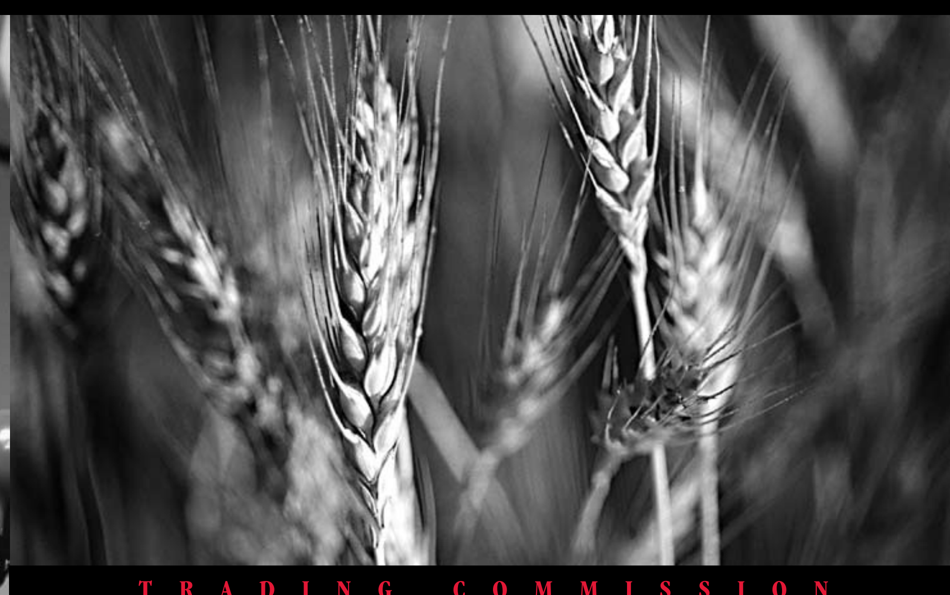
COMMODITY FUTURES

2007

FY 2007 PRESIDENT'S BUDGET AND PERFORMANCE PLAN • FY 2007 PRESIDENT'S BUDGET AND PERFORMANCE PLAN



TRADING COMMISSION

COMMODITY FUTURES TRADING COMMISSION 1975

Prepared for the Committee on Appropriations February 2006

Summary & Highlight Statement

February 6, 2006

The Honorable Thad Cochran
Chairman
Committee on Appropriations
United States Senate
S-128 Capitol Building
Washington, D.C. 20510-6025

The Honorable Jerry Lewis
Chairman
Committee on Appropriations
United States House of Representatives
S-218 Capitol Building
Washington, D.C. 20515-6015

Dear Chairman Cochran and Chairman Lewis:

I am pleased to transmit to you the Commodity Futures Trading Commission's *Budget and Performance Estimate for FY 2007*. This budget requests the resources estimated to ensure sufficient regulation and protection of the futures and option markets in FY 2007. The integrity of these markets is the Nation's primary defense against economic disruption of the marketplace and by extension the American economy.

The Commission is very sensitive to the need to be prudent with scarce budgetary resources. We are especially mindful of the increased importance of fiscal restraint now, as the Congress and the Administration seek to fund post-Katrina and Rita recovery and reconstruction efforts. In recognition of this critically important and developing Congressional and Administration budget priority, the agency reformulated its FY 2007 request to include only what is minimally needed to ensure that we have the tools and resources necessary to do the job expected of us by the Congress, the Administration, and the American people.

We sincerely believe that the Commission performs an enormously important task with very few resources, and we respectfully submit that the additional sum requested in this budget is a small amount to pay to ensure the appropriate level of oversight over this critical component of the Nation's economy.

Specifically, the Commission is requesting an additional $18.9 million, or a 19 percent increase, for a total of $116.3 million, as follows:

<u>$11.6 million</u> to pay for the annual cost of living increase for 503 FTEs, in line with the Administration's economic assumptions, and to cover the cost of contractual commitments to ensure current service levels.

<u>$5.0 million</u> to provide for 37 additional staff to ensure proper oversight of the markets. Without this increase, the Commission will be forced to staff at a level last seen in 1978. This trend is disturbing because the futures industry today bears little resemblance to the industry in 1978 with regard to complexity, globalization, technology, and volume of trading, and of course, these differences will be even greater by FY 2007. Unlike any other regulated industry, almost everything in the futures industry has fundamentally changed – from the products that are trading to the platforms on which they are traded. This proposed budget would enable the Commission to operate without the restrictions that currently inhibit the performing of its mission and causes it

substantial disadvantage in executing oversight and regulatory responsibilities. There are a number of high risk areas that we are watching carefully and we are deeply concerned that our efforts in these areas will be hindered due to resource constraints. Specifically, we are concerned about critical issues related to energy, investor protections, foreign currency exchange fraud, public ownership of exchanges, globalization/cross-jurisdictional issues, coordination with foreign regulators and, proper and timely implementation of Congressional and Presidential Management Agenda initiatives.

$2.3 million to provide for enforcement, human capital, and public education outreach initiatives which are intended to substantially improve Commission performance by permitting the Commission to enforce the law aggressively, to pursue wrongdoing in the market place, to preserve and improve scarce intellectual human capital and expertise in a rapidly changing industry, and to educate and inform the American farmer and other market users about the many benefits and risks of the futures and option market place.

In addition to the above budget challenges, the Commission is making a one-time request of $11.1 million to maintain pay and benefits comparability with the FIRREA agencies as called for in the Farm Security and Rural Investment Act of 2002 (FSRIA). In FY 2003, after FSRIA was enacted, the Congress appropriated funds and the Commission implemented the CT pay plan before the true cost was known. This resulted in insufficient operating funds in FY 2004, requiring an immediate reduction in operating expenses and FTE. In subsequent years, the Commission sought but did not receive full funding for pay parity and the unfortunate consequence has been a reduction in staff to support pay parity. In FY 2004 and FY 2005, for example, the Commission, despite downsizing to near historic low staffing levels, did not have sufficient funding to implement even the basic, government-wide, January cost-of-living adjustment, having rather to defer the increases to September in 2004 and July in 2005. The result is a widening pay gap (estimated at 14-15 percent) with FIRREA agencies, which makes the Commission less competitive as a prospective employer and less efficient in retaining our critically needed professional talent. The negative consequences of this gap will become even more apparent in the next two years when up to 20 percent of our workforce and 30 percent of our managers will be eligible to retire. We recognize that this is an atypical request. However, we strongly believe it is necessary to finally make this a one-time adjustment.

In summary, the Commission is requesting funds for two critical management challenges: 1) $18.9 million to provide the funds needed to support current staff -- which is near an historic low -- and to hire critically needed new staff and contractor assistance to keep pace with the volume and complexity of the burgeoning and dynamic futures markets. These trillion dollar markets, with significant economic impact, are expanding steadily in both volume and new users and their complexity is rapidly evolving with new technologies, globalization, product innovation, and greater competition. Simply put, we are not keeping up, and 2) $11.1 million to maintain pay and benefits comparability with the FIRREA agencies as called for in the Farm Security and Rural Investment Act of 2002. We respectfully submit that the additional sum requested in this budget is necessary to ensure the appropriate level of oversight.

We feel strongly that the return that the government and the tax-payers receive, from Commission work on this $127.4 million investment, is substantial both in terms of economic benefit and market stability. I would be happy to meet with you to discuss this budget request and to answer any questions you may have.

Sincerely yours,

Reuben Jeffery III

cc:

The Honorable Saxby Chambliss
Chairman
Committee on Agriculture,
Nutrition, and Forestry
U.S. Senate
SR - 328A Russell Senate Office Building
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The Honorable Robert W. “Bob” Goodlatte
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THE FY 2007 PRESIDENT'S BUDGET & PERFORMANCE PLAN

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The Commission and the Industry We Regulate

Indicators of Industry Growth Complexity

Growth in Volume of Futures & Option Contracts Traded & FTEs

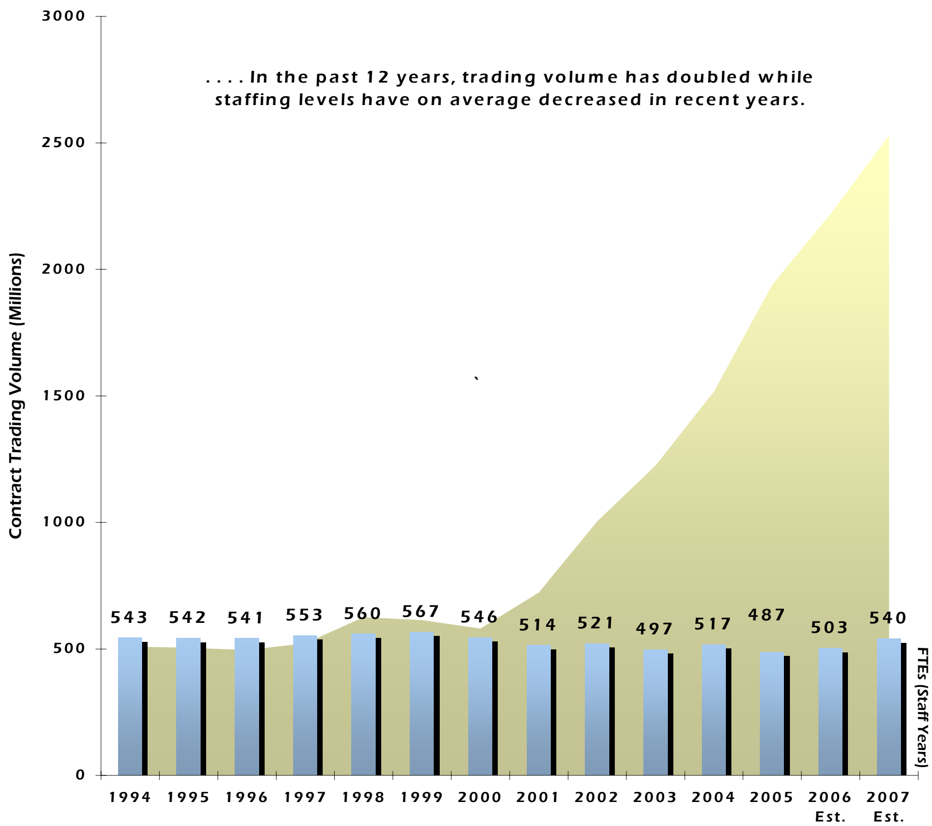

Figure 1: Growth of Volume of Contracts Traded and FTEs

Actively Traded Futures & Option Contracts

The number of actively traded contracts traded on U.S. exchanges has increased more than five-fold over the last decade, 1995-2005.

The number is expected to grow to over 1,000 contracts by FY 2006.

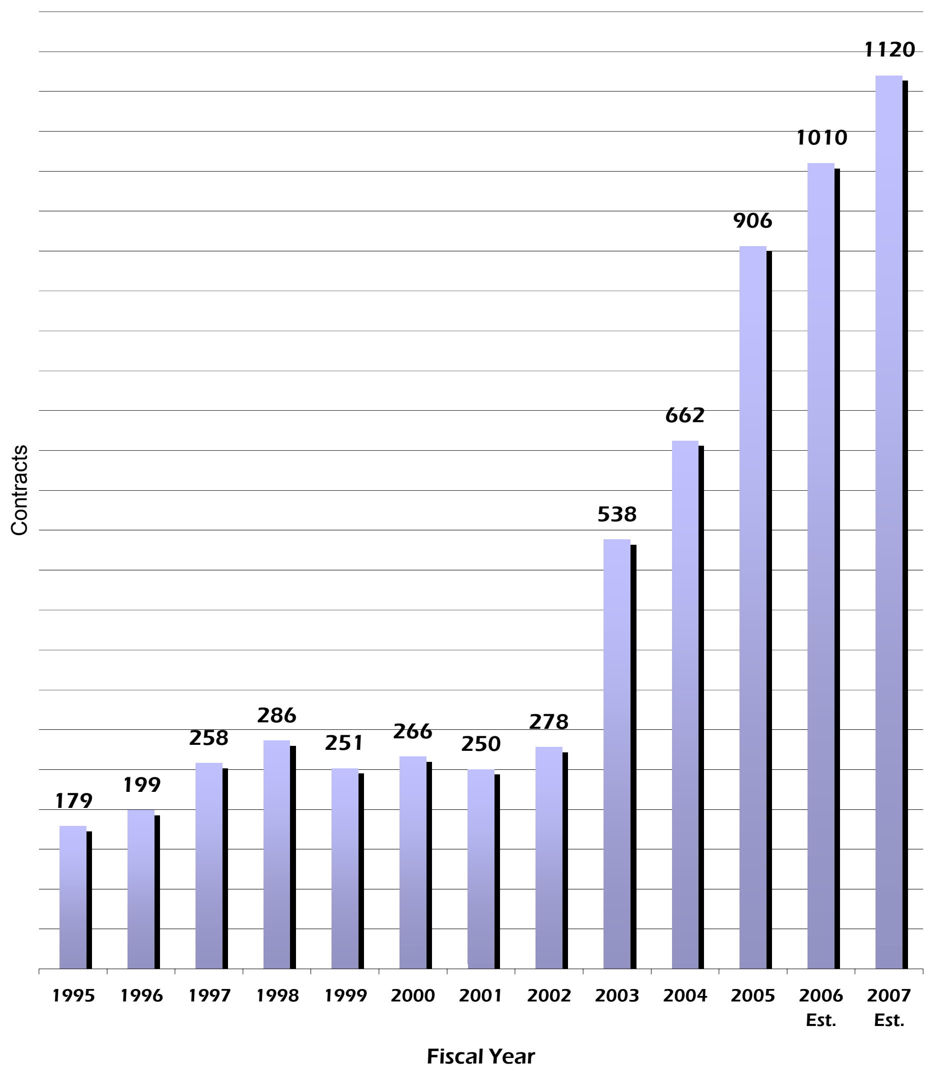

Figure 2: CFTC Actively Traded Contracts

Growth of Foreign Commodity Trading

Since 2000, the Number of Foreign Customers Trading on U.S. Exchanges more than Tripled and the Number of U.S. Customers Trading on Foreign Exchanges, has Increased Five-Fold.

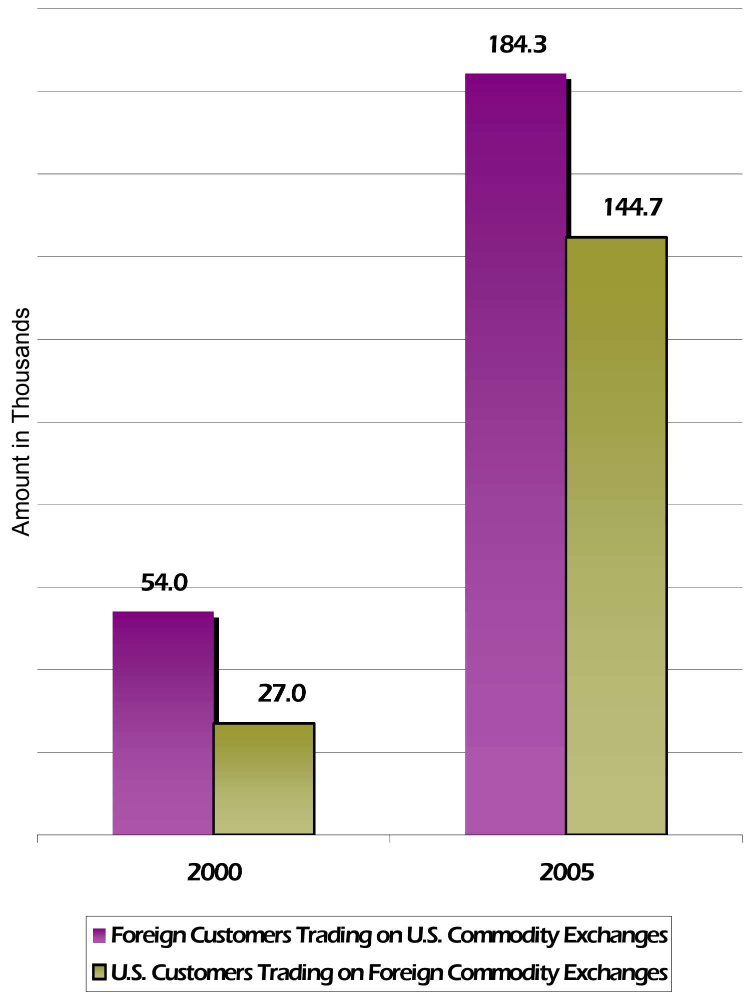

Figure 3: Foreign Commodity Trading

Number of Registered Commodities Professionals

Companies and individuals who handle customer funds or give trading advice must apply for registration through the National Futures Association (NFA), an self-regulatory organization (SRO) to which the Commission has delegated that responsibility subject to CFTC oversight.

The Commission regulates the activities of over 70,000 registrants:

Type of Registered Professional	**Number in Sept. 2005**
Associated Persons (AP) (Sales People)	*54,116*
Commodity Pool Operators (CPOs)	*1,783*
Commodity Trading Advisors (CTAs)	*2,635*
Floor Brokers (FBs)	*8,486*
Floor Traders (FTs)	*1,547*
Futures Commission Merchants (FCMs)	*211*[1]
Introducing Brokers (IBs)	*1,711*[2]
TOTAL	*70,489*

Table 1: Number of Registered Commodities Professionals

[1] Includes 15 notice-registered FCMs.
[2] Includes 42 notice-registered IBs.

Preservation of Market Integrity and Protection of Market Users.

Spotlight on Energy and Foreign Currency Markets

Actions Taken Through 4th Quarter of FY 2005	Energy Markets	Foreign Currency Markets[3]
Number of Cases Filed or Enforcement Actions	*31*	*84*
Number of Entities/Persons Charged	*48*	*337*
Number of Dollars in Penalties Assessed		
– *Civil Monetary Penalties*	*$300,000,000*	*$169,000,000*
– *Restitution*	*Not Applicable*	*$98,000,000*
▪ *On Behalf of Customers*	*Not Applicable*	*23,500*

Table 2: Spotlight on Energy and Foreign Currency Markets

[3] Since passage of CFMA in December 2000.

Exempt Boards of Trade, 2000 – 2005

Transactions by eligible contract participants in selected commodities may be conducted on an exempt board of trade under the Commodity Exchange Act. The requirements and provisions related to Exempt Boards of Trade (XBOTs) are set forth in Section 5d of the CEAct and Part 36.2 of the CFTC's regulations. Under Section 5d, a board of trade electing to operate as an XBOT must so notify the CFTC. XBOTs are subject only to the Commodity Exchange Act's anti-fraud and anti-manipulation provisions. An XBOT is prohibited from claiming that the facility is registered with, or recognized, designated, licensed or approved by the Commission. Also, if it is performing a price-discovery function, the market must provide certain pricing information to the public. To date, four XBOTs have filed notices with the Commission.

Exempt Boards of Trade[4]	2000	2001	2002	2003	2004	2005
CME						X
AE					X	X
WBOT				X	X	X
WXL			X	X	X	X
TOTAL	0	0	1	2	3	4

Table 3: Exempt Boards of Trade

[4] Refer to the Table of Acronyms in Appendix 6 for full names of organizations.

Exempt Commercial Markets, 2000 – 2005

Electronic trading facilities providing for the execution of principal-to-principal transactions between eligible commercial entities in exempt commodities may operate as Exempt Commercial Markets (ECMs) under the Commodity Exchange Act (CEAct). The requirements and provisions related to ECMs are set forth in Sections 2(h)(3)-(5) of the CEAct and in Part 36.3 of the CFTC's regulations. Under Section 2(h)(4), an ECM is subject to antifraud and anti-manipulation provisions and a requirement that, if performing a significant price discovery function, the market must provide pricing information to the public. A facility that elects to operate as an ECM must give notice to the Commission and comply with certain informational, record keeping and other requirements. An ECM is prohibited from claiming that the facility is registered with, or recognized, designated, licensed or approved by, the Commission. To date, 11 ECMs have filed notices with the Commission.

Exempt Commercial Markets[5]	2000	2001	2002	2003	2004	2005
CCFE				X	X	X
CDXchange			X	X	X	X
HSE			X	X	X	X
ICE		X	X	X	X	X
IMAREX		X	X	X	X	X
NGX			X	X	X	X
OPEX		X	X	X	X	X
SL				X	X	X
TFSE				X	X	X
TFS				X	X	X
TS			X	X	X	X
TOTAL	0	3	7	11	11	11

Table 4: Exempt Commercial Markets

[5] Refer to the Table of Acronyms in Appendix 6 for full names of organizations.

CFTC-Regulated Commodity Exchanges, 2000 – 2005

Commodity Exchanges[6]	2000	2001	2002	2003	2004	2005
CFE				X	X	X
CBT	X	X	X	X	X	X
CCFE						X
CME	X	X	X	X	X	X
HedgeStreet					X	X
KCBT	X	X	X	X	X	X
MGE	X	X	X	X	X	X
NYBT					X	X
NYMEX	X	X	X	X	X	X
COMEX	X	X	X	X	X	X
NQLX		X	X	X	X	X
OCX			X	X	X	X
PBOT	X	X	X	X	X	X
Eurex US					X	X
CSCE	X	X	X	X	X	
EPFE					X	
ME	X	X	X	X	X	
NYCE	X	X	X	X	X	
NYFE	X	X	X	X	X	
BTEX		X	X	X		
MACE	X	X	X	X		
CFFE	X	X	X			
INET			X			
TOTAL	13	15	17	16	18	14

Table 5: CFTC-Regulated Commodity Exchanges

[6] Refer to the Table of Acronyms in Appendix 6 for full names of organizations.

Number of CFTC Registered Derivatives Clearing Organizations, 2000 - 2005

Clearing Organizations[7]	12/21/00	9/30/01	9/30/02	9/30/03	9/30/04	7/20/05
AE Clearinghouse						X
BTEX		X	X	X		
CCorp	X	X	X	X	X	X
CBOT					X	X
CME	X	X	X	X	X	X
EnergyClear		X	X	X		
FCOM	X	X	X	X		
GCC			X	X		
Hedge Street					X	X
ICC	X	X	X	X		
KCBT	X	X	X	X	X	X
LCH			X	X	X	X
MGE	X	X	X	X	X	X
NYCC	X	X	X	X	X	X
NYMEX	X	X	X	X	X	X
OCC			X	X	X	X
ONXCC	X	X	X	X		
TOTAL	9	11	14	14	10	11

Table 6: CFTC-Regulated Derivative Clearing Organizations

[7] Refer to the Table of Acronyms in Appendix 6 for full names of organizations.

Customer Funds in Futures Commission Merchants Accounts

From 1995 through 2005, the amount of customer funds held in FCM accounts has more than tripled.

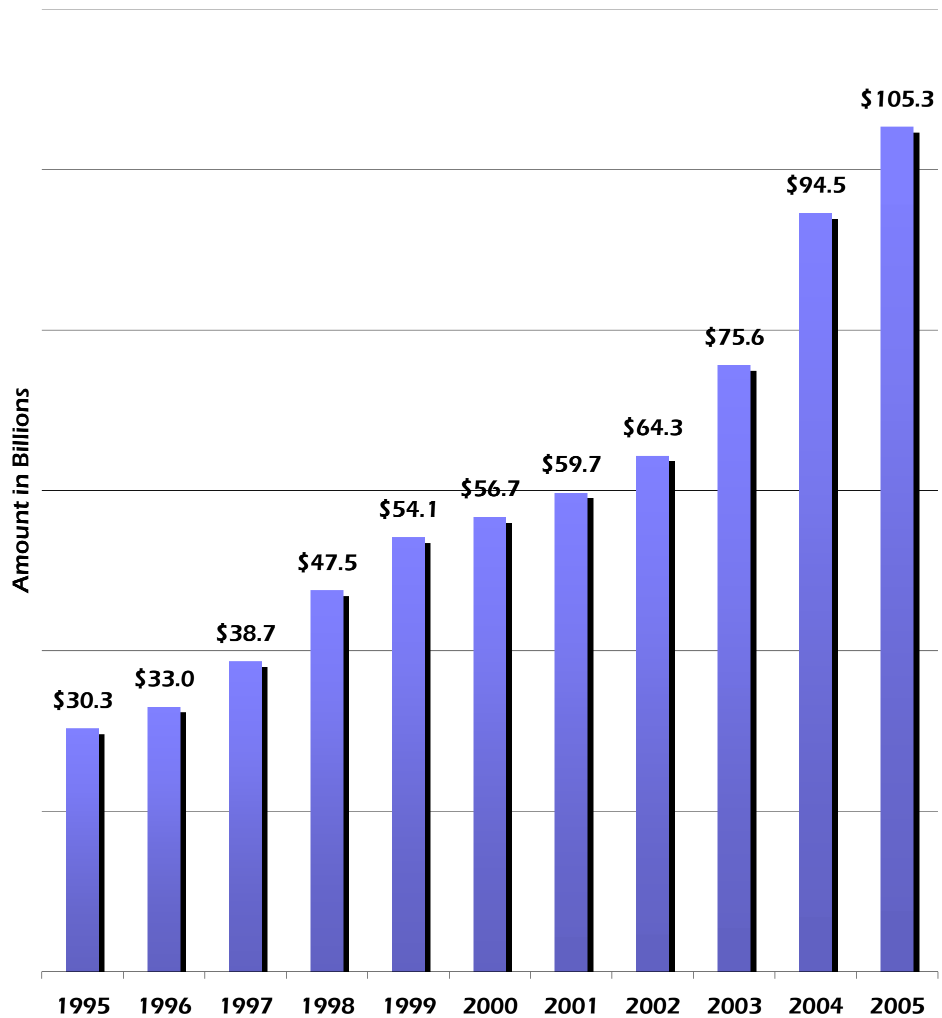

Figure 4: Customer Funds in FCM Accounts

Overview of Planned Outcomes by Strategic Goal

Introduction

The futures industry is experiencing a period of tremendous growth. Volume has almost doubled since 2002 and reached a record level of 1.9 billion contracts traded in 2004. The Commission's mission in the futures industry is to foster competitive and financially sound markets, to protect market users and the public from fraud, manipulation and abusive trading practices and to foster open, competitive, and financially sound markets.

The Commission requests $127.4 million in FY 2007 to fund its efforts to reach its three strategic goals:

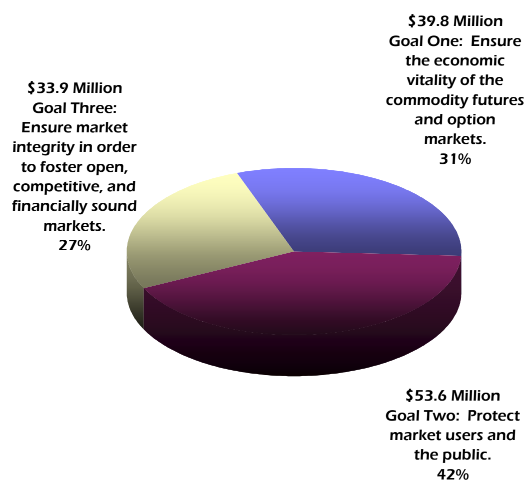

Figure 5: Budget & Performance Estimate by Strategic Goal

To achieve the planned outcomes for FY 2007, the Commission will allocate the $127.4 million request among six programs: Enforcement; Clearing & Intermediary Oversight; Market Oversight; Chief Economist; Proceedings; and General Counsel. There is one support program: Executive Direction[8] .

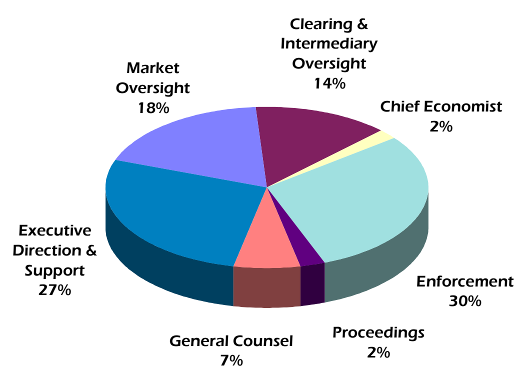

Figure 6: $127.4 Million Budget Estimate by Program

[8] Includes information technology in support of all programs.

FY 2007 Outcomes by Goal

Goal One: Ensuring Economic Vitality of Commodity Futures & Option Markets

In seeking to fulfill its mission, a substantial portion of the Commission's resources are devoted to daily oversight of registered exchanges, intermediaries, and derivatives clearing organizations. In 1974, when the Commission was founded, the vast majority of futures trading took place in the agricultural sector. These contracts gave farmers, ranchers, distributors, and end-users of everything from corn to cattle an efficient and effective set of tools to hedge against price volatility.

Over the years, however, the futures industry has experienced increased complexity. While farmers and ranchers continue to use the futures markets as actively as ever to effectively lock in prices for their crops and livestock months before they come to market, new and highly complex financial contracts, based on such things as interest rates, foreign currencies, Treasury bonds, and stock market indices have now far outgrown agricultural contracts in trading volume. Latest statistics show that approximately eight percent of on-exchange derivatives activity is in the agricultural sector, while financial derivatives make up approximately 82 percent; and other contracts, such as those on metals and energy products, make up about 10 percent.

In FY 2007, the Commission requests $39.8 million to fund its efforts to reach the following outcomes of Strategic Goal One:

- Markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity—with an FY 2007 performance goal of zero price manipulations that would cause loss of confidence or negatively affect price discovery or risk shifting.

- Markets that are effectively and efficiently monitored to ensure early warning of potential problems or issues that could adversely affect their economic vitality—with an FY 2007 performance goal of improving effectiveness and efficiency of market surveillance.

Breakout of Goal One Request by Outcome

	FY 2006		FY 2007		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
GOAL ONE: Ensure economic vitality of commodity futures and option markets.						
Outcomes						
1.1 Futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	$25,970	136	$32,855	140	$6,885	4
1.2 Markets that can be monitored to ensure early warning of potential problems or issues that could adversely affect their economic vitality.	5,139	27	6,949	30	1,810	3
Total Goal One	**$31,109**	**163**	**$39,804**	**170**	**$8,695**	**7**

Figure 7: Breakout of Goal One by Outcome

Goal Two: Protecting Market Users and the Public

While our country reaps the rewards of an explosive futures industry, never has the risk of fraud and manipulation been higher for market users and the public. The trend toward electronic trading platforms as well as the expanding complexity of trading instruments has challenged the Commission to reconfigure its ability to identify, investigate, and prosecute all parties involved in violating applicable laws and regulations. Typically, the Commission has over 100 investigations open at any particular time. If evidence of criminal activity is found, matters can and will be referred to state or Federal authorities for prosecution under criminal statutes.

Over the years, the Commission has prosecuted a number of cases involving manipulations or attempted manipulations of commodity prices. The Sumitomo copper case and the Hunt brothers silver case are well-known examples. Furthermore, during the last three years, the Commission charged over 40 individuals and companies for attempting to manipulate, or for manipulating energy markets. A variety of administrative sanctions are available to the Commission, such as bans on futures trading, civil monetary penalties, and restitution orders. The Commission may also seek Federal court injunctions, asset freezes, and orders to disgorge ill-gotten gains.

In FY 2007, the Commission requests $53.6 million to fund its efforts to reach the following outcomes of Strategic Goal Two:

- Violations of Federal commodities laws are detected and prevented—with an FY 2007 performance goal of increasing the probability of violators being detected and sanctioned.
- Commodity professionals meet high standards—with an FY 2007 performance goal of zero unregistered, untested, or unlicensed commodity professionals.
- Customer complaints against persons or firms registered under the Act are handled effectively and expeditiously—with an FY 2007 performance goal of resolving customer complaints within one year from the date filed and resolving appeals within six months.

Breakout of Goal Two Request by Outcome

	FY 2006		FY 2007		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
GOAL TWO: Protect markets users and the public.						
Outcomes						
2.1 Violations of Federal commodities laws are detected and prevented.	$31,477	159	$41,246	173	$9,769	14
2.2 Commodities professionals meet high standards.	6,006	31	7,801	33	1,795	2
2.3 Customer complaints against persons or firms falling within the jurisdiction of the Commodity Exchange Act are handled effectively and expeditiously.	3,752	19	4,603	19	851	0
Total Goal Two	**$41,235**	**209**	**$53,650**	**225**	**$12,415**	**16**

Figure 8: Breakout of Goal Two by Outcome

Goal Three: Ensuring Market Integrity in Order to Foster Open, Competitive, and Financially Sound Markets

The Commission also focuses on issues of market integrity, seeks to protect the: economic integrity of the markets so that they may operate free from manipulation; financial integrity of the markets so that the insolvency of a single participant does not become a systemic problem affecting other market participants; and operational integrity of the markets so that transactions are executed fairly and that proper disclosures are made to existing and prospective customers.

In FY 2007, the Commission requests $33.9 million to fund its efforts to reach the following outcomes of Strategic Goal Three:

- Clearing organizations and firms holding customer funds have sound financial practices—with FY 2007 performance goals of zero loss of customer funds as a result of firms' failure to adhere to regulations and zero customers prevented from transferring funds from failing firms to sound firms.
- Commodity futures and option markets are effectively self-regulated—with an FY 2007 performance goal of zero loss of funds resulting from failure of self-regulatory organizations to ensure compliance with their rules.
- Markets are free of trade practice abuses.
- Regulatory environment is flexible and responsive to evolving market conditions.

Breakout of Goal Three Request by Outcome

	FY 2006		FY 2007		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
GOAL THREE: Ensure market integrity in order to foster open, competitive, and financially sound markets.						
Outcomes						
3.1 Clearing organizations and firms holding customer funds have sound financial practices.	$5,581	28	$8,500	36	$2,919	8
3.2 Commodity futures and option markets are effectively self-regulated.	10,861	59	13,958	61	3,097	2
3.3 Markets are free of trade practice abuses.	5,235	27	6,689	28	1,454	1
3.4 Regulatory environment responsive to evolving market conditions.	3,381	17	4,770	20	1,389	3
TOTAL	**$25,058**	**131**	**$33,917**	**145**	**$8,859**	**14**

Figure 9: Breakout of Goal Three Request by Outcome

Summary of CFTC Mission Statement, Strategic Goals & Outcomes

Mission Statement
The mission of the CFTC 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.***
Outcomes
1. Markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.
2. Markets that are effectively and efficiently monitored to ensure early warning of potential problems or issues that could adversely affect their economic vitality.

Goal Two ***Protect market users and the public.***
Outcomes
1. Violations of Federal commodities laws are detected and prevented.
2. Commodities professionals meet high standards.
3. Customer complaints against persons or firms falling within the jurisdiction of the Commodity Exchange Act are handled effectively and expeditiously.

Goal Three ***Ensure market integrity in order to foster open, competitive, and financially sound markets.***
Outcomes
1. Clearing organizations and firms holding customer funds have sound financial practices.
2. Commodity futures and option markets are effectively self-regulated.
3. Markets are free of trade practice abuses.
4. Regulatory environment is responsive to evolving market conditions.

Commission Strategies to Influence Outcomes

Strategic Goal One - Ensure the Economic Vitality of the Commodity Futures and Option Markets.

Background and Context

In order for commodity futures and option markets to fulfill their vital role in the national and global economy, they must operate efficiently, accurately reflect the forces of supply and demand, and serve market users by fulfilling an economic need. Through direct market surveillance, and oversight of the surveillance efforts of the exchanges themselves, the Commission works to ensure that markets operate free of manipulation or congestion.

The heart of the Commission's direct market surveillance is a large-trader reporting system, under which clearing members of exchanges, futures commission merchants (FCMs), and foreign brokers electronically file daily reports with the Commission. These reports show all trader positions above specific reporting levels set by CFTC regulations. Because a trader may carry futures positions through more than one FCM, and due to the possibility that a customer may control more than one account, the Commission routinely collects information that enables its surveillance staff to aggregate information across FCMs and for related accounts.

Using these reports, the Commission's surveillance staff closely monitors the futures and option market activity of all traders whose positions are large enough to potentially impact the orderly operation of a market. For contracts, which at expiration are settled through physical delivery -- such as contracts in the energy complex -- staff carefully analyze the adequacy of potential deliverable supply. In addition, staff monitor futures and cash markets for unusual movements in price relationships, such as cash/futures basis relationships and inter-temporal futures spread relationships, which often provide early indications of a potential problem.

The Commissioners and senior staff are kept apprised of market events and potential problems at weekly surveillance meetings, and more frequently when necessary. At these meetings, surveillance staff briefs the Commission on broad economic and financial developments and on specific market developments in futures and option markets of particular concern.

If indications of attempted manipulation are found, the Commission investigates and prosecutes alleged violations of the Act or regulations. Subject to such actions are all individuals who are or should be registered with the Commission, those who engage in trading on any domestic exchange, those who engage in illegal cash market activities that affect or could affect the futures markets, and those who improperly market commodity futures or option contracts. The Commission has available to it a variety of administrative sanctions against wrongdoers, including revocation or suspension of registration, prohibitions on futures trading, and cease and desist orders. The Commission may seek Federal court injunctions, restraining orders, asset freezes, receiver appointments, and disgorgement orders. In both administrative and federal court actions, the commission can seek civil monetary penalties and restitution if evidence of criminal activity is found, matters may be referred to state authorities or the Department of Justice (DOJ) for prosecution of violations not only of the Act, but also of state or Federal criminal statutes such as mail fraud, wire fraud, and conspiracy. Over the years, the Commission has brought numerous enforcement actions and imposed sanctions against firms and individual traders for attempting to manipulate prices, including the well-publicized attempted manipulation cases by several energy companies and the market power manipulation of worldwide copper prices.

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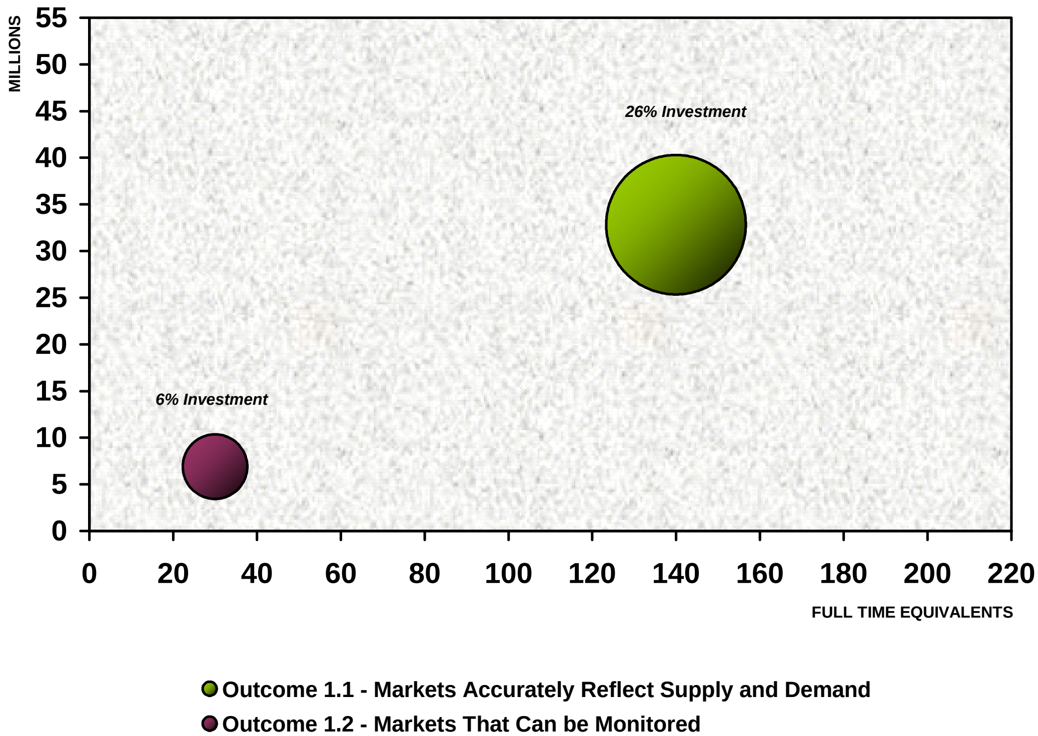
CFTC Strategy Mapping

FY 2007 Goal One Resource Investment by Outcome Objective

Figure 10: Goal One Resource Strategy Mapping



Outcome Objectives and Annual Performance Goals

Outcome 1.1 – Markets that accurately reflect the forces of supply and demand for underlying commodity and are free of disruptive activity.

- Annual Performance Goal: No price manipulation or other disruptive activities that would cause loss of confidence or negatively affect price discovery or risk shifting.

Outcome 1.2 – Markets that are effectively and efficiently monitored so that the Commission receives early warning of potential problems or issues that could adversely affect their economic vitality.

- Annual Performance Goal: To have an effective and efficient market surveillance program.

Means and Strategies for Achieving Objectives

Means:

- Monitor the market to detect and protect against price manipulation and abusive trading practices to ensure that the markets are performing the vital economic function of price discovery and risk transfer or hedging.

- Perform market surveillance and trade practice oversight by conducting examinations of exchange programs and monitoring daily trading activity, positions of large traders and the supply and demand factors affecting prices.

- Review products listed by exchanges and rules and rule amendments submitted by exchanges to ensure compliance with the Act and to develop, implement and interpret regulations that are designed to protect the economic functions of the market, protect market participants and prevent trading abuses.

Strategies:

- *Collect and analyze trading data*. On a daily basis, CFTC collects and analyzes U.S. futures and option data for all actively traded contracts to detect congestion and/or price distortion. Economists analyze the activities of traders, key price relationships, and relevant supply and demand conditions for nearly 700 contracts representing major agricultural commodities, metals, energy, financial instruments, equity indices, and foreign currencies. CFTC staff also analyzes markets to determine how conditions and factors observed may impact individual registrants or the markets in general to deter potentially negative situations and to take appropriate action, responding quickly to potentially disruptive situations.

- *Review products and rules*. Properly designed futures and option markets serve vital price discovery and hedging functions, which are essential to a healthy, capital-based economy. Business, agricultural, and financial enterprises use the futures markets for pricing information and to hedge against price risk. The participants in commercial transactions rely extensively on the prices established by futures markets that affect trillions of dollars in commercial activity. Moreover, the prices established by the futures markets directly or indirectly affect all Americans. They affect what Americans pay for food, clothing, and shelter. Deficiencies in the terms and conditions of futures and option contacts increase the likelihood of cash, futures, or option market disruptions, and also decrease the economic usefulness and efficiency of a contract. To meet its statutory mission of ensuring market integrity and customer protection, the Commission places greater reliance on its existing oversight authorities in permitting exchanges to list contracts for trading without prior Commission approval while relying on its authority to then alter, or supplement exchange rules or to take emergency action, as appropriate. Thus, the Commission exercises greater oversight authority with decreased direct regulation.

- *Analyze markets and provide expert analysis*. Each week, reports are prepared on special market situations and on market conditions for all contracts approaching their critical expiration periods. Potential problems detected in preparing these reports are shared with the Commissioners and senior staff. The Commission shares pertinent information with other regulatory agencies and works with the affected exchange to develop and to administer responsive measures as necessary. Economists and futures trading specialists track innovation in the marketplace in technology, trading strategies, trading instruments, and methods to ensure an understanding of how the markets are functioning and to develop a flexible, effective regulatory response to market conditions as they evolve.

- *Coordinate with other financial regulators*. The Chairman participates in the President's Working Group on Financial Markets (PWG) to ensure coordination of information and efforts among U.S. financial regulators. The Working Group brings together the leaders of the federal financial regulatory agencies, including the Secretary of the Treasury, who chairs the group, and chairs of the Board of Governors of the Federal Reserve System (FRB), the CFTC, and the Securities and Exchange Commission (SEC). In addition to the four primary financial regulators, the Working Group also includes the heads of the National Economic Council, the Council of Economic Advisors, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, Federal Reserve Bank of New York, and the Office of Thrift Supervision. Issues considered by the Working Group and its staff have included individual and coordinated agency initiatives concerning risk assessment, capital requirements, internal controls, disclosure, accounting, market practices relating to trading in derivative instruments, bankruptcy law revisions, and contingency planning for market emergencies. Every two weeks, Commission staff participates in the Steering Committee to discuss ongoing issues.

- *Provide information on the functions of the marketplace*. Commission staff prepare and provide materials and information on the functions and utility of the markets to the public through public Commission meetings, public roundtables, advisory committee meetings, symposia, publications, press releases, advisories, and publication of the Commitment of Trader reports.

- *Investigate and prosecute wrongdoing*. Commission attorneys and investigators conduct investigations and institute enforcement actions against potential violators. Violators are sanctioned. The sanctions are publicized and enforced.

- *Review regulations and amend or abolish as appropriate*. In order to ensure that the regulations enforced by the CFTC are reflective of the needs of the industry and the public, the Commission reviews and adapts its regulations with evolving conditions and changes in the industry.

Resource Priorities and Return on Investment:

- *Reengineer both the Commission's trade surveillance and market surveillance systems so that they remain effective and robust as trading migrates from the floors to electronic platforms*. Markets regulated by the Commission have experienced a dramatic shift from floor to screen based trading over the past several years. The Chicago Board of Trade's (CBOT) and the Chicago Mercantile Exchange's (CME) screen-based volume currently accounts for almost 68 percentage of total exchange volume. While electronic trading brings certain regulatory benefits, such a precise audit trails, it also increases the opportunity for certain types of abuses, such as trading ahead of customers. In order to re-engineer our systems, we have examined the electronic trading systems and automated surveillance systems used by U.S. designated contract markets, as well as those used by foreign futures exchanges that have significantly more experience in electronic trading. We are also incorporating changes in the Commission's oversight systems and, where necessary, recommending alterations to systems of our designated contract markets to ensure that customers continue to be protected against trading abuses and manipulations.

- *Continue collaborative regulatory efforts regarding security futures products (SFPs)*. The Commission will continue in its efforts to coordinate with the SEC in implementing those sections of the CFMA related to the trading of SFPs. These areas include SFP definitions, registration requirements and functions, treatment of customer funds, margin rules, the offering of foreign SFPs to U.S. customers, possible further exemptions for notice registrants, the listing of options, and coordinated clearing. The Commission will also respond to inquiries from intermediaries, their counsel and accountants, and the general public concerning operational issues as the market for SFPs develops. Further, the Commission will work with the exchanges in developing sound business, financial and sales practices surrounding the trading of SFPs.

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Summary of Goal One Performance Indicators

Goal One: Ensure the economic vitality of the commodity futures and option markets.

Outcome 1.1: 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 of other disruptive activities that would cause loss of confidence or negatively affect price discovery or risk shifting.

Performance Measures	FY 2004 Actual	FY 2005 Actual	FY 2006 Plan	FY 2007 Plan
Percentage growth in market volume *(Growth in market volume)*	24%	26%	20%	20%
Percentage of novel or innovative market proposals or requests for CFTC action addressed within six months to accommodate new approaches to, or the expansion in, derivatives trading, enhance the price discovery process, or increase available risk management tools *(Expanding Infrastructure)*	100%	100%	100%	100%
Percentage increase in number of products traded *(Expanding number of products)*	12%	43%	15%	15%
Percentage of new exchange and clearinghouse applications completed within expedited review period	100%	100%	100%	100%
Percentage of new contract certification reviews completed within three months to identify and correct deficiencies in contract terms that make contracts susceptible to manipulation	53%	54%	60%	65%
Percentage of rule change certification reviews completed within three months, to identify and correct deficiencies in exchange rules that make contracts susceptible to manipulation or trading abuses or result in violations of law	70%	84%	80%	85%

Outcome 1.2: Markets are effectively and efficiently monitored to ensure early warning of potential problems or issues that could adversely affect their economic vitality.

Annual Performance Goal: To have an effective and efficient market surveillance program.

Performance Measures	FY 2004 Actual	FY 2005 Actual	FY 2006 Plan	FY 2007 Plan
Percentage of DCO applications demonstrating compliance with core principles	100%	100%	100%	100%
Ratio of markets surveilled per economist	10	11	26	28
Percentage of contract expirations without manipulation	99.9%	99.9%	99.9%	99.9%

Breakout of Goal One Request by Program Activity

	FY 2006		FY 2007		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Market Oversight	$12,513	68	$15,774	70	$3,261	2
Clearing & Intermediary Oversight	584	3	959	4	376	1
Chief Economist	1,967	9	2,426	9	460	0
Enforcement	5,503	27	7,289	30	1,785	3
Proceedings	0	0	0	0	0	0
General Counsel	1,466	7	1,807	7	341	0
Executive Direction & Support	9,077	49	11,548	50	2,471	1
TOTAL:	**$31,109**	**163**	**$39,804**	**170**	**$8,695**	**7**

Figure 11: Breakout of Goal One Request by Program Activity

Breakout of Goal One Request by Outcome Objective

	FY 2006		FY 2007		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
GOAL ONE: Ensure economic vitality of commodity futures and option markets.						
Outcomes						
1.1 Futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	$25,970	136	$32,855	140	$6,885	4
1.2 Markets that can be monitored to ensure early warning of potential problems or issues that could adversely affect their economic vitality.	5,139	27	6,949	30	1,810	3
Total Goal One	**$31,109**	**163**	**$39,804**	**170**	**$8,695**	**7**

Figure 12: Breakout of Goal One by Outcome

Strategic Goal Two – Protecting Market Users and the Public.

Background and Context

The focus of the second goal is protection of the firms and individuals—market users—who come to the marketplace to fulfill their business and trading needs. Market users must be protected from possible wrongdoing on the part of the firms and commodity professionals with whom they deal to access the marketplace, and they must be confident that the marketplace is free of fraud, manipulation, and abusive trading practices.

The Commission has promulgated requirements that mandate appropriate disclosure and customer account reporting, as well as fair sales and trading practices by registrants. The Commission has also sought to maintain appropriate sales practices by screening the fitness of industry professionals and by requiring proficiency testing, continuing education, and supervision of these persons. Extensive record-keeping of all futures transactions is also required. Likewise, the Commission monitors compliance with those requirements and supervises the work of the exchanges and National Futures Association (NFA) in enforcing the requirements.

The Commission plays an important role in deterring behavior that could affect market users' confidence by investigating and taking action against unscrupulous traders, entities, and others who engage in a wide variety of illegal activity, including but not limited to manipulation and fraudulent sales practices.

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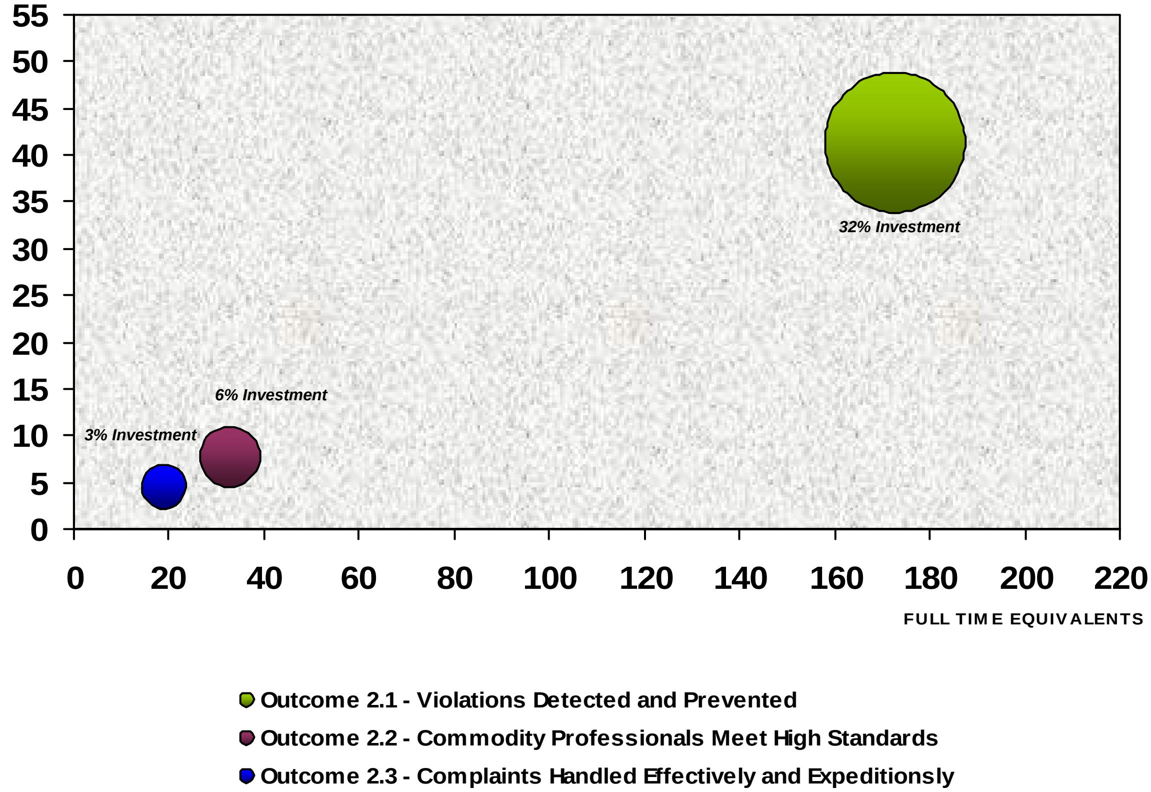
CFTC Strategy Mapping

FY 2007 Goal Two Resource Investment by Outcome Objective

Figure 13: Goal Two Resource Strategy Mapping



Outcome Objectives and Annual Performance Goals

Outcome 2.1 – Violations of Federal laws concerning futures and option contracts are detected and prevented.

- Annual Performance Goal: Violators have a strong probability of being detected and sanctioned

Outcome 2.2 – Commodity professionals meet high standards.

- Annual Performance Goal: No unregistered, untested, or unlicensed commodity professionals.

Outcome 2.3 – Customer complaints against persons or firms registered under the Act are handled effectively and expeditiously.

- Annual performance Goal: Customer complaints are resolved within one year from the date filed and appeals are resolved within six months.

Means and Strategies for Achieving Objectives

Means:

- Detect and prevent violations of Federal commodities laws.
- Require commodity professionals meet high standards.
- Handle effectively and expeditiously customer complaints against firms and persons registered under the Act.

Strategies:

- *Investigate and prosecute wrongdoing*. The Commission identifies and investigates possible fraudulent and other illegal activities relating to the commodity futures and option markets and their registrants and brings enforcement actions as necessary.
- *Inform the public concerning violators*. Allegations of wrongdoing and associated legal actions are publicized and communicated to the industry and the public in order to ensure informed market users.
- *Provide a forum to bring complaints*. The Commission provides a reparations program for commodities market users to resolve complaints concerning possible violations of the Act.
- *Oversee the NFA's registration program*. The Commission oversees the NFA's registration program, requiring testing, licensing, and ethics training for commodities professionals. CFTC maintains a strong working relationship with the NFA, including joint representation on the Registration Working Group.
- *Review regulations and amend or abolish as appropriate*. In order to ensure that the regulations enforced by the Commission are reflective of the needs of the industry and the public, the Commission reviews and adapts its regulations with the evolving conditions and changes in the industry.
- *Monitor media*. The Internet and other media venues are monitored for fraudulent activities and other possible violations of the Act.
- *Maintain cooperative relationships*. Strong working relationships with the exchanges, the NFA, other federal agencies, state governments and law enforcement entities, and foreign authorities maintain the Commission's ability to gain information for law enforcement purposes and to provide enforcement assistance as necessary and appropriate.

Resource Priorities and Return on Investment:

- *Complete energy investigations*. Since the fall of Enron, the Commission has conducted a significant number of investigations concerning potential misconduct by participants in the energy markets. To date, the Commission has filed 31 enforcement actions in this program area. The Commission has settled 24 of these cases, which have resulted in sanctions including a total of $297,963,500 in civil monetary penalties. The other seven cases are currently in active litigation in Federal district court. The Commission is actively engaged in other energy sector investigations which may result in further prosecutions. The Commission's aggressive enforcement actions in the energy sector reflect an approach to market oversight that emphasizes tough enforcement actions against wrongdoers without creating overly burdensome regulations. The Commission is fully committed to resolving the on-going energy investigations as expeditiously as possible so that, in addition to identifying wrongdoers, it can exonerate those who were not involved and allow these important risk management markets to work toward restoring the confidence of market participants and the public.

- *Design and implement Project eLaw*. The Commission will continue its effort to design and implement Project eLaw, an automated law office that seamlessly integrates technology and work processes to support managers and staff across the Commission in their investigative trial and appellate work. Driven by the Commissions continued reliance on manual processes and automated tracking systems to manage cases and the millions of paper documents received or created annually, Project eLaw will provide the automated tools to assist staff in performing their work more efficiently and effectively, both in the office and in the court room facing opposing counsel. Specifically, Project eLaw will enable staff to: query and retrieve information about investigations and litigation provided to the Commission by outside parties, pursuant to subpoena or otherwise; develop documents in a collaborative electronic work environment across geographically dispersed locations; manage client contacts, investigation leads, and trial schedules; track time and resources expended on investigations and cases; and access and present documentary and analytical evidence in court settings.

- *Upgrade training for Enforcement investigators*. Expert enforcement investigators are vital to the effectiveness of the Commission's Enforcement program. The Commission continues to upgrade the training of its enforcement investigators in order to ensure that their level of expertise keeps pace with the technological advancements, increasing cross-border participation in the financial markets, and new complex contracts and trading strategies. Training includes advanced investigative techniques, especially with respect to trade practice investigations of electronic exchanges, the tracking of international money flows, and in-depth analysis of growing markets with an emphasis on the over-the-counter (OTC) energy markets.

- *Coordinate with foreign regulatory authorities – cooperative enforcement*. The number, duration and speed of regulatory issues related to financial crises and market abuses can be mitigated through the enhancement of international cooperation amongst regulators and market authorities. It is therefore critical that the CFTC continue to foster productive and cooperative working relationships with these foreign counterparts. In particular the Commission will continue to: 1) facilitate cross-border transactions through the removal or lessening of any unnecessary legal or practical obstacles; 2) endeavor to enhance the internal supervisory cooperation and emergency procedures; 3) strengthen international cooperation for customer and market protection; 4) improve the quality and timeliness of international information sharing; and, 5) promote the development of internationally accepted regulatory standards of best practices. The CFTC will also continue to undertake measures to ensure that it maintains a high visibility in the international community and undertakes a leading role in the development of international financial policy affecting the futures and options markets.

Summary of Goal Two Performance Indicators

Goal Two: Protect market users and the public.

Outcome 2.1: Violations of Federal commodities laws are detected and prevented.

Annual Performance Goal: Violators have a strong probability of being detected and sanctioned.

Performance Measures	FY 2004 Actual	FY 2005 Actual	FY 2006 Plan	FY 2007 Plan
Number of enforcement investigations opened during the fiscal year	215	131	100	150
Number of enforcement cases filed during the fiscal year	83	69	60	90
Percentage of enforcement cases closed during the fiscal year in which the Commission obtained sanctions (e.g., civil monetary penalties, restitution and disgorgement, cease and desist orders, permanent injunctions, trading bans, and registration restrictions)	99%	100%	100%	100%
Cases filed by other criminal and civil law enforcement authorities during the fiscal year that included cooperative assistance from the Commission	23	20	20	30

Outcome 2.2: Commodity professionals meet high standards.

Annual Performance Goal: No unregistered, untested, or unlicensed commodity professionals.

Performance Measures	FY 2004 Actual	FY 2005 Actual	FY 2006 Plan	FY 2007 Plan
Percentage of SROs that comply with core principles	100%	100%	100%	100%
Percentage of DCOs that comply with core principles	100%	100%	100%	100%
Percentage of professionals compliant with standards regarding testing, licensing, and ethics training *(Professional compliance)*	100%	100%	100%	100%
Percentage of SROs that comply with requirement to enforce their rules	100%	100%	100%	100%
Percentage of total requests receiving CFTC responses for guidance and advice	90%	90%	90%	90%

Outcome 2.3: Customer complaints against persons or firms registered under the Act are handled effectively and expeditiously.

Annual Performance Goal: Customer complaints are resolved within one year from the date filed and appeals are resolved within six months.

Performance Measures	FY 2004 Actual	FY 2005 Actual	FY 2006 Plan	FY 2007 Plan
Percentage of filed complaints resolved within one year of the filing date	41%	50%	50%	50%
Percentage of appeals resolved within six months	35%	46%	50%	100%

Breakout of Goal Two Request by Program Activity

	FY 2006		FY 2007		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Market Oversight	$0	0	$0	0	$0	0
Clearing & Intermediary Oversight	5,155	26	6,531	28	1,376	2
Chief Economist	0	0	0	0	0	0
Enforcement	18,875	95	25,002	105	6,127	10
Proceedings	2,394	13	2,976	13	582	0
General Counsel	3,724	16	4,586	16	862	0
Executive Direction & Support	11,087	59	14,555	63	3,467	4
TOTAL:	**$41,235**	**209**	**$53,650**	**225**	**$12,415**	**16**

Figure 14: Breakout of Goal Two Request by Program Activity

Breakout of Goal Two Request by Outcome Objective

	FY 2006		FY 2007		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
GOAL TWO: Protect markets users and the public.						
Outcomes						
2.1 Violations of Federal commodities laws are detected and prevented.	$31,477	159	$41,246	173	$9,769	14
2.2 Commodities professionals meet high standards.	6,006	31	7,801	33	1,795	2
2.3 Customer complaints against persons or firms falling within the jurisdiction of the Commodity Exchange Act are handled effectively and expeditiously.	3,752	19	4,603	19	851	0
Total Goal Two	**$41,235**	**209**	**$53,650**	**225**	**$12,415**	**16**

Figure 15: Breakout of Goal Two by Outcome

Strategic Goal Three – Ensuring Market Integrity in Order to Foster Open, Competitive, and Financially Sound Markets.

Background and Context

In fostering open, competitive, and financially sound markets, the Commission's two main priorities are to avoid disruptions to the system for clearing and settling contract obligations and to protect the funds that customers entrust to futures commission merchants (FCMs). Clearing organizations and FCMs are the backbone of the exchange system— together, they protect against the financial difficulties of one trader becoming a systemic problem for other traders. Several aspects of the oversight framework help the Commission achieve this goal with respect to traders: 1) requiring that market participants post margin to secure their ability to fulfill obligations; 2) requiring participants on the losing side of trades to meet their obligations, in cash, through daily (sometimes intraday) margin calls; and 3) requiring FCMs to segregate customer funds from their own funds.

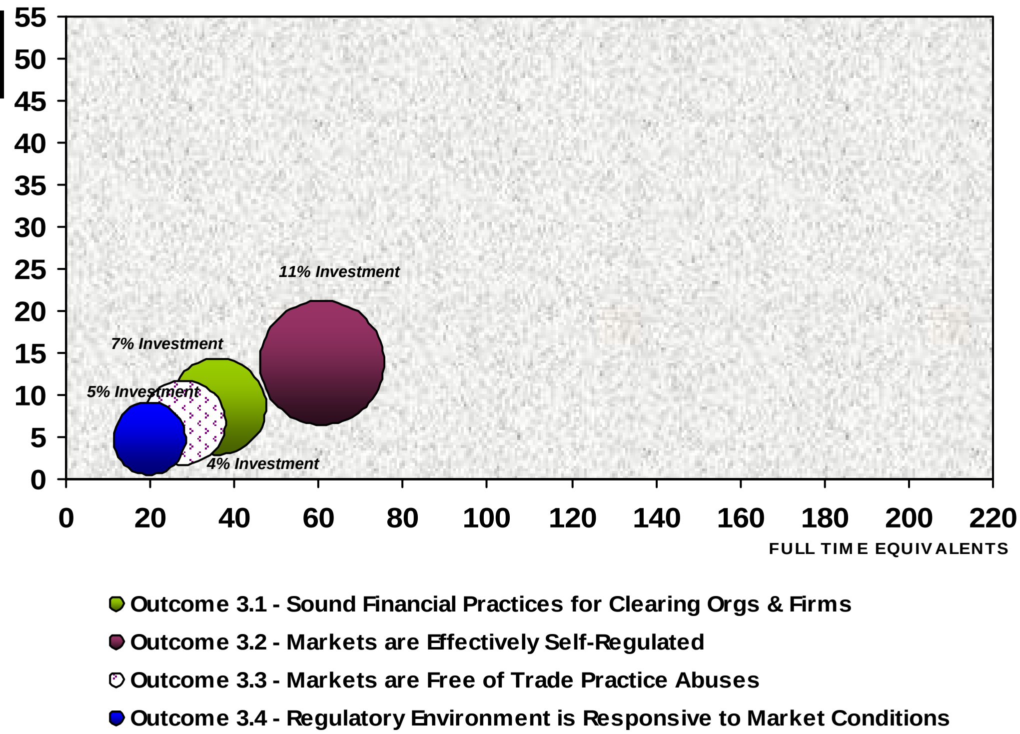
The Commission also works with the exchanges and the NFA to monitor closely the financial condition of the FCMs themselves, who must provide the Commission, exchanges, and NFA with various monthly, quarterly, and annual financial reports. The exchanges and NFA also conduct periodic audits and daily financial surveillance of their respective member FCMs. Part of this financial surveillance involves looking at each FCM's exposure to losses from large customer positions that it carries. As an oversight regulator, the Commission reviews the audit and financial surveillance work of the exchanges and NFA, but also monitors the health of FCMs directly, as appropriate. The Commission also periodically reviews clearing organization procedures for monitoring risks and protecting customer funds.

The Commission can investigate and prosecute FCMs alleged to have violated financial and capitalization requirements or to have committed other supervisory or compliance failures in connection with the handling of customer business. Such cases result in substantial remedial changes in the supervisory structures and systems of FCMs, and can influence the way particular firms conduct business. This is an important part of fulfilling the Commission's responsibility for ensuring that sound practices are followed by FCMs, and to ensure that markets remain financially sound. The Commission also seeks to ensure market integrity by investigating a variety of trade and sales practice abuses. For example, the Commission brings actions alleging unlawful trade allocations, trading ahead of customer orders, misappropriating customer trades, and non-competitive trading.

CFTC Strategy Mapping

FY 2007 Goal Three Resource Investment by Outcome Objective

Figure 16: Goal Three Resource Strategy Mapping



Outcome Objectives and Annual Performance Goals

Outcome 3.1 – Clearing organization and firms holding customer funds have sound financial practices.

- 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.

Outcome 3.2 – Commodity futures and option markets are effectively self-regulated.

- Annual Performance Goal: No loss of funds resulting from failure of self-regulatory organizations to ensure compliance with their rules.

Outcome 3.3 – Markets are free of trade practice abuses.

- Annual Performance Goal: Minimize trade practice abuses.

Outcome 3.4 – Regulatory environment is flexible and responsive to evolving market conditions.

- Annual Performance Goal: TBD

Means and Strategies for Achieving Objectives

Means:

- Oversee market intermediaries and the self-regulatory programs and compliance activities of the futures industry self-regulatory organizations (SROs), which include the U.S. commodity exchanges, the NFA, and derivatives clearing organizations (DCOs).

- Protect market users and financial intermediaries by developing rules including requirements related to registration, record-keeping and reporting, financial adequacy, sales practices protection of customer funds, and clearance and settlement activities.

- Address cross-border transactions, the coordination of policy with foreign market authorities, systemic risk, anti-money laundering (AML) programs, and emergency procedures to address extraordinary events such as firm defaults.

- Monitor market movements to potential financial impact on clearing firms and DCOs.

Strategies:

- *Maintain a flexible regulatory environment responsive to evolving market conditions*. In an effort to ensure that the regulatory framework under which futures and option contracts are traded remains current, Commission staff will continue to review the Commission's rules with the intention of: eliminating obsolete rules; streamlining and coordinating regulations across markets; and fostering efficiency and competitiveness while assuring customer protection, sound financial practices, and market integrity. The Commission will also respond to requests for exemptions and other relief from regulatory requirements to address situations in which additional flexibility is warranted. The Commission also will issue advisories and other guidance concerning the application of Commission regulations.

- *Conduct financial surveillance*. The Commission's financial surveillance and audit program buttresses periodic audit, daily financial surveillance, and other self-policing programs administered by the exchanges and the NFA. The program includes oversight reviews of the SRO financial compliance programs as well as quality control audits to assess the efficacy of SRO programs and to assure that they are designed and executed in a manner that ensures that firms are properly capitalized and customer funds are held in segregation by appropriate custodians and protected from misappropriation.

- *Enhance risk assessment*. To address changes in the operations and structures of multinational, multi-product financial firms, the Commission has implemented a risk assessment program by obtaining better information on such firms in the form of required organizational charts and internal control filings, consolidated and consolidating financial statements, identification of other regulators to whom such firms report, and descriptions of procedures in place to control risks associated with clearing of trades for affiliates of the regulated firm.

- *Develop global cooperation to enhance financial safeguards*. Internationally, recent market issues with global market impact have underscored the importance of developing international standards of best practice. The Commission has increased its efforts to achieve greater international coordination, and thereby enhance the effectiveness of financial safeguards applicable to U.S. markets and market participants, as well as those applicable internationally.

- *Oversee SRO compliance activities*. A key aspect of the Commission's oversight program is to review the SRO programs that are designed to assure compliance by their members with customer and market protection standards. The reviews focus extensively on exchange programs to deter, detect, and impose disciplinary sanctions upon those who commit trade practice abuses.

- *Review SRO rule submissions*. New rules and rule changes submitted by the exchanges to the Commission are reviewed with a view towards maintaining the fairness and financial integrity of the markets, protecting customers, and accommodating and fostering innovation and efficiency in self-regulation consonant with the Commission's statutory mandates. Many of the rule submissions present complex new trading procedures, market structures, and financial arrangements that present novel issues and, in some cases, require rule amendments or interpretations by the Commission to facilitate implementation of the SRO's rule changes. The Commission has adapted its requirements to ensure, when approval is requested, quicker implementation of rule changes.

- *Respond to globalization of the markets*. Electronic technology is rapidly integrating the nation's global commodities markets. These technology-driven changes will increase cross-border trading volume, cross-border participation, and cross-border exchange linkages. Markets, intermediaries, and customers demand efficient access to these global markets with a minimum of regulatory borders. Because no one regulator will have the information or geographic reach to address regulatory and practical issues related to cross-border access, the Commission will increase its cooperative efforts with global regulators.

- *Investigate and prosecute wrongdoing*. In order to foster open, competitive, and financially sound markets, the Commission can investigate and brings enforcement cases involving trade practice abuses, financial, capitalization and segregation violations, and supervision and compliance failures by registrants authorized to handle customer business.

Resource Priorities and Return on Investment:

- *Implement risk-based oversight program for DCOs*. The Commission will continue to refine its risk-based approach to the oversight reviews of DCOs. The oversight reviews will assess the DCOs' continued compliance with core principles with particular focus on risk management and financial integrity.

- *Implement risk-based oversight program for Designated Self-Regulatory Organizations (DSROs)*. The Commission will fully implement its risk-based approach to the oversight of DSROs in which the Commission staff approach the cyclical review of each DSRO with an identification of its activities and the risks arising there from, followed by an assessment of the appropriateness and adequacy of the systems, procedures and practices that the DSRO relies upon to fulfill its responsibilities under the core principles set forth in the CFMA. This risk-based approach, which is already being utilized by other Federal, financial regulators and international counterparts such as the United Kingdom Financial Services Authority, promises to make more effective use of Commission resources by tailoring oversight efforts to the relative probability and severity of potential risks to market integrity and to the market participants.

- *Develop and implement a new Commission trade surveillance system*. The Commission has two electronic oversight systems – one to monitor for trading abuses (such as trading ahead of customers and trading against customers) and one to monitor for market manipulation utilizing the large trader reports). The first of these two systems is woefully out of date, and the Commission has concluded that the demands of today's futures marketplace require development and implementation of a new approach. By supporting the Commission's efforts to protect market participants from abusive trading practices and the integrity of the markets as a price discovery mechanism, the Commission trade practice investigation program helps the Commission maintain public confidence in the markets and in the Commission as their regulator.

  The Commission seeks and approach that will allow identification of inter-exchange violations that individual exchanges lack the capacity to detect, allow quicker access to and more sophisticated and customizable analysis of the full range of data supplied by exchanges with respect to electronic as well as open outcry trading, and enable meaningful Commission evaluation of the exchanges' own electronic surveillance systems.

- *Continue collaborative regulatory efforts regarding SFPs*. The Commission will continue in its efforts to coordinate with the SEC in implementing those sections of the CFMA related to the trading of SFPs. These areas include: SFP definitions; registration requirements and functions; treatment of customer funds; margin rules; the offering of foreign SFPs to U.S. customers; possible further exemptions for notice registrants; the listing of options; and coordinated clearing. The Commission will also respond to inquires from intermediaries, their counsel and accountants, and the general public concerning operational issues as the market for SFPs develops. Further, the Commission will work with the exchanges in developing sound business, financial and sales practices concerning the trading of SFPs.

- *Coordinate with foreign regulatory authorities – cooperative enforcement*. The number, duration and speed of regulatory issues related to financial crises and market abuses can be mitigated through the enhancement of international cooperation among regulators and market authorities. It is therefore critical that the CFTC continue to foster productive and cooperative working relationships with these foreign counterparts. In particular the Commission will: 1) facilitate cross-border transactions through the removal or lessening of any unnecessary legal or practical obstacles; 2) endeavor to enhance the internal supervisory cooperation and emergency procedures; 3) strengthen international cooperation for customer and market protection; 4) improve the quality and timeliness of international, information-sharing; and, 5) promote the development of internationally accepted regulatory standards of best practice. The CFTC will also continue to undertake measures to ensure that it maintains a high visibility in the international community and undertakes a leading role in the development of international financial policy affecting the futures and options markets.

- *Reengineer both the Commission's trade surveillance and market surveillance systems so that they remain effective and robust as trading migrates from the floors to electronic platforms*. Markets regulated by the Commission have experienced a dramatic shift from floor to screen based trading over the past several years. The CBOT's and the CME's screen-based volume currently accounts for almost 68 percentage of total exchange volume. While electronic trading brings certain regulatory benefits, such as more precise audit trails, it also increases the opportunity for certain types of abuses, such as trading ahead of customers. In order to re-engineer our systems, we have examined the electronic trading systems and automated surveillance systems used by U.S. designated contract markets as well as those used by foreign futures exchanges that have significantly more experience in electronic trading. We are also incorporating changes in the Commission's oversight systems and, where necessary, recommending alterations to systems of our designated contract markets to ensure that customers continue to be protected against trading abuses and manipulations.

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Summary of Goal Three Performance Indicators

Goal Three: Ensure market integrity in order to foster open, competitive, and financial sound markets.

Outcome 3.1: Clearing organizations and firms holding customer funds have sound financial practices.

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.

Performance Measures	FY 2004 Actual	FY 2005 Actual	FY 2006 Plan	FY 2007 Plan
Lost funds: a) Percentage decrease in number of customers who lose funds b) Amount of funds lost	 0 $0	 0 $0	 0 $0	 0 $0
Number of rulemakings to ensure market integrity and financially sound markets	1	3	1	1
Percentage of self-regulatory organizations that comply with requirement to enforce rules	100%	100%	100%	100%

Outcome 3.2: Commodity futures and option markets are effectively self-regulated.

Annual Performance Goal: No loss of funds resulting from failure of self-regulated organizations to ensure compliance with their rules.

Performance Measures	FY 2004 Actual	FY 2005 Actual	FY 2006 Plan	FY 2007 Plan
Percentage of intermediaries who meet risk-based capital requirements	100%	100%	100%	100%
Percentage of clearing organizations that comply with requirement to enforce their rules	100%	100%	100%	100%

Outcome 3.3: Markets are free of trade practice abuses.

Annual Performance Goal: Minimize trade practice abuses.

Performance Measures	FY 2004 Actual	FY 2005 Actual	FY 2006 Plan	FY 2007 Plan
Percentage of exchanges deemed to have adequate systems for detecting trade practice abuses	100%	100%	100%	100%
Percentage of exchanges that comply with requirement to enforce their rules	100%	100%	100%	100%

Outcome 3.4: Regulatory environment is flexible and responsive to evolving market conditions.

Annual Performance Goal: TBD

Performance Measures	FY 2004 Actual	FY 2005 Actual	FY 2006 Plan	FY 2007 Plan
Percentage of CFMA Section 126(b) objectives implemented	100%	100%	100%	100%
Number of rulemakings, studies, interpretations, and guidance to ensure market integrity and exchanges' compliance with regulatory requirements	6	6	8	8
Percentage of requests for no-action or other relief completed within six months related to novel market or trading practices and issues to facilitate innovation	100%	100%	100%	100%
Percentage of total requests receiving CFTC responses for guidance and advice	90%	90%	100%	100%

Breakout of Goal Three Request by Program Activity

	FY 2006		FY 2007		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Market Oversight	$5,801	33	$7,420	33	$1,619	0
Clearing & Intermediary Oversight	6,819	35	9,940	42	3,121	7
Chief Economist	0	0	0	0	0	0
Enforcement	4,265	21	5,645	24	1,380	3
Proceedings	184	1	229	1	45	0
General Counsel	1,762	8	2,172	8	410	0
Executive Direction & Support	6,228	33	8,511	37	2,283	4
TOTAL	**$25,058**	**131**	**$33,917**	**145**	**$8,859**	**14**

Figure 17: Breakout of Goal Three by Program Activity

Breakout of Goal Three Request by Outcome Objective

	FY 2006		FY 2007		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
GOAL THREE: Ensure market integrity in order to foster open, competitive, and financially sound markets.						
Outcomes						
3.1 Clearing organizations and firms holding customer funds have sound financial practices.	$5,581	28	$8,500	36	$2,919	8
3.2 Commodity futures and option markets are effectively self-regulated.	10,861	59	13,958	61	3,097	2
3.3 Markets are free of trade practice abuses.	5,235	27	6,689	28	1,454	1
3.4 Regulatory environment responsive to evolving market conditions.	3,381	17	4,770	20	1,389	3
TOTAL	**$25,058**	**131**	**$33,917**	**145**	**$8,859**	**14**

Figure 18: Breakout of Goal Three Request by Outcome

Justification of the FY 2007 Budget & Performance Estimate

Breakout of $127.4 Million Budget Estimate by Program

	FY 2005		FY 2006		FY 2007 Current Svcs.		FY 2007 Request	
	FTE	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE	$ (000)
Market Oversight	99	$19,013	101	$18,314	101	$22,643	103	$23,194
Clearing & Intermediary Oversight	63	$12,086	64	$12,557	64	$15,474	74	$17,431
Chief Economist	8	$1,536	9	$1,967	9	$2,414	9	$2,426
Enforcement	135	$25,913	143	$28,642	143	$35,263	159	$37,936
Proceedings	14	$2,686	14	$2,578	14	$3,185	14	$3,205
General Counsel	32	$6,139	31	$6,952	31	$8,522	31	$8,565
Exec. Direction & Support	136	$26,193	141	$26,392	141	$32,587	150	$34,614
Total	487	$93,566	503	$97,402	503	$120,088	540	$127,371

Table 7: Budget Estimate by Program

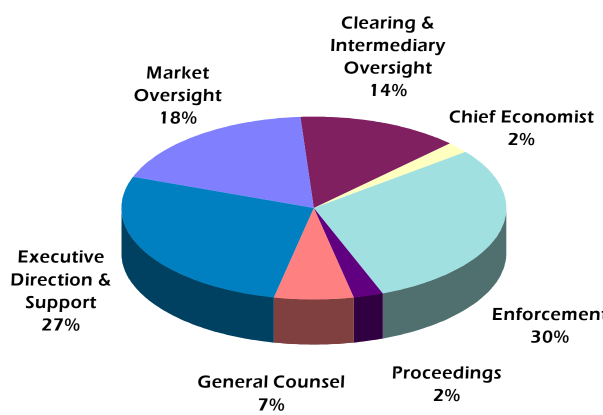

Figure 19: $127.4 Million Budget Estimate by Program[9]

[9] Includes information technology in support of all programs.

Breakout of $127.4 Million Budget Estimate by Object Class

	FY 2005 ($000)	FY 2006 ($000)	FY 2007 ($000)
11.1 Full-Time Perm. Compensation	$54,742	$58,770	$73,064
11.5 Other Personnel Compensation	963	0	1,578
11.8 Special Pers. Serv. Payments	7	18	22
11.9 Subtotal, Personnel Comp.	55,712	58,788	74,664
12.1 Personnel Benefits: Civilian	12,925	14,710	18,468
13.0 Benefits for Former Personnel	15	34	35
21.0 Travel & Transportation of Persons	1,181	1,189	1,3700
22.0 Transportation of Things	83	81	132
23.2 Rental Payments to Others	10,595	11,139	11,560
23.3 Comm., Utilities & Miscellaneous	2,481	3,072	3,172
24.0 Printing and Reproduction	444	379	404
25.0 Other Services	8,013	5,544	13,894
26.0 Supplies and Materials	659	715	806
31.0 Equipment	1,364	1,619	2,804
32.0 Building/Fixed Equipment	15	132	132
42.0 Claims/Indemnities	84	0	0
99.0 Subtotal, Direct Obligations	93,572	97,402	127,371
99.0 Reimbursable	18	100	100
99.0 Total Obligations	$93,590	$97,502	$127,471

Table 8: Budget Estimate by Object Class

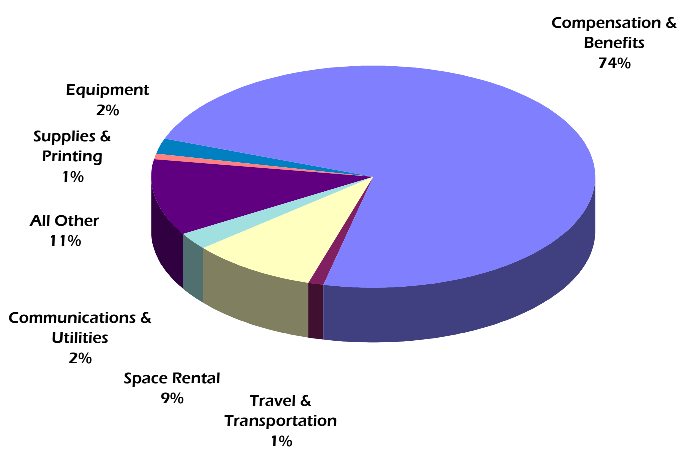

Figure 20: $127.4 Million Budget Estimate by Object Class

Crosswalk from FY 2006 to FY 2007

	FY 2006 Budget	FY 2007 Request	Change
Budget Authority ($000)	$97,402	$127,371	$29,969
Full-Time Equivalents (FTEs)	503	540	37

Explanation of Change	FTEs	Dollars ($000)
Current Services Increases: (Adjustments to FY 2006 Base)		
To provide for the following changes in personnel compensation:		
-- Estimated April 2006 3.1% pay increase (annualization of)		1,020
-- Estimated April 2007 2.3% pay increase		605
--Within-grade increases		466
--To provide pay parity with FIRREA agencies in accordance with FSRIA 2002		11,070
--To provide for increased costs of personnel benefits		676
--To provide restoration of employee performance awards eliminated in 2006		966
To provide for the following changes in non-personnel costs:		7,883
--Travel/Transportation ($77)		
--Space Rental/Communications/Utilities ($518)		
--Supplies/Printing ($87)		
--All Services ($6,018)		
-- Equipment ($1,183)		
Program Increase: (Adjustments to FY 2007 Current Services)		
--To provide for salaries and expenses for 37 more FTEs	+37	4,998
--Enforcement, Human Resource, and Pubic Outreach Initiatives		2,285
Total Increases	**+37**	**$29,969**

Table 9: Crosswalk from FY 2006 to FY 2007

Market Oversight

Total Budget: $23,194,000 103 FTEs

Total Change: $ 4,880,000 2 FTE

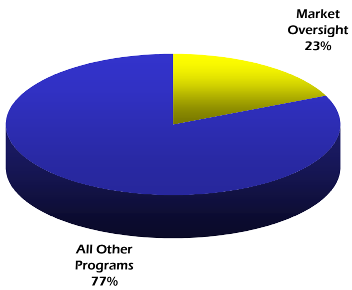

Figure 21: Market Oversight Percentage of Total Budget Dollars

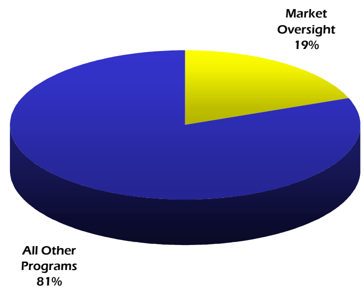

Figure 22: Market Oversight Percentage of Total Budget FTEs

Justification of the FY 2007 President's Budget & Performance Plan

The primary responsibility of the Market Oversight program is to foster markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity. By detecting and protecting against price manipulation and abusive trading practices, this program assists the markets in performing the vital economic functions of price discovery and risk transfer (hedging). The Market Oversight program will initiate and carry out the Commission's surveillance and oversight programs for these markets. The program also will conduct trade practice surveillance and reviews of exchange rule amendments and submissions. In addition, the program will develop, implement, and interpret regulations that protect customers, prevent trading abuses, and assure the integrity of the futures markets.

In FY 2007, the Market Oversight program requests 103 FTEs, an increase of 2 FTEs over the FY 2006 level. The three subprograms—Market Surveillance, Market and Product Review, and Market Compliance—are requesting 52 FTEs, 17 FTEs, and 34 FTEs, respectively.

Market Surveillance. Futures prices are generally quoted and disseminated throughout the U.S. and abroad. Business, agricultural, and financial enterprises use the futures markets for pricing information and for hedging against price risk. The participants in commercial transactions rely extensively on prices established by the futures markets, which affect trillions of dollars in commercial activity. Moreover, the prices established by the futures markets directly or indirectly affect all Americans. They affect what Americans pay for food, clothing, and shelter, as well as other necessities. Since futures and option prices are susceptible to manipulation and excessive volatility, and producers and users of the underlying commodities can be harmed by manipulated prices, preventive measures are necessary to ensure that market prices accurately reflect supply and demand conditions.

Actions to detect and prevent price manipulation are taken by economists who monitor all active futures and option contracts for potential problems. The FTEs requested for the Market Oversight program will work on investigating possible manipulation and other trading abuses, analyze routine reports of large trader activity, conduct rule enforcement reviews, and work to detect and prevent threats of price manipulation or other major market disruptions caused by abusive trading practices.

Price manipulation prevention activities of Market Surveillance economists are enhanced by support personnel; such as futures trading specialists, futures trading assistants, and statisticians. Their activities include operating an extensive daily data-gathering and verification system and collecting reports from exchanges, futures industry firms, and traders. The reports provide current market information on the size of futures and option positions held by large traders as well as other background information that is necessary to enforce Commission and exchange speculative limits.

Market and Product Review. In order to serve the vital price-discovery and hedging functions of futures and option markets, exchanges must provide consumers safe marketplaces that have appropriate protections in place and provisions for ensuring the fairness of the market and the integrity of contracts traded. Exchanges must list products for trading that are not readily susceptible to manipulation and do not lead to price distortions or disruptions in the futures, option markets, or in the underlying cash markets. Adherence to the approval criteria, core principles, and appropriate contract design minimizes market disruptions and the susceptibility of the contracts to manipulation or price distortion.

The Market and Product Review subprogram, in cooperation with other offices of the Commission, reviews exchanges' applications for approval as a contract market or as a Derivatives Transaction Execution Facility (DTEF) to ensure that the exchange is in compliance with approval criteria and core principles and Commission regulations. The subprogram also reviews filings by exempt markets and, on an ongoing basis, analyses these entities to ascertain whether they comply with statutory requirements.

The subprogram reviews requests from exchanges for approval of new contracts and rule amendments to existing contracts to ensure that contracts are in compliance with statutory and regulatory anti-manipulation requirements. It also conducts reviews of new products and rule changes of economic significance submitted under certification procedures to provide information about the markets and product design features, and to ensure that contracts and rules comply with statutory requirements as well as the Commission's rules and policies. The reviews foster markets free of disruptions, or price manipulation, provide essential information to conduct effective market surveillance, and address regulatory and public interest issues. In this regard, deficiencies in the terms and conditions of futures and option contracts increase the likelihood of cash, futures, or option market disruptions and decrease the economic usefulness and efficiency of contracts.

Market Compliance. The Market Compliance subprogram oversees the regulatory and oversight activities of all designated contract markets in furtherance of the Commission's primary goals of ensuring customer protection and market integrity. The oversight program consists of examinations of exchange self-regulatory programs on an ongoing, routine basis to assess their continuing compliance with applicable core principles under the Act and the Commission's regulations. The examinations result in rule enforcement review reports that evaluate an exchange's compliance and surveillance capabilities. The reports set forth recommendations for improvement, where appropriate, with respect to an exchange's trade practice surveillance, market surveillance, disciplinary, audit trail, record-keeping, and dispute resolution programs. These periodic reviews promote and enhance continuing effective self-regulation and ensure that exchanges rigorously enforce compliance with their rules.

The Market Compliance subprogram also monitors trading activity on all exchanges in order to detect and prevent possible trading violations. This type of oversight is conducted through the use of automated surveillance and floor surveillance, and it fosters markets that are free of trading abuses. The identification of potential trading violations results in referrals to relevant exchanges and to the Commission's Division of Enforcement. In addition, the Market Compliance subprogram reviews and analyzes proposed exchange trading platforms, rule enforcement programs, and disciplinary procedures in conjunction with new designated contract market applications. The subprogram also conducts special studies of exchange rules, procedures, and trading practices as issues arise affecting a particular exchange. This serves to promote orderly trading and facilitates open and competitive markets.

Consequence of Not Receiving Requested Level of Resources

The growth in the number and different types of facilities that trade a wider array of derivatives products, including single-stock futures, futures on OTC instruments, contracts based on events or occurrences and novel approaches to derivatives trading, requires an increased and more sophisticated level of surveillance, data collection, analysis, reporting, and research to conduct effective oversight and develop the necessary expertise to monitor these developments. Surveillance and oversight of exchanges and product design involves monitoring an increasing number of innovative and often complex futures and option contracts to detect or prevent potential problems, price manipulation, and other major market disruptions caused by abusive trading practices or contract design flaws.

In FY 2007, the Market Oversight staff will be required to monitor a large and diverse array of markets and will continue to carry out the Commission's program of surveillance and oversight of single-stock futures. The Commission anticipates that a large number of new contracts will be listed for trading on futures exchanges, and that options on security futures products may also be trading. The number of energy futures contracts is also expected to continue to grow. Also, exchanges have indicated an interest in listing a large number of contracts based on events that raise core issues regarding the extent of the Commission's jurisdiction. Furthermore, the Commission anticipates that a number of new market plans and new trade execution methods will be adopted by exchanges.

If the Commission does not receive the resources requested for its Market Oversight program for FY 2007, the level of surveillance, exchange oversight, contract designation reviews, and studies to enhance understanding of the markets will not be commensurate with the growth in new types of exchanges, new trading execution methods in futures markets, and the initiation of trading in new innovative complex products that require detailed analysis and raise substantive legal and policy questions. Thus, some price manipulations and abusive trading practices will go undetected or detected too late to permit amelioration or intervention. Further, the efficacy of some exchange self-regulatory programs will not be evaluated on a timely basis. As a result, staff will not be able to ensure that exchanges are effectively fulfilling their self-regulatory responsibilities with respect to customer protection and market integrity, and as a result, customer orders will suffer direct economic harm from an increase in illegal trading activity.

In addition, staff will not be able to review all new contracts and rule change submissions for approval within statutory time frames, all new contract and rule change certifications in a timely manner. This could result in direct economic harm to producers and other users of the underlying commodities and indirect harm to the economy as a whole since market prices may not accurately reflect supply and demand conditions.

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Table 10: Market Oversight Request by Subprogram

	FY 2006		FY 2007		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Market Operations	$6,181	35.00	$7,688	34.00	$1,507	-1.00
Product Review & Analysis	2,603	15.00	3,658	17.00	1,055	2.00
Market Surveillance	9,530	51.00	11,848	52.00	2,318	1.00
TOTAL	$18,314	101.00	$23,194	103.00	$4,880	2.00

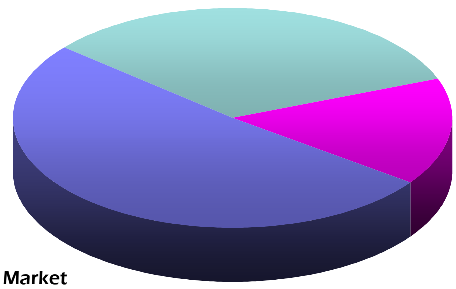

Figure 23: Market Oversight FY 2007 Budget by Subprogram

Table 11: Market Oversight Request by Goal

	FY 2006 $ (000)	FY 2006 FTE	FY 2007 $ (000)	FY 2007 FTE	Change $ (000)	Change FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcomes						
1.1 Futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	$11,430	62.00	$14,232	63.00	$2,800	1.00
1.2 Markets that can be monitored to ensure early warning of potential problems or issues that could adversely affect their economic vitality.	1,083	6.00	1,543	7.00	460	1.00
Subtotal Goal One	**$12,513**	**68.00**	**$15,774**	**70.00**	**$3,261**	**2.00**
GOAL TWO: Protect market users and the public.						
None						
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcomes						
3.2 Commodity futures and option markets are effectively self-regulated.	$3,992	23.00	$5,170	23.00	$1,178	0.00
3.3 Markets are free of trade practice abuses.	1,637	9.00	2,036	9.00	399	0.00
3.4 Regulatory environment responsive to evolving market conditions.	173	1.00	215	1.00	42	0.00
Subtotal Goal Three	**$5,801**	**33.00**	**$7,420**	**33.00**	**$1,619**	**0.00**
TOTAL	**$18,314**	**10100**	**$23,194**	**103.00**	**$4,880**	**2.00**

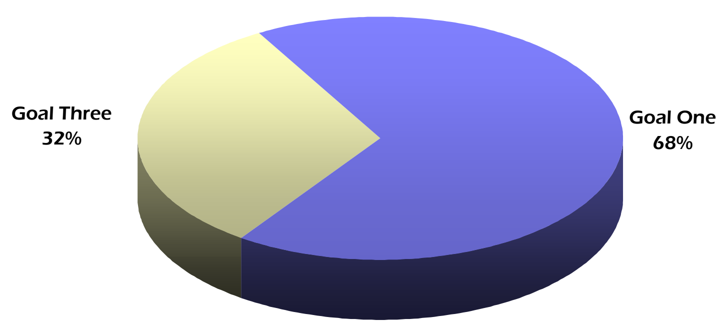

Figure 24: Market Oversight FY 2007 Budget by Goal

Clearing & Intermediary Oversight

Total Budget:	**$17,431,000**	**74 FTEs**
Total Change:	**$4,874,000**	**10 FTEs**

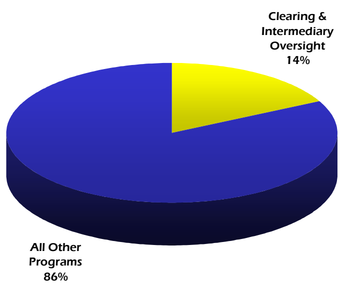

Figure 25: Clearing & Intermediary Oversight Percentage of Total Budget Dollars

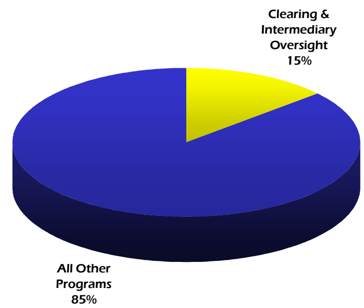

Figure 26: Clearing & Intermediary Oversight Percentage of Total Budget FTEs

Justification of the FY 2007 President's Budget & Performance Plan

In FY 2007, the Clearing and Intermediary Oversight (DCIO) program requests 74 FTEs, an increase of 10 FTEs over the FY 2006 level. The requested level is necessary for the Clearing and Intermediary Oversight program to meet established responsibilities under the CEA as well as the additional responsibilities directed by Congress through the CFMA or other initiatives of the Commission. The additional 10 FTEs will be allocated to the Audit and Financial Review subprogram.

The Act, as amended in December 2000 by the CFMA, contemplates a system of flexible yet effective self-regulation and sets forth several purposes of the Act:

- To deter and prevent price manipulation *or any other* disruptions to market integrity;
- To ensure the *financial integrity* of all transactions subject to the Act and the avoidance of systemic risk; and
- To *protect all market participants* from fraudulent or other abusive sales practices and misuses of customer assets.

The futures markets have grown rapidly since passage of the CFMA, with customer funds on deposit having almost doubled between 2000 and 2005 to more than $105 billion, approximately 20 percent of which represents trading by U.S. and non-U.S. customers on oversees markets. In 2000, there were 12 U.S. futures exchanges but now there are 20 registered contract markets and another 13 trading platforms covered by the Act. Of particular relevance to the Clearing and Intermediary Oversight program are designated clearing organizations (DCOs), over which the Commission was for the first time assigned direct supervisory responsibility by the CFMA. DCIO currently has direct supervisory responsibility for eleven DCOs, five of which were completely new institutions and another of which is an overseas institution. DCOs, as the central counterparties in the futures markets, are key to the financial integrity of those markets by centralizing counterparty credit risk exposures. Their proper supervision requires the Commission to devote substantial resources to developing new competencies and implementing new oversight programs.

The Clearing and Intermediary Oversight program is responsible for:

- Oversight of SROs to ensure their fulfillment of responsibilities for monitoring and ensuring the financial integrity of market intermediaries, enforcing appropriate sales practice standards for the protection of customers and the public, and protecting customer funds;
- Direct supervision, as appropriate, of market intermediaries in each of the foregoing areas and in other areas such as compliance with USA PATRIOT Act requirements;
- Oversight of DCOs to monitor their operations for compliance with core principles, including their financial resources, risk management, default procedures, protections for customer funds, and system safeguards (to ensure preparedness for national or man-made disasters or other disruptive events);
- Review of applications for registration as DCOs and DCO rule submissions and oversight of DCOs for continued compliance with core principles, including maintenance of appropriate risk management capabilities;
- Oversight of the registration and fitness review of market intermediaries through supervision of the National Futures Association, which is a Registered Futures Association (RFA) authorized to receive, review, and process intermediary applications for registration;
- Development of rules to protect market users and financial intermediaries and to enhance the efficiency and effectiveness of the futures markets as risk management mechanisms including rule modernization in such areas registration and fitness, capital adequacy, risk management, sales practices, the protection of customer funds, and clearance and settlement activities;
- Developing audit standards and programs for and monitoring compliance by futures commission merchants (FCMs), introducing brokers (IBs), commodity pool operators (CPOs), and commodity trading advisors (CTAs) with rules implementing the anti-money laundering provisions of the USA PATRIOT Act;
- Stock-index margin reviews; and
- Oversight of foreign market access by U.S. intermediaries and U.S. market access by foreign intermediaries.

The responsibilities of the Division further include assuring that DCOs, intermediaries holding customer funds, and other market participants are able to compete in dynamically evolving markets without sacrificing customer protections. Rapid market and product evolution will require that existing rules be reviewed, refined, and applied in a manner that facilitates competitiveness while preserving core customer and market safeguards. The globalization of the markets, the blurring of distinctions among financial institutions, and the explosive growth of technology have made it essential that the Commission adapt its rules continually and appropriately to market conditions.

Compliance and Registration. A Compliance and Registration subprogram level of 13 FTEs in FY 2007 will represent the same level of staffing as the FY 2006 level. A lower level would not enable the Compliance and Registration subprogram to address its current and anticipated responsibilities in a satisfactory manner.

The Compliance and Registration subprogram is responsible for providing policy advice and recommendations to the Commission, other staff units, the public, and the industry concerning the activities of futures industry intermediaries with respect to, among other things, registration, disclosure, sales practices, and record-keeping. The subprogram is engaged in an ongoing regulatory modernization effort to keep the Commission's regulatory framework abreast of market developments. This requires the subprogram to develop or modernize rules and interpretations that are flexible, effective, and efficient and allow for further industry innovation and enhancements. Subprogram staff work closely with the staff of NFA and other industry groups to effectively address issues that arise in connection with the business practices of intermediaries.

More specifically, in FY 2007, the ongoing responsibilities of the Compliance and Registration subprogram will include: 1) addressing regulatory issues and implementing a regulatory modernization program for intermediaries; 2) examining the rules relating to, and working with the Enforcement program concerning firms engaged in retail off-exchange foreign currency transactions; 3) assisting in the Commission's participation with the Treasury Department, the Financial Crimes Enforcement Network and other financial regulators to develop and promulgate rules to implement the anti-money laundering of the USA PATRIOT Act; 4) continuing to effectively supervise the NFA and its fulfillment of CFTC-delegated responsibilities and possibly overseeing an increased number of RFAs; 5) continuing to evaluate the rules covering registration of and reporting and disclosure by commodity pool operators and commodity trading advisors, some of which may operate or advise "hedge funds;" 6) addressing any additional matters presented as a result of the 2005 reauthorization process; 7) continuing to coordinate with the SEC with respect to the trading of security futures products, including addressing issues related to trading of foreign security futures products and foreign index products by U.S. customers; and 8) managing the Commission's ever more important Part 30 program of rules, analyses, and approvals that helps to ensure the protection of U.S. customers whose risk management needs require them to trade on foreign boards of trade and through foreign intermediaries and to preserve appropriate supervisory capabilities for the Commission.

Audit and Financial Review. An Audit and Financial Review subprogram level of 53 FTEs in FY 2007 would represent an increase of 10 FTEs over the FY 2006 level. The higher level is needed in order to enable the Audit and Financial Review subprogram to address its current and anticipated additional responsibilities in a satisfactory manner. The increase in resources also will allow subprogram staff to monitor the financial integrity of individual registrants and the markets generally and to improve SRO oversight programs.

The Audit and Financial Review subprogram has responsibility for monitoring, through both traditional supervisory methods and evolving financial surveillance efforts using automated quantitative analysis tools, the adequacy, reliability, and resilience of the clearing system (consisting of both DCOs and FCMs) to protect against: 1) the financial problems of a single market participant becoming systemic problems that could affect other market participants or other markets; 2) customer funds being misused or exposed to inappropriate risks of loss; and 3) abusive sales practices that harm customers and undermine market integrity.

The subprogram encompasses the Chief Accountant's Office, which is responsible for, among other things, developing and interpreting Commission's rules in such areas as minimum capital requirements for futures firms.

The subprogram also encompasses the Financial Surveillance unit formed to enhance and expand the Division's utilization of automated tools and systems to gather, combine, and analyze information from monthly financial reports filed by FCMs, large trader position information, and other relevant market and financial information so as to provide ongoing surveillance of actual or potential financial risks facing firms and clearinghouses and to anticipate emerging problems that may pose systemic risks. Monitoring broad-based stock-index futures and security futures margins is another recently acquired responsibility of the subprogram that is fulfilled by this unit.

Another subprogram priority is the conduct of comprehensive oversight programs for DCOs and other SROs to help ensure financial integrity and adequate risk management within the FCMs and DCOs that are the backbone of the futures clearing system. This requires examination of both the clearinghouses themselves and assessments of how well they in turn monitor the activities of their clearing members.

The 10 FTEs will add positions in the following areas and for the reasons stated below.

- <u>Major Reviews</u>. To plan, coordinate, schedule, monitor, and assess the major risk-focused reviews that DCIO performs of SROs and DCOs; and assess the safeguards required to ensure the capacity, security, and resiliency (including disaster recovery and business continuity plans) of DCOs and their systems. Reviews of the first kind will assess compliance in areas of net capital, segregation of customer funds, financial disclosure, sales practices, anti-money laundering, and related record keeping and reporting requirements. Properly assessing system safeguards involves enhancing the subprogram's capabilities in the area of IT auditing, similar to the approach followed by the SEC.

- <u>Financial Surveillance</u>. To a team that conducts the Division's enhanced financial surveillance function, which includes the monitoring of market information, evaluating the impact of market moves on the financial integrity of market participants, and anticipating and acting upon indications of financial difficulty, including communicating relevant information to other divisions, the Commission, and the clearing and SRO communities.

- <u>Chief Accountant's Office</u>. To support the Chief Accountant to respond to the increasing number of inquiries for legal and accounting interpretations of the Commission's capital and segregation rules, and to address potential major changes to the Commission's and SEC capital rules resulting from the SEC's adopting a new capital requirement for certain broker/dealers that elect to submit to consolidated supervision by the SEC.

- <u>Regional Office</u>. To the Chicago regional office in order for the Division to help restore this regional office it to its proper level of staffing, and to better enable DCIO to maintain and to fulfill its current regulatory oversight of the SROs, DCOs, and FCMs within this region, which includes the largest U.S. futures markets, CME and CBOT, both of which have experienced significant increases in volumes over the last couple of years.

<u>Clearing Policy</u>. A Clearing Policy subprogram level of eight FTEs in FY 2007 would represent the same level of staffing as the FY 2006 level. A lower level will not enable the Clearing Policy subprogram to address its current and additional responsibilities in a satisfactory manner such as the assessment of foreign-based DCOs seeking to clear for domestic markets, cross-border linkages among clear-

inghouses and/or trading facilities, offshore deposits of customer funds, and domestic clearing for foreign or over-the-counter markets.

The Clearing Policy subprogram is responsible for providing policy and legal advice and recommendations. In particular, the subprogram staff: 1) develop rules and rule amendments applicable to DCOs and intermediaries relating to such matters as participant and product eligibility, treatment of customer funds, reporting, record-keeping, public information, and relevant aspects of bankruptcy, antitrust, and intellectual property law and regulations; 2) prepare responses to no-action, exemption and interpretative requests on any program activities; 3) review and make recommendations concerning applications for registration as a DCO; 4) review and make recommendations concerning DCO rule submissions; and 5) review and make recommendations concerning exchange or registered futures associations' rules that implicate clearing, treatment of customer funds, or similar issues.

Consequences of Not Receiving Requested Level of Resources

The Clearing and Intermediary Oversight program must at all times maintain an effective supervisory system that is responsive to technological development, business changes, increasing globalization, increasing trading volume, and other evolutionary changes in the markets and the clearing process.

The increased level of resources requested is necessary for the Clearing and Intermediary Oversight program to meet the responsibilities assigned to it by Congress through the CFMA and any further changes to the CEA resulting from the Commission's reauthorization in 2005, and to help keep pace with the rapid growth in futures and option trading volume and the profound changes resulting from global competition, innovations in derivative contracts, innovations in clearing practices, new clearing organizations, advances in technology, and new market practices. The program also is responsible for ensuring that Commission registrants comply with the requirements of the USA PATRIOT Act and expects that additional resources will be needed to address anti-money laundering concerns. The program also expects that the volume and nature of retail off-exchange foreign currency transactions will require increased resources.

The increase in staff resources will enable the program to ensure that it meets its responsibilities of effective supervision of SROs, intermediaries, and DCOs, as well as other compliance and investigative support activities performed by staff to ensure the integrity of the marketplace. In addition, the increased level of resources requested is necessary for the Clearing and Intermediary Oversight program to provide appropriate guidance to industry professionals, customers, RFAs, and other market users regarding compliance with an increasingly changing business and regulatory environment as promptly and effectively as possible, which will facilitate innovation and market growth and improve the environment for the international competitiveness of U.S.-based DCOs. The consequence of not receiving the requested level of resources is that the Division of Clearing and Intermediary Oversight would not be able to adequately fulfill its oversight and audit functions over DCOs, SROs and FCMs, increasing the possibility that a misappropriation or insolvency could harm customers and consumers, compromise the integrity of the futures markets and lead to a systemic event in the economy.

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Table 12: Clearing & Intermediary Oversight Request by Subprogram

	FY 2006		FY 2007		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Clearing & Policy	$1,822	8.00	$2,243	8.00	$353	0.00
Compliance & Registration	2,576	13.00	3,191	13.00	507	0.00
Audit & Financial Review	8,159	43.00	11,997	53.00	3,799	10.00
TOTAL	$12,557	64.00	$17,431	74.00	$4,659	10.00

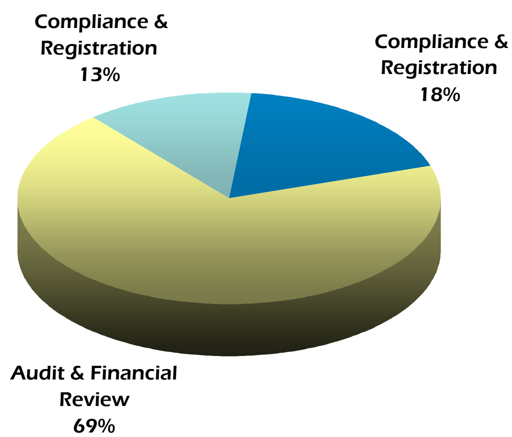

Figure 27: Clearing & Intermediary Oversight FY 2007 Budget by Subprogram

Table 13: Clearing & Intermediary Oversight Request by Goal

	FY 2006		FY 2007		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcomes						
1.1 Futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	$292	1.50	$367	1.50	$75	0.00
1.2 Markets that can be monitored to ensure early warning of potential problems or issues that could adversely affect their economic vitality.	292	1.50	593	2.50	$300	1.00
Subtotal Goal One	**$584**	**3.00**	**$958**	**4.00**	**$375**	**1.00**
GOALTWO: Protect market users and the public.						
Outcomes						
2.1 Violations of Federal commodities laws are detected and prevented.	$1,005	5.00	$1,168	5.00	$163	0.00
2.2 Commodities professionals meet high standards.	3,955	20.00	5,137	22.00	1,182	2.00
2.3 Customer complaints against persons or firms falling within the jurisdiction of the Commodity Exchange Act are handled effectively.	195	1.00	226	1.00	31	0.00
Subtotal Goal Two	**$5,156**	**26.00**	**$6,532**	**28.00**	**$1,376**	**2.00**
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcomes						
3.1 Clearing organizations and firms holding customer funds have sound financial practices.	$1,752	9.00	3,156	13.00	$1,404	4.00
3.2 Commodity futures and option markets are effectively self-regulated.	3,886	20.00	4,948	22.00	1,061	2.00
3.4 Regulatory environment responsive to evolving market conditions.	1,179	6.00	1,836	7.00	657	1.00
Subtotal Goal Three	**$6,818**	**34.00**	**$9,940**	**42.00**	**$3,1227**	**7.00**
TOTAL	**$12,557**	**64.00**	**$17,430**	**74.00**	**$4,873**	**10.00**

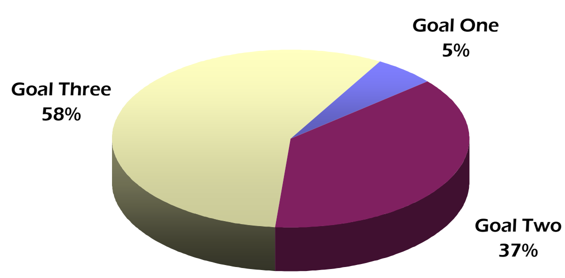

Figure 28: Clearing & Intermediary Oversight FY 2007 Budget by Goal

Enforcement

Total Budget: **$37,936,000** **159 FTEs**
Total Change: **$ 9,294,000** **16 FTEs**

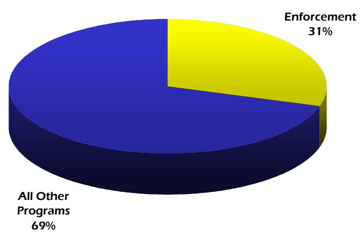

Figure 29: Enforcement Percentage of Total Budget Dollars

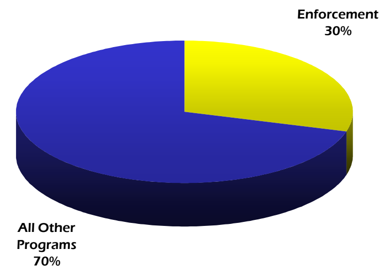

Figure 30: Enforcement Percentage of Total Budget FTEs

Justification of the FY 2007 President's Budget & Performance Plan

The primary responsibility of the Enforcement program is to police for conduct that violates the CEA and Commission regulations. Such conduct undermines the integrity of the market and the confidence of market participants.

In FY 2007, the Enforcement program is requesting 159 FTEs, an increase of 16 FTEs from the FY 2006 level. This increase in FTEs is vitally needed by the Enforcement program to address the following developments:

- Trading strategies have become more complex, crossing product lines and markets, which has required the Enforcement program to expand the scope of its investigations concerning fraud, market manipulation, and other abusive trading practices. A striking example is the program's intensive investigation into Enron and other energy-related market abuses. Due to their complexity, the Enforcement program must devote significantly more resources to these investigations in order to analyze voluminous trading data, hire experts, and to examine the activities of multiple energy market participants.
- The Enforcement program continues to battle the pervasive fraudulent sale of illegal, off-exchange futures and options foreign currency contracts to retail customers. The Enforcement program expects that challenges to the Commission's jurisdictional authority will require additional resources to enforce against this area of fraud.
- The Enforcement program also focuses resources against other types of off-exchange fraud, as well as fraud by registered and unregistered pool operators and trading advisors. These matters typically require immediate action using the Enforcement program's "quick strike" capability to freeze assets belonging to customers and preserve books and records. The Enforcement program anticipates that it will need to devote additional resources to investigating CPO and CTA activity.
- Violative Internet solicitations continue to increase and, therefore, require additional resources to investigate and prosecute.

- The dramatic increase in electronic trading poses additional challenges to the Enforcement program in terms of potential novel violations (or adaptations of traditional trade practice violations) and potential audit trail gaps. These challenges will require additional resources not only for investigation and prosecution but also for Enforcement staff training.

- The USA PATRIOT Act and anti-money laundering (AML) regulations have increased the responsibilities of registered firms by requiring new transaction reporting requirements and the establishment of AML and customer identification and verification programs. The Enforcement program may need to take direct and/or cooperative enforcement action when firms fall short of these obligations.

Responding to Violative Conduct. When an enforcement investigation indicates that violative conduct has occurred, the Commission either files an administrative or civil injunctive enforcement action against the alleged wrongdoers. In administrative actions, wrongdoers found to have violated the CEA or Commission regulations or orders can be prohibited from trading and, if registered, have their registrations suspended or revoked. Violators also can be ordered to cease and desist from further violations, to pay civil monetary penalties of up to $120,000 per violation or triple their monetary gain, and to pay restitution to those persons harmed by the misconduct. In civil injunctive actions, defendants can be enjoined from further violations, their assets can be frozen, and their books and records can be impounded. Defendants also can be ordered to disgorge all illegally obtained funds, make full restitution to customers, and pay civil penalties.

As detailed above, violations prosecuted by the Enforcement program may arise from commodity futures or option trading on U.S. exchanges, from manipulative trading in the OTC markets that affect, or tend to affect, the futures or options markets, or from the sale of illegal futures or option contracts not traded on trading facilities designated or registered by the Commission. The Enforcement program addresses various types of violative conduct including conduct that threatens the economic functions of the markets.

Protecting Market Users. The Enforcement program works to protect market users and the public by promoting compliance with and deterring violations of the CEA and Commission regulations. The bulk of the work in this area involves investigating and prosecuting enforcement actions in matters involving fraud, and imposing sanctions against wrongdoers. These actions send a message to industry professionals about the kinds of conduct that will not be tolerated.

The Commission also pursues actions involving false or misleading advertising. Over the past several years, there has been substantial false and deceptive advertising of commodity-related investment products, often by unregistered persons and entities through various forms of mass media, such as cable television, radio, and the Internet. The Enforcement program has worked aggressively to detect and stop such advertising by filing enforcement actions. Similarly, the Enforcement program pursues cases charging illegal futures and options, often in Forex and precious metals. Such cases typically involve unregistered "boiler rooms" selling illegal futures contracts and options to the general public. Again, the most likely victims are individual retail investors.

Supervision and Compliance Failures. The Enforcement program investigates and prosecutes cases involving supervision and compliance failures by registrants handling customer business. Such violations can threaten the financial integrity of registered firms holding customer funds and can, in certain circumstances, threaten the financial integrity of clearing organizations. Diligent supervision by registered firms also protects markets from abusive trading practices, including manipulation and wash sales.

Under the USA PATRIOT Act, the Enforcement program expects to have additional responsibilities for ensuring that registrants have proper supervision and record-keeping programs in place to fight money laundering.

Cooperative Enforcement Efforts. The Enforcement program works cooperatively with both domestic and foreign authorities to maximize its ability to detect, deter, and bring sanctions against wrongdoers involving U.S. markets, registrants, and customers.

On the domestic level, this includes sharing information with, and on occasion providing testimony or other assistance to, state regulators and other Federal agencies, such as the DOJ, the Federal Bureau of Investigation (FBI), the SEC, the Federal Energy Regulatory Commission (FERC), and Federal banking regulators. The Commission may also file injunctive actions jointly with state authorities with concurrent jurisdiction. These cooperative efforts bolster the effectiveness of the Enforcement program by allowing it to investigate and litigate more efficiently.

Similarly, in the international realm, the Commission has entered into more than a dozen formal information-sharing arrangements and numerous other informal arrangements with foreign authorities. These arrangements permit information sharing and cooperative assistance among regulators. Such arrangements benefit all nations involved and greatly enhance the ability of the Enforcement program to investigate matters that involve foreign entities and/or, individuals or transfers of tainted funds to foreign jurisdictions.

Consequences of Not Receiving Requested Level of Resources

The markets continue to grow in volume and complexity as increasingly sophisticated instruments are employed across markets. An ever-larger segment of the population has money at risk in the futures markets, either directly or indirectly through pension funds or ownership of shares in publicly held companies that participate in the markets.

The Enforcement program will utilize the FTEs requested for FY 2007 in targeting certain program areas, for example: 1) allegations of manipulation, trade practice violations, and false reporting; 2) fraud and other illegal conduct committed by registered entities; 3) off-exchange fraud, involving illegal futures and options contracts by, among others, unregulated boiler rooms and bucket shops targeting the general public; 4) unregistered and registered CTA/CPO fraud; and 5) supervision, reporting, and record-keeping by registrants as required under the USA PATRIOT Act and AML regulations. The requested FTEs also will enable the Enforcement program to fully staff its litigation teams, continue its commitment both to cooperative enforcement activities, and provide additional skilled staff to properly investigate and litigate complex matters.

Without the requested resources, the Enforcement program will not meet established responsibilities. Without adequate staffing, the Enforcement program must be more selective in the matters it investigates, potentially leaving serious wrongdoing unaddressed. Furthermore, investigations will take longer to complete, particularly when increasing litigation draws resources away from investigations. Likewise, domestic and international cooperative enforcement activities will be undermined, adversely affecting not only the mission of the Commission, but also that of its domestic and international counterparts. Another negative consequence of not obtaining additional FTEs will occur as a result of the resource strains that the program faces, and will continue to face, in the areas of CPO/CTA and retail fraud.

Over each of the past two fiscal years, through the effective use of productivity and efficiency measures and a reorganization that occurred in October 2002, the program filed more actions than at any other time in Enforcement's history. However, active litigation has increased by approximately 60 percent over the last five years, therefore requiring a shift of resources from investigations. Similarly, the number of litigated cases per FTE has increased approximately 90 percent over the same time period. Enforcement staff are operating at full capacity and shifting resources from important investigations to ongoing and future litigation demands, limiting the ability to pursue new investigations. If the Enforcement program is unable to bring actions because of insufficient resources, other authorities will not be available to step in and fill the void. SROs can take action only against their own members, and their sanctions cannot affect conduct outside their jurisdiction or markets. In addition, other Federal regulators and state regulators have limited jurisdiction and expertise in handling futures-related misconduct. Finally, while criminal prosecutions by the DOJ are an important adjunct to effective enforcement of the CEA, cooperative enforcement still requires the active use of Commission FTEs to assist criminal authorities in their prosecutions.

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Table 14: Enforcement Request

	FY 2006		FY 2007		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Enforcement	$28,642	143.00	$37,936	159.00	$9,294	1600
TOTAL	$28,642	143.00	$37,936	159.00	$9,294	16.00

Table 15: Enforcement Request by Goal

	FY 2006		FY 2007		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcomes						
1.1 Futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	$4,909	24.00	$6,504	27.00	$1,595	3.00
1.2 Markets are effectively and efficiently monitored to ensure early warning of potential problems or issues that could adversely affect their economic vitality.	593	3.00	785	3.00	192	0.00
Subtotal Goal One	**$5,503**	**27.00**	**$7,289**	**30.00**	**$1,786**	**3.00**
GOAL TWO: Protect market users and the public.						
Outcomes						
2.1 Violations of Federal commodities laws are detected and prevented.	$18,760	93.00	$24,849	104.00	6,089	11.00
2.2 Commodities professionals meet high standards.	115	1.00	153	1.00	38	0.00
Subtotal Goal Two	**$18,875**	**94.00**	**$25,001**	**5.00**	**$6,126**	**11.00**
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcomes						
3.1 Clearing organizations and firms holding customer funds have sound financial practices.	$1,969	10.00	$2,604	11.00	$635	1.00
3.2 Commodity futures and option markets are effectively self-regulated.	18	0.00	24	0.00	6	0.00
3.3 Markets are free of trade practice abuses.	1,720	9.00	2,277	10.00	558	1.00
3.4 Regulatory environment responsive to evolving market conditions.	559	3.00	740	3.00	181	0.00
Subtotal Goal Three	**$4,266**	**21.00**	**$5,645**	**24.00**	**$1,379**	**2.00**
TOTAL	**$28,643**	**142.00**	**$37,935**	**159.00**	**$9,292**	**16.00**

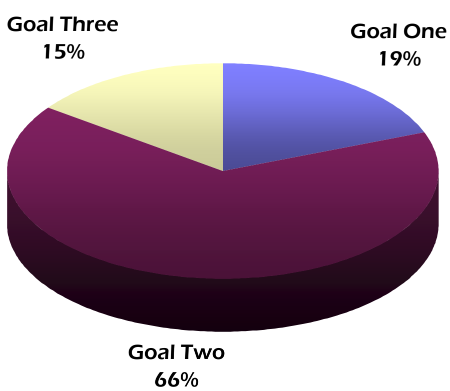

Figure 31: Enforcement FY 2007 Budget by Goal

Office of the Chief Economist

Total Budget: **$ 2,426,000** **9 FTEs**

Total Change: **$ 459,000** **0 FTE**

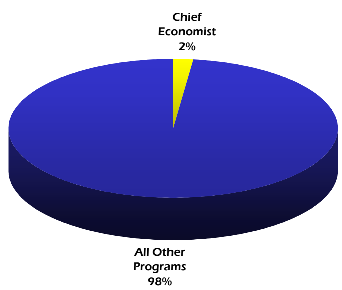

Figure 32: Chief Economist
Percentage of Total Budget Dollars

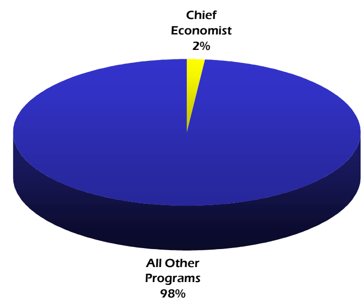

Figure 33: Chief Economist
Percentage of Total Budget FTEs

Justification of the FY 2007 President's Budget & Performance Plan

As innovation in the futures and option markets continues, the ability of staff to conduct thorough market research is vital to achieving Commission goals. Innovations in technology and trading instruments and methods create significant challenges that require economic research in the form of:

- Participation in the development of flexible and effective regulatory responses to evolving market conditions;
- Review and analysis of new market structures and off-exchange derivative instruments over which the Commission may have jurisdictional authority;
- Frequent support to the Commission's Enforcement program in the form of economic and statistical analysis or expert testimony to promote compliance with and deter violations of commodity laws;
- Development of educational materials on futures and option trading for dissemination to producers, market users, and the general public; and
- Review and analysis of alternative derivative risk management models and risk-based capital requirement rules.

In FY 2007, the Office of the Chief Economist program requests 9 FTEs, no increase in FTEs over the FY 2006 level.

The growth in the number of different types of markets that trade a wider array of derivatives products, particularly energy and event-related derivatives, requires analysis and research about new developments in derivatives trading. In FY 2007, staff of the Office of the Chief Economist will be required to monitor a large and diverse array of markets, including new energy products, new types of "event-related" markets, such as weather and macro-index derivatives and derivatives based on exchange traded funds. The Commission anticipates that a large number of these contracts will be listed for trading, both on futures and securities exchanges. In addition, management and parsing of the huge amounts of trading data that are now engendered by the continued expansion of electronic trading and the noted increase in products traded requires involvement of Chief Economist staff as principal users of such data.

With the requested level of resources, studies to enhance understanding of the markets will keep pace with, but in very few cases anticipate, the growth in new types of exchanges and the initiation of trading in new products. Moreover, at the requested level, the staff will be able to monitor most but not all developments in derivatives trading and market innovations. In this regard, innovations in technology and derivative instruments and trading methods in futures markets create many challenging economic and regulatory issues. The performance of derivative markets has a potentially large impact on the stability of international and domestic financial markets. Market research and effective monitoring of these developments help ensure that the Commission has in place sound regulatory policies to reduce systemic risk in financial markets and protect the economic function of the markets without undermining innovation and the development of new approaches to risk management.

Consequence of Not Receiving Requested Level of Resources

If the Office of the Chief Economist does not receive the requested level of resources it will not be able to conduct market research and analysis commensurate with the growth in new types of exchanges, new trading execution methods in futures markets, and the initiation of trading in the array of new products noted above. Moreover, staff efforts to monitor developments in derivatives trading and market innovation will be delayed at a lower level of resources. This will undermine the ability of the Commission to keep its regulatory policies in line with new developments in the industry, which could impede innovation, lead to systemic risk in financial markets, and adversely affect the economic function of the markets.

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Table 16: Office of the Chief Economist Request

	FY 2006		FY 2007		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Chief Economist	$1,967	9.00	$2,426	9.00	$459	0.00
TOTAL	$1,967	900	$2,426	9.00	$459	0.00

Table 17: Office of the Chief Economist Request by Goal

	FY 2006 $ (000)	FY 2006 FTE	FY 2007 $ (000)	FY 2007 FTE	Change $ (000)	Change FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcomes						
1.1 Futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	$1,092	5.00	$1,348	5.00	255	0.00
1.2 Markets that can be monitored to ensure early warning of potential problems or issues that could adversely affect their economic vitality.	875	4.00	1,078	4.00	204	0.00
Subtotal Goal One	**$1,967**	**9.00**	**$2,426**	**9.00**	**$459**	**0.00**
GOAL TWO: Protect market users and the public.						
None.						
GOAL THREE: Foster open, competitive, and financially sound markets.						
None						
TOTAL	**$1,967**	**9.00**	**$2,426**	**9.00**	**$459**	**0.00**

Office of Proceedings

Total Budget:	**$ 3,205,000**	**14 FTEs**
Total Change:	**$ 627,000**	**0 FTE**

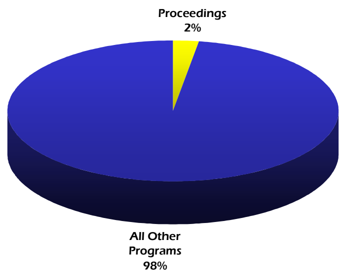

Figure 34: Proceedings Percentage of Total Budget Dollars

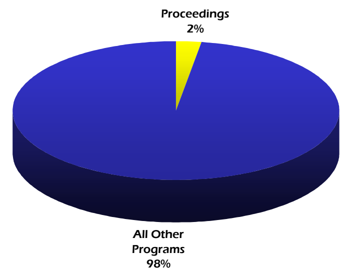

Figure 35: Proceedings Percentage of Total Budget FTEs

Justification of the FY 2007 President's Budget & Performance Plan

The Office of Proceedings is responsible for providing an inexpensive, impartial, and expeditious forum for handling customer complaints against persons or firms registered under the CEA. In FY 2007, the Office of Proceedings program level of 14 FTEs would maintain staffing at the same level as the FY 2006 level.

The Complaints section of the Office of Proceedings receives and prepares customer claims for action by appropriate officials, dismissing those that are outside the jurisdiction of the Commission or are pending in another forum. The Hearings section includes judgment officers (JOs), who decide reparations complaints in voluntary and summary proceedings and administrative law judges (ALJs), who conduct formal proceedings.

The ALJs also decide administrative enforcement cases brought by the Commission against persons or firms responsible for violating the CEA or Commission regulations.

The Office of Proceedings manages approximately 100 cases per year and responds to 7,500 telephone inquires. Inquires from members of the public include questions from those considering investing in commodity futures and options, and questions about specific firms and whether or not they have had customer complaints filed against them. Information is also provided about how to utilize the CFTC complaints process.

The Office of Proceedings maintains a case-tracking system that tracks the progress of each case from receipt of complaint through disposition, including any appeal to the Commission or Federal court. The case-tracking system not only assists with case management within the Commission, but it also enables the Office of Proceedings to provide current information on the status of cases in response to public inquiries.

The Office of Proceedings maintains the *Reparations Sanctions in Effect List* publication, a record of individuals and firms that have not paid reparations awards. This document is published annually and updated twice a month. The office also maintains the *Administrative Sanctions in Effect List* publication, a record of individuals and firms that have outstanding against them enforcement sanctions, such as trading prohibitions. This document is published annually and updated quarterly. These lists are made available to the public and are distributed to the exchanges, the NFA, the Futures Industry Association, the National Association of Securities Dealers, and the SEC for use in their compliance efforts.

Consequence of Not Receiving Requested Level of Resources

The Office of Proceedings' ability to perform its activities in a timely fashion depends on the requested level. If the requested level is not received, the Office of Proceedings will experience time delays in the performance of its activities. These time delays will have several deleterious effects: they will directly impact citizens seeking a timely and responsive forum for resolving their complaints, many of whom are without other options for seeking relief; they will impact the Commission's ability to meet legal deadlines for processing Commission orders, and finally, they will prevent citizens from gaining timely background information on the commodity firms and professionals, impacting their ability to make sound business and investment decisions.

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Table 18: Proceedings Request by Subprogram

	FY 2006		FY 2007		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Enforcement	$737	4.00	$916	4.00	$179	0.00
Reparations	1,841	10.00	2,289	10.00	448	0.00
TOTAL	$2,578	14.00	$3,205	14.00	$627	0.00

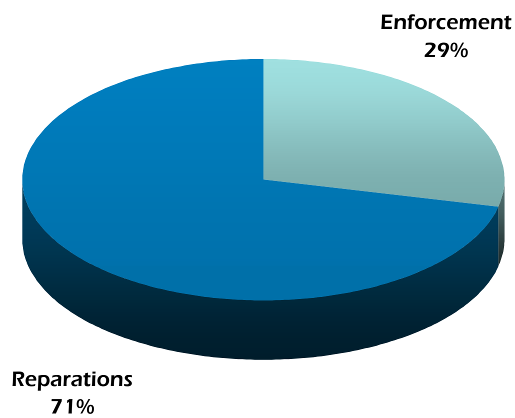

Figure 36: Proceedings FY 2007 Budget by Subprogram

Table 19: Proceedings Request by Goal

	FY 2006		FY 2007		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
None						
GOAL TWO: Protect market users and the public.						
Outcomes						
2.1 Violations of Federal commodities laws are detected and prevented.	$1,013	5.00	$1,259	6.00	$246	0.00
2.2 Require commodities professionals to meet high standards.	92	1.00	114	1.00	21	0.00
2.3 Customer complaints against persons or firms falling within the jurisdiction of the Commodity Exchange Act are handled effectively and expeditiously.	1,289	7.00	1,603	7.00	314	0.00
Subtotal Goal Two	**$2,394**	**13.00**	**$2,984**	**13.00**	**$582**	**0.00**
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcomes						
3.3 Markets are free of trade practice abuses.	184	1.00	229	1.00	45	0.00
Subtotal Goal Three	**$184**	**1.00**	**$229**	**1.00**	**$45**	**0.00**
TOTAL	**$2,578**	**14.00**	**$3,205**	**14.00**	**$627**	**0.00**

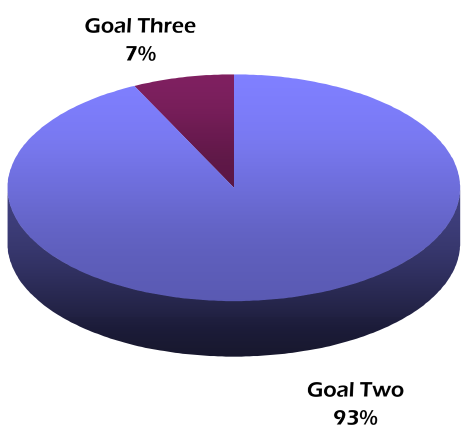

Figure 37: Proceedings FY 2007 Budget by Goal

Office of the General Counsel

Total Budget: $ 8,565,000 31 FTEs

Total Change: $ 1,613,000 0 FTE

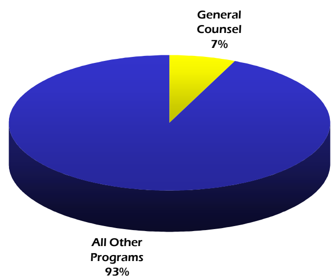

Figure 38: Percentage of Total Budget Dollars

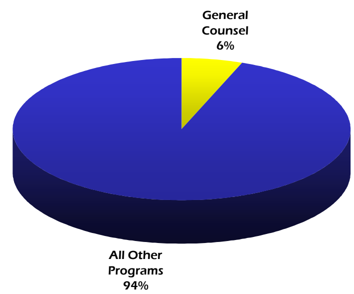

Figure 39: Percentage of Total Budget FTEs

Justification of the FY 2007 President's Budget & Performance Plan

The Office of General Counsel (OGC) provides legal services and support to the Commission and its programs. These services include: 1) engaging in defensive, appellate, and *amicus curiae* litigation; 2) assisting the Commission in the performance of its adjudicatory functions; 3) providing legal advice and support for Commission programs; 4) drafting and assisting other program areas in preparing Commission regulations; 5) interpreting the CEA; 6) providing advice on legislative and regulatory issues; and 7) providing exemptive, interpretive, and no-action letters and opinions to the public. In FY 2007, the OGC program is maintaining 31 FTEs, the same as its FY 2006 level.

OGC is the legal advisor to the Commission, and a large portion of its workload is reactive in nature. The Office:

- Reviews all substantive regulatory, legislative, and administrative matters presented to the Commission and advises it on the application and interpretation of the CEA and other pertinent administrative and legislative issues;
- Assists the Commission in performing its adjudicatory functions through its Opinions Program;
- Represents the Commission in appellate litigation and certain trial-level cases, including bankruptcy cases involving futures industry professionals;
- Provides legal support to Commission administrative programs, such as compliance with the Freedom of Information, Privacy, Government in the Sunshine, Regulatory Flexibility, Paperwork Reduction, Small Business Paperwork Reduction, and Federal Advisory Committee Acts;
- Monitors, reviews, and comments on proposed legislation affecting the Commission or the futures industry, prepares draft legislation as requested by members of Congress or their staff, and provides liaison with other Federal regulators as necessary on specific projects;
- Provides Commission support to the President's Working Group;

- Counsels other Commission staff on legal aspects of various issues arising during the course of Commission business;
- Provides written interpretations of Commission statutory and regulatory authority to members of the public and, where appropriate, provides exemptive, interpretive, or no-action letters to regulatees and potential regulatees of the Commission;
- Advises the Commission on personnel, labor, contract, and employment law matters, including cases arising under Title VII of the Civil Rights Act of 1964 and Merit Protection Board cases arising under the Civil Service Reform Act of 1978; and
- Advises the Commission with respect to all matters related to the Commission's ethics standards and compliance with its Code of Conduct as well as with government-wide ethics regulations promulgated by the Office of Government Ethics, including the requirement of annual ethics training for Commission employees.

OGC's activities, programs, and support contribute to all of the outcomes and functions of the Commission and have a direct and significant impact on the ability of the Commission to perform its mission. In particular, OGC's services and expertise are increasingly in demand as a consequence of added enforcement and other litigation activities in, among other areas, exempt commercial markets (primarily energy commodities) and with respect to collective investment vehicles (such as domestic and offshore hedge funds) that now play an expanding role in nearly every market that falls within the Commission's mission. Moreover, exchange-traded contracts and other newer derivatives platforms continue to experience explosive growth and, as a consequence of the flow-through from increased activities in these markets, the Commission's surveillance and enforcement resources are increasingly stressed. This heightened deployment of enforcement resources, in turn, spurs demand for readily available legal services from experienced legal talent within OGC. As a direct consequence, OGC's appellate practice and its other litigation dockets (including subpoena enforcement, complex document review, and personnel-related matters) require added resources.

Commission Reauthorization

The authorization for the Commission's appropriations expired at the end of FY 2005. The Commission's seventh reauthorization is raising some particularly complex issues, in part because it is the first reauthorization after the enactment of the CFMA and comes as energy issues are becoming an increasing focus of congressional attention. The House of Representatives passed a reauthorization bill in mid-December, 2005; the Senate Agriculture Committee has reported a different reauthorization bill, but the timing of full Senate consideration of the issue is unknown at this time. OGC will continue to assist the Commission in analyzing, and taking the necessary actions to implement, the legislative proposals that Congress enacts in reauthorization.

Consequence of Not Receiving Requested Level of Resources

As a result of not receiving requested resource levels, OGC will experience time delays in performing its activities, such as, performing its critical review function with respect to contract market designation applications and rule changes; reviewing proposed enforcement actions; assisting the Commission in the performance of its adjudicatory functions; analyzing and implementing legislation affecting the Commission or the futures industry; carrying out its responsibilities to defend the Commission in appellate and other litigation; and assisting the Commission in personnel, labor, contract, and employment law matters.

Moreover, a reduction in the requested level of resources will have an adverse impact on the ability of OGC to provide general legal advice and assistance to the Commission. OGC will also experience difficulty in fulfilling its advisory role to the Commission in connection with international cooperative efforts and in the provision of exemptive, interpretive, or no-action relief. Such an outcome will have a direct and negative impact on the development of effective and timely responses to evolving market conditions.

Many deadlines governing the litigation program are imposed by courts or other tribunals and are mandatory. The failure to adhere to such deadlines exposes the Commission to adverse decisions and potential sanctions, including monetary sanctions by courts or other tribunals. Moreover, a reduced level of resources in OGC will develop a backlog of Commission adjudicatory cases; a curtailment of the *amicus curiae* program; a reduction in assistance to (and global coordination with) foreign governments as well as in cooperative efforts between the Commission and other federal and state regulators; and time delays in performing advisory and legal review functions in all areas.

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Table 20: General Counsel Request

	FY 2006		FY 2007		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
General Counsel	$6,952	31.00	$8,565	31.00	$1,613	0.00
TOTAL	$6,952	31.00	$8,565	31.00	$1,613	0.00

Table 21: General Counsel Request by Goal

	FY 2006		FY 2007		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcomes						
1.1 Futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	$1,372	6.00	$1,691	6.00	$319	0.00
1.2 Markets that can be monitored to ensure early warning of potential problems or issues that could adversely affect their economic vitality.	94	1.00	116	1.00	22	0.00
Subtotal Goal One	**$1,523**	**7.00**	**$1,807**	**7.00**	**341**	**0.00**
GOAL TWO: Protect market users and the public.						
Outcomes						
2.1 Violations of Federal commodities laws are detected and prevented.	$2,204	10.00	$2,713	10.00	510	0.00
2.2 Commodities professionals meet high standards.	438	2.00	539	2.00	101	0.00
2.3 Customer complaints against persons or firms falling within the jurisdiction of the Commodity Exchange Act are handled effectively and expeditiously.	1,083	5.00	1,334	5.00	251	0.00
Subtotal Goal Two	**$3,724**	**17.00**	**$4,586**	**17.00**	**$862**	**0.00**
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcomes						
3.1 Clearing organizations and firms holding customer funds have sound financial practices.	$445	2.00	$547	2.00	$102	0.00
3.2 Commodity futures and option markets are effectively self-regulated.	188	1.00	232	1.00	44	0.00
3.3 Markets are free of trade practice abuses.	429	2.00	528	2.00	99	0.00
3.4 Regulatory environment responsive to evolving market conditions.	700	3.00	865	3.00	65	0.00
Subtotal Goal Three	**$1,762**	**8.00**	**$2,172**	**8.00**	**410**	**0.00**
TOTAL	**$6,953**	**31.00**	**$8,565**	**31.00**	**$1,612**	**0.00**

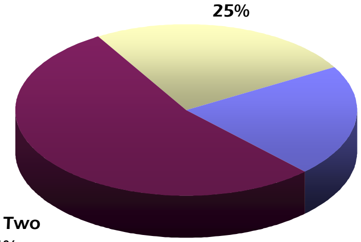

Figure 40: General Counsel FY 2007 Budget by Goal

Executive Direction & Support

Total Budget: $34,614,000 150 FTEs
Total Change: $ 8,222,000 9 FTEs

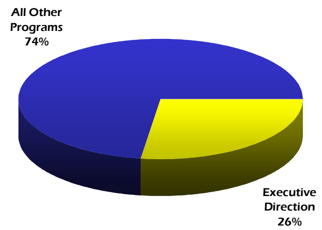

Figure 41: Percentage of Total Budget Dollars

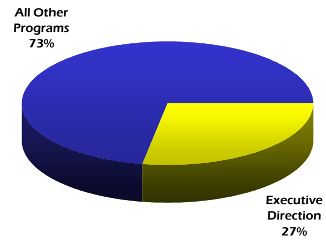

Figure 42: Percentage of Total Budget FTEs

Justification of the FY 2007 President's Budget & Performance Plan

Agency Direction. The Commission develops and implements agency policy in furtherance of the purposes of the CEA. This policy is designed to foster the financial integrity and economic utility of commodity futures and option markets for hedging and price discovery, to conduct market and financial surveillance, and to protect the public and market participants against manipulation, fraud, and other abuses. Agency Direction is administered by the Chairman and Commissioners and includes the following offices of the Chairman: 1) External Affairs; 2) the Secretariat; 3) the Inspector General; and 4) International Affairs.

The Commission continues to implement the CFMA. The legislation, signed by President Clinton in December 2000: 1) repealed the ban on single-stock futures and implemented a regulatory framework for these instruments based on the agreement between the Commission and SEC; 2) enacted the principal provisions of the Commission's new regulatory framework; 3) brought legal certainty to bilateral and multilateral trading in over-the-counter financial markets; 4) confirmed the Commission's jurisdiction over certain aspects of the retail market in foreign currency trading; and 5) gave the Commission authority to regulate clearing organizations.

In FY 2007, the Agency Direction program requests a total of 48 FTEs, an increase of five FTEs above the FY 2006 level. The five FTEs will return the Offices of the Commissioners and the Chairman to their historic levels. This level of staff is required to ensure the proper implementation of the CFMA and to ensure that the Commission responds in a timely manner to Congress, the Administration, and the public.

Administrative Management and Support. Administrative Management and Support is provided by the Office of the Executive Director (OED), which is responsible for policy development and implementation of the management and administrative functions of the Commission. OED staff:

- Formulate budget and resource authorization strategies;
- Supervise the allocation and utilization of agency resources;
- Promote management controls and financial integrity;

- Manage administrative support offices;
- Manage the Commission's technical and information infrastructure;
- Manage human capital resource strategies;
- Oversee the development and implementation of the Commission's automated information systems; and
- Oversee the library services of the Commission.

In addition, the staffs of OED and subordinate offices oversee Commission-wide compliance with Federal requirements enacted by Congress and imposed by the Office of Management and Budget (OMB), the U.S. Treasury Department, the General Accounting Office (GAO), and the Office of Personnel Management (OPM). The administrative support offices include the offices of Financial Management (OFM), Resources Management (OIRM), Human Resources (OHR), Management Operations (OMO), and the Commission Library.

The Administrative Management and Support subprogram requests a total of 102 FTEs, an increase of four FTEs over the FY 2006 level. Of the four additional FTEs, one FTE is requested for OFM, one FTE is requested for OIRM, one FTE is requested for OHR, and two FTEs are requested for OMO.

The four FTEs will add positions in the following areas:

- *Financial Management*. One FTE will be allocated to work on the Commission's annual and strategic planning and/or its core financial management systems, and to assist the Chief Financial Officer in coordinating the numerous, financial regulatory reporting requirements.

  In the past decade, the burden of statutory and regulatory- mandated reporting has increased substantially. In order for the Commission to consistently meet these reporting requirements and more importantly ensure that the financial, budgetary and procurement data we are reporting reflects well on the Commission, the OFM staff needs greater capacity to plan for and coordinate these reporting requirements. Currently, OFM managers are stretched too thin – they do planning, they do the actual work, they coordinate the reporting of the work and spend an enormous amount of time on an annual basis updating and conforming to the ever changing form and content requirements mandated by Congress, OMB and General Services Administration (GSA). This position is intended to reduce the amount of time spent by OFM and program managers coordinating with each other on reporting, thereby freeing them to focus on the substance of what is being reported.

- *Human Resources*. One FTE will be allocated to provide support and expertise for the e-Learning system, CT system of pay and benefits, and recruitment and staffing for an expected high increase in attrition rates through FY 2009. The Strategic Workforce Planning gap analysis challenges our ability to recruit and retain large numbers of the right people for the right jobs as well as our ability to develop compensation and benefits programs that enable us to maintain competitiveness with the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) agencies, meet the President's Management Agenda on pay for performance and human capital management in general and finally to meet the ever increasing competition with other sectors of the Federal workforce who are exempt from Title V.

- *Information Resources Management:* One position is needed to work with the business community to gather requirements for a DCIO risk based audit solution; manage current DCIO technology initiatives (e.g., regulatory statement review (RSR), margin analysis (SPARK)); manage contractor resources in implementing DCIO business and technical solutions; develop current DCIO technology initiatives (e.g., RSR, SPARK) and new initiatives as needed; maintain Commission expertise on business needs and technical solutions for DCIO systems initiatives; and provide technical continuity and guidance to contractors supporting DCIO initiatives.

- *Management Operations*. One FTE will be allocated to ensure the readiness of CFTC's Emergency Preparedness & Readiness Program (EP&R) and Continuity of Operations Plan (COOP), to develop and manage the agency asset management program:

  To ensure the readiness of CFTC headquarters and all regional locations in the event of an emergency, this position is needed to plan, develop, operate, test, and audit the CFTC's comprehensive EP&R and COOP programs; conduct internal agency emergency preparedness training; attend external training sessions and meetings on all aspects of emergency preparedness; maintain "Be Ready!" Web page; evaluate complex laws and regulations pertaining to Emergency Preparedness; play a major role in the agency's COOP plan; and ensure agency compliance with all Department of Homeland Security requirements, as well as agency participation in external testing and training requirements.

Consequence of Not Receiving Requested Level of Resources

Agency Direction. Without the requested level of resources, the Offices of the Commissioners and Chairman will suffer a diminution in the administrative and regulatory responsiveness of the Commission. For example, public outreach, and responsiveness to Congress, other government agencies, international organizations and foreign governments, the futures industry, and other public inquiries may be slower, or administrative and technical review of Commission memoranda, correspondence, or official actions, such as responding to Freedom of Information Act (FOIA) requests, may take longer.

Administrative Management & Support. Without the requested level of resources, the Administrative Management & Support subprogram will impair its ability to manage the: 1) increased complexity associated with novel programs under pay parity and directives related to the President's Management Agenda; 2) accelerated modernization of the Commission's human capital programs, such as pay for performance and pay banding; 3) workforce/succession planning needed to address the anticipated retirement of 33 percent of the CFTC total workforce and 41 percent of the leadership positions through 2009, plus non-retirement attrition; 4) the increased regulatory and administrative responsibilities imposed by GAO, GSA, OMB/JFMIP, the Department of the Treasury and legislative mandates such as the Government Performance and Results Act, Government Information Security Reform Act, Federal Managers' Financial Integrity Act, and the Tax Accountability Act; 5) in-house expertise needed to assist major programs in the monitoring, audit, and investigation of increasingly sophisticated and technologically driven markets; 6) coordination and implementation of the agency asset management initiative as identified in the FY 2004 KPMG financial audit statement as an internal control weakness; and 7) preparedness and readiness of the Commission and staff in the event an emergency.

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Table 22: Executive Direction & Support Request by Subprogram

	FY 2006		FY 2007		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Agency Direction	$8,267	43.00	$11,346	48.00	$3,079	5.00
Admin. Mgmt. & Supp.	18,125	98.00	23,268	102.00	5,143	4.00
TOTAL	$26,392	141.00	$34,614	150.00	$8,222	9.00

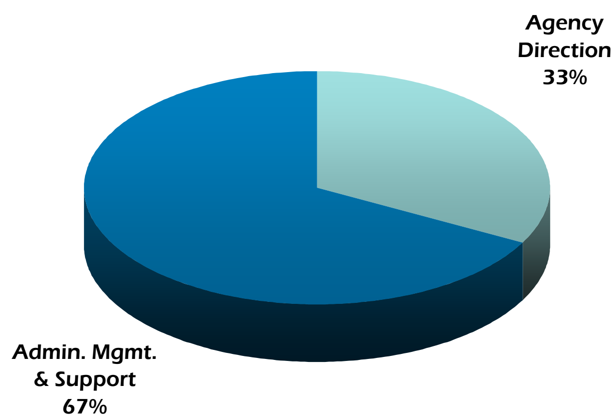

Figure 43: Executive Direction & Support FY 2007 Budget by Subprogram

Table 23: Executive Direction & Support Request by Goal

	FY 2006		FY 2007		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcomes						
1.1 Futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	$592	3.00	$707	3.00	$115	0.00
1.2 Oversee markets which can be used effectively by producers, processors, financial institutions, and other firms for the purposes of price discovery and risk shifting.	963	5.00	1,151	5.00	188	0.00
Subtotal Goal One	**$1,556**	**8.00**	**$1,859**	**8.00**	**$303**	**0.00**
GOALTWO: Protect market users and the public.						
Outcome						
2.1 Violations of Federal commodities laws are detected and prevented.	$1,164	6.00	$1,392	6.00	$228	0.00
2.3 Customer complaints against persons or firms falling within the jurisdiction of the Commodity Exchange Act are handled effectively and expeditiously.	296	2.00	354	2.00	$57	0.00
Subtotal Goal Two	**$1,460**	**8.00**	**$1,745**	**8.00**	**$285**	**0.00**
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcomes						
3.1 Clearing organizations and firms holding customer funds have sound financial practices.	$125	1.00	$148	1.00	$24	0.00
3.2 Commodity futures and option markets are effectively self-regulated.	94	0.00	114	0.00	20	0.00
Subtotal Goal Three	**$219**	**1.00**	**$263**	**1.00**	**$46**	**0.00**
Unallocated						
Unallocated & Prorated	23,157	123.00	30,746	133.00	7,589	10.00
Subtotal Unallocated	**$23,157**	**123.00**	**$30,746**	**133.00**	**$7,589**	**10.00**
TOTAL	**$26,392**	**140.00**	**$34,614**	**150.00**	**$8,222**	**10.00**

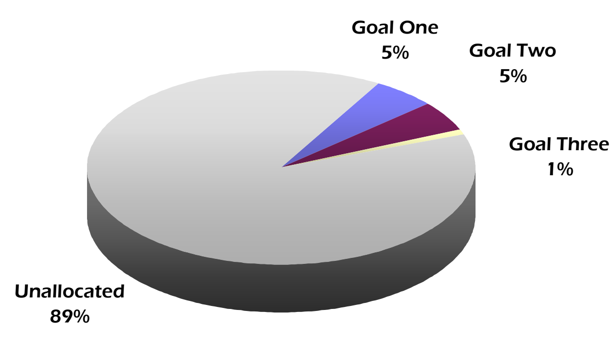

Figure 44: Executive Direction & Support FY 2007 Budget by Goal

APPENDIX 1

The Commissioners

Reuben Jeffery III, Chairman
Reuben Jeffery III was nominated by President George W. Bush to serve as Chairman of the Commodity Futures Trading Commission. He was confirmed by the U.S. Senate on June 30, 2005, to a term expiring April 13, 2007.

In his capacity as Chairman, Mr. Jeffery serves as a member of the President's Working Group on Financial Markets along with the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve, and the Chairman of the Securities and Exchange Commission.

Prior to joining the CFTC, Mr. Jeffery was the Special Assistant to the President and Senior Director for International Economic Affairs at the National Security Council. He was previously the Representative and Executive Director of the Coalition Provisional Authority Office at the Pentagon, after having served as an advisor to Ambassador Bremer in Iraq. Before joining the Coalition Provisional Authority in May of 2003, Mr. Jeffery served as Special Advisor to the President for Lower Manhattan Development. In this capacity he helped coordinate ongoing federal efforts in support of the longer term recovery and redevelopment of Lower Manhattan in the aftermath of September 11, 2001.

Mr. Jeffery spent eighteen years working for Goldman, Sachs & Co. where he was managing partner of Goldman Sachs in Paris (1997-2001) and of the firm's European Financial Institutions Group (1992-1997) based in London. Mr. Jeffery has a broad range of international capital markets, corporate finance and merger and acquisition experience.

Prior to joining Goldman Sachs, Mr. Jeffery was a lawyer with the New York firm of Davis Polk & Wardwell. He began his career as a commercial banker with the Morgan Guaranty Trust Company of New York.

Mr. Jeffery received his BA degree in Political Science from Yale University in 1975 and his Juris Doctor and Master of Business Administration degrees from Stanford University in 1981. He was admitted to the New York Bar in 1982. Mr. Jeffery lives with his wife, Robin and three children, Jocelyn, Ben and Bob in Washington, D.C.

Sharon Brown-Hruska, Commissioner
Sharon Brown-Hruska was first nominated to the Commission by President Bush on April 9, 2002, confirmed by the Senate on August 2, 2002, and sworn in on August 7, 2002. She was subsequently nominated by President Bush to a second term as a Commissioner, and confirmed by the Senate on November 21, 2004, to a term expiring April 13, 2009. Dr. Brown-Hruska was designated by President Bush as Acting Chairman at the Commodity Futures Trading Commission on July 26, 2004 and served in that capacity until July 5, 2005.

In her capacity as Acting Chairman, Brown-Hruska served as a member of the President's Working Group on Financial Markets along with the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve, and the Chairman of the Securities and Exchange Commission. Dr. Brown-Hruska is also the Chairman of the CFTC's Technology Advisory Committee.

Energy. In March 2003, then CFTC Chairman James Newsome announced that Dr. Brown-Hruska would be evaluating legislation, issues and economic developments of relevance to our Nation's energy markets, in addition to her other duties as a Commissioner. She has spoken on energy issues to many forums and organizations, including the Energy Bar Association, Edison Electric Institute, and the World Forum on Energy Regulation. She has recently published articles in the *Energy Daily* on energy derivatives and the *Futures and Derivatives Law Report* on market manipulation in the energy markets. For her work in this area, she was awarded the Key Women in Energy's Global Leadership Award, announced at the March 31, 2004, National Energy Marketers Association Conference in Washington, D.C.

Financial Literacy and Education. Dr. Brown-Hruska serves as the CFTC's representative on the Financial Literacy and Education Commission, chaired by Treasury Secretary John Snow. Subsequently, she was named Chairman of the Subcommittee on Web site Development, which is made up of representatives from various agencies within the Federal government. In September 2004, a Web site that serves as a clearinghouse for information on financial literacy was successfully launched.

Financial Markets. Dr. Brown-Hruska holds a Ph.D. in economics (1994) from Virginia Tech in Blacksburg, Virginia. Prior to coming to the CFTC, Dr. Brown-Hruska was an Assistant Professor of Finance at George Mason University's School of Management (1998 – 2002) and the A.B. Freeman School of Business at Tulane University (1995-1998). Courses taught by Professor Brown-Hruska included Risk Management and Financial Innovation, International Finance, Venture Capital, Investments, and Financial Markets. Dr. Brown-Hruska has authored numerous scholarly and applied papers based on her research in the areas of derivatives and market microstructure, including, "A Penny for Your Trade" in *Barron's* (2001); "Financial Markets as Information Monopolies?" in *Regulation* (2000), and "Fragmentation and Complementarity: The Case of EFPs" in the *Journal of Futures Markets* (2002).

A native of Winchester, Virginia, she lives with her husband Donald Hruska and their six-year-year old son, Jacob, in Burke, Virginia.

Walter L. Lukken, Commissioner

Walter L. Lukken was sworn in on August 7, 2002 as a Commissioner of the CFTC. He was nominated by President George W. Bush on April 16, 2002, and confirmed by the Senate on August 2, 2002, to a term expiring April 13, 2005. On May 25, 2005, Mr. Lukken was nominated by President Bush to a second term as a Commissioner expiring April 13, 2010. The Senate confirmed that nomination on June 30, 2005.

Commissioner Lukken was appointed in October 2003 to serve as Chairman and Designated Federal Official of the CFTC's Global Markets Advisory Committee (GMAC). The GMAC was created by the Commission to provide a forum in which it can discuss the many complex and novel issues raised by the ever-increasing globalization of futures markets. Commissioner Lukken has also represented the CFTC before the International Organization of Securities Commissions (IOSCO), the European Union, and other foreign regulatory bodies.

In May 2003, CFTC Chairman James Newsome and SEC Chairman William Donaldson tasked Commissioner Lukken and SEC Commissioner Paul Atkins, respectively, to work together with agency staff on the completion of issues arising from the implementation of the Commodity Futures Modernization Act of 2002 (H.R. 5660). Their efforts resulted in a memorandum of understanding between the agencies regarding security futures products in March 2004.

Mr. Lukken joined the Commission after serving four years on the professional staff of the U.S. Senate Agriculture Committee under Chairman Richard Lugar (R-IN). While working for the committee, Mr. Lukken specialized in futures and derivatives markets, agricultural banking, and agricultural tax issues. In this capacity, Mr. Lukken was involved in the drafting of the Commodity Futures Modernization Act of 2002 (H.R. 5660) and the 2002 Farm Bill (H.R. 2646).

Before joining the committee, Mr. Lukken worked for five years in the personal office of Senator Lugar as a legislative assistant specializing in finance and tax matters.

A native of Richmond, Indiana, Mr. Lukken received his B.S. degree with honors from the Kelley School of Business at Indiana University, and his Juris Doctor degree from Lewis and Clark Law School in Portland, Oregon. Mr. Lukken is a member of the Illinois Bar. He is married to Dana Bostic Lukken of Morgan City, Louisiana, and they and their son William reside in Washington, D.C.

Frederick W. Hatfield, Commissioner

Fred Hatfield was confirmed by the U.S. Senate on November 21, 2004, as a Commissioner of the Commodity Futures Trading Commission. He was sworn in on December 6, 2004, to a term expiring April 13, 2008.

Prior to joining the CFTC, Mr. Hatfield was Chief of Staff to Senator John Breaux (D-LA), Assistant Minority Whip. Mr. Hatfield also served as Chief of Staff to House Majority Whip, Tony Coelho (D-CA).

In 1998, Mr. Hatfield served as Deputy Commissioner General of the U.S. Pavilion at the World's Fair in Lisbon, Portugal.

Mr. Hatfield is a native of California and graduated Summa Cum Laude from California State University, Fresno.

Michael V. Dunn, Commissioner

Michael V. Dunn was sworn in as a Commissioner of the Commodity Futures Trading Commission on December 6, 2004, to a term expiring June 19, 2006. Mr. Dunn was nominated by President Bush on November 16, 2004, and confirmed by the U.S. Senate on November 21, 2004.

Mr. Dunn came to the Commission from the Office of Policy and Analysis at the Farm Credit Administration (FCA) where he was the Director. Prior to this position, in January 2001 he served briefly as a member of the FCA Board.

Prior to joining FCA, Mr. Dunn was the Under Secretary of Agriculture for Marketing and Regulatory Programs at the U.S. Department of Agriculture (USDA). He also served as the Acting Under Secretary for Rural Economic Community Development and as Administrator of the Farmers Home Administration (FmHA) at USDA.

Mr. Dunn has had a long involvement in agricultural credit dating back to the late 1970s, when he was the Midwest Area Director for the FmHA. He has been a loan officer and vice president of the Farm Credit Banks of Omaha and has served as a member of the Professional Staff of the Senate Agricultural Committee, specializing in agricultural credit. At the USDA, Mr. Dunn also served as a member of the Commodity Credit Corporation and Rural Telephone Bank Board. He is a past member of the Iowa Development Commission and has served as the Chairman of the State of Iowa's City Development Board.

A native of Keokuk, Iowa, and a current resident of Harpers Ferry, West Virginia, Mr. Dunn received his B.A. and M.A. degrees from the University of New Mexico.

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APPENDIX 2

Summary of Goals, Outcomes, and Business Processes

Goal One: ***Ensure the economic vitality of the commodity futures and option markets.***	
Outcome	**Business Process**
1.1 Markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	1. Conduct financial surveillance 2. Conduct market surveillance 3. Conduct trade practice surveillance 4. Conduct economic research 5. Review trading facility filings and clearing organization contracts and rules 6. Conduct cooperative enforcement 7. Investigate violations 8. File and prosecute cases 9. Take appropriate remedial or punitive action
1.2 Markets are effectively and efficiently monitored to ensure early warning of potential problems or issues that could adversely affect their economic vitality.	1. Conduct financial surveillance 2. Conduct market surveillance 3. Conduct trade practice surveillance 4. Conduct economic research 5. Review trading facility filings and clearing organization contracts, and rules 6. Investigate violations 7. File and prosecute cases 8. Share information externally 9. Coordinate with domestic regulators
Goal Two: *Protect market users and the public.*	
Outcome	**Business Process**
2.1 Violations of Federal commodities laws are detected and prevented.	1. Conduct financial surveillance 2. Conduct cooperative enforcement 3. Investigate violations 4. File and prosecute cases 5. Resolve administrative enforcement cases 6. Resolve appeals 7. Share information externally 8. Take appropriate remedial or punitive action 9. Represent Commission in litigation or other disputes 10. Collect monetary penalties from violators.
2.2 Commodity professionals meet high standards.	1. Provide guidance, advice, and regulate business, financial, and sales practices 2. Review self-regulatory organizations and clearing organizations 3. Investigate, file, and prosecute cases

Goal Two: ***Protect market users and the public. (Continued)***	
Outcome	**Business Process**
2.3 Customer complaints against persons or firms registered under the Act are handled effectively and expeditiously.	1. Manage reparations program 2. Resolve appeals 3. Represent Commission in litigation or other disputes
Goal Three: ***Ensure market integrity in order to foster open, competitive, and financial sound markets.***	
3.1 Clearing organizations and firms holding customer funds have sound financial practices.	1. Conduct financial surveillance 2. Provide guidance, advice, and regulate business, financial, and sales practices 3. Review self-regulatory organization enforcement 4. Investigate violations 5. File and prosecute cases 6. Take appropriate remedial or punitive action
3.2 Commodity futures and option markets are effectively self-regulated.	1. Conduct financial surveillance 2. Provide guidance, advice, and regulate business, financial, and sales practices 3. Review exchange applications, contracts, and rules 4. Review self-regulatory organization enforcement
3.3 Markets are free of trade practice abuses.	1. Investigate violations 2. File and prosecute cases
3.4 Regulatory environment is flexible and responsive to evolving market conditions.	1. Coordinate with domestic regulators 2. Coordinate with foreign and international regulators 3. Draft, review, and comment on legislation 4. Provide guidance, advice, and regulate business, financial, and sales practices

APPENDIX 3

Management Initiatives Supporting the President's Management Agenda

Strategic Management of Human Capital

By focusing on the President's Management Agenda, OHR supported agency study and adoption of new tools to further the strategic management of its human capital. Support by agency senior leadership of a more transparent and participative approach to resource management guided the selection of a workforce planning on-line survey that drew on the collective expertise of all employees to inventory the mission- critical competencies needed over the life of the CFTC strategic plan. With action plans in place to act on that baseline information, CFTC has moved to a self rating of green on the standards for success under this goal on the Executive Branch Management Scorecard. Specific actions underway to refine our response to each standard and maintain an overall green light are as follows:

- *Strategy aligned with mission, goals, and organizational objectives*. The Commission's human capital strategy aims to make the most efficient and effective use of its authority, under the Farm Security and Rural Investment Act of 2002, to provide pay and benefits parity with other Federal financial regulators. To assure human capital programs serve strategic needs, the Executive Management Council has convened to discuss sample strategic compensation philosophy statements meant to guide program development and assure that choices on how we seek to recruit, retain, and develop our employees all serve mission priorities.

- *Citizen-centered organizational structure*. As part of its conversion from a front-line regulator to an oversight body, since the passage of the CFMA in December 2000, the CFTC restructured as a flatter organization with teams able to respond more flexibly to a wider range of tasks. To remain centered on citizen needs going forward, OHR has supported management efforts to identify how the inventory of required employee job competencies must change over the life of the five-year strategic plan to meet the changing needs of industry participants and other stakeholders. By also projecting retirement of current staff, managers have the information to plan ahead for restaffing with the mix of positions that will best respond to evolving oversight demands as envisioned by both the CFMA and this scorecard.

- *Sustains performance, utilizes flexibilities, and plans succession*. This year, management acted to address all of these elements together under a comprehensive talent management action plan. This document provides managers with a template for translating data on our current and projected workforce into detailed outlines of specific, prioritized actions to attract, retain, and develop employees who are fully engaged by the CFTC mission. In addition to plans developed at each supervisory level, OHR is supporting consolidation of this input into the annual agency-wide training program review.

- *Meet mission-critical skill needs*. Over this fiscal year, a project team interviewed 50 managers and employees in 15 key occupations to develop our first library of job competencies ranked for both relative current need and future potential importance in meeting the agency mission. These competency definitions formed the basis for an on-line survey in which over 95 percent of agency staff performed a self-assessment of their skill level and created a competency inventory that we can quickly and efficiently update for each yearly planning cycle. By combining those responses with demographic data, we produced a gap analysis for every unit in the agency that now supports our efforts to prevent deficits in mission-critical occupations.

- *Reward performance*. The Executive Management Council ran a project team over the past year that culminated in a set of options for an overall strategy to optimize human capital through compensation programs and workforce planning. The choices now before agency managers focus on the best practices for assuring a total compensation approach, in which our human capital programs will assure outcomes and rewards that reflect employee performance. Proposed next steps include appointing an executive compensation committee to guide specific program choices and their implementation.

- *Workforce emphasizes E-government and competition*. To continue past success with in-house training, OHR has supported the CFTC Training Advisory Group in updating the program for training for current and potential managers. In addition to project planning for a broader range of on-line training, we have continued prompt implementation of E-government initiatives, most recently in the form of electronic fingerprinting that allows pre-screening of applicants and other efficiencies in the hiring and security adjudication processes. We have taken advance actions to assure we are ready for new E-government applications as they are issued, such as by imaging our employee personnel records in preparation for OPM's Enterprise Human Resources Integration project. We have continued use of competitive bidding to obtain essential, expert support in the planning and specific development of human capital programs, such as strategic workforce planning, which further the agency mission and this scorecard.

OHR continues to support the OED emphasis on strategic management as envisioned in the President's Management Agenda, specifically by assuring the momentum built with the initiatives described above results in new programs over the coming year to more fully realize the standards for success in human capital management and maintain the overall green light rating.

Improved Financial Performance

OFM continues to work toward improving its financial performance through increasing the efficiency of financial reporting, enhancing financial systems to improve functionality and strengthen regulatory compliance. Initiatives for improving the Commission's financial performance to meet the core criteria for successful financial management standards include the following:

- *Financial management systems meet Federal financial management systems requirements and applicable Federal accounting and transaction standards*. As a result of the passage of the Accountability of Tax Dollars Act of 2002 and the E-Government Act of 2002, the CFTC is even more strongly committed to delivering its mission in an effective and efficient manner. The agency is eager to adapt current business processes to leverage efficiencies that new technology brings. Moreover, the evolving nature of the commodity futures trading industry drive greater reliance on more sophisticated regulatory techniques, which in turn drive expectations within the CFTC for better technological systems to support its key activities. Meaningful data is needed now more then ever to evaluate program plans, budgets, and performance, as well as to support a broad array of management decisions. Meeting these expectations will require a transformation in the systems and processes the CFTC currently uses to record, collect, assemble, and analyze data.

  In FY 2005, OFM completed an analysis of the Commission's financial management system and determined that it needs to pursue the acquisition and implementation of a financial management system through an OMB-approved Center of Excellence. The agency plans to migrate its core financial management system in FY 2006. It will continue its efforts to integrate additional systems and business lines, such as acquisitions, asset management, and eTravel as part of an enterprise-wide financial management system in FY 2007.

- *Integrated financial and performance management systems supporting day-to-day operations*. In FY 2005, OFM completed an assessment of its current methods for producing financial and performance data from its systems. As a result, enhancements to the core financial system were made to provide better integration of cost and performance data. In future fiscal years, OFM will continue its effort to refine and improve the integration of financial and performance data to support better performance measurement and decision-making regarding the Commission's resources.

- *Unqualified and timely audit opinions*. The Accountability of Tax Dollars Act of 2002 required the Commission to comply with reporting requirements of the Chief Financial Officers Act of 1990 for FY 2004. Reporting requirements include submitting audited financial statements for fiscal year-end. In FY 2005, the Commission received the results of its first audited financial statements, an unqualified opinion on the agency's FY 2004 Balance Sheet. As a result, continued efforts and resources were committed to making improvements in the timeliness and integrity of financial reporting. These improvements included:

    - Producing financial reporting that was more timely, complete, and accurate by implementing a series of analytical controls, including trial balance and relationship tests, fluctuation analysis, computation validation, statement crosswalk balancing, and account and report reconciliation;
    - Meeting accelerated reporting deadlines of OMB and Treasury;
    - Documenting agency accounting events and business processes to include asset management, civil monetary sanctions, human resources, funds management, and financial reporting;
    - Conducting a series of management control reviews over financial activities and validated; and
    - Improving integration of accountability reporting to reflect agency's internal control framework and revised requirements of OMB A-123, Management's Responsibility for Internal Control.

OFM will continue to support the OED emphasis on improving financial performance as envisioned in the President's Management Agenda, specifically by maintaining and sustaining controls to ensure an unqualified audit opinion and effective stewardship of the agency's assets; ongoing implementation and integration of an enterprise-wide financial management system solution that provides valuable financial management tools to enhance and drive sound decision-making; and refining and expanding efficiency indicators to measure program results against performance.

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APPENDIX 4

Proposed Goal 4: Organizational and Management Excellence

The FY 2007 Budget and Performance Estimate, like past years, is summarized by program, and by strategic goal. This year, however, in this appendix to the Budget, a fourth goal is proposed. The proposed fourth goal focuses on assessing and measuring organizational and management excellence. The purpose of the proposal is to stimulate thought and feedback for possible adoption when the Commission begins the task of reassessing its five-year Strategic Plan next year. The Commission's performance and management framework required us to establish and measure our progress in achieving outcomes objects and strategic goals. It has been suggested (and is commonplace in many other agencies) to extend this framework beyond strictly program performance but to the performance of the organization itself.

Background and Context

The fulfillment of the Commission's mission and the achievement of our goals are tied to a foundation of sound management and organizational excellence. This foundation is essential to support the work of the Commission in the Washington D.C. headquarters and two regional offices in New York and Chicago and two field offices in Kansas City and Minneapolis. The Commission is committed to maintaining a well-qualified workforce supported by a modern support infrastructure that enables the Commission to achieve our programmatic goals. Building this foundation will require significant investment in people, systems and facilities.

Agency Direction. The Office of the Chairman and the Commissioners provide executive direction and leadership to the Commission – specifically as it develops and adopts agency policy that implements and enforces the Commodity Exchange Act and amendments to that Act including the CFMA. This policy is designed to foster the financial integrity and economic utility of commodity futures and option markets for hedging and price discovery, to conduct market and financial surveillance, and to protect the public and market participants against manipulation, fraud, and other abuses. Executive leadership, in this regard, is the responsibility of the Chairman and Commissioners and includes the offices of the Chairman: the Office of External Affairs, the Secretariat, the Office of Inspector General, and the Office of International Affairs.

The Commission continues to implement the CFMA passed by Congress and signed by President Clinton in December 2000. Specifically, the CFMA: 1) repealed the ban on single-stock futures and implemented a regulatory framework for these instruments based on the agreement between the Commission and SEC; 2) enacted the principal provisions of the Commission's new regulatory framework; 3) brought legal certainty to bilateral and multilateral trading in over-the-counter financial markets; 4) confirmed the Commission's jurisdiction over certain aspects of the retail market in foreign exchange trading; and 5) gave the Commission authority to regulate clearing organizations. The CFMA reauthorized the Commission through FY 2005. The Commission is currently working with the Administration and the Congress on issues related to the reauthorization of the Commission.

Human Resources Management. The Commission, with less than 500 employees, performs a vital role in protecting the integrity of the futures and option markets – one of America's most innovative and competitive financial services industries. To maintain the U.S. role as the world leader in setting the standard for ensuring market integrity and protection for market users, the Commission must have sufficient resources to attract, train, promote and retain a professional workforce.

The Commission continues to purse human resource initiatives aimed at building and sustaining a knowledgeable, diverse and productive workforce. The Commission aims to have a workforce whose size, skills and composition react and adapt quickly to changes in the industry and technology and/or statutory or regulatory developments. The Commission has embarked on a comprehensive Strategic Management of Human Capital Initiative with the goals of improving the ability to: plan for anticipated change in workforce composition, target and recruit employees to fill critical skill deficiencies, target developmental resources, identify and justify staff resources need to perform statutory mandates, and to implement the Title V-exempt CT pay plan as mandated section 10702 of Public Law 107-171, the Farm Security and Rural Investment Act of 2002.

Information Management. The commission's ability to fulfill its mission successfully depends on the collection, analysis, communication and presentation of information in forms useful to Commission employees and other interested parties, such as, the industry it regulates, as well as other Federal and state, and international agencies with which we cooperate, the Congress and the American public. A secure modern information technology infrastructure is a vital tool that enables the Commission to serve these stakeholders effectively. The Commission is making a concerted effort to use commercial best practices developing and maintaining its Information Technology (IT) systems applications and infrastructure, deploying a modern messaging, archiving and document management system.

This includes significant enhancements to the Integrated Surveillance System, the Commission's primary mission critical application to support futures and option market surveillance, to address changes and growth in the futures industry; the Exchange Database System to improve the data collection technology and processes to provide a more efficient means of exchange data collection, resulting in more effective support for the Commission's market oversight objectives. This effort will enable the Commission to strengthen its market oversight activities.

Other new systems under development include: SPARK, which can analyze the financial positions of trading firms in relation to changing market conditions. This application performs analysis of existing market conditions and conduct "what if" analyses on future changes in support of financial oversight and risk analysis of the futures market; project eLaw, an effort that provides law office automation and modernization by seamlessly integrating technology and work processes to support managers and staff across the Commission in their investigative, trial, and appellate work specifically providing support in the areas of case planning, case management, litigation, and document management.

Management Operations. OMO provides support to Commission staff by ensuring the timely delivery of products and services at Headquarters and in the regional offices. Building on recommendations and findings that emerged from an internal review of the structure and functions of the OMO has led to significant improvements in critical administrative service areas. The progress to date includes: development and implementation of a new automated supply ordering system; review of the Commission's transportation service standards; and, relocation for enhanced functionality and security the functions of the main reception center, the mailroom and the administrative help desk. Major endeavors include: development of an Information Technology Disaster Recovery Plan; development of an agency-level COOP; development of a headquarters Occupant Emergency Plan and program level Business Continuity Plans; implementation of the Disaster Recovery Plan, including build-out of the disaster recovery site, build-out of a

COOP site; and, enhancement of the Commission's information security awareness and training programs and expanded current security levels at headquarters.

Financial Management. Integrated budgeting, planning, and performance management processes, together with effective financial management and demonstrated financial accountability will improve the management and performance of the Commission. It will ensure that the financial resources entrusted to the Commission are well managed and judicially deployed. The public will see how well programs perform and the cost they incur for that performance. This improved accountability for performance, together with unquestionable fiscal integrity, will deliver meaningful results to the American people.

Outcome Objectives and Annual Performance Goals

Outcome 4.1 – A productive, technically competent and diverse workforce that takes into account current and future technical and professional needs of the Commission.

- Annual Performance Goal: Recruit, retain, and develop a skilled and diversified staff to keep pace with attrition and anticipated losses due to retirement.

Outcome 4.2 – A modern and secure information system that reflects the strategic priorities of the Commission.

- Annual Performance Goal: Link business decisions on IT resources to CFTC strategic goals by establishing a decision making and review process for allocation of IT resources.

Outcome 4.3 – An organizational infrastructure that efficiently and effectively responds to and anticipates both the routine and emergency business needs of the Commission.

- Annual Performance Goal: A fully operational Contingency Planning Program to ensure the CFTC is prepared for emergencies and is fully capable of recovery and reconstitution.

Outcome 4.4 – Financial resources are allocated, managed and accounted for in accordance with the strategic priorities of the Commission.

- Annual Performance Goal: A clean audit opinion for CFTC.

Means and Strategies for Achieving Objectives

Means:

- Assess continually the external and internal issues and trends that may affect the mission and the way in which we must respond to meet it successfully.
- Evaluate and adjust management and strategic plans to ensure that potential problems or weaknesses are managed before they develop into crises.
- Develop and employ strategies which will focus on achieving results -- strategies that will: define the basis for developing policies, making decisions, taking actions, allocating resources and defining program definition; clarify why the organization exists, what it does and why it does it—providing a bridge to understanding how the Commission connects to its environment.

Strategies:

- Plan for anticipated change in the workforce composition, improve ability to target recruitment to fill critical needs, and improve ability to identify and justify FTE resource needs.
- Implement Farm Security and Rural Investment Act of 2002 mandates and benchmark CFTC/FIRREA comparability.
- Manage expansion of core telework.
- Link business decisions on IT resources to CFTC strategic goals and establish a decision making process for allocation of IT resources.
- Build roadmap for all IT systems requirements to improve planning, resource allocation, systems development and capital planning.
- Build/ensure robust information security program.
- Ease access to information with a user centric Web site that provided current, consistent and accurate information.
- Secure agency assets by ensuring appropriate internal controls on assets and providing a basis for life cycle management of assets.
- Build/ensure archives management program that supports electronic records and improves handling, management and storage of records.
- Improve IT customer service by improving linkage between program areas and short and long-term technology goals.
- Create on-line CFTC legislative database to capture CFTC legislative history thereby providing an essential, efficient and permanent legal research tool to the Commission.

- Build a Contingency Planning Program to ensure that the CFTC is prepared for emergencies and is fully capable of recovery and reconstitution.

- Comply with U.S. Homeland Security directives and improve Federal identification procedures in the event of a disaster.

- Standardize furniture assets and implement life-cycle management thereby improving financial planning, management and maintenance.

- Manage events proactively to ensure effective application of scare resources and to improve customer service.

- Create a permanent Office of Proceedings resource manual to ensure consistent guidance to new employees and to provide a performance framework to enable feedback to current employees.

- Ensure a clean independent audit opinion of the agency's financial statements by improving internal controls and improving financial reporting.

- Execute an audit remediation plan to correct any deficiencies and/or implement recommendations.

- Upgrade the Financial Management System to comply with Federal mandates to consolidate financial systems, to provide more meaningful data to evaluate program plans, budgets and performance and support resource management decision-making and to improve the ability to target resources to intended programmatic outcomes.

- Integrate budget and performance information to improve management and performance of the Commission.

- Undertake IT investments reviews to ensure the prudence of on-going IT investments.

Resource Priorities and Return on Investment:

- *Develop and implement a new Commission trade surveillance system*. The Commission has two electronic oversight systems – one to monitor for trading abuses (such as trading ahead of customers and trading against customers) and one to monitor for market manipulation utilizing the large trader reports). The first of these two systems is woefully out of date, and the Commission has concluded that the demands of today's futures marketplace require development and implementation of a new approach. By supporting the Commission's efforts to protect market participants from abusive trading practices and the integrity of the markets as a price discovery mechanism, the Commission trade practice investigation program helps the Commission maintain public confidence in the markets and in the Commission as their regulator.

  The Commission seeks an approach that will allow identification of inter-exchange violations that individual exchanges lack the capacity to detect, allow quicker access to and more sophisticated and customizable analysis of the full range of data supplied by exchanges with respect to electronic as well as open outcry trading, and enable meaningful Commission evaluation of the exchanges' own electronic surveillance systems.

- *Continue collaborative regulatory efforts regarding SFPs*. The Commission will continue in its efforts to coordinate with the Securities and Exchange Commission in implementing those sections of the CFMA related to the trading of SFPs. These areas include SFP definitions, registration requirements and functions, treatment of customer funds; margin rules, the offering of foreign SFPs to U.S. customers, possible further exemptions for notice registrants, the listing of options, and coordinated clearing. The Commission will also respond to inquiries from intermediaries, their counsel and accountants, and the general public concerning operational issues as the market for SFPs develops. Further, the Commission will work with the exchanges in developing sound business, financial and sales practices surrounding the trading of SFPs.

- *Coordinate with foreign regulatory authorities – cooperative enforcement*. The number, duration and speed of regulatory issues related to financial crises and market abuses can be mitigated through the enhancement of international cooperation among regulators and market authorities. It is therefore critical that the CFTC continue to foster productive and cooperative working relationships with these foreign counterparts. In particular the Commission will 1) facilitate cross- border transactions through the removal or lessening of any unnecessary legal or practical obstacles; 2) endeavor to enhance the internal supervisory cooperation and emergency procedures; 3) strengthen international cooperation for customer and market protection; 4) improve the quality and timeliness of international information sharing; and, 5) promote the development of internationally accepted regulatory standards of best practices. The CFTC will also continue to undertake measures to ensure that it maintains a high visibility in the international community and undertakes a leading role in the development of international financial policy affecting the futures and options markets.

- *Reengineer both the Commission's trade surveillance and market surveillance systems so that they remain effective and robust as trading migrates from the floors to electronic platforms*. Markets regulated by the Commission have experienced a dramatic shift from floor to screen based trading over the past several years. The CBOT's and the CME's screen-based volume currently accounts for almost 68 percentage of total exchange volume. While electronic trading brings certain regulatory benefits, such as precise audit trails, it also increases the opportunity for certain types of abuses, such as trading ahead of customers. In order to re-engineer our systems we have examined the electronic trading systems and automated surveillance systems used by U.S. designated contract markets as well as those used by foreign futures exchanges that have significantly more experience in electronic trading. We are also incorporating changes in the Commission's oversight systems and, where necessary, recommend alterations to systems of our designated contract markets to ensure that customers continue to be protected against trading abuses and manipulations.

- *Design and implement Project eLaw*. The Commission will continue its efforts to design and implement Project eLaw, an automated law office that seamlessly integrates technology and work processes to support managers and staff across the Commission in their investigative, trial, and appellate work. Driven by the Commission's continued reliance on manual processes and automated tracking systems to manage cases and the approximately one million paper documents received or created annually, Project eLaw will provide the automated tools to assist staff in performing their work more efficiently and effectively, both in the office and in the courtroom facing opposing counsel. Specifically, Project eLaw will enable staff to: query and retrieve information about investigations and litigation provided to the Commission by outside parties, pursuant to subpoena or otherwise; develop documents in a collaborative electronic work environment across geographically dispersed locations; manage client contacts, investigation leads, and trial schedules; track time and resources expended on investigations and cases; access and present documentary and analytic evidence in court settings. Now that the Commission has secured the integration support and technical expertise to assist with Project eLaw, the plans are in place to complete a requirements analysis, a technology assessment, a business impact analysis, the identification and installation of hardware and software, and pilot implementation followed by full implementation of Project eLaw.

- *Increase staffing*. The arrival of pay parity authority promises to greatly enhance the Commission's opportunity to have planned organizational change, rather than reacting to the undesired loss of staff with the most mission-critical competencies. The Commission is moving to utilize the newest flexibilities in Federal staffing, including category ranking, so that priority recruitments for any shift in program emphasis or unexpected losses begin immediately and conclude rapidly. At the same time, our pay rates now allow us to compete for a broader range of experience levels, such as among new graduates. This is allowing the Commission to address issues such as our workforce demographics through succession planning. By developing revised competencies on a job function or series basis, such as with auditors moving to risk-based reviews, we are building a revised foundation of job requirements and skills analysis that makes both our near-term recruitment more targeted and our long-range workforce planning more efficient. Performing this agency-wide review of our staffing efforts is producing complementary effects in the form of a workforce with a broader range of the most needed training and skills, resulting in the most efficient and responsive market oversight activities presently feasible.

- *Achieve full funding for pay parity*. With the implementation of a new pay schedule on April 20, 2003, CFTC closed the major part of the gap between its pay rates and those of the other Federal financial regulators. This transitional step has resulted in a substantive improvement in the agency recruitment and retention trends, including evident indicators of employee morale. To begin a corresponding upgrade in its benefits program, the Commission implemented an employee dental benefit in FY 2004. In terms of total compensation, the Commission's conservative initial approach to using its authority to make these pay and benefits changes closed just under 80 percent of the gap in aggregate compensation relative to the benchmark agencies' practices. However, due to budgetary constraints, the Commission delayed the FY 2004 and FY 2005 pay increases to September 2o04 and July 2005 respectively which further contributed to widen the pay gap. We expect the gap to grow without appropriate funding for pay and benefits increases, including variable compensation centered on the concept of pay for performance. Commission senior staff will continue to seek appropriate funding through discussions with oversight committees and OMB.

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Summary of Goal Four Performance Indicators

Goal Four: (Proposed) To facilitate Commission performance through management excellence, efficient use of resources, and effective mission support.

Outcome 4.1: ***A productive, technically competent, competitively compensated, and diverse workforce that takes into account current and future technical and professional needs of the Commission.***

Annual Performance Goal: Recruit and retain a skilled and diversified staff to replace aging and retiring workforce.

Performance Measures	FY 2006 Plan	FY 2007 Plan
Percentage of increase in the average retention rate of new/entry level employees	TBD	TBD
Percentage increase in underrepresented groups as a result of new hires	TBD	TBD
Percentage of staff adhering to individual professional development plans annually	TBD	TBD
Percentage of staff taking part in agency sponsored professional development courses	TBD	TBD
Percentage of pay parity with other FIRREA agencies	TBD	TBD
Percentage increase in staff over the base year	TBD	TBD
Percentage improve in under-represented skill areas from base year	TBD	TBD

Outcome 4.2: A modern and secure information system that reflect the strategic priorities of the Commission.

Annual Performance Goal: Link business decisions on IT resources to CFTC strategic goals by establishing a decision making and review process for allocation of IT resources.

Performance Measures	FY 2006 Plan	FY 2007 Plan
Percentage of Agency IT resources directly tied to Agency resource priorities as stated in the Strategic Plan	TBD	TBD
Percentage of major IT investments having undergone an investment review within the last three years	TBD	TBD
Percentage of Call Center help-desk inquires responded to within x minutes	TBD	TBD
Percentage of employees with network availability	TBD	TBD
Percentage of employees with remote network availability	TBD	TBD
Percentage of systems and networks certified and accredited in accordance with xxxx	TBD	TBD
Percentage of e-government initiatives on target for compliance with implementation schedule	TBD	TBD

Outcome 4.3: An organizational infrastructure that efficiently and effectively responds to and anticipates both the routine and emergency business needs of the Commission.

Annual Performance Goal: A fully operational Contingency Planning Program to ensure the CFTC is prepared for emergencies and is fully capable of recovery and reconstitution.

Performance Measures	FY 2006 Plan	FY 2007 Plan

Percentage of help-desk inquires responded to within x minutes	TBD	TBD
Percentage of employees briefed within one year on COOP plan	TBD	TBD
Percentage of capital assets accounted for in an Asset Management System	TBD	TBD

Outcome 4.4: Financial resources are allocated, managed and accounted for in accordance with the strategic priorities of the Commission.

Annual Performance Goal: A clean audit opinion for CFTC.

Performance Measures	FY 2006 Plan	FY 2007 Plan
Audit opinion of the agency's annual financial statements as reported by the agency's external auditors	TBD	TBD
Percentage of material internal control weakness successfully corrected from prior year	TBD	TBD
Percentage of funds lapsed at end of the fiscal years	TBD	TBD
Percentage of interest penalties paid on total obligating authority	TBD	TBD
Error rate of timesheets processed	TBD	TBD
Percentage variance between budget plan by goal and budget actual by goal	TBD	TBD
Percentage of service based contracts that are performance based	TBD	TBD
Percentage of financial systems that are consolidated	TBD	TBD

Breakout of Goal Four Request by Outcome Objective

	FY 2006		FY 2007		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
GOAL FOUR: To facilitate Commission performance through management excellence, efficient use of resources, and effective mission support.						
Outcomes						
3.1 A productive, technically competent, competitively compensated, and diverse workforce that takes into account current and future technical and professional needs of the Commission.	$N/A	N/A	$N/A	N/A	$N/A	N/A
3.2 A modern and secure information system that reflect the strategic priorities of the Commission.	N/A	N/A	N/A	N/A	N/A	N/A
3.3 An organizational infrastructure that efficiently and effectively responds to and anticipates both the routine and emergency business needs of the Commission.	N/A	N/A	N/A	N/A	N/A	N/A
3.4 Financial resources are allocated, managed and accounted for in accordance with the strategic priorities of the Commission.	N/A	N/A	N/A	N/A	N/A	N/A
TOTAL	**$N/A**	**N/A**	**$N/A**	**N/A**	**$N/A**	**N/A**

Figure 45: Breakout of Goal Four by Outcome

APPENDIX 5

Privacy Policy for CFTC Web Site

The purpose of this policy statement is to describe how the Commission handles information learned about visitors when visitors access the CFTC Web site. The information the Commission receives depends on how the visitor uses the Web site. Visitors are not required to give personal information to visit the site.

If a visitor accesses the CFTC Web site to read or download information, such as press releases or publications, the Commission will collect and store the following information:

- The name of the domain (the machine or Web site) from which the visitor accesses the Internet (for example, aol.com if a visitor is connecting from an America Online account) and/or the name and Internet protocol address of the server the visitor is using to access the CFTC Web site;
- The name and Internet protocol address of the CFTC server that received and logged the request;
- The date and time the request was received;
- The information that the visitor is accessing (for example, which page or image the visitor chose to read or download); and
- The name and version of the Web browser used to access the Web page.
- The Commission uses the information collected to measure the number of visitors to the different sections of its Web site and to help us make the Web site more useful to visitors.

The Commission does not enable "cookies." A "cookie" is a text file placed on a visitor's hard drive by a Web site that can be used to monitor his or her use of the site.

If a visitor completes a form or sends a comment or e-mail, he or she may be choosing to send us information that personally identifies him or her. This information is used generally to respond to the visitor's request, but may have other uses that are identified on each form. For example, if a visitor sends the Commission a comment letter on a proposed regulation, that letter becomes part of the comment file and is available to the public. The comments are used to help CFTC and other members of the public evaluate proposed Commission actions. Other forms that a visitor may choose to submit, such as FOIA requests or requests for correction of information, contain information that is used by the Commission to track and respond to visitors' requests. Information provided on the enforcement questionnaire may be shared with other law enforcement agencies, if appropriate.

Questions about CFTC's privacy policy and information practices should be directed by e-mail to webmaster@cftc.gov. Information on the Commissions systems of records maintained under the Privacy Act can be found under Section D of the *CFTC Federal Register* Notices.

APPENDIX 6

Table of Acronyms

AE	The Actuarials Exchange, LLC
ALJ	Administrative Law Judge
AML	Anti-Money Laundering
BTEX	BrokerTex Futures Exchange
CBOT	Chicago Board of Trade
CCORP	The Clearing Corporation
CDXCHANGE	Commodities Derivative Exchange, Inc.
CEA	Commodity Exchange Act
CCFE	Chicago Climate Exchange, Inc.
CFE	CBOE Futures Exchange
CFFE	Cantor Financial Futures Exchange
CFTC	Commodity Futures Trading Commission
CFMA	Commodity Futures Modernization Act of 2000
CME	Chicago Mercantile Exchange
COMEX	Commodity Exchange Division
COOP	Continuity of Operations Plan
CPO	Coalition Provisional Authority
CPO	Commodity Pool Operator
CSCE	Coffee Sugar and Cocoa Exchange
CTA	Commodity Trading Advisor
DCIO	Division of Clearing and Intermediary Oversight (CFTC)
DCO	Derivatives Clearing Organization
DOJ	Department of Justice
DSRO	Designated Self-Regulatory Organization
DTEF	Derivatives Transaction Execution Facility
EPFE	Exchange Place Futures, LLC
EUREX US	U.S. Futures Exchange, LLC
FBI	Federal Bureau of Investigation
FCA	Farm Credit Administration
FCM	Futures Commission Merchant
FCOM	FutureCom
FERC	Federal Energy Regulatory Commission
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act
FL	Floor Trader
FMFIA	Federal Managers' Financial Integrity Act
FMHA	Farmers Home Administration
FOIA	Freedom of Information Act
FRB	Board of Governors of the Federal Reserve System
FTE	Full-time Equivalent
FY	Fiscal Year
GAO	General Accounting Office
GCC	Guaranty Clearing Corporation
GMAC	Global Markets Advisory Committee
GSA	General Services Administration
HSE	HoustonStreet Exchange, Inc.
IB	Introducing Broker
ICC	Intermarket Clearing Corporation
ICE	IntercontinentalExchange, Inc.

IMAREX	International Maritime Exchange
INET	INET Futures Exchange
IT	Information Technology
IOSCO	International Organization of Securities Commissions
JO	Judgment Officer
KCBT	Kansas City Board of Trade
LCH	London Clearing House
MACE	MidAmerica Commodity Exchange
ME	Merchants Exchange
MGE	Minneapolis Grain Exchange
NFA	National Futures Association
NGX	Natural Gas Exchange
NQLX	NQLX LLC
NYBOT	New York Board of Trade
NYCC	New York Clearing Corporation
NYCE	New York Cotton Exchange
NYFE	New York Futures Exchange
NYMEX	New York Mercantile Exchange
OCC	The Options Clearing Corporation
OCX	OneChicago Futures Exchange
OED	Office of the Executive Director (CFTC)
OFM	Office of Financial Management (CFTC)
OGC	Office of the General Counsel (CFTC)
OHR	Office of Human Resources (CFTC)
OIRM	Office of Information Resources Management (CFTC)
OMB	Office of Management and Budget
OMO	Office of Management Operations (CFTC)
ONXCC	OnExchange Clearing Corporation
OPEX	Optionable, Inc.
OPM	Office of Personnel Management
OTC	Other-the-Counter
PBOT	Philadelphia Board of Trade
PWG	President's Working Group on Financial Markets
RFA	Registered Futures Association
RSR	Regulatory Statement Review
RWG	Registration Working Group
SEC	Securities and Exchange Commission
SFP	Security Futures Products
SL	Spectron Live.com Limited
SRO	Self-Regulatory Organization
TFS	Traditional Financial Services Pulp and Paper Division
TFSE	TFS Energy, LLC
TRADE	Trade Practice Surveillance System
TS	TradeSpark, LP
SPARK	Stress Positions at Risk
USAID	United States Agency International Development
USA PATRIOT	Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism
USDA	United States Department of Agriculture
WBOT	Weather Board of Trade
WXL	WeatherXchange Limited

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2007

FY 2007 PRESIDENT'S BUDGET AND PERFORMANCE PLAN • FY 2007 PRESIDENT'S BUDGET AND PERFORMANCE PLAN

T R A D I N G   C O M M I S S I O N

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