUs) and other arrangements to combat cross-border fraud and other illegal practices that could harm customers or threaten market integrity. Cross-border information-sharing among regulators and enforcement authorities plays an integral role in the effective surveillance of global markets linked by products, participants, and technology. Indeed, information-sharing arrangements can be critical to combating cross-border fraud and manipulation, addressing the financial risks of market participants, and sharing regulatory expertise on market oversight and supervision. As a matter of course, the Commission makes and receives a significant number of requests for assistance and information to and from foreign authorities in connection with various marketplace and enforcement issues.

The Commission has entered into MOUs and cooperative arrangements with many jurisdictions including 18 formal cooperative enforcement arrangements, four arrangements relating to financial information-sharing, and nine cooperative arrangements for sharing information on matters related to the implementation of the Commission's Part 30 regulations, which grant foreign firms an exemption from certain Commission rules. Moreover, the Commission was instrumental in the development of the Declaration on Cooperation and Supervision of International Futures Markets and Clearing Organizations and its companion exchange MOU, a multinational, large exposure, information-sharing arrangement.

On May 16, 2000, the Commission and the SEC signed an MOU with the Monetary Authority of Singapore (MAS) concerning consultation, cooperation, and the exchange of information. Recent Singapore legislation (issued March 2000) has granted the MAS authority to cooperate with foreign securities and futures authorities. The MOU provides a framework for information sharing, thereby facilitating cooperation in cross-border investigations of potential violations of securities and futures laws.

On May 17, 2000, the Commission and the FSA entered into an *Arrangement on Warehouse Information* enhancing the existing *US/UK Memorandum of Understanding on Mutual Assistance and the Exchange of Information* (dated September 21, 1991). The new arrangement is intended to facilitate exchanges of information between the Commission and FSA for surveillance and enforcement purposes regarding deliverable commodities that are traded in both jurisdictions. The arrangement sets forth practical procedures for ex-

changes of information regarding the operations, stocks, and use of warehouses and may be triggered by either jurisdiction in connection with large, unusual price movements in covered commodities.

The Commission and the Italian Commissione Nazionale per le Società e la Borsa (CONSOB) exchanged letters supplementing their main MOU in order to facilitate the listing of certain equity-based futures contracts.

In September 2000, OIA finalized a supplemental MOU with the CONSOB that facilitates, subject to each jurisdiction's national application procedures, remote electronic access by futures markets participants in one jurisdiction to regulated futures markets in the other jurisdiction by establishing reciprocal information sharing arrangements regarding the initial and ongoing fitness and financial solvency of such remote members.

International Organization of Securities Commissions

The Commission is an active participant in IOSCO, an organization of approximately 166 members from 97 countries. The main purposes of IOSCO are as follows: 1) to provide mechanisms for exchanging information and expertise among regulatory authorities for the supervision of world securities and derivatives markets; 2) to establish standards of best practices; 3) to ensure market integrity; and 4) to promote effective supervision. IOSCO deals with issues affecting both developed and emerging markets, secondary markets, financial intermediaries, international enforcement concerns, and investment management issues. Work is driven by IOSCO members and is carried out in working groups of its Technical Committee. The Chairman of the Commission serves as a member of the Technical Committee.

IOSCO conducts its work primarily through individual working parties (WP) that specialize in issues related to multinational disclosure and accounting, the regulation of secondary markets, the regulation of market intermediaries, enforcement and the exchange of information, and investment management. The Commission has been active in work related to secondary markets, market intermediaries and enforcement, and the exchange of information. Illustrative ongoing work includes, regulatory issues for cross-border electronic trading systems, sound practices in dealing with HLIs, guidance in integrating value at risk models into capital regulatory frameworks, transparency, and efforts to identify legal and regulatory measures that can be useful and effective in the detection, investigation and prosecution of price manipulation. In addition, the Commission has actively participated in a special task force established to respond to issues raised by the activities of hedge funds and other HLIs in securities and derivatives markets, on a reactivated Internet Task Force that is studying issues related to the use of the Internet in securities/derivatives transactions, and on a combined task force of IOSCO and the Basle Committee on Banking Supervision's Committee on

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Payment and Settlement Systems that is developing principles for securities settlement systems.

In FY 2000, the Commission continued to participate in IOSCO's WP4. The Commission has contributed to WP4's work concerning approaches to the detection, investigation, and prosecution of price manipulation. The Technical Committee issued its final report at IOSCO's annual meeting in May. The Commission is also contributing to WP4's work on its current mandate to enhance cooperation in joint and parallel investigations.

Recently, the members of WP4 have also devoted increasing resources to combating Internet fraud. On March 28, 2000, WP4 held an "International Surf Day." The Commission was the primary organizer of the event and prepared all the instructional materials and reporting forms. WP4 members surveyed the World Wide Web in order to detect fraudulent or otherwise illegal schemes involving investment and trading opportunities in securities and derivatives. Approximately 10,000 sites were visited by IOSCO members and approximately 1,000 were identified for further review, including approximately 250 sites that involved cross-border activity. Commission staff surveyed 1,060 sites and identified 88 for follow up review, including 72 involving cross-border activity.

On June 15 and 16, 2000, the Commission and the SEC hosted jointly a second Internet Surveillance Training Program for relevant enforcement staff from WP4 members. The program was held at the Commission's Washington, DC headquarters. This training program brought together experts from regulators with Internet enforcement programs to provide instruction on areas such as the use of search engines for detecting securities offenses, Internet resources that identify authors of anonymous newsgroup postings and e-mail messages, and methods of preserving and authenticating electronic evidence. There was also a panel discussion on the organization of Internet surveillance and Internet enforcement programs. The Commission reached out to foreign authorities as well as domestic, such as the FBI, to share their knowledge and experiences at the training program. The program was attended by 22 participants from 19 different jurisdictions.

Cooperative Enforcement

Domestic

The Commission's cooperative enforcement efforts are an important part of the Commission's ability to promote compliance with, and deter violations of, federal commodities laws. Cooperative enforcement enables the Commission to maximize its ability to detect, deter, and impose sanctions against wrongdoers involving US markets, registrants, and customers. The benefits of cooperative enforcement include: 1) the use of resources from other sources to support Commission enforcement actions; 2) coordination in filing actions with other authorities to further the impact of enforcement efforts; and 3)

development of consistent and clear governmental responses and avoidance of duplication of efforts by multiple authorities.

As in the past, the staff of the Enforcement program have coordinated with numerous federal, state, and self-regulatory authorities. Program staff have sought assistance from or provided assistance to various federal agencies, such as the SEC, the US Postal Inspection Service, and the Internal Revenue Service (IRS). Similarly, Enforcement program staff have provided assistance to and/or received assistance from state authorities, such as agencies responsible for the regulation of corporations, securities, and banking.

The Commission has also provided federal and local law enforcement authorities with assistance in connection with criminal investigations. Enforcement program staff have worked with the DOJ and various US Attorney's offices throughout the US, the FBI, the offices of numerous state attorneys general as well as local police authorities and task forces focusing on issues such as boiler rooms. Although the Commission cannot publicly describe the nature of the assistance obtained or given in connection with pending investigations, the following is a sampling of cases filed in FY 2000 in which the Enforcement program coordinated its efforts with domestic authorities:

- *CFTC v. AC Trading Group, Inc. et al.* The US Attorney for the Northern District of California announced that on April 14, 2000 Fred Eric DeJong (DeJong), principal of AC Trading Group, Inc. pled guilty to one count each of mail fraud and money laundering in violation of 18 USC § 1341 and 1956(a)(1)(A)(i). Alexis Carles (Carles), a co-defendant, previously pled guilty to one count of mail fraud arising from the same charges. *CFTC v. AC Trading Group, Inc. et al.*, No. CR-99-0517 (N.D. Cal.). These criminal actions grew out of a three-count civil injunctive action against DeJong, Carles and AC Trading Group, Inc. filed by the Commission in the United States District Court for the Northern District of California on April 17, 1997. The criminal prosecution of DeJong and Carles is a direct result of the evidence developed in the Commission's injunctive case against the defendants. During the two-year criminal investigation by the FBI, the Enforcement program assisted the case agents and the Assistant United States Attorney assigned to the investigation and prosecution of DeJong and Carles. The Enforcement program analyzed the trading patterns in the commodity accounts, and interpreted the false account statements created by the defendants. *CFTC v. AC Trading Group, Inc. et al.*, (N.D. Cal. Civ. No. 97-1360).
- *In re Coleman.* The Commission coordinated its investigation with the FTC, with both agencies filing administrative actions and simultaneous settlements in May 2000. *In re Coleman, d/b/a Granite Investments*, CFTC Docket No. 00-16 (CFTC filed May 1, 2000).

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- *CFTC v. IBS, Inc.* The Commission coordinated its investigation with the FBI, which executed search warrants on the same day that the Commission served the *ex parte* restraining order that froze assets and appointed a receiver. *CFTC v. IBS, Inc.*, No. 3:00cv103-V (W.D. N.C. filed March 13, 2000).
- *United States v. James.* On March 16, 2000, Donald E. James was sentenced to 51 months in a federal penitentiary and three years of supervised release, and ordered to pay restitution of \$3.3 million. *United States v. James*, (N.D. Ga. Mar. 16, 2000). On April 15, 1999, the Commission filed a related civil injunctive action alleging that James and Donald James, Inc. defrauded investors in two commodity pools. See *CFTC v. James, et al.*, 99-Civ-0967 (N.D. Ga. filed April 15, 1999). A consent order of permanent injunction was entered against the defendants in the civil action on May 8, 2000.
- *In re Lavender.* In June 2000, the Commission filed and simultaneously settled this administrative enforcement action charging that Ira M. Lavender committed fraud while acting as an unregistered CTA. In April 2000, Lavender had consented to the imposition of a cease and desist order in an enforcement action brought by the Arizona Corporation Commission (ACC). *Az. Corp. Comm'n v. Lavender*, Docket No. S-03381A-00-0000, Order of Relief and Consent to Same (April 28, 2000). The ACC provided valuable assistance to the Commission during its investigation of the matter. *In re Lavender*, CFTC Docket No. 00-23 (CFTC filed June 29, 2000).
- *CFTC v. Mobley, et al.* This action was filed with the substantial assistance of the FBI and coordinated with the filing of a related fraud action by the SEC. *CFTC v. Mobley, et al.*, No. 00 Civ. 1317 (RCC) (S.D.N.Y. filed Feb. 22, 2000) (described in "Fraudulent Activity" section on page 203 of the Part III: FY 2000 Annual Performance Report).
- *United States v. Rossi, et al.* Crim. No. H-99-00, Plea Agreements (S.D. Tex. filed April 11, 2000). In April 2000, Robert C. Rossi, Steven G. Soule, and Kyler F. Lunman, II pled guilty to one count each of wire fraud in a scheme to divert profitable energy futures trades from Coastal Corporation to other accounts. The Commission coordinated with the DOJ the filing of its related amended administrative complaint. See *In re Soule, et al.*, CFTC Docket No. 99-4 (CFTC filed Dec. 22, 1998, amended Feb. 4, 1999).
- *United States v. Swartz.* No. 99-CR-0958 (N.D. Ill.). On March 10, 2000, Ronald J. Swartz pled guilty to mail fraud charges and admitted that he fraudulently accepted over \$330,000 from multiple investors. Swartz's plea carries a mandated 18 to 24-month sentence. *United States v. Ronald Swartz*, No. 99-CR-0958 (N.D. Ill.). In November 1998, the Commission filed a related civil injunctive action against Swartz and Vertrix, Inc. (Vertrix), a dissolved cor-

poration of which Swartz was president, alleging that the defendants defrauded customers in their solicitations for, and operation of, a fictitious commodity pool and defrauded other investors in connection with discretionary commodity trading accounts in which Swartz was a joint owner. See *CFTC v. Swartz, et al.*, No. 98C 7505 (N.D. Ill. filed Nov. 23, 1998). On May 27, 1999, the Enforcement program obtained a default judgment for permanent injunction against Swartz and Vertrix.

- *United States v. Walters*. On June 1, 2000, Max E. Walters was sentenced to 27 months imprisonment and ordered to pay restitution of \$1,415,000. *United States v. Walters*, Criminal Docket No. 00-00026-01-CR-W-S (W.D. Mo. June 1, 2000). In August 1999, the Commission filed a related administrative action against Walters alleging that as general partner in a limited partnership he defrauded both the partnership and the limited partner out of more than \$1 million in connection with commodity futures and options trading. *In re Walters*, CFTC Docket No. 99-15 (CFTC filed Aug. 9, 1999). On April 4, 2000, the Enforcement program obtained summary disposition as to liability and non-monetary sanctions. The rest of the enforcement action remains pending.

International

- The Commission continues to coordinate enforcement activities with foreign authorities. During FY 2000, the Commission made 18 new enforcement-related requests for assistance to 11 foreign authorities. In addition, the Commission received 23 new enforcement-related requests from 10 authorities in foreign jurisdictions. The information and assistance exchanged between the Commission and foreign authorities during the fiscal year includes information on the disciplinary history, registration, and corporate status of US and foreign firms and individuals, evidence for use in investigations and enforcement actions, and details from investigation and litigation files. Foreign authorities also have assisted the Commission in locating and serving defendants outside the US.

Other Cooperative Efforts

In addition to direct cooperation with domestic law enforcement and regulatory authorities, the Enforcement program also represents the Commission in a variety of domestic and international efforts including task forces and working groups designed to keep market participants abreast of new developments in financial crimes and to coordinate governmental responses. Several examples of the efforts of the Enforcement program in this regard follow:

- *Telemarketing and Internet Fraud Working Group*. The Telemarketing and Internet Fraud Working Group consists of representatives from state and federal regulatory and criminal authorities. At the working group's quarterly meetings, members discuss all

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aspects of telemarketing and Internet fraud, including issues such as new scams, new uses of technology, geographical hot-spots for certain types of fraudulent activity, effective enforcement techniques, and recent cases that establish relevant precedent in the area. In the past, the working group served as a vehicle to introduce authorities to, and train them to use, the Consumer Sentinel Database, a clearinghouse for consumer complaints relating to, among other things, telemarketing and Internet fraud.

- Securities and Commodities Fraud Working Group. The Securities and Commodities Fraud Working Group is a vehicle for public and private sector participants to discuss current trends in financial crime in the securities, futures, and options industries and to exchange ideas about enforcement techniques. The group, organized by the Fraud section of the Criminal Division of the DOJ, meets on a quarterly basis and its members include criminal and regulatory authorities from state and federal agencies and representatives from various exchanges and other SROs.
- "Internet Surfs." During FY 2000, the Commission participated in two interagency "Internet Surfs." During the week of February 28, 2000, the Commission participated with law enforcement and consumer protection agencies from 27 countries in an interagency Internet surf. The Commission alone examined approximately 300 Internet Web sites and identified dozens for follow-up review. On March 28, 2000, the Commission participated in an international Internet surf day organized by IOSCO that included the participation of 21 regulators in 18 countries. The sites identified for follow-up review by the Commission (and NFA) involved commodity futures and options in a variety of ways, such as: computerized trading systems promising highly successful buy and sell signals; trade recommendations based on seasonal trends in the prices of commodities such as heating oil and gasoline; and purported profit opportunities on commodities such as foreign currencies (or forex), precious metals, and stock indices.
- Money Laundering. The Commission participates in domestic and international anti-money laundering cooperative enforcement efforts. On the domestic front, the Commission is a member of the Money Laundering Strategy Working Group (MLSWG) and the US Treasury Department's Bank Secrecy Act Advisory Group (BSAAG), and is assisting the US Treasury in its Magnitude of Money Laundering Project. Internationally, the Commission has aided the US delegation to the Financial Action Task Force (FATF).

US Treasury Department Financial Stability Agenda

The Commission contributes to the initiatives of the US Treasury Department to encourage global financial stability as called for in the 1997 Denver Statement of the G-7 Heads of State and Government.

Since the Denver Summit, the G-7 has focused on a range of measures to promote stability in the international financial system, including organizing the Financial Stability Forum (FSF) to further issues in connection with the international financial architecture. The Commission has commented on various position papers prepared by three FSF working groups—HLIs, capital flows, and off-shore centers—as well as papers prepared by the FSF's task force on implementation of international standards. The Commission also provided comment to the US Treasury on World Trade Organization (WTO) negotiation position papers.

Year 2000 Outreach Program

The Commission was an active participant in the President's Council on Year 2000 Conversion, through which it interacted with agencies and departments throughout the federal government on Year 2000 preparation and action. The Commission served as a member of that council's Financial Institutions Sector Group, working regularly and closely on Year 2000 issues with agencies in that group, which included the members of the President's Working Group on Financial Markets and other financial regulators. Domestically, the Commission established standards and provided guidance to its regulatees and assured their ability to address the Year 2000 change. The Commission also was significantly engaged in cooperative efforts with the futures industry relating to year 2000 issues as a participant in FIA's Year 2000 Task Force. Internationally, the Commission addressed Year 2000 issues through IOSCO and the Joint Year 2000 Council. Through these working relationships, Commission staff engaged in substantial, routine outreach activities regarding Year 2000 with all sectors of the federal government, our regulatees, and the international regulatory community.

Executive Direction & Support

The Commission participates in external groups and professional organizations to enhance its ability to remain informed about the latest advances in technology and administrative policies and practices both in the federal and private sectors. Examples include:

Office of the Chairman

The Chairman participates in bi-monthly meetings of heads of small agencies. These meetings provide a forum for a diverse group of agency leaders to discuss administrative, statutory, and other substantive issues of mutual concern and to share experiences for overcoming common obstacles.

Office of the Executive Director

OED actively participates in the Small Agency Council, an organization of approximately 70 small federal agencies that promotes cooperation and provides a mechanism for sharing information and expertise on administrative management.

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In FY 2000, the Commission developed and implemented programs to enhance employee performance, promote employee morale, and improve the quality of services provided by the Commission. For example, the agency implemented agency-wide training on two tracks: a "nuts and bolts" training program for managers and training in industry, technical, and legal matters. The agency also appointed its first full-time EEO Director and moved the EEO office from the OED to the Chairman's Office. The agency also re-established an Employee Assistance Program and issued policies on recruitment and relocation bonuses, retention allowances, and professional liability insurance.

In FY 2001, the Commission established an Executive Management Council to develop integrated Commission-wide strategies for the effective use of financial, human, information technology and physical resources to support the mandates of the Commission. In addition, the Office of the Executive Director will continue a teambuilding effort within the division. The division also will continue a review of processes within administrative offices, beginning during FY 2001 with the Office of Administrative Services. This effort will continue in FY 2002. The Commission will also continue to improve its procurement and accounting services, working with the Department of Interior to develop an agency-wide plan to implement a Fixed Asset Subsystem integrated with the Commission's Federal Financial System. The Commission will work with the National Finance Center to upgrade its time and attendance reporting system. In addition, the Commission will expand its use of its Intranet, and will evaluate a system that would allow employees to prepare and maintain annual financial interest forms online.

Offices of Administrative Services & Information Resources Management

OIRM belongs to the FTS 2001 Coordinators Group. Both OAS and OIRM belong to the Definity Users Group. Both groups deal with telecommunications issues. The FTS 2001 group provides a means to communicate government-wide issues to the commercial phone services companies, such as Sprint and MCI. The Definity Group provides a vehicle for communicating with other Lucent Definity phone system users.

Office of Financial Management

OFM is active in four important user groups, the Treasury GOALS User Group, Non-Department of Interior Software Advisory Board, GSA Interagency Travel Management Committee, and the Travel Manager Interagency User Group. Participation in these groups enables the Commission to stay abreast of developments in, and enhancements of, these complex software systems as well as the latest developments and trends in federal financial management. In addition, the Commission learns how other agencies and financial organizations are addressing new initiatives and changing system requirements.

Office of Human Resources

Participatory working relationships maintained by OHR foster support of management initiatives. In providing a wide variety of services to managers and employees, the Office of Human Resources staff continued its active engagement in a number of interagency organizations. The relationships established include:

- Committee for Automated Payroll/Personnel System. This committee was formed to promote efficiency and effectiveness through enhanced system design and operations of the USDA's National Finance Center.
- Human Resources Development Policy Subcommittee. This is a working group of training officers who review, develop, interpret and provide guidance on federal government training policy.
- Interagency Alternative Dispute Resolution Working Group. This group encourages agencies to use ADR techniques in resolving workplace disputes.
- International Personnel Management Association. This is a professional association that serves as a reference in obtaining current human resource information in the federal government.
- National Academy of Public Administration, Center for Human Resources Management. This center brings together more than 50 agencies to generate cost-effective research, information, educational programs, and consulting services throughout the public sector.
- National Council of Hispanic Employment Program Managers. This is a working group established to promote equal employment opportunity for Hispanics in the Federal workplace.
- Office of Personnel Management. OPM established interagency network groups to collect agency input on employment trends and on human resources initiatives and proposals.
- Shared Neutrals. The shared neutrals program offers reciprocal mediation services (Alternative Dispute Resolution) among federal agencies.
- Small Agency Council on Training. This consortium provides training opportunities to employees of member small agencies.
- Small Agency Human Resources Council (SAHRC). This group assesses how various human resources law, regulatory, and OPM policies impact small agencies.

Office of the Inspector General

The Inspector General is an active participant on the Executive Council on Integrity and Efficiency, an organization of agency-

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appointed Inspectors General, which meets regularly to discuss common problems and solutions.

Commission Library

The library is a member of the Federal Library and Information Center Network (FEDLINK), a group that negotiates contracts with vendors of library materials and services on behalf of all federal libraries. FEDLINK is also the mode by which the Commission Library accesses the Online Computer Library Center (OCLC), a worldwide shared cataloging and interlibrary loan network. The library also participates in the Metropolitan Library Network and the Law Librarians Society of Washington, DC, a network that permits rapid location and use of documents not held by the Commission.