

THE FY 2003 ANNUAL PERFORMANCE PLAN

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THE FY 2003 ANNUAL PERFORMANCE PLAN

CFTC Mission Statement and Agency Goals

Mission Statement

The mission of the Commodity Futures Trading Commission is to protect market users and the public from fraud, manipulation, and abusive practices related to the sale of commodity futures and options, and to foster open, competitive, and financially sound commodity futures and option markets.

Goal One

Protect the economic functions of the commodity futures and option markets.

Outcome Objectives

1. Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.
2. Oversee markets that can be used effectively by producers, processors, financial institutions, and other firms for the purposes of price discovery and risk shifting.

Goal Two

Protect market users and the public.

Outcome Objectives

1. Promote compliance with and deter violations of Federal commodities laws.
2. Require commodities professionals to meet high standards.
3. Provide a forum for effectively and expeditiously handling customer complaints against persons or firms registered under the Act.

Goal Three

Foster open, competitive, and financially sound markets.

Outcome Objectives

1. Ensure sound financial practices of clearing organizations and firms holding customer funds.
2. Promote and enhance effective self-regulation of the commodity futures and option markets.
3. Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.
4. Promote markets free of trade practice abuses.

Breakout of \$82.8 Million Budget Estimate

By Agency Goal

. . . The \$82.8 Million Budget Estimate is allocated among the agency's three Strategic Goals as follows:

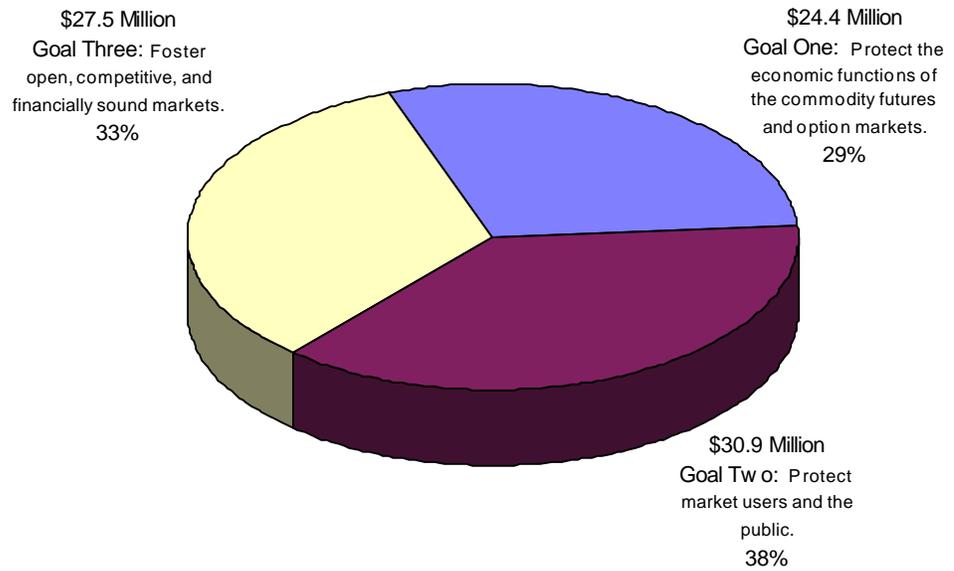
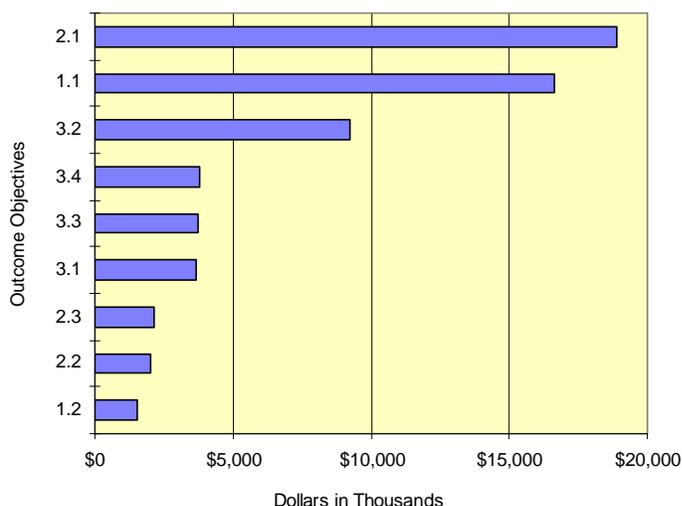


Figure 17: Breakout of FY 2003 President's Budget

Ranking of Commission Outcome Objectives By Dollars Budgeted

Figure 19: Ranking of Commission Outcome Objectives by Dollars Budgeted



Outcome Objective

- 2.1 ^{1/} Promote compliance with, and deter violations of, Federal commodities laws.
- 1.1 Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.
- 3.2 Promote and enhance effective self-regulation of the commodity futures and and option markets.
- 3.4 Promote markets free of trade practice abuses.
- 3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.
- 3.1 Ensure sound financial practices of clearing organizations and firms holding customer funds.
- 2.3 Provide a forum for effectively and expeditiously handling customer complaints against persons or firms registered under the Commodity Exchange Act.
- 2.2 Require commodities professionals to meet high standards.
- 1.2 Oversee markets that can be used effectively by producers, processors, financial institutions, and other firms for the purposes of price discovery and risk shifting.

^{1/} Denotes Goal Two, Outcome Objective One. (See page 9.)

Goal One: Protect the economic functions of the commodity futures and option markets.

Total FY 2003 Budget: \$24,420,000 162 FTEs
Total Change from FY 2002: \$ -1,301,000 ^{2/} 14 FTEs

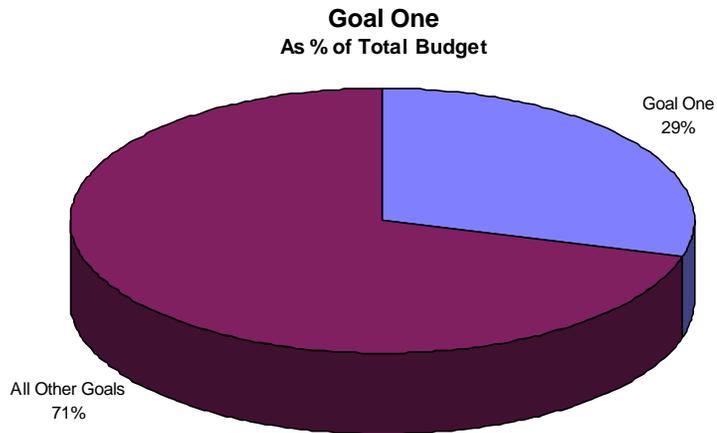


Figure 1: Goal One As Percentage of Total Budget

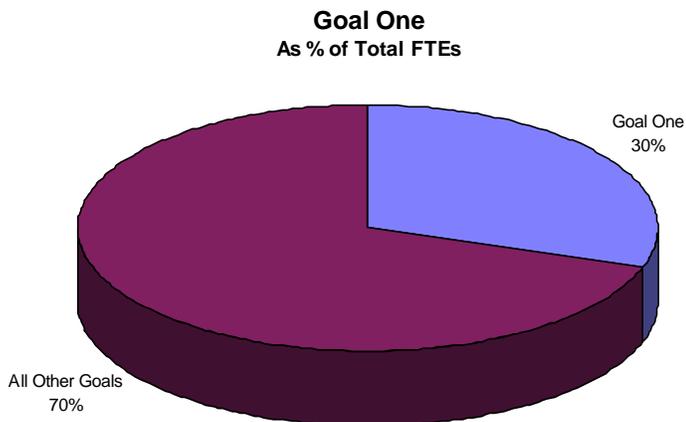


Figure 2: Goal One As Percentage of Total FTEs

^{2/} "Total Change" represents the difference between the FY 2003 request ("Total Budget") and the FY 2002 appropriation, which includes a supplemental increase to cover expenses related to the September 11, 2001 terrorist attack.

Goal One: Protect the economic functions of the commodity futures and option markets.	
Outcome Objective	Activity
<p>1. Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.</p>	<ol style="list-style-type: none"> 1. Collect US futures and option large trader and exchange-generated reports for all actively trading contracts to support market surveillance, enforcement of speculative limits, dissemination of information to the public, and futures market studies and research by Commission staff and others. 2. Monitor the markets to detect and respond quickly to potentially disruptive situations such as market congestion and/or potential price manipulation. 3. Conduct timely review of contract market designation applications and changes to applications to determine if they are economically viable and do not pose a likelihood of disruption in the cash, futures, and option markets. 4. Identify possible manipulation and other abusive trading practices for investigation and possible enforcement or criminal action. 5. Investigate possible manipulation and other abusive trading practices. 6. Institute enforcement cases concerning manipulation and other abusive trading practices. 7. Sanction violators. 8. Conduct timely reviews of exchange requests for approval of products or rule changes to determine if they are economically viable and do not pose a likelihood of disruption in the cash, futures, and option markets. 9. Conduct reviews of products and rule changes submitted under certification procedures to support market surveillance, enforcement of speculative limits, and to determine if the contracts are viable and pose a likelihood of disruption in the cash, futures, and option markets. 10. Conduct reviews of exempt markets and monitor the markets consistent with statutory requirements.
<p>2. Oversee markets that can be used effectively by producers, processors, financial institutions, and other firms for the purposes of price discovery and risk shifting.</p>	<ol style="list-style-type: none"> 1. Participate in the President's Working Group on Financial Markets to ensure coordination of information and efforts among US financial regulators. 2. Maintain a current understanding of market functions and developments through studies and research. 3. Provide materials and information on the functions and utility of the markets to the public through public Commission meetings, through public roundtables, advisory committee meetings, symposia, Commission input to US Department of Agriculture publications, routine reports on large trader activity, etc.

Goal One: FY 2002 and FY 2003 Plan by Program

Market Surveillance, Analysis & Research

Market Surveillance and Special Analyses

The Commission anticipates that its new regulatory structure for exchanges and other trading systems will encourage rapid growth in the number of entities trading futures and options in the US as well as an increased number of innovative futures and option contracts in nontraditional commodity areas. New and existing US exchanges will list new products for trading in their efforts to compete with foreign exchanges and to meet the hedging and price discovery needs of firms participating in the growing electronic business-to-business marketplace. Moreover, a significant number of these new markets may seek Commission recognition as contract markets in security futures or as derivatives transaction execution facilities. The Commission expects the number of active futures and option markets requiring surveillance to increase from 250 in FY 2001 to 330 in FY 2002 and 350 in FY 2003. Most of these new contracts will be security futures. Many new exchanges will trade contracts only on electronic systems or simultaneously through electronic and open outcry systems. Industry efforts to integrate financial cash market trading and over-the-counter (OTC) derivative trading through common electronic trading platforms or other mechanisms will increase the importance of a surveillance effort that examines the relationship between futures and option contracts and the underlying commodity or market instrument. In view of this expected growth, the Market Surveillance, Analysis, and Research program anticipates that surveillance economists will produce 2,500 weekly surveillance sheets in FY 2003 as compared to 1,873 in FY 2001.

Streamlining Large Trader Reporting

In FY 2000, the Commission introduced its reengineered computer system that supports market surveillance, replacing the mainframe system with a client-server system. Enhancements to that system will continue into FY 2002. The anticipated growth in US futures and option trading, particularly from securities futures contracts, will increase significantly the volume of surveillance data that must be processed by this system. Surveillance data on securities facilities contracts traded at securities exchanges and large trader positions carried at broker-dealers will have to be incorporated into the CFTC surveillance data systems. The number of line items of data is expected to grow from 56.1 million in FY 2001 to 78.8 million in FY 2003. Staff time will be devoted to assuring that these data are received and processed in an accurate and timely manner. Surveillance staff also will continue testing and modifying, as appropriate, enhancements to the core elements of the new surveillance computer system.

Review of CFTC Regulations

The Commission will undertake a broad review of its regulations to eliminate rules made obsolete by the recent amendments to the Commodity Exchange Act (CEA) and the rules promulgated to implement the Commodity Futures Modernization Act of 2000 (CFMA). It will also review its

rules to further streamline and coordinate regulations across markets. The review is being conducted under the leadership of the Market Surveillance, Analysis, and Research program with representatives from all divisions of the Commission. In FY 2002, the division plans to take a leadership role in implementing further regulatory reforms adopted by the Commission.

New Contract Market Filings and Rule Amendments

The trend toward development of new innovative products will continue through FY 2002 and FY 2003. A total of 36 new contracts are expected to be submitted to the Commission in FY 2002. This is due largely to the increasing number of new exchanges resulting from the adoption of electronic trading systems and the Internet and the continuing interest and competitiveness of existing US exchanges in developing innovative futures in both the financial and physical commodity sectors and in other nontraditional areas. In addition, 317 rule changes are expected to be submitted during FY 2002. These will include a number of significant changes to existing rules to maintain conformity with changing cash market practices.

Projections are based on the structural changes in the industry, the advancement of technology, and the use of the Internet, which lowers the cost of developing new exchanges and allows for a wider array of novel products to be offered for trading. New business-to-business exchanges are expected to establish new derivatives products in a wide array of products and services. The projections also are based on the rate of submission of new contracts in recent years along with indications that the existing exchanges, as well as new entrants, will continue to make innovative proposals—particularly with regard to contracts based on currencies; foreign stock indexes; fixed-income securities issued by foreign governments; and new concepts in futures in non-traditional commodity areas, such as contracts in the environmental and weather areas, and contracts based on various non-equity indexes, such as bankruptcy futures. Also, existing exchanges and new entrants are expected to continue to explore the possibility of establishing new contracts in the traditional agricultural and natural resource commodities to meet newly defined unmet hedging needs and potential changes in government programs and regulatory requirements. These projections also anticipate an increase in the number of exchange submissions for rule changes to update existing futures contracts so that they conform with changing cash market practices as well as changes in government programs and regulations. Many of these submissions will involve significant changes to existing rules to reflect ongoing changes in cash market practices for many tangible commodities.

Research on Market Functions and Developments

In FY 2002 and FY 2003, research staff will continue to examine the alternative execution procedures in futures markets. This will include:

- Comparison of the liquidity and price discovery of open-outcry systems versus electronic trading systems with supporting details on related economic theories and empirical evidences;

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- Review of futures market fragmentation and integration concentrating on market liquidity and volatility, market efficiency, and market integration; and
- Study of the costs and benefits of block trading in futures markets.

These research projects should provide valuable input in formulating policy proposals by the staff.

The Market Research staff also will continue to examine the behavior of the cash-futures basis for storable and nonstorable goods and the implications for the performance of futures contracts as a risk management tool and as forecasts of expected futures spot prices. Furthermore, alternative modeling and forecasting techniques for basis will be evaluated and new models will be proposed. The forecasts of basis play an important role in producers' hedging and marketing decision-making.

The Market Research staff also will provide economic and statistical analyses to the Enforcement program on a number of cases.

Derivative Risk Management and Risk-Based Capital Requirements

The rapid growth of derivative markets has dramatically increased the potential impact of derivatives on the stability of international and domestic financial markets. Derivative risk management and risk-based capital requirements are the major tools to maintain the financial integrity of futures and option markets and reduce systemic risk of the financial markets. In FY 2002 and FY 2003, research staff will continue to examine the following risk management and risk-based capital issues: 1) research on analytic models for analyzing, measuring, and monitoring futures market risk and liquidity risk and major issues in implementing a market risk measurement system; 2) alternative models on risk-based capital requirements and quantitative methods for evaluating the adequacy of capital requirements; and 3) research on evaluation of risk-based margin systems, including the Standard Portfolio Analysis of Risk Margin Systems (SPAN) for futures and options on futures and the Theoretical Intermarket Margin System (TIMS) for options on equities.

Trading & Markets

Oversight and Emergency Management of Market Volatility

During FY 2002 and FY 2003, the Trading and Markets program will monitor major market moves in an attempt to identify and respond to potentially disruptive situations, working on a case-by-case basis to develop appropriate, innovative, and pragmatic responses to such market events. Areas of focus during FY 2002 and FY 2003 may include: 1) systemic risk issues; 2) changes in the markets that further link cash and derivatives (on-exchange and off-exchange); 3) cross-border trading; and 4) growth in the number of automated trading systems.

During FY 2002 and FY 2003, the Trading and Markets program will work internally and with the industry to review contingency plans, improve communications, and assess best practices in light of the lessons learned from the events of September 11.

Information Efforts on the Functions and Utility of the Markets

During FY 2002 and FY 2003, the Trading and Markets program will continue to support the President's Working Group on Financial Markets, participate in Commission advisory committee efforts, and expand its role in both interagency and private sector intermarket coordination activities. The Trading and Markets program and the Office of International Affairs (OIA) will coordinate Commission efforts with those of foreign regulators and professional organizations in the areas of accounting, capital, market surveillance, and financial compliance, with particular focus upon linkages, full service financial firms, and new products.

Enforcement

The Enforcement program anticipates that challenges to the proper economic functioning of futures and option markets presented by manipulative and abusive trading practices will continue to require a consistent level of resources for investigation and litigation. Domestic and foreign markets are becoming increasingly interrelated, and that trend will continue for the foreseeable future as technology develops, regulatory barriers are eliminated, and formal links are established between markets. Changes in the regulatory and technological environment for exchange markets will facilitate trading by institutional market participants. These regulatory and technological changes will enable traders to employ complex strategies more easily and could permit abusive conduct in one market to cause greater harm in other, related markets. Accordingly, staff will investigate disruptive or potentially disruptive situations, and the Commission will continue to sanction violators for price manipulation and fraudulent trading practices.

Manipulation and trade practice investigations and cases tend to be among the most complex and resource-intensive matters handled by Enforcement staff for several reasons: 1) staff must become experts in understanding complex trading strategies and the intricacies of the underlying cash markets; 2) investigations require detailed reconstruction of trading using voluminous records; and 3) assistance sometimes is required from foreign regulators. The total of such matters that are active at any one time is relatively small. Nevertheless, past experience indicates that Enforcement staff will continue to be called upon to investigate and prosecute a number of such cases during FY 2002 and FY 2003.

Office of Proceedings

The Office of Proceedings will hear and decide administrative enforcement cases brought by the Commission.

Office of the General Counsel**Contract Market Designation Applications**

The Office of the General Counsel will continue to review contract market designation applications, as well as applications for registration as a derivatives transaction execution facility (DTF) and derivatives clearing organizations, for legal sufficiency and conformance with the CEA and Commission policy and precedent.

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Manipulation and Other Abusive Trading Practices

The Office of the General Counsel will continue to review all proposed enforcement actions alleging manipulation and other abusive trading practices to assure their legal sufficiency and conformance with general Commission policy and precedent.

Coordination of Information and Efforts Among US Regulators

The Office of the General Counsel will continue to coordinate with other members of the President's Working Group on Financial Markets on issues as necessary.

Providing Information on the Functions and Utility of the Markets through Public Meetings

The Office of the General Counsel will continue to provide the Commission with guidance on both procedural and substantive matters in connection with the public meetings of its three advisory committees and all other public Commission meetings.

Executive Direction & Support

Agency Direction

The increasing global electronic integration of the commodity futures and option markets requires the entire international regulatory community to cooperate as technology increases significantly cross-border trading volume, cross-market participation, and cross-border exchange combinations. OIA will coordinate with regulators throughout the world to facilitate cross-border business through the elimination of unnecessary legal and practical impediments, to enhance customer and market protections through cooperative arrangements, and to encourage market discipline through enhanced transparency.

Administrative Management & Support

In FY 2002, the Office of Information Resources Management (OIRM) will further enhance the capabilities of the Integrated Surveillance System (ISS) used by the Market Surveillance, Analysis, and Research program to conduct daily surveillance of the futures and options markets.

Support Strategies to Address Goal One Management Challenges

Goal One: Support Issue/Management Challenge #1

Enhance and integrate the Commission's market surveillance and financial surveillance capacity. This need is especially critical because of the greater complexity of instruments being traded and the concentration of pooled investment vehicles.

Support Strategy

The Market Surveillance, Analysis, and Research program staff will continue to enhance its financial surveillance systems. In particular, program staff will continue to rely on improved end-user computerization tools and the development of client-server database management software as such systems are implemented by OIRM.

Goal One: Support Issue/Management Challenge #2

Develop understanding of complex trading systems from a technological perspective, specifically the architecture of these systems and the challenges they present from a monitoring and compliance perspective.

Support Strategy

The Trading and Markets program has consulted and will continue to consult with OIRM concerning an initial review of these proposed trading systems so that before these systems can be available from within the US, appropriate safeguards are in place to protect market users and the public. The Trading and Markets program does not intend to restrict technological innovation or to dictate particular choices of hardware or software, rather it intends to assure that these mechanisms are operated consistently with the CEA and rules promulgated thereunder.

Goal One: Support Issue/Management Challenge #3

Enhance staff skills in conducting audits and analyses to detect systemic problems and/or problems of individual registrants, particularly as products become more complex.

Support Strategy

The Trading and Markets program staff will continue to encourage staff to use external sources for professional training and computer support. Professional training will focus on off-exchange and derivatives products. Computer training will provide staff with computer alternatives to manual methods of analysis.

Goal One: Support Issue/Management Challenge #4

Provide opportunities for attorneys and investigators to train and gain experience to meet the challenge of a changing trading environment.

Support Strategy

Through its annual training plan, the Office of Human Resources (OHR) will assist the program offices in assessing the need for training and professional development of Commission employees and finding ways to ad-

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dress those needs. OHR has also enhanced information on employee training opportunities through the Internet and intranet and by providing a Commission-wide training.

Within the past year, the Enforcement program has taken several steps to address staff training and professional development issues.

During FY 2001, the Enforcement program conducted a training conference for its professional staff. This conference, which has been held periodically over the years, serves to: 1) develop and refine the investigative and litigation skills of Enforcement attorneys, investigators, and paralegals; 2) introduce newer staff to issues regularly encountered in the work of the program; and 3) keep all staff up-to-date on current developments in the industry and in the law. The conference consisted of programs presented by staff from Enforcement and other divisions within the Commission, as well as by various outside professionals and educators.

As a result of suggestions by an Enforcement program task force composed of attorneys and investigators representing its headquarters and regional offices, the program has changed the schedule of its training conference from an annual basis to approximately once every 18 months. It also made training a topic in each employee's performance review, in order to give supervisors and staff an opportunity to discuss specific training to enhance staff job performance. The absence of a training conference during FY 2002 will free resources and time to further develop in-house training opportunities in investigative and litigation techniques for newer staff members and to provide intensive training in legal writing to all professional staff in the Enforcement program. The next Enforcement training conference is planned for FY 2003.

During FY 2001, the Enforcement program also implemented a Mentoring Program for new employees. The Mentoring Program is intended to accelerate the new employees' learning curve regarding the work of the Enforcement program, discuss regularly encountered legal issues, and provide information about the resources that are available to them.

Goal One: Support Issue/Management Challenge #5

Use information technology to collect daily electronic large trader reports from brokerage firms worldwide and other large volumes of data from US futures exchanges, in the most efficient, cost-effective, and secure method feasible.

Support Strategy

OIRM will evaluate the Commission's communications software and computer hardware in relation to the needs of brokerage firms and exchanges for a fast, efficient, and secure means of transmitting large quantities of confidential data to the Commission on a daily basis. These data flow into the newly developed integrated surveillance system that supports the Commission's Market Surveillance, Analysis, and Research program with client-server architecture.

The Office of Financial Management (OFM) will provide technical advice and guidance for the effective utilization of resources in support of the Commission's communications software and hardware needs, including the integrated surveillance system.

Goal One: Support Issue/Management Challenge #6

For the staff of the Market Surveillance, Analysis, and Research, develop the skills needed to more effectively utilize the new Integrated Surveillance System.

Support Strategy

OIRM or contractor support will be needed to provide training in Microsoft Access, PC-SAS, or other software that will enable surveillance economists, statisticians, and other surveillance staff to extract data from the overall surveillance database. This will enable staff to address specific questions, conduct analyses, and provide graphical, tabular, and other summaries of the surveillance data in formats that are easily understood using software such as Microsoft Excel or PowerPoint.

OFM will provide cost management support to the program to assist management in determining how support for its training needs will best be met.

Goal One: Support Issue/Management Challenge #7

Prioritize and provide information technology support for mission related activities, particularly for the Market Surveillance, Analysis and Research Program, to compensate for reduced mission program and information technology staffing.

Support Strategy

The Executive Management Council (EMC) prioritizes the Commission's major information technology investments to ensure that the available resources are used to provide the greatest corporate value to the Commission. The projected reduction in mission program staffing provides new opportunities for the EMC to reevaluate the utility of strategic investments and adjust resource allocations to balance immediate and long-term needs. The Information Technology Assessment by the consulting firm EDS dated July 2000 recommended an increase in information technology staffing of at least 23 positions to support the FY 2000 workload level. Due to budget restrictions only four information technology positions are funded in FY 2002. OIRM allocates two positions to support the ISS and two to support the exchange Database System (EDBS).

As a non-voting member of the EMC, OFM's chief financial officer (CFO) provides advice and financial status reporting that assists in developing strategies and allocating and utilizing the agency's resources for information technology that support the agency's program missions. OFM's information technology applications provide the basis for financial status reporting to the EMC and the agency's program mission. These applications include the Commission's financial management system, travel management system, resources and productivity measurement system, and US Treasury financial application systems.

Although these systems provide valuable data to the EMC and the Commission for developing budgetary strategies for information technology investments, as well as allocating and utilizing the agency's resources, OFM is suffering from reduced staffing and allocation of its staffing re-

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sources to support its information technology applications. Without increases in financial management and information technology staffing to fully utilize these applications, upgrades and enhancements in support of program missions will not be accomplished. For example, in FY 2002, OFM plans to review its travel management application to determine how efficiencies in speed and productivity can be achieved, including the development of an electronic interface to the agency's financial management system. In FY 2003, OFM plans to implement the electronic interface between the two systems. In addition, OFM plans to train agency purchase cardholders to use a newly developed bankcard interface process and design and implement a process in the financial management system to produce contracts and purchase orders that simultaneously obligate the transactions. In FY 2003, OFM plans to develop and implement a process for integrating property management into the financial management system. All of these improvements will streamline workflow and reduce program staffing support if financial management and information technology resources are made available to support these information technology investments. If financial management and information technology resources are not available, valuable mission program resources will not be achieved.

Goal One: Support Issue/Management Challenge #8

Provide robust support for the Federal information technology management process to support CFTC's mission.

Support Strategy

Operational management of the Commission's information technology program has been transferred to a team of experienced professional information technology managers who draw on the existing information technology staff for business related information. The Chief Information Officer (CIO) position is focused on strategic planning and coordination responsibilities. OIRM provides support to the CIO in execution of his responsibilities for strategic planning, enterprise architecture development, and information technology security management. The Commission plans to procure services to develop an enterprise architecture, including a technical reference model and security assessment in FY 2002 and FY 2003. Future strategic planning initiatives will be a priority for the EMC and the Commission's information technology program.

Goal One: Support Issue/Management Challenge #9

Develop staff skills to manage information technology and provide information technology based support for CFTC's mission.

Support Strategy

Support for the Federal information technology management process is a priority for CFTC. The Commission will provide information technology staff supporting the strategic planning process and the information technology management staff with access to seminars and other training opportunities to ensure robust support for the Federal information technology management process. In addition, contract resources will be used to supplement internal resources.

Evolving Web-services standards and tools, increasingly complicated infrastructure capabilities, such as wireless access and voice/data convergence, and prospective new technical capabilities, such as speech recognition, drive the Commission's technical environment. For the Commis-

sion to adapt to these technical challenges, the information technology staff must acquire new skills. At the same time, it must retain the familiarity with the business of the Commission that the current staff has developed. For this reason, the Commission will balance the need for immediate access to necessary skill sets that can be met through hiring with the need for maintenance of the skill sets of long-time employees that can be met through training.

Goal One: Support Issue/Management Challenge #10

Modernize the Commission's mission support applications to reflect the new requirements based on the CFMA, in particular the EDBS.

Support Strategy

Development of an enterprise architecture and a technical reference model provide a basis for the EMC's investment planning. In FY 2001, the EMC introduced the use of Integrated Project Teams (IPTs) to insure that the needs of all program offices are considered in the information technology investment process. The EMC expects to continue its program of enhancing the value of information technology to program offices and reducing the complexity of its technical support requirements by replacing its oldest mission support applications with newer applications based on evolving technology. The acquisition of a Litigation Support System is the Commission's first project based on the IPT concept. The system is expected to provide enhanced support for the Commission's goals and objectives. In each case, OIRM staff will need to acquire sufficient familiarity with the selected technology to support each new implementation effort. The EDBS redesign will require that the Commission adds project management staff to insure that the investment is efficiently managed.

Goal One: Support Issue/Management Challenge #11

Establish an information security program compliant with the Government Information Security Reform Act of 2000 (GISRA) to support mission activities.

Support Strategy

GISRA codifies Office of Management and Budget (OMB's) security policy, emphasizing agency security responsibilities and promulgating new reporting requirements including annual agency program reviews, annual IG evaluations, and an annual OMB report to Congress. OMB has prepared a framework for conducting security assessments and a revision to Circular A-130 on implementing the GISRA responsibilities. At CFTC, information technology security administration is currently a collateral responsibility of the staff member responsible for supporting the review of electronic trading systems. OIRM intends to initiate a security assessment project in FY 2002, with the information technology security administrator providing project management and technical review of the efforts of an outside contractor. The assessment will be based on the OMB framework and National Institute for Standards and Technology (NIST) technical guidance. CFTC will develop its information technology formal security program based on this assessment.

Working Relationships in Support of Goal One

President's Working Group on Financial Markets

Coordinate initiatives on contingency planning for market emergencies.

Information Sharing with Other Financial Regulators

Share surveillance information with the Securities and Exchange Commission (SEC) regarding security futures products.

Biweekly calls to other financial regulators (SEC, US Treasury Department, Federal Reserve Board, Federal Deposit Insurance Corporation (FDIC)) to review developments in the cash and futures markets for US Treasury securities; quarterly meetings are held to review major expiration of financial futures markets; also staff from the US Department of Agriculture (USDA) and the US Department of Energy (DOE) regularly attend weekly market surveillance briefings.

US Department of Agriculture

Commission staff work on risk management education efforts with Steering Committee of the USDA Risk Management Agency and Cooperative State Research, Education, and Extension Service.

Agriculture Advisory Committee

A vital link to the agriculture community that depends on futures and option markets for hedging and price discovery.

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Table 1: Goal One - Summary of Request by Program

	FY 2002		FY 2003		CHANGE	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
Market Surveillance, Analysis, & Research	\$11,085	66	\$10,281	71	-\$804	5
Trading & Markets	1,204	7	1,041	7	-163	0
Enforcement	4,043	23	3,551	23	-492	0
Proceedings	0	0	0	0	0	0
General Counsel	1,392	7	1,238	7	-154	0
Executive Direction & Support	7,997	45	8,309	54	312	9
TOTAL:	\$25,721	148	\$24,420	162	-\$1,301	14

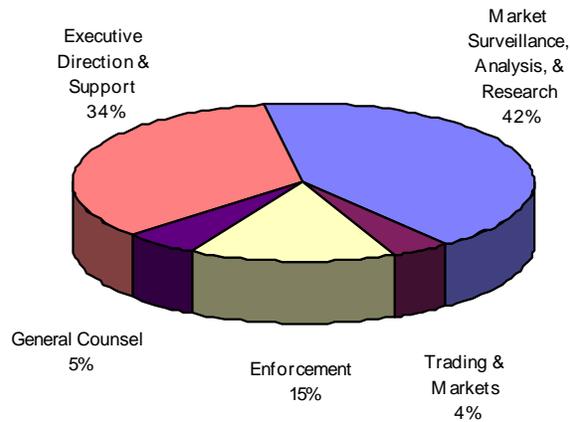


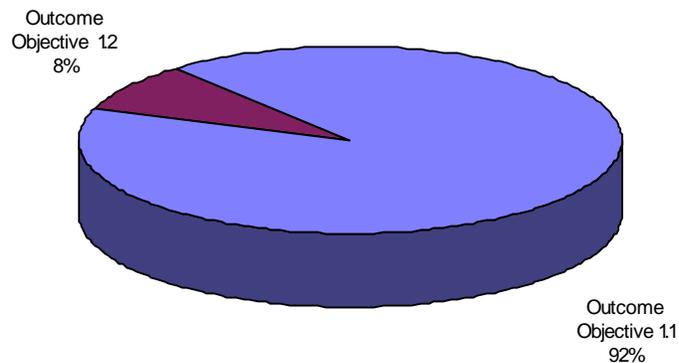
Figure 3: Goal One - FY 2003 Budget Dollars by Program

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Table 2: Goal One - Summary of Request by Outcome Objective

	FY 2002		FY 2003		CHANGE	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcome Objectives						
1.1 Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	\$ 23,598	135.88	\$ 22,353	148.52	-\$1,245	12.64
1.2 Oversee markets that can be used effectively by producers, processors, financial institutions and other firms for the purposes of price discovery and risk shifting.	\$ 2,123	12.00	\$ 2,067	13.43	-\$56	1.43
Total Goal One	\$25,721	147.88	\$24,420	161.95	-\$1,301	14.07

Figure 4: Goal One - FY 2003 Budget Dollars by Outcome Objective



Ranking of Goal One Activities

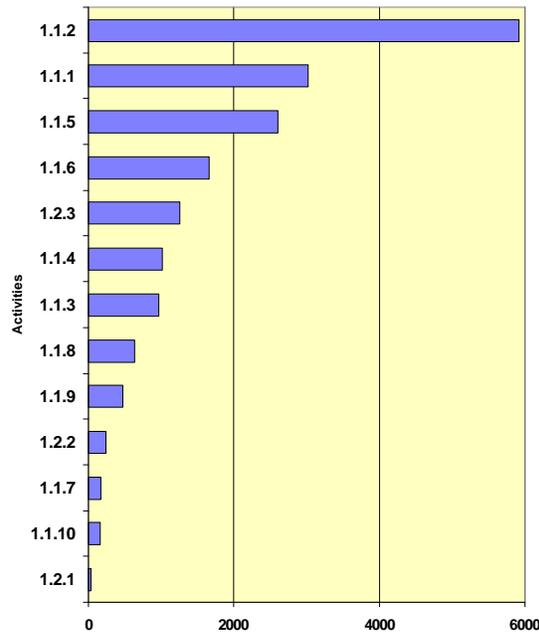


Figure 5: Ranking of Goal One Activities

- **Activity 1.1.2:** Monitor the markets to detect and respond quickly to potentially disruptive situations such as market congestion and/or potential price manipulation.
- **Activity 1.1.1:** Collect U.S. futures and option large trader and exchange-generated data for all actively trading contracts to support market surveillance, enforcement of speculative limits, dissemination of information to the public, and futures market studies and research by Commission staff and others.
- **Activity 1.1.5:** Investigate possible manipulation and other abusive trading practices.
- **Activity 1.1.6:** Institute enforcement cases concerning manipulation and other abusive trading practices.
- **Activity 1.2.3:** Provide materials and information on the functions and utility of the markets to the public through public Commission meetings, through public roundtables, advisory committee meetings, symposia, U.S. Department of Agriculture publications, press releases, advisories, routine reports on large trader activity, etc.
- **Activity 1.1.4:** Identify possible manipulation and other abusive trading practices for investigation and possible enforcement or criminal action.
- **Activity 1.1.3:** Conduct timely review of contract market designation applications and changes to applications to determine if they are economically viable and do not pose a likelihood of disruption in the cash, futures, and option markets
- **Activity 1.1.8:** Conduct timely reviews of exchange's requests for approval of products or rule changes to determine if they are economically viable and do not pose a likelihood of disruption in the cash, futures, and option markets.
- **Activity 1.1.9:** Conduct reviews of products and rule changes submitted under certification procedures to support market surveillance, enforcement of speculative limits, and to determine if the contracts are viable and pose a likelihood of disruption in the cash, futures, and option markets.
- **Activity 1.2.2:** Maintain a current understanding of market functions and developments through studies and research.
- **Activity 1.1.7:** Sanction violators.
- **Activity 1.1.10:** Conduct reviews of exempt markets and monitor the markets consistent with statutory requirements.
- **Activity 1.2.1:** Participate in the President's Working Group on Financial Markets to ensure coordination of information and efforts among U.S. financial regulators.

Summary of Annual Performance Targets

Goal One								
<i>Protect the economic functions of the commodity futures and option markets.</i>								
Outcome Objective 1.1								
Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.								
Annual Performance Goal								
No price manipulation or other disruptive activities.								
Activity/Strategy	Output Measure 1/	FY01 Actual	FY02	FY03	Outcome Measure 1/	FY01 Actual	FY02	FY03
1. Collect US futures and option large trader and exchange-generated data for all actively trading contracts to support market surveillance, enforcement of speculative limits, dissemination of information to the public, and futures market studies and research by Commission staff and others.	Amount of trader and exchange-generated reports collected from firms.	56.1M	75.0M	78.8M	Percentage of collected reports reviewed and analyzed.	100%	100%	100%
	Number of projects/ measures intended to reduce reporting burdens and related costs on exchanges.	1	2	2	Percentage of projects/ measures implemented.	100%	100%	100%
	Number of projects implemented.	1	2	2				
2. Monitor the markets to detect and respond quickly to potentially disruptive situations such as market congestion and/or potential price manipulation.	Number of active futures and option markets.	250	330	350	Of total futures and option markets, percentage of markets with emergencies and disruptive activities (requiring intensified surveillance).	4%	4%	4%
	Number of market surveillance reports prepared on expiring contracts for indications of price manipulation or other market disruptions.	1,873	2,200	2,500				
	Number of market surveillance analyses prepared and presented at Commission briefings.	318	280	280				
	Number of markets requiring intensified surveillance to prevent market manipulation.	11	12	13				
	Number of derivatives transaction facilities monitored.	0	5	6				
3. Conduct timely review of contract market designation applications to determine if they meet statutory requirements and comply with core principles.	Number of new contract market designation application reviews completed.	3	5	6	Newly added for FY 2002: Outcome measures to be determined.	—	TBD	TBD
	Number of derivatives transaction facilities registration application reviews completed	0	2	3				
4. Identify possible manipulation and other abusive trading practices for investigation and possible enforcement or criminal action.								
5. Investigate possible manipulation and other abusive trading practices.	Number of such investigations opened during the fiscal year.	15	12	12	Of all such investigations closed or resulting in enforcement action during the fiscal year, percentage closed or resulting in enforcement action within one year of opening.	42%	36%	36%
	Number of such investigations closed during the fiscal year.	9	8	9				
	Number of such investigations pending at close of fiscal year.	19	23	26				
	Number of such investigations closed or resulting in enforcement case within one year of opening.	5	4	4	Of all CFTC enforcement investigations pending at the close of the fiscal year, percentage of manipulation and other abusive trading practice investigations.	10%	12%	13%
	Total number of such investigations closed or resulting in enforcement case during the fiscal year.	12	11	11				

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Outcome Objective 1.1 (continued)								
Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.								
Annual Performance Goal								
No price manipulation or other disruptive activities.								
Activity/Strategy	Output Measure 1/	FY01 Actual	FY02	FY03	Outcome Measure 1/	FY01 Actual	FY02	FY03
6. Institute enforcement cases concerning manipulation and other abusive trading practices.	Number of such cases filed during the fiscal year.	8	4	4	Of all such cases filed during the fiscal year, percentage of such cases filed within one year of the opening of the relevant investigation.	63%	50%	50%
	Number of such cases filed within one year of opening the related investigation.	5	2	2		Of all CFTC enforcement cases pending at the close of the fiscal year, percentage of cases concerning manipulation and abusive trading practices.	10%	10%
	Number of such cases completed during the fiscal year.	3	3	3				
	Number of such cases pending at the close of the fiscal year.	15	16	17				
7. Sanction violators.	Amount of money to be paid as disgorgement or restitution.	\$109k	\$100k	\$100k	Percentage of cases closed during the year that resulted in sanctions.	100%	100%	100%
	Amount of civil penalties.	\$2.5M	\$2M	\$2M				
	Number of cease and desist orders.	5	5	5				
	Number of registration sanctions.	3	4	4				
	Number of trading prohibitions.	5	4	4				
8. Conduct timely reviews of exchange requests for approval of products or rule changes to determine if they are economically viable and do not pose a likelihood of disruption in the cash, futures, and option markets.	Number of new contract approval requests reviewed	11	16	17	Newly added for FY 2002: Outcome measures to be determined.	—	—	—
	Number of economic reviews of rule change approval requests	40	42	44				
9. Conduct reviews of products and rule changes submitted under certification procedures to support market surveillance, enforcement of speculative limits, and to determine if the contracts are viable and pose a likelihood of disruption in the cash, futures, and option markets.	Presurveillance reviews of new contract certification filings	17	20	22	Newly added for FY 2002: Outcome measures to be determined.	—	—	—
	Reviews of rule amendment certification filings	126	275	280				
10. Conduct review of exempt markets and monitor the markets consistent with statutory requirements.	Number of reviews related to exempt market filings	3	4	5	Newly added for FY 2002: Outcome measures to be determined.	—	—	—
	Number of letters/no-actions issued related to requests for guidance	0	4	5				

Outcome Objective 1.2								
Oversee markets that can be used effectively by producers, processors, financial institutions, and other firms for the purposes of price discovery and risk shifting.								
Annual Performance Goal								
No decrease in market use by producers, processors, financial institutions, and other firms because of loss of confidence in the price discovery and risk shifting functions of the markets.								
Activity/Strategy	Output Measure 1/	FY01 Actual	FY02	FY03	Outcome Measure 1/	FY01 Actual	FY02	FY03
1. Participate in the President's Working Group on Financial Markets to ensure coordination of information and efforts among US financial regulators.	Number of President's Working Group meetings held (includes Steering Committee meetings).	24	24	24	Percentage of President's Working Group meetings attended by CFTC.	100%	100%	100%
					Percentage of President's Working Group recommendations implemented.	100%	100%	100%
	Number of President's Working Group meetings attended (includes Steering Committee meetings).	24	24	24	Percentage of assignments and tasks to CFTC completed.	100%	100%	100%

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Outcome Objective 1.2 (Continued)								
Oversee markets which can be used effectively by producers, processors, financial institutions, and other firms for the purposes of price discovery and risk shifting.								
Annual Performance Goal								
No decrease in market use by producers, processors, financial institutions, and other firms because of loss of confidence in the price discovery and risk shifting functions of the markets.								
Activity/Strategy	Output Measure 1/	FY01 Actual	FY02	FY03	Outcome Measure 1/	FY01 Actual	FY02	FY03
2. Maintain a current understanding of market functions and developments through studies and research.	Number of ongoing market research projects and studies.	12	12	12	Percentage of ongoing market research project completed.	100%	100%	100%
	Number of market research projects and studies completed.	12	12	12				
3. Provide materials and information on the functions and utility of the markets to the public through public Commission meetings, through public roundtables, advisory committee meetings, symposia, Commission input to US Department of Agriculture publications, routine reports on large trader activity, etc.	Number of public roundtables conducted.	0	3	3	Percentage of data requests fulfilled.	100%	100%	100%
	Number of Advisory Committee meetings conducted.	5	3	3				
	Number of routine large trader reports published.	5,210	7,400	7,600				
	Number of requests for data from universities and private sources.	10	10	10				
	Number of requests fulfilled.	10	10	10				
	Number of large trader reports (routine & special) provided to other US financial regulators.	28	28	28				

1/ Many new output and outcome measures were developed during the FY 2003 budget formulation process. As such, new measurement data must be formulated. In cases where measurement data is not yet available, the acronym TBD, which stands for "to be determined," has been used in one, two, or all three fiscal year

Goal Two: Protect market users and the public.

Total FY 2003 Budget: \$30,902,000 197 FTEs
Total Change from FY 2002: \$- 3,922,000 ^{2/} 4 FTEs

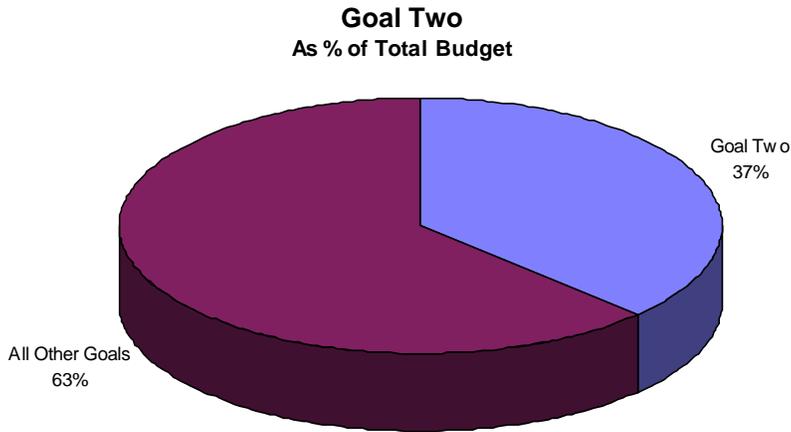


Figure 6: Goal Two - As Percentage of Total Budget

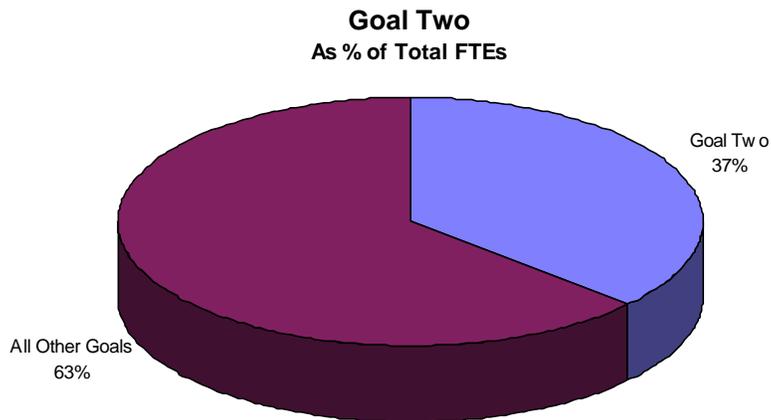


Figure 7: Goal Two - As Percentage of Total FTEs

^{2/} "Total Change" represents the difference between the FY 2003 request ("Total Budget") and the FY 2002 appropriation, which includes a supplemental increase to cover expenses related to the September 11, 2001 terrorist attack.

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Goal Two: Protect market users and the public.	
Outcome Objective	Activity
<p>1. Promote compliance with and deter violations of Federal commodities laws.</p>	<ol style="list-style-type: none"> 1. Identify and investigate possible fraudulent and other illegal activities relating to the commodity futures and option markets and their registrants. 2. Bring injunctive actions, including using “quick-strike” efforts to protect assets and to stop egregious conduct. 3. Bring administrative cases involving fraud and other violations. 4. Hear administrative cases. 5. Sanction violators in injunctive actions and administrative action cases. 6. Inform the public and the industry concerning allegations of wrongdoing and associated legal actions, including through publications and through Commission orders and reports describing the alleged violations and the Commission’s legal and policy analysis. 7. Collect sanctions and civil monetary penalties against violators. 8. Cooperate with the exchanges, the National Futures Association, other federal agencies, state governments and law enforcement entities, and foreign authorities to gain information for law enforcement purposes and to provide enforcement assistance as necessary and appropriate. 9. Monitor the Internet and other communication media for fraudulent activities and other possible violations of the Act. 10. Resolve appeals in administrative enforcement matters and self-regulatory organization adjudicatory actions.
<p>2. Require commodities professionals to meet high standards.</p>	<ol style="list-style-type: none"> 1. Oversee the National Futures Association registration program including testing, licensing, and ethics training for commodities professionals. 2. Oversee NFA’s document disclosure review program. 3. Investigate and bring administrative registration cases arising out of alleged statutory disqualification and obtain suspensions, revocations, conditions, or restrictions of registration.
<p>3. Provide a forum for effectively and expeditiously handling customer complaints against persons or firms registered under the Act.</p>	<ol style="list-style-type: none"> 1. Provide a reparations program for commodities market users to make claims relating to violations of the Act.

Goal Two: FY 2002 and FY 2003 Plan by Program

Trading & Markets

Fitness Oversight

The Trading and Markets program staff will oversee the National Futures Association (NFA) fitness review program (registration) through formal reviews of the program, informal staff contacts, and meetings of the Registration Working Group (RWG). The Trading and Markets program will work with other Commission staff to provide input to NFA on the overhaul of the NFA registration database, including new registration forms and a transition to a paperless registration system. If additional futures associations apply for registration and become registered, the program will oversee these registered futures associations (RFA) as well.

As the pace of technological change quickens, Trading and Markets program staff will review rules and other guidance provided to the industry to ensure that customer and marketplace protections are maintained and enhanced. Working with industry groups, the staff will develop appropriate changes in the minimum financial requirements and related reporting requirements. In connection with such efforts, the staff will modify oversight programs to conform to any changes in the way market and credit risk are assessed pursuant to the relevant capital rules. Staff will continue to examine firms' risk assessment and internal control oversight programs.

Ensuring that Assessed Penalties Are Collected

The Trading and Markets program will collect civil monetary penalties assessed in Commission cases and may turn over to the US Treasury delinquent debts for cross-servicing, administrative offsets, and wage garnishments in accordance with both the Debt Collection Improvement Act of 1996 and the letter of agreement entered into between the Commission and the US Treasury. The Commission may also, in appropriate cases, continue to refer delinquent debts directly to the US Department of Justice (DOJ) to enforce collection. The Trading and Markets program will monitor the progress of each such case. Prior to the end of FY 2002, the Trading and Markets program anticipates transferring this function to the Division of Enforcement.

Managed Funds and Sales Practice Oversight

The Trading and Markets program staff will continue to address special issues posed by hedge funds, including potential systemic risks posed by such funds at times of market volatility. The staff will also continue to directly review the Disclosure Documents of publicly offered commodity pools. Staff will conduct oversight reviews of regulatory programs conducted by NFA. As part of its oversight of NFA's audit program, Trading and Markets will conduct periodic reviews of NFA's audit programs for commodity pool operators (CPO) and commodity trading advisors (CTA) as well as NFA's programs for futures commission merchants (FCM), introducing brokers (IB), and branch offices. In this regard, Trading and

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Markets staff will conduct horizontal reviews across self-regulatory organization (SRO) programs to test selected program elements. This selected testing is designed to address critical elements of SRO programs and is used as an indicator of the overall quality of SRO programs.

Trading and Markets staff will be required to develop procedures to review the self-regulatory programs of new electronic markets, particularly the marketing, disclosure, and reporting compliance programs of such markets. This will be added to the current oversight of existing exchange compliance programs. The staff will conduct selected FCM, CPO, CTA, and IB audits to test self-regulatory programs. The staff also will conduct examinations on behalf of the Enforcement program and provide technical assistance to the Enforcement program as needed.

Trading and Markets staff will continue to review all customer complaints received by the Commission as part of the effort to determine if customer protection issues arise in connection with new markets and new products offered on new and existing markets. Staff will continue to confer periodically with NFA on marketing issues. In this regard, such coordination may become more critical in the event NFA takes on additional audit responsibilities for existing and new exchanges.

Enforcement

Because the primary areas of concentration of the Enforcement program have remained consistent over the past several years, the program expects again to commit the majority of its resources to investigating and litigating cases involving fraud to protect market users and the public from abuses in these areas.

While it is difficult to project what new issues or trends will arise that will require an enforcement response, certain current factors are likely to be indicative of future resource needs, such as: 1) continued industry growth; 2) the development of technology that allows more complicated trading strategies and enhanced ease of access to a wider customer base through mass media; 3) the increased volume of pooled and managed money flowing into the industry; and 4) the recent statutory clarification in the CFMA concerning the Commission's jurisdiction with respect to retail foreign currency transactions.

In the wake of Congress's clarification of its jurisdiction in this area, the Commission expects to devote resources to matters involving illegal foreign currency futures and option contracts sold to retail customers by unregulated entities. The new Federal legislation provides additional support to the Commission's continuing efforts to crack down on individuals and companies that fraudulently market foreign currency contracts to retail customers.

Properly staffed, the Enforcement program is able rapidly to investigate and take injunctive action in quick-strike cases¹ without diverting staff from large, complex matters. The Enforcement program uses its quick-strike capability effectively to prosecute those engaged in ongoing fraud where customer funds are at risk. Such quick-strike cases not only send

¹ "Quick-strike" cases are civil injunctive enforcement actions filed by the Commission within four months of the opening of the related investigation.

a deterrent message, but they also provide the Commission with the opportunity to freeze assets and preserve books and records, whenever possible.

With the volume of investment dollars flowing to pooled and managed funds, the Commission continues to pursue numerous cases involving unregistered CTAs and CPOs engaged in fraudulent conduct.

In FY 2002 and FY 2003, the Enforcement program anticipates that staff will devote attention to cases in which defendants use mass media to reach broad cross-sections of the general public, including unsophisticated customers. The Enforcement program in the past has pursued cases involving solicitation fraud, including false advertising, but the fact patterns in these cases continue to evolve and grow increasingly complex. Moreover, with the increased use of mass media, such as the Internet, these solicitations are reaching more retail customers than ever before.

The Commission also is dedicated to maintaining both its domestic and international cooperative enforcement activities. The relationships that the Enforcement program has forged with Federal, state, and local authorities are invaluable to the efforts of the Commission to fulfill its mission. The Enforcement program also fully expects that its investigations will continue to require assistance from foreign authorities. The Commission has entered into formal cooperative enforcement arrangements with more than a dozen foreign authorities and continues to negotiate additional arrangements as authorities obtain comprehensive investigatory powers. Much of the international work can be labor-intensive, given differences in language and regulatory schemes. Similarly, effective domestic cooperative enforcement requires that strong relationships be built over time.

Finally, the Enforcement program expects the amount of staff time and resources devoted to statutory disqualification (SD) investigations and cases in FY 2002 and FY 2003 to remain steady. Looking forward to FY 2002 and FY 2003, the Enforcement program expects that it will continue to investigate and prosecute certain significant statutory disqualification matters, as well as disqualifications that are related to matters previously prosecuted by the Commission.

Office of Proceedings

During FY 2001, commodity futures and option markets continued to expand into new areas, and the volume of trading grew. However, the number of filings declined and are expected to be 112 in FY 2002 and FY 2003.

Office of the General Counsel

Deterring Fraud and Other Illegal Activities

The Office of the General Counsel will continue to review all enforcement recommendations involving the initiation and conduct of investigations, injunctive actions, and administrative proceedings involving fraud and

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other violations to assure their legal sufficiency and their conformance with general Commission policy and precedent. In addition, the Office of the General Counsel will continue to assist the Commission in the performance of its adjudication, litigation, *amicus curiae*, and bankruptcy functions.

Requiring Commodity Professionals to Meet High Standards

The Office of the General Counsel will continue to support Commission oversight of the NFA program by reviewing SD cases referred to the Commission by the NFA, by reviewing the Commission's delegation of registration authority to the NFA, and by participating in the RWG.

Providing a Forum for Handling Customer Complaints Against Registrants

The Office of the General Counsel will continue to assist the Commission in resolving appeals from initial decisions in reparation cases and will represent the Commission when its reparation decisions are appealed to the US Courts of Appeals.

Executive Direction & Support

Administrative Management & Support

In FY 2002, OIRM will continue to incorporate electronic exchange data into the current EDBS. This system provides information to develop and support investigations of trade practice violations. In FY 2002, the EMC, the Commission's strategic capital planning body, will assess the impact of CFMA regulatory requirements that should be considered for the current and/or redesign of EDBS.

In FY 2002, the migration of the document imaging system used to support the Reparations program will be transitioned to a system that can be utilized by all of CFTC.

Support Strategies to Address Goal Two Management Challenges

Goal Two: Support Issue/Management Challenge #1

Recruit and retain a critical cadre of versatile attorneys to handle the Commission's diverse complex legal issues.

Support Strategy

The Office of the General Counsel conducts on-campus interviews at law schools throughout the country and works with OHR to advertise positions through the Internet and various government and legal publications as jobs become available. The Office of the General Counsel participates in the Commission's Summer Intern Program also, through which talented second-year law students gain exposure to government agency practices and through which the Commission is assisted in its recruitment efforts. The Office of the General Counsel offers its newly hired attorneys opportunities throughout the year to participate in both private and government-sponsored continuing legal education programs and to attend industry seminars and conferences, such as the Annual Law and Compliance Workshop, sponsored by the NFA. In addition, the Office of the General Counsel offers flexible work schedules and other non-monetary incentives for retaining legal and support personnel. Nevertheless, the Commission's recruitment and retention efforts would benefit if its compensation structure were somewhat more competitive with that of the nonfederal sector.

Goal Two: Support Issue/Management Challenge #2

Improve data reporting and data collection methods to ensure compliance with the Government Performance and Results Act of 1993 without placing unnecessary administrative burdens on professional staff.

Support Strategy

A continuing challenge faced by the Enforcement program concerns its efforts to collect, organize, and access program data in a manner that both provides professional staff with information useful to investigative and litigation efforts and provides the Commission and others with a meaningful index to the program's activities and accomplishments. Counterbalanced against this challenge is the program's desire to minimize administrative burdens for professional staff whose primary activity must be the investigation and prosecution of actions against those who violate the Act and Commission regulations.

Accordingly, as part of the Enforcement Modernization Project (EMP), the Enforcement program, OIRM, and the OIG have undertaken a far-ranging review and certain enhancements to the automated systems that Enforcement staff use for recording and tracking enforcement-related data. Phase Three of the EMP contemplates the implementation of commercial software applications and associated computer hardware to perform some or all of the following three functions: 1) case management, workflow, and reporting, which will provide the Enforcement program with a centralized relational database to track all Enforcement activity including

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the ability to create and monitor progress on investigation, discovery, and litigation plans and that also will enable the Enforcement program to extract data from the system to more effectively meet its various reporting obligations; 2) document management, which will allow the Enforcement program to store, index, and search electronic copies of documents obtained in the course of investigations and litigation so that Enforcement staff may quickly and efficiently access them through the Commission's personal computers; and 3) litigation support, which will provide Enforcement staff with tools to simplify core litigation tasks such as locating, organizing, and categorizing witness statements and document information, and to more efficiently prepare case plans and witness profiles for use in taking testimony and at trial.

With the establishment of a formal information technology capital investment process, the EMC chartered an IPT to validate the requirements of the EMP and consider similar requirements from other lines of business, particularly the Office of Proceedings. During FY 2001, the IPT completed work in several areas, including: 1) determining the Commission's current and future business requirements that each of the three functions discussed in the preceding paragraph would accomplish; 2) determining the need for a conversion from paper-based business practices to electronic work processes; and 3) defining, researching, and recommending an acquisition strategy to the EMC.

Goal Two: Support Issue/Management Challenge #3

Improve staff access to internal procedures and practices.

Support Strategy

The Enforcement program maintains a user-friendly electronic procedures manual that provides guidance in all critical areas of the program and that is available online to Enforcement staff nationwide. It includes a comprehensive outline of information critical to the Enforcement program with hyperlinks to instructional materials, related statutes, and relevant authorities.

Working Relationships in Support of Goal Two

Registered Futures Associations

The CEA authorizes the Commission to delegate registration functions to RFAs and requires that an RFA perform certain regulatory functions. The NFA is an RFA and the principal direct regulator, under Commission oversight, of those industry professionals who are not members of another SRO. The statutory structure is designed to promote a partnership between RFAs and the CFTC to assure high standards for industry professionals. NFA monitors registrants for compliance with the CEA and the rules promulgated thereunder. NFA also monitors activities of NFA members registered as CPOs, CTAs, IBs, FCMS that are not members of a futures exchange as well as associated persons (AP) of any of the foregoing. The Commission oversees the NFA registration program through frequent contacts with NFA staff members on specific matters and through formal reviews by the Commission of NFA programs. An RWG, comprised of CFTC and NFA staff, meets quarterly to discuss issues of mutual interest concerning registration. The Commission has delegated to NFA functions related to:

- Monitoring ethics activities of registrants;
- Reviewing applications of individual foreign firms for an exemption from registration;
- Reviewing CPO and CTA disclosure documents; and
- Collecting, processing, and maintaining Regulation 9.11 notices submitted by exchanges.

Joint activities include:

- Working to delegate regulatory responsibilities associated with the direct filing of Regulation 9.11 notices to NFA;
- Developing of revised registration forms and a transition to a paperless registration system; and
- Expanding of the electronic filing program for financial reports.

In addition, pursuant to the CFMA, the Commission will be delegating to NFA functions relating to the notice-registration of securities broker-dealers as FCMS or IBs for the purpose of trading security futures products. The Commission will oversee NFA's activities in this regard. Also in connection with the trading of security futures products, NFA will become registered with the SEC as a limited purpose national securities association.

Other Futures Associations

If other entities apply for RFA status, the Commission also will oversee their activities.

Domestic Cooperative Efforts with Law Enforcement and Regulatory Authorities

Task forces and working groups designed to keep market participants abreast of new developments in financial crimes and coordinate governmental responses.

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Coordinating with the SEC in Implementing the CFMA

In accordance with the CFMA, the Commission is coordinating with the SEC in several rulemakings related to the trading of security futures products. These areas include security futures product definitions, registration requirements and functions, treatment of customer funds, the development and implementation of listing standards, margin rules, trading halts, and cash settlement procedures.

Telemarketing and Internet Fraud Working Group

Information sharing concerning regulatory and enforcement initiatives involving telemarketing and fraudulent activities on the Internet. See also the examples of task forces and working groups designed to keep market participants abreast of new developments in financial crimes and coordinate governmental responses set forth in the Cooperative Efforts section of the FY 2003 President's Budget Estimate on page 51.

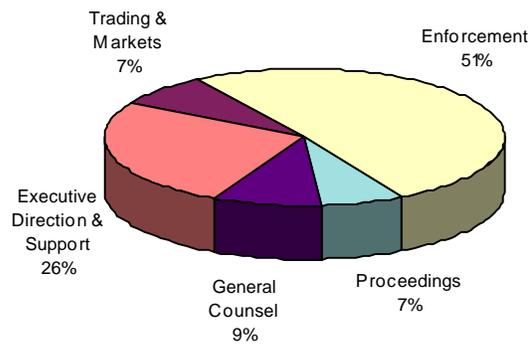
International Organization of Securities Commissions (IOSCO)

Provides vehicle for exchanging information and expertise among regulatory authorities for the supervision of world securities and derivatives markets to establish standards of best practices, ensure market integrity, and promote effective supervision. Work is conducted through standing committees, such as a standing committee that specializes in enforcement, including cooperation between law enforcement and regulatory authorities and the detection, investigation, and prosecution of fraud and manipulation.

Table 3: Goal Two - Summary of Request by Program

	FY 2002		FY 2003		CHANGE	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
Market Surveillance, Analysis, & Research	\$0	0	\$0	0	\$0	0
Trading & Markets	2,649	15	2,285	15	-\$364	0
Enforcement	17,995	101	15,810	102	-\$2,185	1
Proceedings	2,407	14	2,067	14	-\$340	0
General Counsel	3,084	16	2,753	16	-\$331	0
Executive Direction & Support	8,689	47	7,987	50	-\$702	3
TOTAL:	\$34,824	193	\$30,902	197	-\$3,922	4

Figure 8: Goal Two - FY 2003 Budget Dollars by Program



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Table 4: Goal Two - Summary of Request by Outcome Objective

	FY 2002		FY 2003		CHANGE	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
GOAL TWO: Protect markets users and the public.						
Outcome Objectives						
2.1 Promote compliance with and deter violations of federal commodities laws.	\$ 28,618	158.62	\$ 25,388	161.95	-\$3,230	3.32
2.2 Require commodities professionals to meet high standards.	\$ 3,039	16.90	\$ 2,673	17.12	-366	0.22
2.3 Provide a forum for effectively and expeditiously handling customer complaints against persons or firms registered under the Act.	\$ 3,167	17.60	\$ 2,841	18.17	-326	0.57
Total Goal Two	\$34,824	193.13	\$30,902	197.24	-\$3,922	4.11

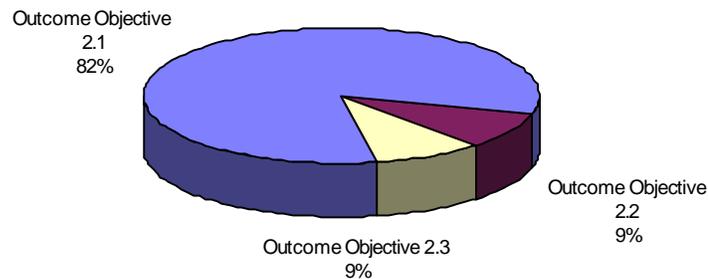


Figure 9: Goal Two - FY 2003 Budget Dollars by Outcome Objective

Ranking of Goal Two Activities

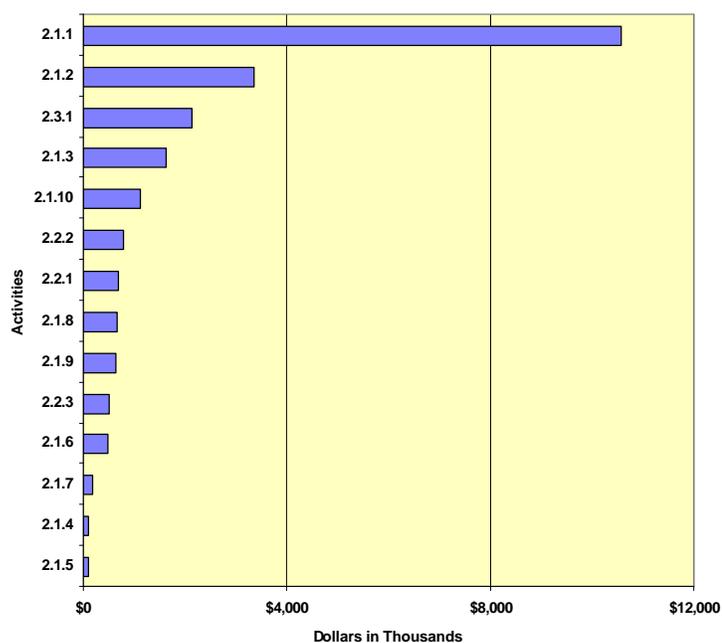


Figure 10: Ranking of Goal Two Activities

- **Activity 2.1.1:** Identify and investigate possible fraudulent and other illegal activities relating to the commodity futures and option markets and their registrants.
- **Activity 2.1.2:** Bring injunctive actions, including using "quick-strike" efforts to protect assets and to stop egregious conduct.
- **Activity 2.3.1:** Provide a reparations program for commodities market users to make claims relating to violations of the Act.
- **Activity 2.1.3:** Bring administrative cases involving fraud and other violations.
- **Activity 2.1.10:** Resolve appeals in administrative enforcement matters and self-regulatory organization adjudicatory actions.
- **Activity 2.2.2:** Oversee NFA's document disclosure review program.
- **Activity 2.2.1:** Oversee the National Futures Association registration program including testing, licensing, and ethics training for commodities professionals.
- **Activity 2.1.8:** Cooperate with the exchanges, the National Futures Association, and other federal agencies, state governments, and law enforcement entities, and foreign authorities to gain information for law enforcement purposes and to provide enforcement assistance as necessary and appropriate.
- **Activity 2.1.9:** Monitor the Internet and other communications media for fraudulent activities and possible violations of the Act.
- **Activity 2.2.3:** Investigate and bring administrative registration cases arising out of alleged statutory disqualification, and obtain suspensions, revocations, conditions, or restrictions of registration.
- **Activity 2.1.6:** Inform the public and the industry concerning allegations of wrongdoing and associated legal actions, including through publications and through Commission orders and reports describing the alleged violations and the Commission's legal and policy analysis.
- **Activity 2.1.7:** Collect sanctions and civil monetary penalties against violators.
- **Activity 2.1.4:** Hear administrative cases.
- **Activity 2.1.5:** Sanction violators.

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Summary of Annual Performance Targets

Goal Two								
Protect market users and the public.								
Outcome Objective 2.1								
Promote compliance with and deter violations of federal commodities laws.								
Annual Performance Goal								
All known possible wrongdoing identified and investigated. All violators brought to justice.								
Activity/Strategy	Output Measure 1/	FY01 Actual	FY02	FY03	Outcome Measure 1/	FY01 Actual	FY02	FY03
1. Identify and investigate possible fraudulent and other illegal activities relating to the commodity futures and option markets and their registrants.	Number of such investigations opened during the fiscal year.	193	103	103	Of all such investigations closed or resulting in actions during the fiscal year, percentage of such investigations closed or resulting in CFTC enforcement action within one year of opening.	73%	62%	62%
	Number of such investigations closed during the fiscal year.	130	110	110				
	Total number of such investigations closed or resulting in CFTC enforcement case during the fiscal year	141	130	130				
	Number of such investigations closed or resulting in CFTC enforcement case within one year of opening.	103	80	80	Of all CFTC enforcement investigations pending at the close of the fiscal year, percentage of such investigations.	71%	68%	64%
2. Bring injunctive actions, including using "quick-strike" efforts to protect assets and to stop egregious conduct.	Number of such injunctive cases filed using "quick-strike" procedures.	12	7	7	Of the total number of such injunctive actions filed during the fiscal year, percentage of quick strike actions.	71%	54%	54%
	Total number of such injunctive cases filed during the fiscal year.	17	13	13				
	Number of such injunctive cases completed during the fiscal year.	11	12	12				
	Total number of such injunctive cases filed within one year of the opening of the related investigation.	16	11	11				
	Number of such injunctive cases pending at the close of the fiscal year.	50	51	52				
3. Bring administrative cases involving fraud and other violations.	Number of administrative cases filed.	18	18	18	Of all such cases filed during the fiscal year, percentage of such administrative cases filed within one year of the investigation opening.	44%	44%	44%
	Number of such administrative cases filed within one year of opening the related investigation.	8	8	8				
	Number of such administrative cases completed during the fiscal year.	11	13	13	Of all CFTC enforcement cases pending at the close of the fiscal year, percentage of such injunctive and administrative cases pending.	50%	52%	53%
	Number of such administrative cases pending the close of the fiscal year.	28	33	38				
4. Hear administrative cases.	Number of administrative cases decided during the fiscal year.	24	27	27	—	—	—	—
5. Sanction violators in injunctive actions and administrative cases.	Number of statutory restraining orders obtained.	10	9	9	Percentage of cases closed during the year that resulted in sanctions.	95%	98%	98%
	Number of preliminary Injunctions obtained.	13	11	11				
	Number of permanent injunctions obtained.	11	17	17				
	Amount of disgorgement and restitution granted.	\$7.7M	\$50M	\$50M				
	Amount of civil monetary penalties granted.	\$13.3M	\$40M	\$40M				
	Number of cease and desist orders obtained.	13	17	17				
	Number of requests for registration restrictions granted.	7	7	7				
	Number of requests for trading prohibitions granted.	8	9	9				

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Outcome Objective 2.1 (continued)								
Promote compliance with and deter violations of federal commodities laws.								
Annual Performance Goal								
All known possible wrongdoing identified and investigated. All violators brought to justice.								
Activity/Strategy	Output Measure 1/	FY01 Actual	FY02	FY03	Outcome Measure 1/	FY01 Actual	FY02	FY03
6. Inform the public and the industry of the reasons for the Commission's decisions concerning allegations of wrongdoing through published opinions describing the alleged violations and the Commission's legal and policy analysis.	Number of cases decided with published opinions.	6	10	11	Percentage of cases decided with published opinions.	118%	75%	75%
	Number of cases decided by orders of summary affirmance.	2	2	2	Percentage of cases decided with summary affirmance.	0%	15%	15%
7. Collect sanctions and civil monetary penalties against violators.	Amount of civil monetary penalty assessed.	\$80M	\$80M	\$80M	Percentage of assessed civil monetary penalties collected. 2/	4%	2%	2%
	Amount of civil monetary penalties collected.	\$3.2M	\$1.6M	\$1.6M				
8. Cooperate with the exchanges, the National Futures Association, other federal agencies, state governments and law enforcement entities, and foreign authorities to gain information for law enforcement purposes and to provide enforcement assistance as necessary and appropriate.	Number of enforcement investigations pending at any point during the fiscal year that involved cooperation with other authorities.	32	30	30	Of the total number of investigations that were open during the fiscal year, percentage of investigations that involved cooperation with other authorities.	11%	15%	15%
	Number of requests for assistance from foreign authorities.	16	20	20				
	Number of requests for assistance made to foreign authorities.	89	24	24				
9. Monitor the Internet and other communication media for fraudulent activities and other possible violations of the Act.	Number of preliminary investigation referrals generated from Internet and media monitoring.	50	50	50	Of total enforcement preliminary inquiries, percentage of Internet and media monitoring preliminary investigation referrals.	45%	45%	45%
10. Resolve appeals in administrative enforcement matters and self-regulatory organization adjudicatory actions.	Number of administrative enforcement appeal cases decided during the FY that were decided within six months.	7	2	3	Percentage of administrative enforcement appeals decided within six months.	78%	17%	23%
	Number of administrative enforcement appeals resolved.	9	12	13	Percentage of SRO adjudicatory action appeals resolved within six months.	100%	0%	33%
	Number of SRO adjudicatory action appeal cases decided during the FY that were decided within six months.	2	0	1				
	Number of SRO adjudicatory action appeals resolved.	2	2	3				

Outcome Objective 2.2								
Require commodities professionals to meet high standards.								
Annual Performance Goal								
No unregistered, untested, and unlicensed commodity professionals.								
Activity/Strategy	Output Measure 1/	FY01 Actual	FY02	FY03	Outcome Measure 1/	FY01 Actual	FY02	FY03
1. Oversee the National Futures Association registration program including testing, licensing, and ethics training for commodities professionals.	Number of registered commodity professionals.	64,992	65,000	65,000	Percentage of professionals compliant with standards regarding testing, licensing, and ethics training.	98%	98%	98%
	Number of registrants compliant with standards regarding testing, licensing, and ethics training.	63,500	64,000	64,000	Percentage of CFTC-NFA Registration Working Group meetings attended by CFTC	100%	100%	100%
	Number of CFTC-NFA Registration Working Group meetings.	4	4	4				

2/ The discrepancy between the amount of civil monetary penalties imposed and the amount collected is accounted for by the following factors: 1) the assessment of restitution and disgorgement, which has precedence over civil monetary penalties, is frequently made in injunctive matters; 2) debtors' lack of assets; 3) debtors being barred from the industry, thus having no incentive to pay the penalty; and 4) penalties have been imposed as a result of default proceedings against respondents that are no longer in business and/or cannot be located.

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Outcome Objective 2.2 (continued) Require commodities professionals to meet high standards.								
Annual Performance Goal No unregistered, untested, and unlicensed commodity professionals.								
Activity/Strategy	Output Measure 1/	FY01 Actual	FY02	FY03	Outcome Measure 1/	FY01 Actual	FY02	FY03
2. Oversee NFA's document disclosure review program.	Number of disclosure documents reviewed.	29	10	10	Percentage of deficient disclosure documents.	7%	20%	20%
	Number of deficiency letters issued.	2	2	2				
	Number of CPO and CTA review reports issued.	0	1	0				
	Number of CPO/CTA interpretations, advisories, and proposed rule changes.	3	3	3				
3. Investigate and bring administrative registration cases arising out of alleged statutory disqualification and obtain suspensions, revocations, conditions, or restrictions of registration.	Number of statutory disqualification investigations opened during the fiscal year.	2	3	3	Of total number of such investigations closed or resulting in enforcement action during the fiscal year, percentage of statutory disqualification investigations closed or resulting in enforcement action within one year	50%	67%	67%
	Number of statutory disqualification investigations closed during the fiscal year.	3	3	3				
	Total number of statutory disqualification investigations closed or resulting in CFTC enforcement case during the fiscal year.	2	3	3	Statutory disqualification investigations as a percentage of all CFTC enforcement investigations pending at the close of the fiscal year.	1%	1%	1%
	Number of statutory disqualification investigations closed or resulting in CFTC enforcement case within one year of opening the investigation.	1	2	2	Of all such actions filed during the fiscal year, percentage of statutory disqualification actions filed within one year of the opening of the relevant investigation.	50%	33%	33%
	Number of statutory disqualification investigations pending at the close of the fiscal year.	2	2	2	Of all CFTC enforcement actions pending at the close of the fiscal year, percentage of statutory disqualification actions	1%	1%	1%
	Total number of statutory disqualification cases filed during the fiscal year.	2	3	3				
	Number of statutory disqualification cases filed within one year of the opening of the relevant investigation.	1	1	1				
	Number of statutory disqualification cases completed during the fiscal year.	5	3	3				
	Number of statutory disqualification cases pending at close of the fiscal year.	2	2	2				
	Number of respondents/ defendants against whom the CFTC's request for registration restrictions has been granted.	1	2	2				

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Outcome Objective 2.3								
Provide a forum for effectively and expeditiously handling customer complaints against persons or firms registered under the Act.								
Annual Performance Goal								
All customer complaints against persons or firms registered under the Act are resolved within one year from the date filed (does not include appeals).								
Activity/Strategy	Output Measure 1/	FY01 Actual	FY02	FY03	Outcome Measure 1/	FY01 Actual	FY02	FY03
1. Provide a reparations program for commodities market users to make claims relating to violations of the Act.	Number of reparations Complaints filed.	110	112	112	Percentage of reparations complaints forwarded as cases.	82%	98%	98%
	Number of reparations complaints forwarded for hearing as cases.	90	100	100	Percentage of filed complaints resolved within one year of filing date.	45%	45%	45%
	Number of appeal cases decided during the fiscal year that were decided within six months.	4	2	4				
	Number of customer complaints resolved in fiscal year within one year of filing date.	50	50	50	Percentage of appeals resolved within six months.	31%	10%	19%
	Number of appeals resolved.	13	21	21				

1/ Many new output and outcome measures were developed during the FY 2003 budget formulation process. As such, new measurement data must be formulated. In cases where measurement data is not yet available, the acronym TBD, which stands for "to be determined," has been used in one, two, or all three fiscal year columns.

Goal Three: Foster open, competitive, and financially sound markets.

Total FY 2003 Budget: \$27,478,000 178 FTEs
Total Change from FY 2002: \$ -2,577,000 ^{2/} 9 FTEs

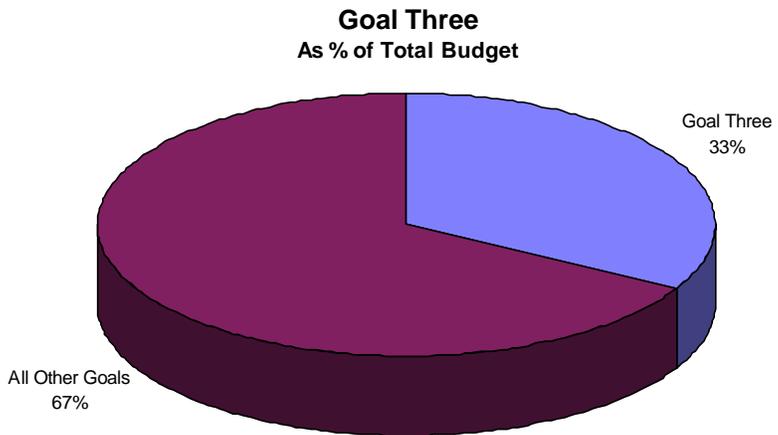


Figure 11: Goal Three - As Percentage of Total Budget

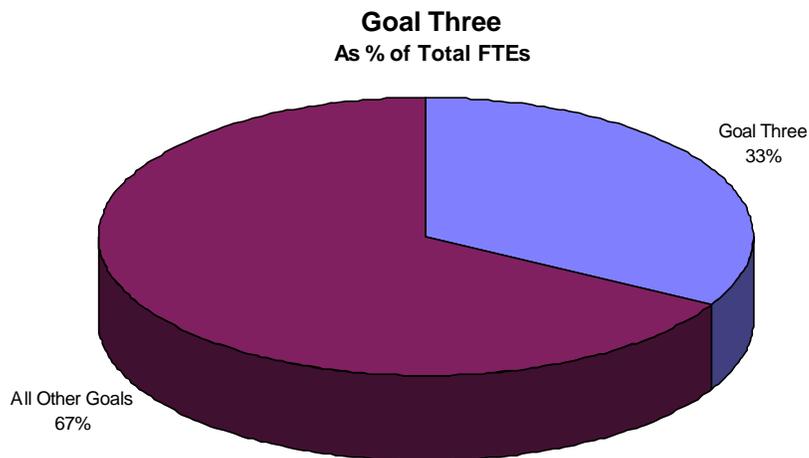


Figure 12: Goal Three - As Percentage of Total FTEs

^{2/} "Total Change" represents the difference between the FY 2003 request ("Total Budget") and the FY 2002 appropriation, which includes a supplemental increase to cover expenses related to the September 11, 2001 terrorist attack.

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Goal Three: Foster open, competitive, and financially sound markets.	
Outcome Objective	Activity
1. Ensure sound financial practices of clearing organizations and firms holding customer funds.	<ol style="list-style-type: none"> 1. Promulgate regulations to ensure sound business, financial, and sales practices in firms participating in the commodities industry. 2. Review and oversee self-regulatory organization audit and financial practices. 3. Identify and investigate possible financial, capitalization, segregation, and supervision violations for investigation and possible prosecution.. 4. Bring cases concerning financial, capitalization, segregation, and supervision violations. 5. Sanction violators.
2. Promote and enhance effective self-regulation of the commodity futures and option markets.	<ol style="list-style-type: none"> 1. Review and approve self-regulatory organization rules and rule amendments. 2. Conduct rule enforcement reviews of self-regulatory organizations (financial practices, sales practices, trade practices, and audit trail). 3. Review and oversee self-regulatory organization audit and financial practices. 4. Review adequacy of self-regulatory organization disciplinary actions. 5. Conduct direct audits of clearing organizations and firms handling customer money to ensure compliance with capitalization and segregation rules. 6. Promulgate regulations to ensure effective self-regulation by exchanges, clearing organizations, and registered futures associations.
3. Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	<ol style="list-style-type: none"> 1. Coordinate and cooperate with global financial services regulators to share vital information concerning markets, intermediaries, and regulatory structure. 2. Coordinate and cooperate with global financial services regulators to develop appropriate global standards and arrangements in the commodities industry as markets emerge and evolve. 3. Participate in the International Organization of Securities Commissions and represent the Commission at international meetings concerning commodity regulation. 4. Participate in the President's Working Group on Financial Markets to ensure coordination of information and efforts among US financial regulators. 5. Provide exemptive, interpretive, or other relief as appropriate to foster the development of innovative transactions, trading systems, and similar arrangements.
4. Promote markets free of trade practice abuses.	<ol style="list-style-type: none"> 1. Identify possible trade practice violations for investigation and possible enforcement proceedings. 2. Investigate possible trade practice violations. 3. Bring cases concerning trade practice violations. 4. Sanction violators.

Goal Three: FY 2002 and FY 2003 Plan by Program

Market Surveillance, Analysis & Research

Rule Enforcement Review

The staff of the Market Surveillance, Analysis, and Research program will assist Trading and Markets program staff in conducting one rule enforcement review of exchange market surveillance programs in FY 2002 and one in FY 2003.

Information on the Functions and Utility of the Markets

During FY 2002 and FY 2003, Market Analysis and Research staff will continue to provide analytic support and expertise for enforcement cases involving questionable trade practices or trading abuses. Resources also will be devoted to an analysis of the competitive implications of exchange and OTC derivative market developments.

Trading & Markets

Fostering Sound Financial Practices: Financial Surveillance and Risk Assessment

In FY 2002 and FY 2003, the Trading and Markets program will maintain its ongoing subprograms to ensure sound financial practices, effective self-regulatory programs, a flexible regulatory framework that remains responsive to market developments, and markets free of abusive trade practices and other wrongful conduct. These program activities will face increased demands due to the growing complexity of market structures and product innovations in an increasingly global marketplace. With respect to financial surveillance the financial surveillance programs of both existing and new markets will require oversight to ensure effective self-regulation.

In addition to the expansion of markets and products, the Trading and Markets program will need to address several proposals and the effects of such proposals. Trading and Markets program staff anticipate that implementation and review activities relating to the following issues, among others, will be principal areas requiring staff resources: 1) the continuing movement to risk-based capital in lieu of capital based on a fixed percentage of customer funds; 2) the expansion of permissible investments of customer segregated funds; 3) the potential for including additional instruments in segregation; and 4) the election by customers to "opt-out" of having their funds held in segregation.

During FY 2002 and FY 2003, Trading and Markets staff will continue to submit formal reports on its oversight of SROs to the Commission. Trading and Markets staff expect that such reports will be increasingly horizontal in nature to review critical program elements at several SROs simultaneously. Trading and Markets staff will conduct 30 examinations of Commission registrants, process approximately 100 to 110 risk assessment filings by FCMs, and review 4,500 financial reports from FCMs, IBs, and commodity pools. The staff also anticipate continuing support

to the Enforcement program on accounting matters and the application of financial requirements.

The events of September 11, 2001 will result in additional challenges to the Trading and Markets program in achieving goals set forth for FY 2002 and FY 2003. The Trading and Markets staff will have to rebuild risk assessment databases that were lost. The staff is working with the industry to review contingency plans, improve communications, and assess best practices in light of the lessons learned from the events of September 11. At the same time, the staff may have to re-perform audits of firms under Enforcement program investigation in order for the cases to be pursued.

Promoting Effective Self-Regulation and Protecting Markets from Abusive Trade Practices

Trading and Markets program staff will monitor changes in the marketplace that result from new electronic trading systems, advances in order routing technology, the globalization of the markets, and new market practices and clearing structures. Trading and Markets will also: 1) conduct extensive examinations of SRO programs for enforcing their rules, regulations, and bylaws; 2) monitor daily trading activity for potential violations of the CEA and the Commission's regulations; 3) review new SRO rules and rule amendments; 4) review and evaluate SRO disciplinary actions; and 5) continue to develop rules to foster open and competitive markets and protect the public interest.

Trading and Markets staff will conduct six reviews of SRO compliance activities in FY 2002 and six such reviews in FY 2003 to ensure that each SRO program is conducted effectively. These reviews focus on the affirmative programs through which SROs enforce their rules. Under the new regulatory framework of the CFMA, such reviews will focus on assuring adherence by contract markets and DTFs to the core principles governing such entities under the new regulatory framework. These reviews will take on increased importance as one of the Commission's principal regulatory tools in its transformed role of oversight regulator under the CFMA.

In each of FY 2002 and FY 2003, staff expect to review approximately 200 SRO rule and rule amendment submissions containing approximately 1,400 rules to ensure the protection of customers, the financial integrity of firms, and the fair treatment of market participants, while accommodating product innovations and fostering efficiency. Areas of possible activity include new exchanges, exchange mergers, links with OTC markets and foreign exchanges, common clearing and other clearing organization restructuring, and automated trading systems.

With respect to deterring and detecting abusive trade practices, the Trading and Markets program will continue its regular program of trade practice investigations, including about 90 such investigations in FY 2002 and in FY 2003. Staff will refer cases to the Enforcement program and the exchanges as appropriate. Staff will also continue development and implementation of enhancements to the automated trade surveillance system at the Commission.

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Reports, Rulemakings, and Guidance to Enhance Self-Regulatory Effectiveness to Ensure a Flexible Regulatory Environment

The Trading and Markets program will prepare and issue rulemakings, reports, and guidance in order to enhance self-regulatory effectiveness, reduce regulatory burdens, and ensure a flexible regulatory environment. Continuing in FY 2002 and FY 2003, the Trading and Markets program will support the Commission's regulatory reform program in accordance with actions required by or appropriate to the implementation of the CFMA. The staff will continue to review the Commission's existing regulatory requirements and gather input from registrants and other financial industry participants in order to propose, for adoption by the Commission, appropriate amendments to regulations consistent with the goals and principles of the regulatory reform program under the CFMA. Reports, rulemakings, and guidance from the Trading and Markets program will take on increased importance in the new oversight environment created by the CFMA's new regulatory framework, as SROs endeavor to adhere to the framework's core principles while responding to the demands of the futures marketplace for innovation and global competitiveness. The Trading and Markets program will also provide assistance to industry participants, counsel, and the public in interpreting and applying the new regulatory framework to concrete factual situations. As the Commission's role shifts from that of front-line regulator to more of an oversight function, the program will be actively involved in that transition.

In implementing requirements of the CFMA, certain work will be conducted in accordance with the recommendations in the Commission's CFMA mandated report on intermediaries. Through such activity, the program will help continue Commission efforts to streamline regulatory requirements and ensure a flexible regulatory environment that can accommodate the profound changes now occurring in the world futures marketplace. In this area, Trading and Markets staff will continue to address the creation of new clearing structures and the proliferation of new electronic execution facilities for derivatives. Also pursuant to the CFMA, derivatives clearing organizations must now register with the Commission. Trading and Markets staff will add this activity to their existing responsibilities. Staff will also continue to respond to: 1) expanding use of computer and communication technology; 2) electronic trading systems and cross-border transactions; and 3) resulting changes in how markets are accessed by participants and how intermediaries conduct business with customers. Staff will address potential systemic problems and risks through timely preparation of reports and guidance relating to major market events. With the assistance of outside consultants, the Trading and Markets staff will continue to develop and begin to implement an enhanced electronic trade database and surveillance system. Staff also will be developing new approaches to trade surveillance that specifically are tailored to electronic trading systems.

The new market oversight functions imposed by the CFMA will require reviewing new applications by designated contract markets, registered DTFs, derivatives clearing organizations, and registered futures associations. The Trading and Markets program will continue to address ongoing regulatory issues regarding application of the multitude of new exemptions and exclusions in the CFMA with respect to trading of derivatives, oversight of an increased number of trading facilities, products, and RFAs. Additionally, Trading and Markets will work with the SEC to

coordinate rulemakings with respect to the implementation and trading of security futures products by futures and securities exchanges.

As mandated by the CFMA, the Trading and Markets program staff will continue to review Commission rules and evaluate their effectiveness and necessity as products and markets continue to evolve. The staff will, as necessary, develop and promulgate regulations and promote standards that provide appropriate guidance to market participants but continue to allow sufficient flexibility. For example, the staff will consider the development of final rules in connection with memorializing certain interpretative and no-action letters that address when foreign brokers must register with the Commission or obtain an exemption from such registration. The staff will also review a broad range of existing regulatory requirements affecting CPOs and CTAs with a view towards adapting those requirements to better suit the current state of financial market evolution and account for changes in the way market participants do business. In addition, the Commission, as part of its regulatory reform program, indicated its willingness to respond favorably to an NFA rule change eliminating the proficiency examination requirement for salespersons dealing exclusively with institutional customers. The Trading and Markets program staff anticipates working with NFA in this regard.

The Trading and Markets program also will continue to review and recommend appropriate revisions of the capital rules for FCMs and IBs so that such firms, the exchanges, and the clearing organizations can enhance their operating efficiency while maintaining a sufficient capital cushion. Staff will continue to provide guidance and relief, as appropriate, to the public, persons new to the futures industry, and market professionals on a wide range of basic compliance matters such as registration, disclosure, record-keeping, and treatment of customer funds.

The Trading and Markets program also will review no-action requests from foreign boards of trade seeking to place terminals in the US without being designated as a contract market or registered as a DTF. In addition, the program will review and monitor innovative trading mechanisms developed by the energy industry in response to the deregulation of that industry, particularly those existing in an off-exchange environment, and the program will continue to provide guidance and appropriate regulatory relief by no-action letter and other available means.

Enforcement

The Enforcement program will continue to devote resources to its role in fostering open, competitive, and financially sound markets through investigations and prosecutions relating to financial, supervision, and compliance failures by firms handling customer funds and trade practice abuses by market participants.

The Enforcement program anticipates that its investigation and prosecution of significant supervision, compliance, and internal control failures may grow as trading volume grows and regulated firms compete aggressively for customers in a changing regulatory and technological environment. Such violations threaten the financial integrity of registered firms holding customer funds and can, if large enough, threaten the financial integrity of clearing organizations. In addition, without adequate supervi-

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sion and compliance systems in place, customers remain vulnerable to fraud, including misallocation of trades and unauthorized trading. Diligent supervision by registered firms also protects markets from the abusive practices of traders, including wash sales and manipulation. Such cases tend to be complex and time consuming, requiring extensive testimony from the employees and managers in the supervisory chain. These cases can result in substantial remedial changes in the supervisory structures and systems in large FCMs following comprehensive reviews by the firms pursuant to Commission orders. These cases have had a significant impact on the way firms do business and are an important part of the responsibility of the Commission to promote sound practices by registered firms.

Enforcement staff will continue, in the first instance, to rely on SROs and independent auditors to monitor compliance and supervision by registered firms. Where appropriate, however, Enforcement staff will undertake aggressive investigations and prosecutions to remedy failures in this area.

Enforcement staff will continue to prosecute trade practice violations in appropriate cases. Even with statutory and regulatory changes to reduce regulatory requirements, the Commission continues to be responsible for fostering markets that are free of fraudulent trading practices. This requires a strong enforcement presence in this area. Exchanges play an important role in fostering open, competitive markets through surveillance and disciplinary actions. Their technological improvements and enhanced audit trails may impact the number of Commission enforcement actions in this area. Nevertheless, given the importance of maintaining markets free of abusive trading practices, the Enforcement program must be prepared to act when necessary. Such investigations tend to be among the most complex and time-consuming matters undertaken by Enforcement staff and will require the commitment of significant resources for the foreseeable future.

Internationally, the Enforcement program will continue to negotiate cooperative enforcement arrangements as foreign authorities obtain enhanced regulatory and enforcement powers and become full partners in investigating and prosecuting futures and option violations. Such arrangements have been critical to the investigation and prosecution of cases involving fraud and manipulation. The Enforcement program will continue to pursue opportunities to enter into such arrangements in the future and also will participate in international organizations that encourage the development of high regulatory standards and cooperative enforcement. Such organizations have had a meaningful effect on lowering the barriers to sharing information between futures regulators and encouraging foreign jurisdictions to empower their regulators to enforce futures and option laws.

Office of Proceedings

The Office of Proceedings will continue to hear and decide administrative enforcement cases brought by the Commission against persons or firms charged with violating the Act or Commission rules and regulations.

Office of the General Counsel

Promulgating Regulations to Ensure Sound Business, Financial, and Sales Practices

The Office of the General Counsel will continue to draft or review all proposed and final Commission rules and rule amendments to assure their legal sufficiency and conformance with the CEA and Commission policy and precedent. In particular, the Office of the General Counsel will coordinate the Commission's work with the SEC and other agencies to accomplish the joint rulemakings required by the CFMA.

Financial, Capitalization, Segregation and Supervision Violations

The Office of the General Counsel will continue to review all proposed enforcement actions involving the investigation, prosecution, and sanctioning of violators of financial, capitalization, segregation, and supervision requirements to assure their legal sufficiency and conformance with the requirements of the CEA and Commission policy and precedent.

Promoting Effective Self-Regulation

The Office of the General Counsel will continue to review all proposed SRO rules and rule amendments for legal sufficiency and conformance with general Commission policy and precedent.

Facilitating a Flexible Regulatory Environment

The Office of the General Counsel will continue to provide support to Commission efforts to coordinate and cooperate with global financial service regulators, share vital information, and develop appropriate global standards. It will also assist the Commission in promoting a flexible regulatory environment by analyzing requests for exemptions from the CEA and Commission regulations and by preparing and reviewing exemptive, no-action, and interpretive letters.

Coordination of Information and Efforts Among US Regulators

The Office of the General Counsel will continue to provide support to Commission representatives participating in the President's Working Group on Financial Markets.

Administrative Matters

The Office of the General Counsel will continue to advise the Commission with respect to a wide range of administrative matters. Ongoing responsibilities will include: 1) monitoring and commenting on proposed government-wide legislation affecting the Commission; 2) assisting the Commission in responding to Congressional inquiries; 3) advising the Commission with respect to issues involving the Freedom of Information, Privacy, Government in the Sunshine, Regulatory Flexibility, Paperwork Reduction, and Federal Advisory Committee Acts; 4) assisting the Commission in responding to third-party subpoenas; 5) providing support with respect to ethics issues; and 6) advising the Commission on personnel, labor, and employment law matters.

Executive Direction & Support

Agency Direction

In FY 2002 and FY 2003, OIA will continue to: 1) coordinate the Commission's representation in international forums; 2) cooperate with global financial services regulators to share information concerning markets, intermediaries, and regulatory structures; and 3) develop appropriate standards and arrangements in the commodities industry. Also, in FY 2002 and FY 2003, OIA will continue to participate in IOSCO, the Council of Securities Regulators of the Americas (COSRA), and other international organizations to facilitate cross-border business through the elimination of unnecessary legal and practical impediments, to encourage market discipline through greater transparency, and to enhance customer and market protections through the development of cooperative arrangements and internationally accepted standards for the regulation of markets and financial services firms. During FY 2002, OIA will continue to coordinate the Commission's activities within the IOSCO Technical Committee and its standing committees, with special focus on issues related to transparency needs of organized markets, contract design principles for narrow-based stock indexes, coordination of trading halts, and clearing and settlement systems and intermediaries. The Commission also will work within IOSCO to assess implementation of IOSCO's core regulatory principles. During FY 2002, OIA will continue to develop cooperative arrangements to share information needed by other regulators or SROs to register firms that are remote members of US markets. OIA will continue to provide technical support to the US Treasury's efforts in international groups, such as the Financial Stability Forum to increase the transparency of markets and strengthen the global markets' financial architecture. In both fiscal years, OIA will continue to provide technical assistance to foreign market authorities and to the Global Markets Advisory Committee (GMAC) of the Commission. OIA will seek support for its technical assistance activities.

Administrative Management & Support

In FY 2002, the first phase of the integrated system implementation for the corporate litigation support business process will begin. This phase incorporates the first three components of the corporate business process—case management, document management, and document imaging. In FY 2003, the second phase will incorporate litigation support with the first three components. This phased implementation is based on funding and staff availability.

In FY 2002 and FY 2003, OIRM will continue to support the newly designed review process for new applicants as it relates to electronic systems.

In FY 2002 and FY 2003, the EMC-approved project to facilitate the electronic filing of firm financial condition statements will continue.

Support Strategies to Address Goal Three Management Challenges

Goal Three: Support Issue/Management Challenge #1

Upgrade the civil monetary penalties (CMP) database to include basic reports and to expand the database in order to be able to record information on the collection of restitution and disgorgement penalties.

Support Strategy

Trading and Markets, with support from OIRM, is working on further developing the ACCESS computer database presently in place to be able to generate reports on the collection of CMPs as well as restitution and disgorgement penalties. This will be done on a part-time basis by support staff. The Trading and Markets program anticipates transferring this function to the Enforcement program prior to the end of FY 2002.

Goal Three: Support Issue/Management Challenge #2

Revise the Form 1-FR, the financial reporting form for FCMs and IBs, to reflect recent changes to exchange rules and to facilitate analysis of the financial information.

Support Strategy

Trading and Markets, with support from OIRM, is planning to update the Form 1-FR and work with futures exchanges on modifying the filing software to incorporate the changes necessary to accommodate the new filing formats and analyze the financial information provided in the reports.

Working Relationships in Support of Goal Three

Presidential Working Group on Financial Markets

Coordinated initiatives concerning risk assessment, capital requirements, internal controls, disclosure, accounting, market practices relating to derivative instruments, hedge funds, bankruptcy law revisions, and contingency planning for market emergencies. Participated in Joint Report on Retail Swaps.

Coordinating with the SEC in Implementing the CFMA

In accordance with the CFMA, the Commission is coordinating with the SEC in several rulemakings related to the trading of security futures products and narrow-based stock index futures.

Foreign Market Authorities & Exchange

Technical assistance and promotion of international regulatory standards by allowing other regulators to benefit from the Commission's vast experience.

Educational Forums

Discussions of the CEA, Commission rules, pending rule changes, and market developments at conferences sponsored by the Practicing Law Institute, the American Institute of Certified Public Accountants (AICPA), the Securities Industry Association (SIA), IOSCO, the Managed Funds Association, and the Futures Industry Association (FIA).

Technology Advisory Committee

A means of communicating about the impact and implications of technological innovation in the financial services and commodity markets.

Intermarket Surveillance Group

Commission staff work with futures exchanges on addressing intermarket issues related to security futures products.

Global Market Advisory Committee

A means for obtaining input on international market issues that affect the integrity and competitiveness of US markets and firms engaged in global business especially with regard to the regulatory challenges of a global marketplace, including avoiding unnecessary regulatory or operational impediments faced by those doing global business and the placement of electronic terminals of foreign exchanges in the US.

Memoranda of Understanding/International Arrangements

Cooperation with foreign regulatory and enforcement authorities through MOUs and other arrangements: 19 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.

International Organization of Securities Commissions

Provides a vehicle for exchanging information and expertise among regulatory authorities for the supervision of world securities and derivatives markets to establish standards of best practices, to ensure market integrity, and to promote effective supervision. Work is conducted through standing committees and special purpose task forces that specialize in issues related to multinational disclosure and accounting, the regulation of secondary markets, the regulation of market intermediaries, and investment management.

Council of Securities Regulators of the Americas

An organization of securities/derivatives regulators in North and South America whose objective is the promotion of market integrity through the development of high regulatory standards throughout the region. COSRA serves primarily as a vehicle to share regulatory expertise among South American countries.

International Finance Corporation

A Division of the World Bank, that has co-sponsored with the Commission a one-day seminar in Washington, D.C. on the fundamentals of creating successful derivatives markets. The seminars stress the importance of meeting internationally accepted regulatory benchmarks.

Inter-American Development Bank

This organization provided funding to permit regulators from South America to attend the Commission's regulatory training seminar.

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Table 5: Goal Three - Summary of Request by Program

	FY 2002		FY 2003		CHANGE	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
Market Surveillance, Analysis, & Research	\$346	2	\$301	2	-\$45	0
Trading & Markets	15,359	88	13,893	92	-1,466	4
Enforcement	4,011	22	3,518	23	-493	1
Proceedings	172	1	148	1	-24	0
General Counsel	1,275	7	1,119	7	-156	0
Executive Direction & Support	8,892	49	8,499	53	-393	4
TOTAL	\$30,055	169	\$27,478	178	-\$2,577	9

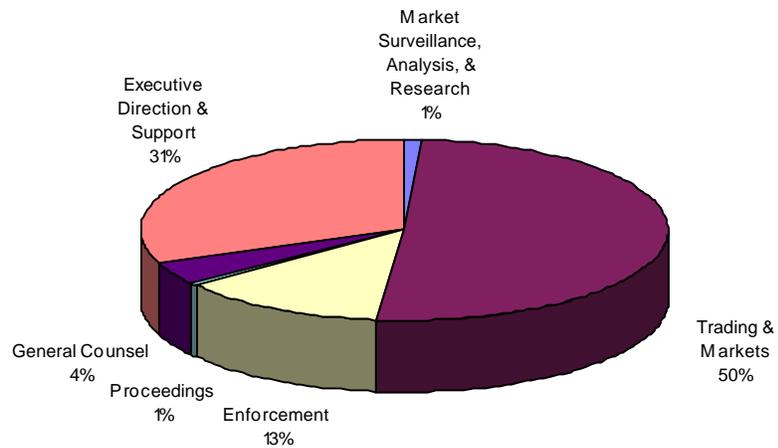


Figure 13: Goal Three – FY 2003 Budget Dollars by Program

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Table 6: Goal Three - Summary of Request by Outcome Objective

	FY 2002		FY 2003		CHANGE	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcome Objectives						
3.1 Ensure sound financial practices of clearing organizations and firms holding customer funds.	\$ 5,308	29.31	\$ 4,887	31.08	-\$421	1.77
3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.	13,525	77.83	12,477	82.52	-1,048	4.70
3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	5,439	29.20	4,976	30.80	-463	1.60
3.4 Promote markets free of trade practice abuses.	5,783	32.66	5,138	33.41	-645	0.75
TOTAL	\$ 30,055	169.00	\$ 27,478	177.81	-\$2,577	8.81

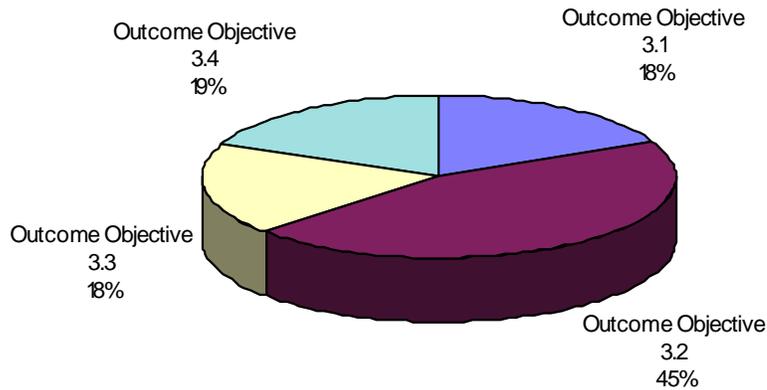


Figure 14: Goal Three - FY 2003 Budget Dollars by Outcome Objective

Ranking of Goal Three Activities

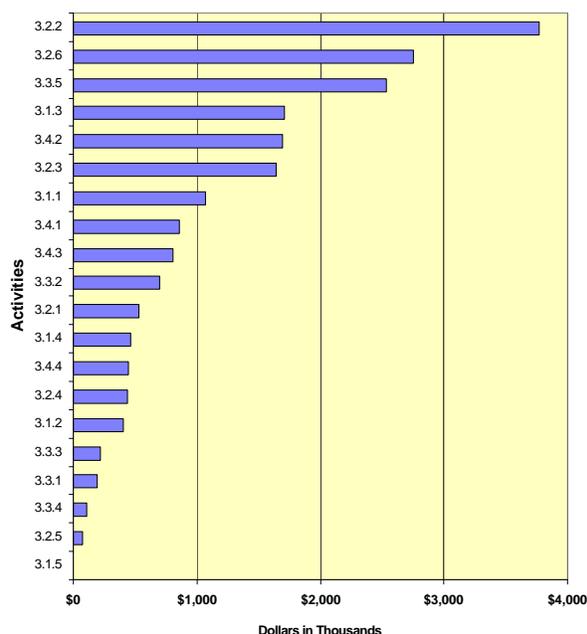


Figure 15: Ranking of Goal Three Activities

- **Activity 3.2.2:** Conduct rule enforcement reviews of self-regulatory organizations (financial practices, sales practices, trade practices and audit trail).
- **Activity 3.2.6:** Promulgate regulations to ensure effective self-regulation by exchanges, clearing organizations, and registered futures associations.
- **Activity 3.3.5:** Provide exemptive, interpretive, or other relief as appropriate to foster the development of innovative transactions, trading systems, and similar arrangements.
- **Activity 3.1.3:** Identify and investigate possible financial, capitalization, segregation, and supervision violations for investigation and possible prosecution.
- **Activity 3.4.2:** Investigate possible trade practice violations.
- **Activity 3.2.3:** Review and oversee self-regulatory organization audit and financial practices.
- **Activity 3.1.1:** Promulgate regulations to ensure sound business, financial, and sales practices in firms participating in the commodities industry.
- **Activity 3.4.1:** Identify possible trade practice violations for investigation and possible enforcement proceedings.
- **Activity 3.4.3:** Bring cases concerning trade practice violations.
- **Activity 3.3.2:** Coordinate and cooperate with global financial services regulators to develop appropriate global standards and arrangements in the commodities industry as markets emerge and evolve.
- **Activity 3.2.1:** Review and approve self-regulatory organization rules and rule amendments.
- **Activity 3.1.4:** Bring cases concerning financial, capitalization, segregation, and supervision violations.
- **Activity 3.4.4:** Bring enforcement proceedings against violators.
- **Activity 3.2.4:** Review adequacy of self-regulatory organization disciplinary actions.
- **Activity 3.1.2:** Review and oversee self-regulatory organization audit and financial practices.
- **Activity 3.3.3:** Participate in the International Organization of Securities Commissions and represent the Commission at international meetings concerning commodity regulation.
- **Activity 3.3.1:** Coordinate and cooperate with global financial services regulators to share vital information concerning markets, intermediaries, and regulatory structure.
- **Activity 3.3.4:** Participate in the President's Working Group on financial Markets to ensure coordination of information and efforts among U.S. financial regulators.
- **Activity 3.2.5:** Conduct direct audits of clearing organizations and firms handling customer money to ensure compliance with capitalization and segregation rules.
- **Activity 3.1.5:** Sanction violators.

Summary of Annual Performance Targets

Goal Three <i>Foster open, competitive, and financially sound markets.</i> Outcome Objective 3.1 Ensure sound financial practices of clearing organizations and firms holding customer funds. Annual Performance Goal No loss of customer funds as a result of firms' failure to adhere to regulations. No customers prevented from transferring funds from failing firms to sound firms.								
Activity/Strategy	Output Measure 1/	FY01 Actual	FY02	FY03	Outcome Measure 1/	FY01 Actual	FY02	FY03
1. Promulgate regulations to ensure sound business, financial, and sales practices in firms participating in the commodities industry.	Number of firms required to transfer customer accounts.	0	1	1	Percentage of customers' funds lost.	0%	0%	0%
	Amount of customer funds lost.	0	0	0				
2. Review and oversee self-regulatory organization audit and financial practices.	Number of oversight audits.	30	30	30	Percentage of financial reports requiring follow up investigations.	4%	4%	4%
	Number of financial investigative reviews.	13	8	8				
	Number of financial reports processed.	5,566	4,500	4,500				
	Number of financial reports resulting in follow-up investigation.	202	170	170				
3. Identify and investigate possible financial, capitalization, segregation, and supervision violations for investigation and possible prosecution.	Number of such investigations opened during the fiscal year.	21	20	20	Of all such investigations closed or resulting in actions during the fiscal year, percentage of such investigations closed or resulting in enforcement action within one year.	63%	61%	61%
	Number of such investigations closed during the fiscal year.	29	20	20				
	Total number of such investigations closed or resulting in CFTC enforcement action during the fiscal year.	38	28	28	Of all CFTC enforcement investigations pending at the close of the fiscal year, percentage of such investigations.	9%	9%	9%
	Number of such investigations closed or resulting in CFTC enforcement action within one year of the opening of the investigation.	24	17	17				
	Number of such investigations pending at the close of the fiscal year.	18	18	18				
4. Bring cases concerning financial, capitalization, segregation, and supervision violations.	Total number of such cases filed during the fiscal year.	25	16	16	Of all such cases filed during the fiscal year, percentage of such cases filed within one year of the opening of the relevant investigation.	64%	63%	63%
	Total number of such cases completed during the fiscal year.	14	16	16				
	Number of such cases filed within one year of the opening of the relevant investigation.	16	10	10	Of the total number of CFTC enforcement actions pending the close of the fiscal year, percentage that are such cases.	30%	29%	28%
	Number of such cases pending at the close of the fiscal year.	47	47	47				
5. Sanction violators.	Amount of disgorgement and restitution ordered.	\$2M	\$13M	\$13M	Percentage of cases closed during the year that resulted in sanctions.	100%	100%	100%
	Amount of civil monetary penalties ordered.	\$3.8M	\$7M	\$7M				
	Number of cease and desist orders.	8	8	8				
	Number of registrations that were ordered restricted.	7	7	7				

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Outcome Objective 3.2								
Promote and enhance effective self-regulation of the commodity futures and option markets.								
Annual Performance Goal								
No loss of customer funds resulting from failure of self-regulatory organizations to ensure compliance with its rules.								
Activity/Strategy	Output Measure 1/	FY01 Actual	FY02	FY03	Outcome Measure 1/	FY01 Actual	FY02	FY03
1. Review and approve self-regulatory organization rules and rule amendments.	Number of SRO rule submissions reviewed.	388	200	200	Percentage of rule submissions completed within: 10 days 45 days 75 days 180 days	89%	89%	89%
	Number of SRO rule amendments reviewed.	2,391	1,400	1,400		5%	5%	5%
						3%	3%	3%
						3%	3%	3%
2. Conduct rule enforcement reviews of self-regulatory organizations (financial practices, sales practices, trade practices, and audit trail).	Number of rule enforcement reviews conducted.	7	6	6	Percentage of planned rule enforcement reviews completed.	100%	100%	100%
	Number of rule enforcement recommendations for improvement made.	10	TBD	TBD	Percentage of recommendations adopted by SROs.	100%	100%	100%
3. Review and oversee self-regulatory organization audit and financial practices.	Number of oversight audits.	30	30	30	Percentage of financial reports requiring follow up investigations.	4%	4%	4%
	Number of financial investigative reviews.	13	8	8				
	Number of financial reports processed.	5,566	4,500	4,500				
	Number of financial reports resulting in follow-up investigation.	202	170	170				
4. Review adequacy of self-regulatory organization disciplinary actions.	Number of self-regulatory organization disciplinary actions reviewed.	584	575	590	Percentage of disciplinary action reports made in compliance with regulatory standards.	100%	100%	100%
					Percentage of disciplinary actions requiring follow-up review.	25%	25%	30%
5. Conduct direct audits of clearing organizations and firms handling customer money to ensure compliance with capitalization and segregation rules.	Number of direct audits of clearing organizations and firms handling customer money.	15	17	18	Percentage of audited clearing organizations and firms in compliance with capitalization and segregation rules.	50%	100%	100%
	Number of audited clearing organizations.	2	1	1				
	Number of audited clearing organizations in compliance with segregation rules.	1	1	1				
6. Promulgate regulations to ensure effective self-regulation by exchanges, clearing organizations, and registered futures associations.	Number of newly promulgated CFTC regulations requiring SRO implementation.	3	1	1	Percentage of SROs implementing new regulations.	100%	100%	100%

Outcome Objective 3.3								
Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.								
Annual Performance Goal								
All requests for information sharing under agreements honored, and new agreements pursued as warranted. All requests for relief responded to within Commission guidelines.								
Activity/Strategy	Output Measure 1/	FY01 Actual	FY02	FY03	Outcome Measure 1/	FY01 Actual	FY02	FY03
1. Coordinate and cooperate with global financial services regulators to share vital information concerning markets, intermediaries, and regulatory structure.	Number of requests from foreign authorities received.	243	300	300	Percentage of requests from foreign authorities honored.	100%	100%	100%
	Number of requests from foreign authorities honored by CFTC.	243	300	300				
	Number of requests made to foreign authorities.	210	250	250	Percentage of requests made to foreign authorities honored.	100%	100%	100%
	Number of CFTC requests honored by foreign authorities.	210	250	250				
	Average response time.	2.5 days	2 days	2 days				

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Outcome Objective 3.3 (continued)								
Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.								
Annual Performance Goal								
All requests for information sharing under agreements honored, and new agreements pursued as warranted. All requests for relief responded to within Commission guidelines.								
Activity/Strategy	Output Measure 1/	FY01 Actual	FY02	FY03	Outcome Measure 1/	FY01 Actual	FY02	FY03
2. Coordinate and cooperate with global financial services regulators to develop appropriate global standards and arrangements in the commodities industry as markets emerge and evolve.	Number of global standards, arrangements or initiatives developed.	3	2	2	Percentage of global standards, arrangements, and initiatives adopted.	100%	100%	100%
	Number of global standards, arrangements or initiatives adopted.	3	2	2				
3. Participate in the International Organization of Securities Commissions and represent the Commission at international meetings concerning commodity regulation.	Number of IOSCO and related international meetings held.	26	35	35	Percentage of IOSCO and related international meeting attended by CFTC.	100%	100%	100%
	Number of IOSCO and related international meetings attended by CFTC.	26	35	35				
4. Participate in the President's Working Group on Financial Markets to ensure coordination of information and efforts among US financial regulators.	Number of President's Working Group meetings held (includes Steering Committee meetings).	24	24	24	Percentage of President's Working Group meetings attended by CFTC.	100%	100%	100%
	Number of President's Working Group meetings attended (includes Steering Committee meetings).	24	24	24	Percentage of President's Working Group recommendations implemented.	100%	100%	100%
					Percentage of assignments/tasks to CFTC completed.	100%	100%	100%
5. Provide exemptive, interpretive, or other relief as appropriate to foster the development of innovative transactions, trading systems, and similar arrangements.	Number of requests for exemptive, interpretive, or other relief.	244	265	275	Percentage of total requests receiving CFTC responses.	94%	81%	85%
	Number of CFTC responses to such requests.	229	215	235				
	Average response time.	6 wks	7 wks	6 wks.				

Outcome Objective 3.4								
Promote markets free of trade practice abuses.								
Annual Performance Goal								
No trade practice abuses.								
Activity/Strategy	Output Measure 1/	FY01 Actual	FY02	FY03	Outcome Measure 1/	FY01 Actual	FY02	FY03
1. Identify possible trade practice violations for investigation and possible enforcement proceedings.	Number of trade practice investigations completed.	129	90	90	Percentage of total possible trade practice investigations identifying possible violations.	16%	26%	26%
	Number of possible trade practice violations referred to SROs and to Division of Enforcement for investigation.	20	23	24	Percentage of trade practice investigation referrals to Enforcement and SROs resulting in disciplinary action.	10%	10%	10%
2. Investigate possible trade practice violations.	Number of such investigations opened during the fiscal year.	15	12	13	Of all such investigations closed or resulting in enforcement action during the fiscal year, percentage of investigations closed or resulting in CFTC enforcement action within one year of opening.	42%	36%	36%
	Number of investigations closed during the fiscal year.	9	9	10				
	Total number of investigations closed or resulting in enforcement actions during the fiscal year.	12	11	11				
	Number of investigations closed or resulting in enforcement action within one year of opening such investigations.	5	4	4	Of all CFTC enforcement investigations pending at the close of the fiscal year, percentage of such investigations.	9%	9%	9%
	Number of investigations pending at the close of the fiscal year.	19	22	25				

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Outcome Objective 3.4 (continued)								
Promote markets free of trade practice abuses.								
Annual Performance Goal								
No trade practice abuses.								
Activity/Strategy	Output Measure 1/	FY01 Actual	FY02	FY03	Outcome Measure 1/	FY01 Actual	FY02	FY03
3. Bring cases concerning trade practice violations.	Total number of such cases filed during the fiscal year.	7	3	3	Of the total number of such cases filed during the fiscal year, percentage of such cases filed within one year of the opening of the relevant investigation.	57%	33%	33%
	Number of such cases filed within one year of the opening of the relevant investigation.	4	1	1				
	Number of such cases completed during the fiscal year.	2	3	3	Of all CFTC enforcement cases pending at the close of the fiscal year, percentage of such cases.	9%	10%	10%
	Number of such cases pending at the close of the fiscal year.	14	14	14				
4. Sanction violators.	Number of statutory restraining orders granted.	0	0	0	Percentage of investigations resulting in sanctions.	100%	100%	100%
	Number of preliminary injunctions obtained.	0	0	0				
	Number of permanent injunctions obtained.	0	0	0				
	Amount of restitution and disgorgement granted.	\$50K	\$100K	\$100K				
	Amount of civil monetary penalties granted.	\$2.7M	\$2M	\$2M				
	Number of cease and desist orders obtained.	5	4	4				
	Number of requests for registration restrictions granted	3	4	4				
	Number of requests for trading prohibitions granted.	5	4	4				

^{1/} Many new output and outcome measures were developed during the FY 2003 budget formulation process. As such, new measurement data must be formulated. In cases where measurement data is not yet available, the acronym TBD, which stands for "to be determined," has been used in one, two, or all three fiscal year columns.

^{2/} The discrepancy between the amount of civil penalties imposed and the amount collected is accounted for by the following factors: 1) penalties imposed on one year may not become due and payable until the next year; 2) a penalty may be stayed by appeal; 3) some penalties call for installment payments which may span more than one year; 4) delinquencies assessed in default proceedings against respondents who are no longer in business and who cannot be located or are incarcerated; 5) penalties have been referred to the Attorney General for collection; and 6) collection still in process internally.

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Table 7: All Goals—Summary of Request by Program Activity

	FY 2002		FY 2003		CHANGE	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
Market Surveillance, Analysis & Research	\$11,431	68	\$10,582	73	-\$849	5
Trading & Markets	19,213	110	17,221	114	-1,992	4
Enforcement	26,048	146	22,879	148	-3,169	2
Proceedings	2,579	15	2,215	15	-364	0
General Counsel	5,655	29	5,110	30	-545	1
Executive Direction & Support	25,674	142	24,793	157	-881	15
TOTAL:	\$90,600	510	\$82,800	537	-\$7,800	27

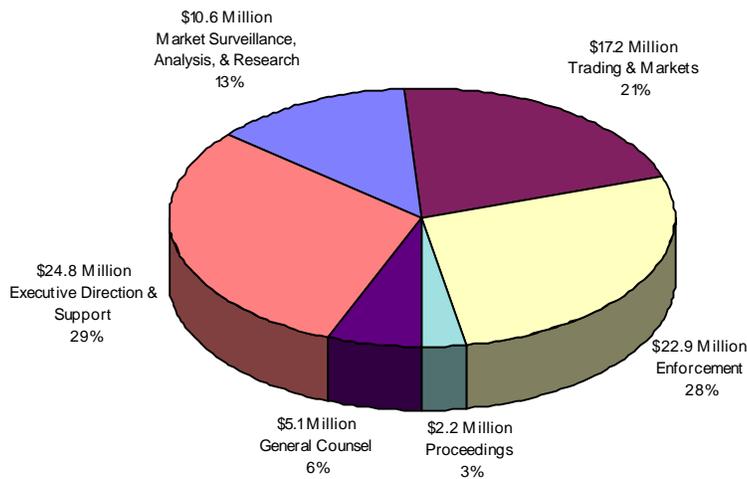


Figure 16: All Goals — FY 2003 Budget Dollars by Program

Performance Goals & Management Initiatives

Making Greater Use of Performance-Based Service Contracts (PBSC)

Performance-based service contracts (PBSC) have three key elements: 1) a statement of work that defines requirements in terms of measurable outputs; 2) a quality assurance plan directly corresponding to the measurable outputs, which is used to determine whether the contractor's outputs meet the requirements defined in the statement of work; and 3) financial performance incentives.

Procurement staff has been discussing the use of PBSCs with OIRM, the only client organization with a continuing need for services that might lend themselves to this type of contracting. Their contracts are typically small dollar software development efforts, which are not easily translated into PBSCs. However, an effort is being made to do so. Also, procurement staff will be attending training to increase its knowledge of performance-based contracting.

Expanding the Application of On-Line Procurement

The Procurement staff presently makes considerable use of the Internet for procurement purposes—to conduct market research, advertise agency requirements, and obtain pricing. The Procurement staff also plans to transition to www.FedBizOpps.gov by FY 2001. A member of the procurement staff has been tasked with taking the lead in engineering this transition.

Ensuring Compliance with OMB Information Technology Security Guidance

In order to better ensure that the Commission conforms to OMB guidance relating to Information Technology Security, beginning in FY 2002, program officials will complete risk assessments for the operations and assets under their control using the NIST risk assessment guidelines, annually determine the level of security appropriate to protect such operations and assets, prepare current security plans for each system supporting the operations and assets under their control based on NIST Special Publication 800-18, and review the results of testing of security controls and techniques. OIRM will provide equivalent assessments of the general support system. The Chief Information Officer will complete a report to the Chairman on the activities of staff assigned to the agency information security program, including maintenance of the program, effectiveness of implementation of the program and evaluation of the adequacy of the training provided to staff assigned to the agency and program security components, and on guidance provided program officials relative to their security responsibilities including evaluation of the performance of their program security components.

Table of Acronyms

AICPA	American Institute of Certified Public Accountants
AP	Associated Person
CEA	Commodity Exchange Act
CFO	Chief Financial Officer
CFMA	Commodity Futures Modernization Act of 2000
CFTC	Commodity Futures Trading Commission
CIO	Chief Information Officer
CMP	Civil Monetary Penalties
COSRA	Council of Securities Regulators of the Americas
CPO	Commodity Pool Operator
CTA	Commodity Trading Advisor
DOE	United States Department of Energy
DOJ	United States Department of Justice
DTF	Derivatives Transaction Execution Facility
EDBS	Exchange Database System
EMC	Executive Management Council
EMP	Enforcement Modernization Project
FCM	Futures Commission Merchant
FDIC	Federal Deposit Insurance Corporation
FIA	Futures Industry Association
GISRA	Government Information Security Reform Act
GMAC	Global Markets Advisory Committee
IB	Introducing Broker
IOSCO	International Organization of Securities Commissions
IPT	Integrated Project Team
ISS	Integrated Surveillance System
IT	Information Technology
MOU	Memorandum/Memoranda of Understanding
NFA	National Futures Association
NIST	National Institute for Standards and Technology
OFM	Office of Financial Management (CFTC)
OHR	Office of Human Resources (CFTC)
OIA	Office of International Affairs (CFTC)
OIRM	Office of Information Resources Management (CFTC)
OMB	Office of Management and Budget
OTC	Over-the-Counter (Derivatives)
PBSC	Performance-based Service Contract
RFA	Registered Futures Association
RWG	Registration Working Group
SD	Statutory Disqualification Action
SEC	Securities and Exchange Commission
SIA	Securities Industry Association
SPAN	Standard Portfolio Analysis of Risk Margin Systems
SRO	Self-Regulatory Organization
TIMS	Theoretical Intermarket Margin System
USDA	United States Department of Agriculture