



## U.S. COMMODITY FUTURES TRADING COMMISSION

Three Lafayette Centre  
1155 21st Street, NW, Washington, DC 20581

January 15, 2016

### **Management Notice Concerning Prior Period Financial Statements and Auditors' Reports**

After being fully briefed about a Government Accountability Office (GAO) inquiry regarding office space leasing and the CFTC's conclusion that its historical practice for recording lease obligations on an annual basis may be inconsistent with OMB Circular A-11, *Preparation, Submission and Execution of the Budget* (OMB A-11), 31 U.S.C. § 1501(a)(1), and previous GAO decisions, KPMG LLP, the CFTC's independent auditor, has determined that the CFTC financial statements, for fiscal year 2015 as well as for fiscal years 2005-2008 and fiscal years 2010-2014, audited by KPMG LLP, are materially misstated because of CFTC's practice of not recording lease obligations in accordance with U.S. generally accepted accounting principles. As a result, these prior period financial statements and the auditors' reports should no longer be relied on. For more details on this matter, please refer to Note 10 to the CFTC's fiscal year 2015 financial statements and the "*Basis for Qualified Opinion*" and "*Qualified Opinion*" sections of the auditors' report on the fiscal year 2015 and 2014 CFTC's financial statements.

On August 6, 2015, the GAO requested information on the Commission's views regarding various legal issues involving the CFTC's leases, including the practice of recording obligations arising under the agency's four current multiple-year leases for office space in Washington, D.C., Chicago, New York, and Kansas City. When the Commission entered into its four multiple-year leases, such as in 1994 for its Washington, D.C. office, it recorded only the annual lease payments each year in its Statement of Budgetary Resources rather than the full multiple-year obligation in the year the lease was initiated. The CFTC did disclose the total future minimum lease payments in the notes to its financial statements. In the process of reviewing GAO's questions, the CFTC concluded that its historical practice for recording lease obligations on an annual basis may be inconsistent with OMB A-11, 31 U.S.C. § 1501(a)(1), and previous GAO decisions. As a result of the potential findings of the anticipated GAO opinion, it is reasonably possible that an unfunded obligation covering all potential future payments agreed to under current leases, will need to be recognized in the CFTC's financial statements.

The GAO is currently reviewing the Commission's leasing practices and upon receipt of GAO's opinion the CFTC will take appropriate actions and, if needed, update this notice.

COMMODITY FUTURES TRADING COMMISSION



PERFORMANCE *and*  
ACCOUNTABILITY REPORT

FISCAL YEAR 2007



**COMMODITY FUTURES  
TRADING COMMISSION**

Walter L. Lukken  
*Acting Chairman*

Madge Bolinger Gazzola  
*Executive Director*

Mark Carney  
*Chief Financial Officer*

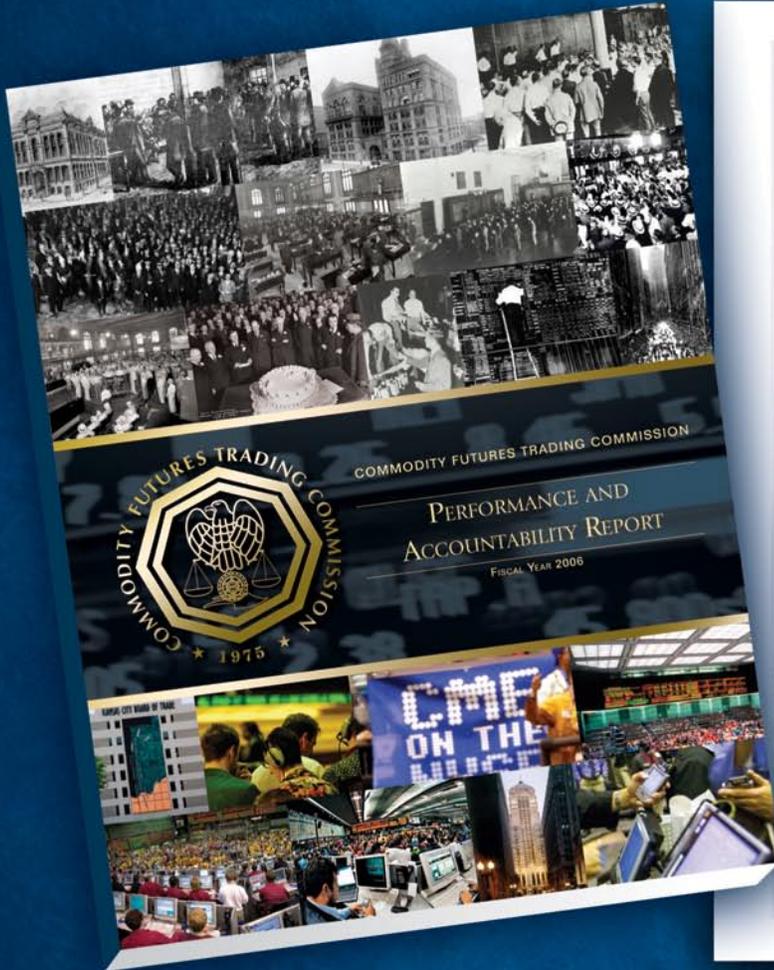
November 2007

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Commodity Futures Trading Commission, FY 2007 Performance and Accountability Report, Washington, D.C., 20581.

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# COMMODITY FUTURES TRADING COMMISSION



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Trading Commission*

In recognition of your outstanding efforts  
in preparing the Commodity Futures Trading  
Commission Performance and Accountability  
Report for the fiscal  
year ended **September 30, 2006.**

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*"In recognition of your outstanding efforts in preparing the  
Commodity Futures Trading Commission Performance and  
Accountability Report for the fiscal year ended September 30, 2006"*

# FISCAL YEAR 2007 COMMISSIONERS



Back row from left; **Jill E. Sommers**, *Commissioner*; **Bart Chilton**, *Commissioner*

Front row from left; **Michael V. Dunn**, *Commissioner*; **Walter L. Lukken**, *Acting Chairman*

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*In the Tradition of Quality Reporting,  
the Commodity Futures Trading Commission  
Proudly Presents the FY 2007  
Performance and Accountability Report*



## A MESSAGE FROM THE CHAIRMAN

I am pleased to present this Performance and Accountability Report, which chronicles our mission accomplishments over Fiscal Year (FY) 2007.

In recent years, commodity futures and options have grown to be trillion dollar markets, with massive economic force, having grown faster than almost any other asset class. These markets are expanding steadily in both volume and new users and their complexity is rapidly evolving with new technologies, globalization, product innovation, and greater competition. The Commodity Futures Trading Commission (CFTC or Commission) oversees the commodity futures and option markets in the United States. These markets are the key source of commodity price discovery and are used as a tool by participants in the global economy to offset price risk. Although how the CFTC operates has dramatically evolved along with these dynamic markets, our mission is the same today as it was at our inception in 1974: *We protect market users and the public from fraud, manipulation, and abusive practices related to the sale of commodity and financial futures and options, and foster open, competitive, and financially sound futures and option markets.*

During the last year, the Commission focused its resources on accomplishing its mission across three strategic goals, each focusing on a vital area of regulatory responsibility. The goals are: to ensure the economic vitality of the commodity futures and option markets; to protect market users and the public; and to ensure market integrity in order to foster open, competitive, and financially sound markets. Key undertakings by the Commission included:

taking action against energy companies in response to allegations of manipulation; actively addressing how to best detect and prevent abusive behavior in our markets; and working internationally to engage our regulatory counterparts to share information and coordinate market oversight.

We also worked very hard in the area of accountability during the past fiscal year. I am pleased to report that in FY 2007, the CFTC had no material weaknesses to declare. Our auditor, the public accounting firm, KPMG LLP, on behalf of our Inspector General, was able to affirm that the financial statements, included in this report, were presented fairly, in all material respects, and in conformity with U.S. generally accepted accounting principles (GAAP). Furthermore, we are pleased to confirm that the financial and performance data presented in this report are fundamentally reliable and complete. You can read about the operation of our internal controls in the Financial Section of this report, which also highlights key management assurances.

We hope you will join us in applauding the important contributions made daily by the dedicated staff of the Commission.

Walter Lukken  
Acting *Chairman*

November 15, 2007



# COMMODITY FUTURES TRADING

## Significant Dates in CFTC History — 1970s

**October 23-24, 1974**—Congress passes the Commodity Futures Trading Commission Act of 1974, and it is signed by President Gerald Ford. The bill overhauls the CEA and creates the CFTC, an independent agency with exclusive jurisdiction over futures.

**April 21, 1975**—Authority for the regulation of futures trading is transferred from the Commodity Exchange Authority, an agency in the USDA, to the CFTC.

**September 11, 1975**—The CFTC approves the first futures contract on a financial instrument—the CBOT Government National Mortgage Association (Ginnie Mae) certificates futures contract.

**April 28, 1977**—The CFTC asks the U.S. District Court in Chicago to order seven members of the Hunt family of Dallas, and a related company, to liquidate positions that exceed the three million bushel speculative position limit for soybean futures on the CBOT.

**June 1, 1978**—The CFTC suspends most commodity options transactions in the U.S. because of pervasive fraud in so-called "London options" and dealer options on physical commodities.

**March 16, 1979**—In an emergency action, the CFTC votes to prohibit further trading in the CBOT March wheat futures contract, the first time the Commission orders a market closed in the interest of preventing a price manipulation.

**September 12, 1979**—The Court of Appeals for the Seventh Circuit affirms the CFTC's authority to act during market emergencies.

## Significant Dates in CFTC History — 1980s

**January 6, 1980**—In an emergency action, the CFTC orders the suspension of futures trading for two days for wheat, corn, oats, soybean meal, and soybean oil on four exchanges after President Carter announces an embargo on the sale of certain agricultural goods to the Soviet Union that includes substantial amounts of grain.

**January 21, 1980**—COMEX orders trading for liquidation only in its silver futures contract.

**September 8, 1981**—The CFTC adopts a comprehensive set of regulations to govern exchange-trading of options on futures contracts under a controlled and monitored three-year pilot program.

**September 22, 1981**—The CFTC grants registration to the NFA as a self-regulatory futures association and approves its articles, bylaws, and rules. NFA begins to hire staff and commences operations on October 1, 1982.

**December 7, 1981**—The CFTC and the SEC jointly announce a basic jurisdictional agreement on the regulatory responsibility of each agency for a variety of financial instruments, in particular stock index futures. This agreement was known as the Shad-Johnson Accord and later became part of the CEA.

**February 16, 1982**—The CFTC approves the first futures contract based on a stock index, the Value Line Index Average traded on the KCBT.

**January 11, 1983**—President Reagan signs the Futures Trading Act of 1982, renewing the CFTC's mandate to regulate futures trading for four more years and clarifying Commission jurisdiction in a number of areas. Among other things, this act codified the Shad-Johnson Accord (which gave the CFTC jurisdiction over broad-based stock index futures and banned single-stock and narrow-based stock index futures), and required the CFTC to act on new contract proposals and rule amendments within specified time periods.

**August 29, 1984**—The CFTC approves amendments to CME rules that allow it to establish a trading link with the Singapore International Monetary Exchange, the first trading and clearing link between a domestic and a foreign exchange.

**September 28, 1984**—The CFTC submits "A Study of the Nature, Extent and Effects of Futures Trading by Persons Possessing Material, Nonpublic Information" to its Congressional oversight committees.

**February 28, 1985**—The CFTC concludes its silver investigation, alleging that Nelson Bunker Hunt, William Herbert Hunt, and other individuals and firms manipulated and attempted to manipulate silver prices in 1979 and 1980.

**March 20, 1985**—Volume Investors, Inc., a clearing member at COMEX, defaults on a margin call on options on gold futures. The funds of 100 customers, mostly local traders, are affected by the default. This default causes the Commission to

## APPROPRIATION AND EMPLOYMENT HISTORY FY 1975-1985

FY 1975	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985
502	533	495	474	482	465	485	484	493	500	520
\$7	\$10	\$13	\$13	\$15	\$16	\$18	\$20	\$23	\$26	\$27

LEGEND: Actual FTE  Approved Appropriation (in millions)



# COMMISSION HISTORY AT A GLANCE

## Significant Dates in CFTC History — 1990s

**November 1991**—The CFTC and the SEC concurrently approve proposed rule changes by the OCC and the CME intended to improve coordination in the clearance and settlement of futures and options. The rule changes expand the existing cross-margining programs between the OCC and CME to permit clearing members to include intermarket futures and option positions held in certain non-proprietary accounts.

**October 28, 1992**—President Bush signs the CFTC's reauthorization legislation, The Futures Trading Practices Act of 1992 (FTPA), expanding the CFTC's regulatory authority and reauthorizing the agency until October 1994. The FTPA, among other things, granted the Commission the authority to OTC derivative and other transactions for CFTC regulation and provided for registration of local traders.

**March 1993**—Futures trading in New York is disrupted and the CFTC's New York office is temporarily relocated due to the explosion of a bomb placed by terrorists in the basement of the World Trade Center.

**April 9, 1993**—The CFTC adopts rules requiring the registration of FBs and ethics training for all individual registrants, as mandated by the FTPA. The Commission also adopts rules permitting the suspension of registrants charged with felonies under authority granted by the FTPA.

**January 10, 1994**—The CFTC files an administrative complaint against two former CBOT members, Anthony Catalfo, and Darrell Zimmerman, alleging that the respondents engaged in a scheme to manipulate Treasury bond futures and put options on the CBOT.

**June 28, 1994**—The CFTC approves final rules permitting registrants to provide to customers a "generic" risk disclosure statement that will satisfy risk disclosure requirements applicable to both domestic and foreign commodity futures and options transactions.

**December, 1994**—CFTC, in coordination with the SEC, files and simultaneously settles, for a fine of \$10 million, an administrative complaint against BT Securities, a subsidiary of Bankers Trust. The Commission's complaint alleges that BT Securities committed fraud in its OTC derivatives transactions with Gibson Greetings.

*Continued on next page*



consider numerous changes to its rules. Ultimately, improved surveillance, early warning, and margining procedures are developed.

**September 23, 1986**—CFTC, SEC, and the U.K. Department of Trade and Industry announce the signing of an MOU, which will enhance cooperation and mutual assistance in securing compliance with and enforcement of securities and commodities laws in both countries.

**October 19, 1987**—Biggest one-day price plunge in stock market history. No Commission-regulated systems fail, no firms default on obligations.

**May 16, 1988**—The President's Working Group (PWG) on Financial Markets, composed of CFTC, SEC, Treasury, and the Federal Reserve Board, presents its report on the October 1987 stock market break to President Reagan.

**October 18, 1988**—The CFTC approves proposals to amend daily price limits and trading halt provisions for stock index futures and option contracts traded on CME, CBOT, KCBT, and NYFE. These proposals were based on recommendations by the PWG.

**January 20, 1989**—The news media report the disclosure of a two-year undercover investigation of the Chicago trading pits conducted by the FBI in cooperation with CFTC and DOJ. The CFTC takes a number of market integrity actions in the following months.

**February 2, 1989**—The CFTC unanimously approves rules proposed by CME for the basic Globex system, the first international electronic trading system. Trading begins in June 1992.

**July 11, 1989**—The CBOT institutes an emergency action concerning the July 1989 CBOT soybean futures contract. CBOT requires all large traders to reduce their positions prior to the expiration of the July contract. The contract expires in an orderly manner.



### APPROPRIATION AND EMPLOYMENT HISTORY FY 1986-1996

FY 1986	FY 1987	FY 1988	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
489	497	510	535	527	551	592	568	543	542	541
\$28	\$30	\$33	\$35	\$39	\$44	\$47	\$47	\$47	\$49	\$54

LEGEND: Actual FTE  Approved Appropriation (in millions)



# COMMODITY FUTURES TRADING

Continued from previous page

**February 29, 1996**—The CFTC's Division of Trading & Markets issues a no-action letter to permit the Deutsche Terminbörse (DTB) [predecessor to Eurex] to install and utilize DTB computer terminals in the United States in connection with the purchase and sale of certain futures and options contracts—the staff's first consideration of a request to place computer terminals of an off-shore exchange in the United States.

**July 10, 1996**—A CFTC order imposes a \$600,000 civil monetary penalty against Fenchurch Capital Management Inc. of Chicago, on charges of market manipulation and cornering of the cheapest-to-deliver note deliverable against the CBOT 10-year Treasury note futures contract.

**December 19, 1996**—The CFTC notifies the CBOT that the delivery terms of its corn and soybean futures contracts do not satisfy the statutory objectives of Section 5a(a)(10) of the CEA of "permit[ting] the delivery of any commodity . . . at such point or

points and at such quality and locational price differentials as will tend to prevent or diminish price manipulation, market congestion, or the abnormal movement of such commodity in interstate commerce" and gives the CBOT 75 days to respond.

**November 7, 1997**—The CFTC orders the CBOT to change the delivery specifications for

its corn and soybean futures contracts pursuant to Section 5a(a)(10) of the CEA. The Commission notes that the CBOT can propose alternate specifications that meet the requirements of the CEA.

**December 4, 1997**—The SEC vetoes the proposed CBOT's futures and futures options on the Dow Jones Transportation Average and the Dow Jones Utilities Average, stating that these contracts are too narrow-based to meet the requirements of the 1982 Shad-Johnson Accord.

This is the only time the SEC exercised its veto power under the Accord. A court decision subsequently overturns the SEC veto and the CFTC approves the contracts on October 27, 1999.

**May 7, 1998**—The CFTC approves the CBOT's new corn and soybean futures contracts with delivery specifications that supersede those ordered by the CFTC on November 7, 1997.

**May 11, 1998**—The CFTC enters into a settlement with Sumitomo Corporation to resolve allegations of manipulating the copper market in 1995 and 1996 that includes a civil monetary penalty of \$150 million.

**November 4, 1999**—The CFTC staff issues a report comparing the global competitiveness of U.S. futures and option markets to their counterparts abroad. The report, entitled *The Global Competitiveness of U.S. Futures Markets Revisited*, updates a 1994 CFTC study, using the same methodology as the earlier study.

**November 9, 1999**—The PWG issues a report unanimously calling for legislation creating greater legal certainty for OTC derivatives.

## Significant Dates in CFTC History — 2000s

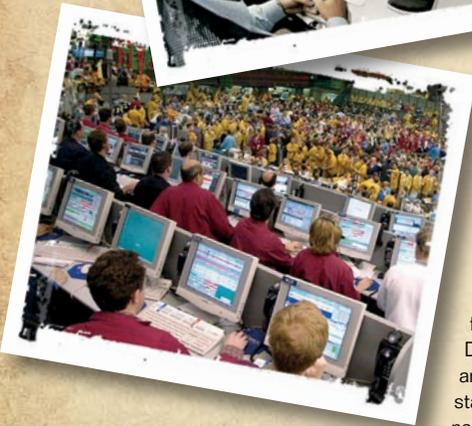
**February 22, 2000**—The CFTC transmits to Congress a staff report, *A New Regulatory Framework*, which recommends changes to the CFTC's regulatory structure. The report details changes that will lessen the regulatory burdens on U.S. futures markets by creating a more flexible regulatory framework. At the same time, the framework provides the OTC markets with greater legal certainty. Much of this framework will be incorporated into the CFMA.

**September 14, 2000**—The CFTC and SEC announce an agreement providing for joint jurisdiction over security futures products, that is, single stock futures and futures on narrow-based stock indexes. Under the agreement, which will be incorporated into the CFMA, the CFTC retains exclusive jurisdiction over futures contracts on broad-based stock indexes.

**December 21, 2000**—President Clinton signs into law the CFMA, which, among other things, reauthorizes the Commission for five years, overhauls the CEA to create a flexible structure for the regulation of futures and options trading, clarifies Commission jurisdiction over certain retail foreign currency transactions, and repeals the 18-year-old ban on the trading of single stock futures.

**April 18, 2001**—For the first time since the passage of the CFMA, the CFTC uses its newly clarified authority to file a complaint charging fraud and the offering of illegal futures contracts against a firm soliciting retail investors to trade foreign currency contracts. Over the next several years, the CFTC filed similar complaints against dozens of firms that solicit retail investors to trade foreign currency.

**July 9, 2001**—The CFTC approves the application of Energy-Clear Corporation for registration as a DCO under the CEA. This is the first new DCO that is not affiliated with a trading facility to be granted registration by the Commission since the passage of the

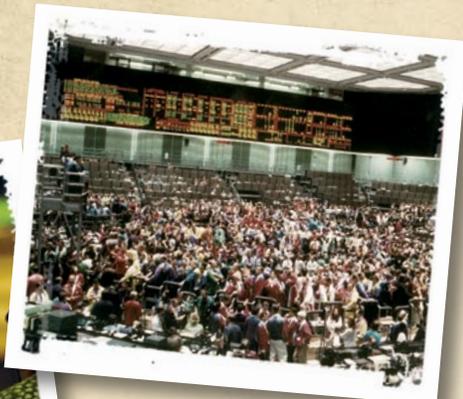


## APPROPRIATION AND EMPLOYMENT HISTORY FY 1997-2007

FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
553	560	567	556	546	509	521	517	487	493	437
\$55	\$58	\$61	\$63	\$71	\$88	\$85	\$90	\$94	\$97	\$98

LEGEND: Actual FTE  Approved Appropriation (in millions)

# COMMISSION HISTORY AT A GLANCE



CFMA. DCOs for the existing futures exchanges were grandfathered in under the CFMA.

**August 1, 2001**—The CFTC kicks off implementation of the CFMA by adopting new rules for the various types of exchanges (with different levels of regulatory oversight) that the CFMA created. These types of exchanges include designated contract markets, derivatives transaction execution facilities, exempt boards of trade, and exempt commercial markets.

**August 21, 2001**—The CFTC orders Avista Energy, Inc. to pay \$2.1 million to settle CFTC charges of manipulating electricity futures.

**August 22, 2001**—The CFTC adopts new rules for derivatives clearing organizations, further implementing the CFMA.

**September 11, 2001**—The CFTC New York office is destroyed during the terrorist attack against the World Trade Center. Commission staff escape without serious injury.

**July 1, 2002**—The CFTC restructures its staff organization to facilitate the implementation of the CFMA. Under the restructuring, the functions previously performed by the Division of Trading and Markets and the Division of Economic Analysis are performed by two new divisions and one new office: the Division of Market Oversight, the Division of Clearing and Intermediary Oversight, and the Office of the Chief Economist.

**November 8, 2002**—Trading in single stock futures is launched on two new exchanges: OneChicago and NQLX.

**March 12, 2003**—The CFTC charges the bankrupt Enron Corporation and a former Enron vice president with manipulating prices in the natural gas market. Enron also is charged with operating an illegal, undesignated futures exchange and offering illegal lumber futures contracts through Enron Online, its Internet trading platform. Enron settles in May 2004 and the trader settles in July 2004.

**July 15, 2003**—The CFTC approves exchange rules implementing a common clearing link between the CBOT and CME.

**Fiscal Year 2003**—The CFTC approves or (in most cases) accepts the exchange self-certification of a record 348 new futures and option contracts during fiscal year 2003.

While about 200 of these new contracts are single stock futures, the number of new non-single stock futures contracts easily exceeds the old record of 92 new contracts set in Fiscal Year 1996.

**November 18, 2003**—The CFTC joins other members of the President's Corporate Fraud Task Force in undercover "Operation Wooden Nickel" to prosecute individuals and companies allegedly stealing millions of dollars through sales of illegal foreign currency futures contracts.

**February 4, 2004**—The CFTC designates the USFE, also known as Eurex US, as a contract market for the automated trading of futures and options on futures contracts. This is the first designated contract market to be owned by a foreign futures exchange.

**October 13, 2005**—The CFTC issues a statement regarding the bankruptcy filing of Refco. Ultimately, customers holding position in futures contracts through the firms CFTC registered FCM subsidiary are repaid in full from funds in the segregated customer accounts.

**December 19, 2006**—15 defendants from "Operation Wooden Nickel" ordered by U.S. District Court (SDNY) to pay restitution return ill-gotten gains and pay fines totaling over \$25 million. Penalties were imposed subsequently on nine additional defendants. During this time period the investigation and litigation of fraud in retail forex is the largest area of the CFTC's anti-fraud enforcement program.

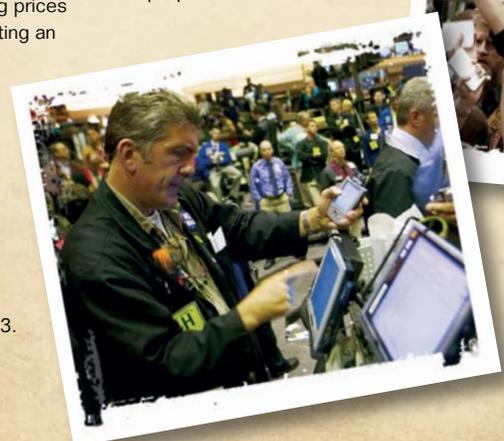
**July 12, 2007**—The CME and the CBOT announced the completion of their merger creating the world's largest exchange.

**July 25, 2007**—The CFTC charges hedge fund Amaranth with attempted manipulation in the price of natural gas. Since December 2002, the Commission has imposed over \$300 million in civil monetary penalties for manipulation, attempted manipulation and false price reporting in the energy markets.

**September 18, 2007**—The CFTC held a hearing to examine trading on regulated exchanges and ECMs as part of the Commission's on going review of energy futures trading.

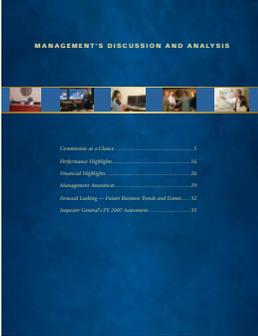
**October 24, 2007**—The CFTC delivers to Congress a report that includes recommendations to increase the oversight of some trading activity on electronic trading facilities known as ECMs.

**October 25, 2007**—British Petroleum agrees to pay a total of \$303 million in sanctions to settle charges of manipulation and attempted manipulation in the propane market.



# HOW THIS REPORT IS ORGANIZED

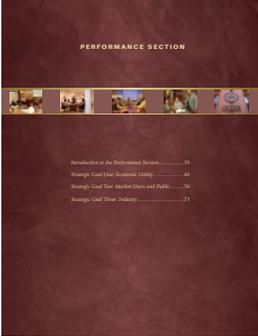
This document consists of three primary sections and supplemental sections:



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## Management's Discussion and Analysis

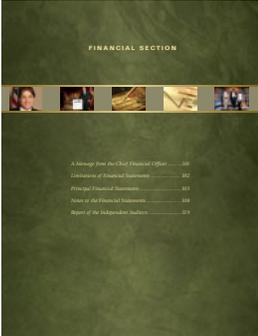
The Management's Discussion and Analysis (MDA) section is an overview of the entire report, as supported and detailed in the Performance Section and the Financial Section. The MDA presents performance and financial highlights for FY 2007, in addition to providing a discussion of compliance with legal and regulatory requirements, and future business trends and events. The MDA also includes the Inspector General's FY 2007 assessment of management challenges facing the Commission. For more information on this section, please contact Mark Carney, Chief Financial Officer, at 202-418-5477.



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## Performance Section

The Performance Section compares the Commission's performance to the annual goals as set forth in the 2004-2009 CFTC Strategic Plan. At the close of FY 2007, the Commission issued the 2007-2012 CFTC Strategic Plan adopting a fourth strategic goal, which focuses on assessing and measuring organizational and management excellence. The Commission will begin publishing its performance for the fourth goal in the FY 2008 Performance and Accountability Report. For more information on this section, please contact Emory Bevill, Deputy Director for Budget and Planning, at 202-418-5187.



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## Financial Section

The Financial Section is comprised of the Commission's financial statements and related Independent Auditors' report. For more information, please contact Keith Ingram, Deputy Director for Accounting and Financial Systems, at 202-418-5612.

## Other Accompanying Information

Other Accompanying Information provides an update on the Commission's progress in addressing management challenges identified by the Inspector General in the FY 2006 Performance and Accountability Report. Also included is the Commission's summary of audit and management assurances. For more information on this section, please contact Mark Carney, Chief Financial Officer, at 202-418-5477.

## Appendix

The Appendix contains the FY 2007 Commissioner's biographies, summaries of filed Enforcement actions addressed in the Performance Section, descriptions of CFTC Information Technology systems addressed in the Performance Section, and a glossary of abbreviations and acronyms used throughout the report. For more information, please contact Lisa Malone, Budget Analyst, Office of Financial Management, at 202-418-5184.

Questions and comments about this report can be directed to Mark Carney, Chief Financial Officer, at 202-418-5477 or via email at [mcarney@cftc.gov](mailto:mcarney@cftc.gov).

An electronic version of the CFTC FY 2007 *Performance and Accountability Report* is available on the Internet at [www.cftc.gov/aboutthecftc/cftcreports.html](http://www.cftc.gov/aboutthecftc/cftcreports.html). The 2007-2012 CFTC Strategic Plan, *Keeping Pace with Change*, is also available at this Web site.



# MANAGEMENT'S DISCUSSION AND ANALYSIS



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## COMMISSION AT A GLANCE

### Mission Statement

**T**HE 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.

### Commodity Futures Industry

Futures contracts on agricultural commodities have been traded in the United States for more than 150 years and have been under Federal regulation since the 1920s. At the time of the Commission's establishment, the vast majority of futures trading took place on commodities 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 movements.

Over the years, however, the futures industry has become increasingly diversified. 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, highly complex financial contracts based on interest rates, foreign currencies, Treasury bonds, securities indexes, and other products have far outgrown agricultural contracts in trading volume. The latest statistics show that approximately five percent of on-exchange commodity futures and option contracts activity occurs in the agricultural sector, while financial commodity

futures and option contracts make up approximately 86 percent, and other contracts, such as those on metals and energy products, make up about nine percent. Moreover, the electronic integration of cross-border markets and firms, as well as cross-border alliances, mergers and other business activities, have transformed the futures markets and firms into a global industry.

These trillion-dollar futures markets, with massive economic force, are expanding steadily in both volume and new users and their complexity is rapidly evolving with new technologies, cross-border activities, product innovation, and greater competition.

### How the CFTC is Organized and Functions

The CFTC consists of five Commissioners who are appointed by the President to serve staggered five-year terms. All Commissioners are confirmed by the Senate. No more than three Commissioners at any one time may be from the same political party. The President designates one of the Commissioners to serve as Chairman, with the advice and consent of the Senate.

The Commission’s organization chart is aligned with its newly adopted CFTC 2007-2012 Strategic Plan, and its functions are divided between program policy and internal management. The Office of the Chairman oversees the Commission’s principal divisions and offices that administer the policies, regulations, and guidance regarding the Commodity Exchange Act (CEA or the Act). The Office of the Executive Director, by delegation of the chairman, directs the internal management of the Commission, ensuring that funds are responsibly accounted for and that program performance is measured and improved effectively.

Attorneys at the Commission work on complex and novel legal issues in litigation, regulation, and policy development. They participate in administrative and civil proceedings; assist U.S. Attorneys in criminal proceedings involving futures law violations; develop regulations governing clearinghouses, exchanges, and intermediaries; provide a wide range of analysis and guidance on regulatory and supervisory issues; and provide legal advice to the Commission on policy and adjudicatory matters.

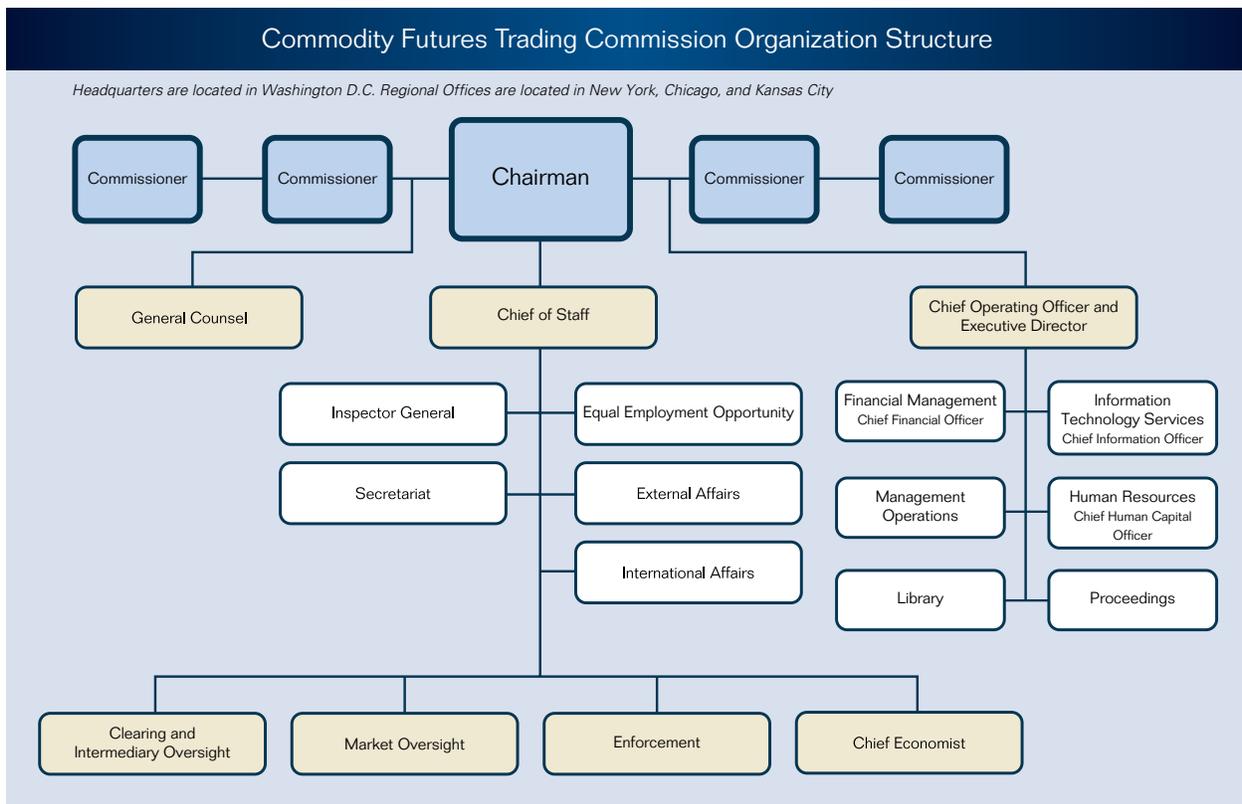
Auditors examine records and operations of futures exchanges, clearinghouses, and firms for compliance with financial requirements, while futures trading specialists perform regulatory and compliance oversight of alleged fraud, market manipulations, and trade practice violations.

Economists evaluate filings for new futures and option contracts and amendments to existing contracts to ensure they meet the Commission’s regulatory standards. Economists also analyze the economic effect of various Commission and industry actions and events and advise the Commission accordingly. In addition, economists monitor trading activity and price relationships in futures markets to detect and deter price manipulation and other potential market disruptions.

The CFTC is headquartered in Washington, D.C. Regional offices are located in Chicago, Kansas City, and New York.

Additional information about the Commission’s history and its divisions can be obtained from the Commission’s Office of External Affairs or through its Web site, [www.cftc.gov](http://www.cftc.gov).

## Organization and Locations



## Evolving Mission and Responsibilities

Congress created the CFTC in 1974 as an independent agency with the mandate to regulate commodity futures and option markets in the United States. The Commission's mandate was renewed and/or expanded in 1978, 1982, 1986, 1992, and 1995. In December 2000, the Commission was reauthorized by Congress and the President through FY 2005 with passage of the Commodity Futures Modernization Act of 2000 (CFMA). The CFMA repealed the ban on futures contracts based on individual securities and narrow-based securities indexes and instituted a regulatory framework for such products to be administered jointly by the CFTC and the Securities and Exchange Commission (SEC). It codified the principal provisions of a new regulatory framework adopted earlier by the Commission. It also brought legal certainty to the trading done in bilateral, over-the-counter (OTC) derivatives transactions and clarified the CFTC's jurisdiction over retail, off-exchange foreign currency (forex) transactions. Although the CFMA changed the Commission's approach to regulation, the Commission's mission remains the same. The CFTC continues to be responsible for fostering the economic utility of futures markets by encouraging their competitiveness and efficiency, ensuring their integrity, and protecting market participants against manipulation, abusive trading practices, and fraud. Through effective oversight regulation, the CFTC enables the commodity futures markets better to serve their vital function in the Nation's economy—providing a mechanism for price discovery and a means of offsetting price risks.

## Keeping Pace with Change

The futures industry has come a long way in the seven years since the CFMA was enacted. The principles-based approach, codified in the CFMA, combined the best forces of the free market with a truly flexible and fair approach to regulation. During this period, the Commission experienced unprecedented growth in the amount of money invested, volume, new products, trading platforms, and market participants. However, the phenomenal progress in the industry, for all its benefits, carries with it new responsibilities, challenges, and opportunities.

Since the development of the Commission's first Strategic Plan in 1997, the mission of the CFTC has been expressed and measured through three strategic goals, each focusing on a vital area of regulatory responsibility. The plan reflected the direction of the agency, including three key objectives: 1) modernizing regulations affecting trading platforms and market intermediaries; 2) permitting futures based on single securities or narrow-based securities indexes; and 3) providing legal certainty for OTC derivatives. The plan also reflected the enormous and continuing changes in the markets, including rapid growth in volume, globalization, and the movement from open outcry on-exchange trading floors to all-electronic trading from widely dispersed geographic locations.

In FY 2007, at the close of the fiscal year, the Commission issued *Keeping Pace with Change*, the Strategic Plan for FY 2007 through FY 2012. With this Strategic Plan, the Commission adopted a fourth strategic goal, which focuses on assessing and measuring organizational and management excellence. Establishing this fourth strategic goal allows the Commission to extend its performance and management framework—which requires the Commission to establish and measure its progress in achieving outcome objectives and strategic goals—beyond strictly program performance to the performance of the organization itself. Performance measures for the fourth strategic goal will be published in the FY 2008 Performance and Accountability Report.

In a marketplace driven by change, as is the futures industry, it may be helpful to look back at the way the industry and CFTC have trended in the past few years. The charts that follow reflect many of those changes affecting the CFTC: 1) industry growth versus staff growth; 2) growth in actively traded futures and option contracts; 3) enforcement actions in energy and forex markets and pool/hedge fund fraud; 4) growth in foreign commodity trading; 5) number of registrants; 6) contract markets designated by the CFTC; 7) number of CFTC-registered derivatives clearing organizations (DCOs); 8) exempt commercial markets (ECMs); 9) exempt boards of trade (XBOTs); and 10) amount of customer funds held at futures commission merchants (FCMs).

## Growth in Volume of Futures & Option Contracts Traded & CFTC Full-time Equivalents (FTEs), 1997-2007

Trading volume has increased six-fold in the last decade while staffing levels at the Commission have trended downward.



## Actively Traded Futures & Option Contracts, 1997-2007

The number of actively traded contracts on U.S. exchanges has more than quintupled in the last decade.



## Preservation of Market Integrity and Protection of Market Users

### *Manipulation, Attempted Manipulation, and False Reporting*

The CFTC has taken strong action utilizing every tool at its disposal to detect and deter against illegitimate market forces. The Commission uses enforcement action to preserve market integrity and protect market users, demonstrating that our authority is significant and that we intend to use it.

For example, CFTC enforcement efforts in the energy arena from December 2001 through September 2007 have resulted in 38 enforcement actions charging 63 companies and individuals and the assessment of approximately \$308 million in penalties.

Actions Taken Since December 2001 in Energy Markets	Energy Markets
Number of Cases Filed or Enforcement Actions	38
Number of Entities/Persons Charged	63
Number of Dollars in Penalties Assessed	
• Civil Monetary Penalties	\$308,198,500

### *Commodity Pools, Hedge Funds, Commodity Pool Operators (CPOs), and Commodity Trading Advisors (CTAs)*

Investors continue to fall prey to unscrupulous CPOs and CTAs, including CPOs and CTAs operating hedge funds. The majority of the Commission's pool/hedge fund fraud cases are brought against unregistered CPOs and/or CTAs. These cases tend to involve Ponzi schemes or outright misappropriation, as opposed to legitimate hedge fund operations. From October 2000 through September 2007, the Commission filed a total of 61 enforcement actions alleging misconduct in connection with commodity pools and hedge funds.

Actions Taken Since October 2000	Pools/Hedge Funds
Number of Cases Filed or Enforcement Actions	61
• Cases/Actions Charging Commission Registrants	23
Number of Dollars in Penalties Assessed	\$ 231,027,883

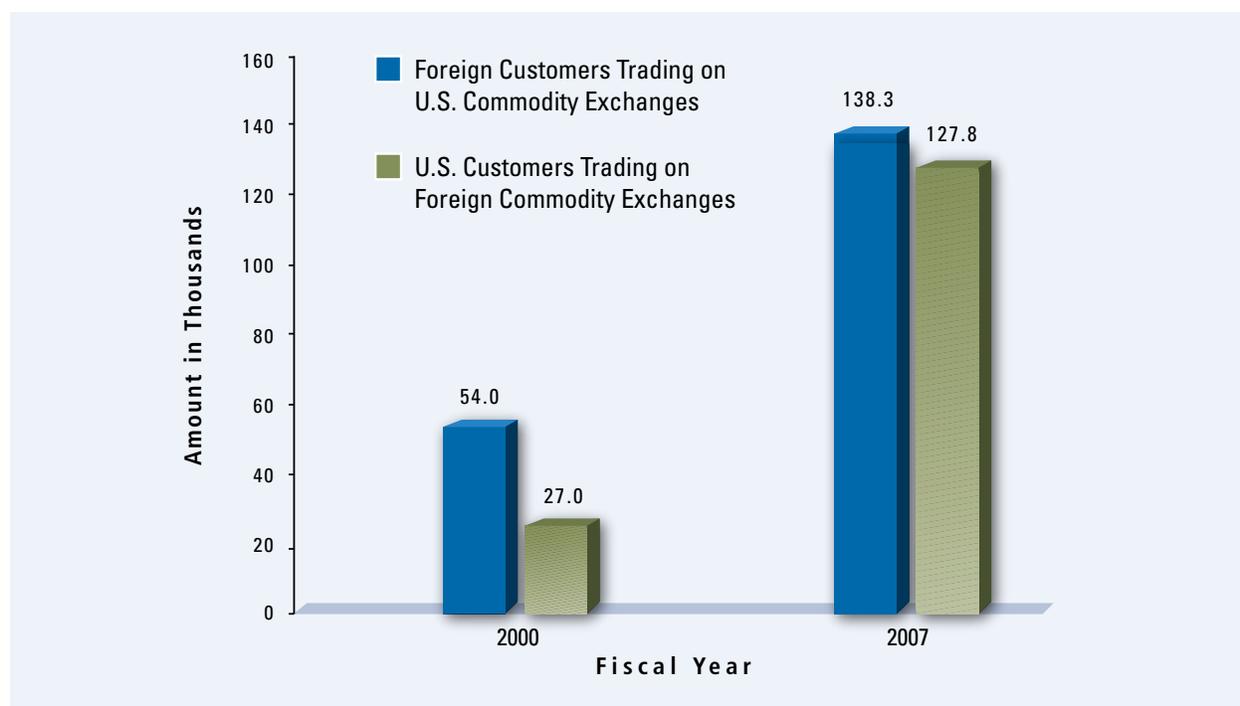
### *Forex Fraud*

The Commission vigorously uses its enforcement authority to combat the problem of forex fraud. Since passage of the CFMA in December 2000 through September 2007, the Commission, on behalf of more than 25,000 customers, has filed 98 cases. Those efforts have thus far resulted in approximately \$453 million in restitution and \$551 million in civil monetary penalties.

Actions Taken Since Passage of the CFMA in December 2000	Foreign Currency Markets
Number of Cases Filed or Enforcement Actions	98
• Number of Entities/Persons Charged	374
• Number of Customers Affected	25,859
Number of Dollars in Penalties Assessed	
• Civil Monetary Penalties	\$ 551,301,267
• Restitution	\$ 453,173,819

## Growth of Foreign Commodity Trading

Since 2000, the number of foreign customers trading on U.S. exchanges has more than tripled and the number of U.S. customers trading on foreign exchanges has more than quintupled.



## Number of Registrants

Companies and individuals who handle customer funds, solicit or accept orders, or give trained advice must apply for CFTC registration through the National Futures Association (NFA), a self-regulatory organization (SRO) with delegated oversight authority from the Commission. The Commission regulates the activities of nearly 70,000 registrants.

Type of Registered Professional	Number as of September 30, 2007
Associated Persons (APs) (Salespersons)	53,844
Commodity Pool Operators (CPOs)	1,416
Commodity Trading Advisors (CTAs)	2,601
Floor Brokers (FBs)	8,038
Floor Traders (FTs)	1,506
Futures Commission Merchants (FCMs)	197 <sup>1</sup>
Introducing Brokers (IBs)	1,699 <sup>2</sup>
<b>TOTAL</b>	<b>69,301</b>

<sup>1</sup> Includes 16 notice-registered FCMs.

<sup>2</sup> Includes 42 notice-registered IBs.

## Contract Markets Designated by the CFTC, 2002-2007

Designated contract markets (DCMs) are boards of trade or exchanges that meet CFTC criteria and Core Principles for trading futures or options by both institutional and retail participants.

Commodity Exchanges <sup>3</sup>	2002	2003	2004	2005	2006	2007
BTEX	●	●				
CBOT	●	●	●	●	●	●
CCFE			●	●	●	●
CCFE	●					
CFE		●	●	●	●	●
CME	●	●	●	●	●	●
CSCE	●	●	●			
EPFE			●			
HedgeStreet			●	●	●	●
INET	●					
KCBT	●	●	●	●	●	●
MACE	●	●				
ME	●	●	●			
MGE	●	●	●	●	●	●
NQLX	●	●	●	●		
NYBOT/ICE US			●	●	●	●
NYCE	●	●	●			
NYFE	●	●	●			
NYMEX (incl. COMEX)	●	●	●	●	●	●
OCX	●	●	●	●	●	●
PBOT	●	●	●	●	●	●
USFE			●	●	●	●
<b>TOTAL</b>	<b>16</b>	<b>15</b>	<b>18</b>	<b>13</b>	<b>12</b>	<b>12</b>

<sup>3</sup> Refer to the CFTC Glossary in the Appendix for full names of organizations.

## Number of CFTC-Registered Derivatives Clearing Organizations, 2002-2007

Clearinghouses that provide clearing services for CFTC-regulated exchanges must register as DCOs. Currently, 11 DCOs are registered with the Commission.

DCOs <sup>4</sup>	2002	2003	2004	2005	2006	2007
AE				●	●	●
BTEX	●	●				
CBOT			●	●	●	●
CCorp	●	●	●	●	●	●
CME	●	●	●	●	●	●
EnergyClear	●	●				
FCOM	●	●				
GCC	●	●				
HedgeStreet			●	●	●	●
ICC	●	●				
KCBT	●	●	●	●	●	●
LCH	●	●	●	●	●	●
MGE	●	●	●	●	●	●
NYCC/ICE Clear	●	●	●	●	●	●
NYMEX	●	●	●	●	●	●
OCC	●	●	●	●	●	●
ONXCC	●	●				
<b>TOTAL</b>	<b>14</b>	<b>14</b>	<b>10</b>	<b>11</b>	<b>11</b>	<b>11</b>

<sup>4</sup> Refer to the CFTC Glossary in the Appendix for full names of organizations.

## Exempt Commercial Markets, 2002-2007

Electronic trading facilities providing for the execution of principal-to-principal transactions between eligible commercial entities in exempt commodities may operate as ECMs as set forth under the CEA and the Commission's regulations. An ECM is subject to anti-fraud and anti-manipulation provisions and a requirement that, if performing a significant price discovery function, the ECM 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 information, 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. A total of 21 ECMs have filed notices with the Commission and 19 were active in FY 2007.

Exempt Commercial Markets <sup>5</sup>	2002	2003	2004	2005	2006	2007
CCX		●	●	●	●	●
CDXchange	●	●	●	●	●	
ChemConnect					●	●
Flett						●
GFI						●
HSE	●	●	●	●	●	●
ICAP					●	●
ICAP ETC					●	●
ICAP HYDE					●	●
ICE	●	●	●	●	●	●
IMAREX	●	●	●	●	●	●
NGX	●	●	●	●	●	●
Nodel						●
NTP					●	●
OPEX	●	●	●	●	●	●
Options ATS						●
SL		●	●	●	●	●
TCX				●	●	●
TFS		●	●	●	●	●
TFSE		●	●	●	●	●
TS	●	●	●	●	●	
<b>TOTAL</b>	<b>7</b>	<b>11</b>	<b>11</b>	<b>12</b>	<b>17</b>	<b>19</b>

<sup>5</sup> Refer to the CFTC Glossary in the Appendix for full names of organizations.

## Exempt Boards of Trade, 2002 – 2007

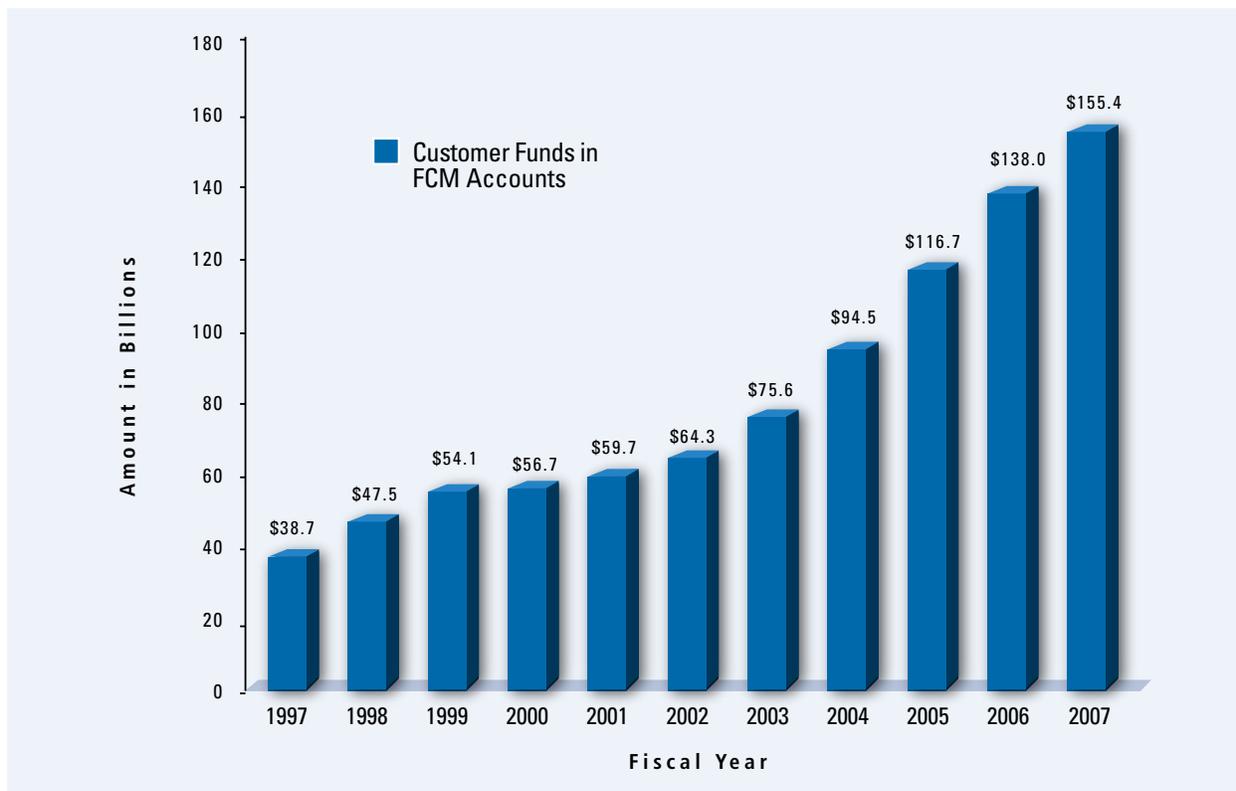
Transactions by eligible contract participants in selected commodities may be conducted on an XBOT as set forth under the CEA and the Commission's regulations. XBOTs are subject only to the CEA's anti-fraud and anti-manipulation provisions. An XBOT is prohibited from claiming that the facility is registered with, or recognized, designated, licensed, or approved, by the Commission. Also, if it is performing a price discovery function, the XBOT must provide certain pricing information to the public. To date, 11 XBOTs have filed notices with the Commission.

Exempt Boards of Trade <sup>6</sup>	2002	2003	2004	2005	2006	2007
AE			●	●	●	●
CME AM				●	●	●
GFI ForexMatch						●
Intrade				●	●	●
Longitude						●
MATCHBOXX ATS					●	
Storm					●	●
Swapstream					●	●
WBOT		●	●	●	●	
WXL	●	●	●	●	●	
Yellow Jacket						●
<b>TOTAL</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>5</b>	<b>8</b>	<b>8</b>

<sup>5</sup> Refer to the CFTC Glossary in the Appendix for full names of organizations.

## Customer Funds Held in Futures Commission Merchant Accounts, 1997-2007

The amount of customer funds held at FCMs has more than quadrupled in the last decade.





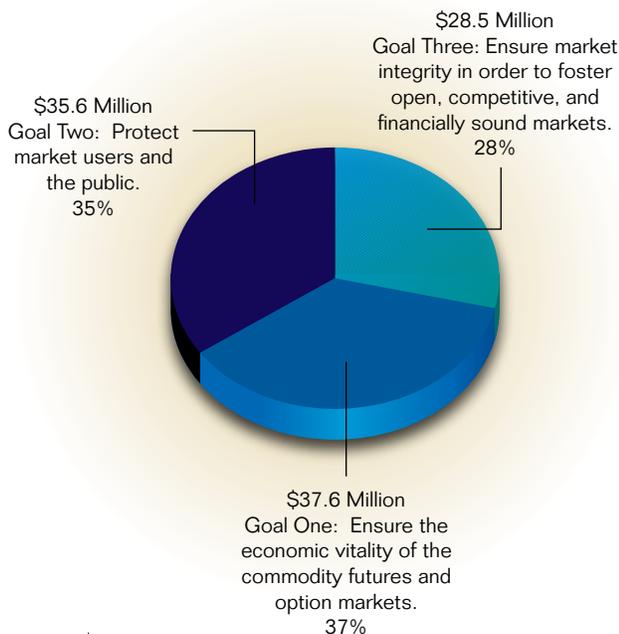
## PERFORMANCE HIGHLIGHTS

The mission of the CFTC is accomplished through three strategic goals, each focusing on a vital area of regulatory responsibility to: 1) ensure the economic vitality of the commodity futures and option markets; 2) protect market users and the public; and 3) ensure market integrity in order to foster open, competitive, and financially sound markets. Accomplishing the three long-term strategic goals is evidenced by the progress of nine key outcome objectives. In most cases, due to the broad economic functions that the Commission oversees, it is not a simple task to identify specific detailed objectives that will be accomplished each year. However, it is possible to identify conditions that, if present, are indicators that the Commission's activities are contributing successfully to the health of the industry it regulates.

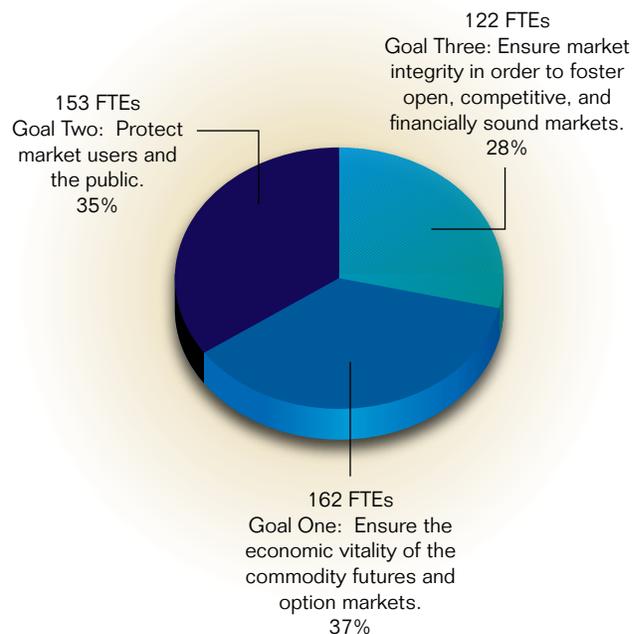
### Resource Investment by Strategic Goal

In FY 2007, the Commission invested 37 percent of its resources in economic vitality, 35 percent in protecting market users and the public, and 28 percent in market integrity.

Net Cost by Strategic Goal



Full-time Equivalents by Strategic Goal



## Summary of CFTC Mission Statement, Strategic Goals & Outcomes

### Mission Statement

**T**HE 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 CEA are handled effectively and expeditiously.

#### **GOAL THREE**

**Ensure market integrity in order to foster open, competitive, and financially sound markets.**

#### **OUTCOMES**

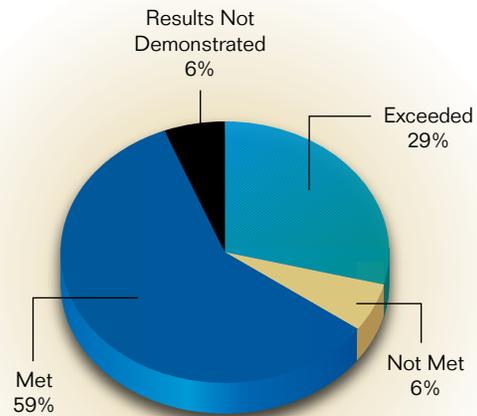
1. Clearing organizations and firms holding customer funds have sound financial practices.
2. Commodity futures and option markets are effectively self-regulated.
3. Markets are free of trade practice abuses.
4. Regulatory environment is responsive to evolving market conditions.

## FY 2007 Performance Results

Annually, the performance metrics are analyzed to determine the measure of success the program's activities have achieved in accomplishing the Commission's overall strategic mission. In FY 2007, the Commission met or exceeded 88 percent of its 34 performance metrics.

Since many of the Commission's performance metrics are subject to external influences, such as the futures industry, metrics alone cannot fully disclose the status of the performance ratings. In the Performance Section, the Commission, therefore, further analyzes the progress of each performance metric using adjectival ratings. The following is a summary outline of adjectival ratings used by Lead Program Offices to evaluate the results of each performance metric:

## FY 2007 Performance Metrics Results



<b>E</b> FFECTIVE:	Significantly exceeds the standards of performance and achieves noteworthy results.
<b>M</b> ODERATELY EFFECTIVE:	Exceeds the standards of performance; although there may be room for improvement in some elements, better performance in all other elements more than offsets this.
<b>A</b> DEQUATE:	Meets the standard of performance; deficiencies do not substantially affect performance.
<b>M</b> MARGINAL:	Below the standard of performance; deficiencies require attention and corrective action.
<b>U</b> NSATISFACTORY:	Significantly below the standard of performance; deficiencies are serious, may affect overall results, urgently require senior management attention, prompt corrective action.
<b>R</b> ESULTS NOT DEMONSTRATED:	Data is not available to evaluate the performance.

# INTRODUCTION TO STRATEGIC GOAL ONE

The focus of this goal is the marketplace. If U.S. commodity futures and option markets are protected from, and are free of, abusive practices and influences, they will fulfill their vital role in the U.S. market economy, accurately reflecting the forces of supply and demand and serving market users by fulfilling an economic need.

<b>STRATEGIC GOAL ONE</b>
<b>Ensure the economic vitality of the commodity futures and option markets.</b>
<b>ANNUAL PERFORMANCE GOAL ONE</b>
No price manipulation or other disruptive activities that would cause loss of confidence or negatively affect price discovery or risk shifting.
<b>Outcomes and Performance Measures</b>
1.1 Markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.
1.1.1. Percentage growth in market volume.
1.1.2. 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.
1.1.3. Percentage increase in number of products traded.
1.1.4. Percentage of new exchange and clearinghouse organization applications completed within expedited review period.
1.1.5. Percentage of new contract certification reviews completed within three months to identify and correct deficiencies in contract terms that make contracts susceptible to manipulation.
1.1.6. Percentage of rule 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.
1.2 Markets that are effectively and efficiently monitored to ensure early warning of potential problems or issues that could adversely affect their economic vitality.
1.2.1 Percentage of derivative clearing organization applications demonstrating compliance with Core Principles.
1.2.2 Ratio of markets surveilled per economist.
1.2.3 Percentage of contract expirations without manipulation.

## Performance Trends for Goal One

Monitoring market activity represents one of the ways the Commission seeks to protect the economic function of the markets. Market surveillance is conducted to detect attempted manipulation and other abusive practices that could undermine the capacity of these markets to perform their economic function. The Commission takes preventive measures to ensure that market prices accurately reflect fundamental supply and demand conditions, including the routine daily monitoring of large trader positions, futures and cash prices, price relationships, and supply and demand factors in order to detect threats of price manipulation.

## Market Volume

Contract trading volume peaked to more than three billion in FY 2007, as shown in Figure 1, *Growth in Volume of Futures & Option Contracts Traded & CFTC FTEs*, on page 12, with increased demand realized for products traded on exchanges. The FY 2007 actual is driven by changes in economic fundamentals, success of newly launched products, new participants using these markets, and other changes in the marketplace. As such, these factors may impact the precision of any prediction of future trading volume.

<b>Performance Measure 1.1.1</b>	<b>FY 2005 Actual</b>	<b>FY 2006 Actual</b>	<b>FY 2007 Plan</b>	<b>FY 2007 Actual</b>
Percentage growth in market volume	26%	26%	25%	27%

## New Products

The actual percentage of new products offered on the exchanges in FY 2007 increased above projections. These results are driven by customer demand for new products, exchange innovation, opportunities made available by the increasing use of electronic trading, and other changes in the marketplace. As such, these factors may impact the number of products introduced.

<b>Performance Measure 1.1.3</b>	<b>FY 2005 Actual</b>	<b>FY 2006 Actual</b>	<b>FY 2007 Plan</b>	<b>FY 2007 Actual</b>
Percentage increase in number of products traded	43%	25%	10%	20%

# INTRODUCTION TO STRATEGIC GOAL TWO

While the United States is the beneficiary of explosive growth in the futures industry, the risk of fraud and manipulation is always present. The trend toward electronic trading platforms and the expanding complexity of trading instruments have challenged the Commission to reconfigure its ability to identify, investigate, and take action against parties involved in violating applicable laws and regulations. If evidence of criminal activity is found, matters are referred to state or Federal authorities for prosecution under criminal statutes.

Over the years, the Commission has taken action in a number of cases involving manipulation or attempted manipulation of commodity prices. A variety of administrative sanctions, such as bans on futures trading, civil monetary penalties, and restitution orders, is available to the Commission. The Commission may also seek Federal court injunctions, asset freezes, and orders to disgorge ill-gotten gains.

<b>STRATEGIC GOAL TWO</b> Protect market users and the public.	
<b>ANNUAL PERFORMANCE GOAL TWO</b> To have an effective and efficient market surveillance program.	
<b>Outcomes and Performance Measures</b>	
2.1	Violations of Federal commodities laws are detected and prevented.
2.1.1.	Number of enforcement investigations opened during the fiscal year.
2.1.2.	Number of enforcement cases filed during the fiscal year.
2.1.3.	Percentage of enforcement cases closed during the fiscal year in which the Commission obtained sanctions, <i>e.g.</i> , civil monetary penalties, restitution and disgorgement, cease and desist orders, permanent injunctions, trading bans, and registration restrictions.
2.1.4.	Cases filed by other criminal and civil law enforcement authorities during the fiscal year that included cooperative assistance from the Commission.
2.2	Commodity professionals meet high standards.
2.2.1.	Percentage of self-regulatory organizations that comply with Core Principles.
2.2.2.	Percentage of derivative clearing organizations that comply with Core Principles.
2.2.3.	Percentage of professionals compliant with standards regarding testing, licensing, and ethics training.
2.2.4.	Percentage of self-regulatory organizations that comply with requirement to enforce their rules.
2.2.5.	Percentage of total requests receiving CFTC responses for guidance and advice.
2.3	Customer complaints against persons or firms registered under the Act are handled effectively and expeditiously.
2.3.1.	Percentage of filed complaints resolved within one year of the filing date.
2.3.2.	Percentage of appeals resolved within six months.

## Performance Trends for Goal Two

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 works to protect market users and the public by promoting compliance with, and deterring violations of, the CEA and Commission regulations. The majority 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.

### Enforcement Investigation and Litigation

In FY 2007, the Commission filed 41 enforcement actions and its enforcement program opened 99 investigations of potential violations of the Act and Commission regulations. The Commission obtained near record relief against enforcement action defendants and respondents—monetary penalties imposed during FY 2007 included \$290,910,031 in restitution and disgorgement, and \$251,072,084 in civil monetary penalties.

While the Commission’s Enforcement program continues to perform at a high level, current resource constraints continue to have an adverse impact. Enforcement staff are operating at full capacity and shifting resources from important investigations to ongoing and future litigation demands limits the ability to pursue new investigations as shown in the metrics above. 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 U.S. Department of Justice (DOJ) are an important adjunct to effective enforcement of the CEA, cooperative enforcement still requires the active use of Commission FTEs to assist DOJ in its criminal prosecutions.

Performance Measure 2.1.1	FY 2005 Actual	FY 2006 Actual	FY 2007 Plan	FY 2007 Actual
Number of enforcement investigations opened during the fiscal year	131	123	85	99

Performance Measure 2.1.2	FY 2005 Actual	FY 2006 Actual	FY 2007 Plan	FY 2007 Actual
Number of enforcement cases filed during the fiscal year	64	38	40	41

Performance Measure 2.1.3	FY 2005 Actual	FY 2006 Actual	FY 2007 Plan	FY 2007 Actual
Percentage of enforcement cases closed during the fiscal year in which the Commission obtained sanctions, <i>e.g.</i> , civil monetary penalties, restitution and disgorgement, cease and desist orders, permanent injunctions, trading bans, and registration restrictions	100%	100%	95%	100%

# INTRODUCTION TO STRATEGIC GOAL THREE

The Commission focuses on issues of market integrity, seeking to protect: 1) the economic integrity of the markets so that markets may operate free from manipulation; 2) the financial integrity of the markets so that the insolvency of a single participant does not become a systemic problem affecting other market participants; and 3) the operational integrity of the markets so that transactions are executed fairly and proper disclosures to existing and prospective customers are made.

<b>STRATEGIC GOAL THREE</b>	
<b>Ensure market integrity in order to foster open, competitive, and financially sound markets.</b>	
<b>ANNUAL PERFORMANCE GOAL THREE</b>	
<b>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.</b>	
<b>Outcomes and Performance Measures</b>	
3.1	Clearing organizations and firms holding customer funds have sound financial practices.
3.1.1.	Lost funds:
	a) Number of customers who lost funds.
	b) Amount of funds lost.
3.1.2.	Number of rulemakings to ensure market integrity and financially sound markets.
3.1.3.	Percentage of clearing organizations that comply with requirement to enforce their rules.
3.2	Commodity futures and option markets are effectively self-regulated.
3.2.1.	Percentage of intermediaries who meet risk-based capital requirements.
3.2.2.	Percentage of self-regulatory organizations that comply with requirement to enforce their rules.
3.3	Markets are free of trade practice abuses.
3.3.1.	Percentage of exchanges deemed to have adequate systems for detecting trade practice abuses.
3.3.2.	Percentage of exchanges that comply with requirement to enforce their rules.
3.4	Regulatory environment is flexible and responsive to evolving market conditions.
3.4.1.	Percentage of CFMA Section 126(b) objectives addressed.
3.4.2.	Number of rulemakings, studies, interpretations, and guidances to ensure market integrity and exchanges' compliance with regulatory requirements.
3.4.3.	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.
3.4.4.	Percentage of total requests receiving CFTC responses for guidance and advice.

## Performance Trends for Goal Three

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 FCMs. Clearing organizations and FCMs are the backbone of the clearing and settlement system; together, they protect against the possibility that the financial difficulties of one trader may become a systemic problem for other traders.

Commission staff also work with the SROs and NFA to monitor closely the financial condition of the FCMs themselves, who must provide the Commission, designated SRO, and NFA with various monthly and annual financial reports. The SROs and NFA also conduct 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 not only reviews the audit and financial surveillance work of the SROs and NFA, but also monitors the financial strength of FCMs directly, as appropriate. The Commission also periodically reviews clearing organization procedures for monitoring risks and protecting customer funds.

### Protecting Customer Funds

Staff monitor the operations of registrants in possession of customer funds through a number of financial oversight and risk surveillance activities. This monitoring includes reviewing monthly financial reports submitted by FCMs, reviewing annual reports of FCMs certified by independent public accountants, and conducting onsite examinations of FCMs. In FY 2007, staff processed about 2,700 financial reports filed by FCMs, and performed examinations and onsite reviews of several FCMs to test compliance with the Commission's financial requirements for the safekeeping of customer funds.

The financial and risk surveillance activities performed by staff have taken on greater importance in recent years due to the number of instances of market volatility and their impacts on market intermediaries and the clearing system. During FY 2007, staff conducted nearly 30 market move reviews to monitor the potential for, and instances of, market volatility, market disruptions, or emergencies that have the potential to impact: 1) the proper capitalization of firms; 2) the proper segregation of customer funds; 3) the ability of financial intermediaries to make payments to a DCO in a timely manner; and 4) issues with respect to systemic risk.

As a result of these and other ongoing financial oversight and risk surveillance activities, in FY 2007, there were no losses of regulated customer funds as a result of an FCM failure or the inability of customers to transfer their funds from a failing FCM to a financially sound FCM. This performance trend again met the program's objectives of ensuring sound financial practices of clearing organizations and firms holding customer funds, and the protection of customer funds.

### Oversight of SROs' and DCOs' Compliance Programs

A key aspect of assuring effective self-regulation is oversight by the Commission of futures industry SROs, which include exchanges and NFA, and DCOs, to ensure their fulfillment of responsibilities for monitoring and ensuring the financial integrity of market intermediaries and the protection of customer funds. Toward this end, Commission staff oversee, review, and report to the Commission concerning SRO and DCO self-policing programs to evaluate their compliance with applicable provisions of the Act and Commission regulations. Similar to the approach of other Federal financial regulators and certain overseas financial supervisors, the Commission employs a risk-based approach to its examination cycles of SROs and DCOs, *i.e.*, both the scheduling and scope of the risk-based reviews are based on an analysis of the underlying risks to which an institution is exposed and the controls that it has in place to address those risks.

Substantial staff resources were committed to the examination of selected SROs and DCOs in FY 2007, resulting in the completion of three major reviews of SROs' and DCOs' compliance programs. The reviews concluded that the SROs' and DCOs' compliance programs were meeting the requirements of the Act and Commission regulations. This performance trend again met the Commission's oversight program objectives of ensuring the financial integrity of market intermediaries and the protection of customer funds.

Performance Measure 3.1.1	FY 2005 Actual	FY 2006 Actual	FY 2007 Plan	FY 2007 Actual
Lost funds:				
a) Number of customers who lost funds	0	0	0	0
b) Amount of funds lost	\$ 0	\$ 0	\$ 0	\$ 0

<b>Performance Measure 3.1.3</b>	<b>FY 2005 Actual</b>	<b>FY 2006 Actual</b>	<b>FY 2007 Plan</b>	<b>FY 2007 Actual</b>
Percentage of clearing organizations that comply with requirement to enforce rules	100%	100%	100%	100%

<b>Performance Measure 3.2.2</b>	<b>FY 2005 Actual</b>	<b>FY 2006 Actual</b>	<b>FY 2007 Plan</b>	<b>FY 2007 Actual</b>
Percentage of self-regulatory organizations that comply with requirement to enforce their rules	100%	100%	100%	100%

<b>Performance Measure 3.3.2</b>	<b>FY 2005 Actual</b>	<b>FY 2006 Actual</b>	<b>FY 2007 Plan</b>	<b>FY 2007 Actual</b>
Percentage of exchanges that comply with requirement to enforce their rules	100%	100%	100%	100%



## FINANCIAL HIGHLIGHTS

The following chart is an overview of the Commission's financial position, preceding a discussion of the agency's financial highlights for FY 2007.

	2007	2006
<b>CONDENSED BALANCE SHEET DATA</b>		
Fund Balance with Treasury	\$ 19,507,914	\$ 20,055,508
Property, Equipment, and Software, Net	2,850,911	3,674,493
Accounts Receivable	126,276	63,855
Prepayments	131,142	461,038
Other (Custodial)	620,311	5,756,605
<b>TOTAL ASSETS</b>	<b>\$ 23,236,554</b>	<b>\$ 30,011,499</b>
FECA Liabilities	\$ 223,003	\$ 311,285
Payroll, Benefits and Annual Leave	7,415,622	9,182,837
Contingent & Deposit Fund Liabilities	357,563	59,088
Other Deferred Lease Liabilities	3,169,541	2,837,403
Accounts Payable	2,960,373	2,574,535
Custodial Liabilities	620,311	5,756,605
Other	10,001	-
<b>Total Liabilities</b>	<b>14,756,414</b>	<b>20,721,753</b>
Cumulative Results of Operations	(5,700,823)	(4,568,800)
Unexpended Appropriations	14,180,963	13,858,546
<b>Total Net Position</b>	<b>8,480,140</b>	<b>9,289,746</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 23,236,554</b>	<b>\$ 30,011,499</b>
<b>CONDENSED STATEMENTS OF NET COST</b>		
Total Cost	\$ 101,824,806	\$ 104,256,065
Net Revenue	(91,763)	(23,150)
<b>TOTAL NET COST OF OPERATIONS</b>	<b>\$ 101,733,043</b>	<b>\$ 104,232,915</b>
<b>NET COST BY STRATEGIC GOAL</b>		
Goal One - Economic Utility	\$ 37,641,226	\$ 33,354,533
Goal Two - Market User and Public	35,606,565	40,650,837
Goal Three - Industry	28,485,252	30,227,545
	<b>\$ 101,733,043</b>	<b>\$ 104,232,915</b>

## Financial Discussion and Analysis

The CFTC prepares annual financial statements in accordance with GAAP for Federal government entities and subjects the statements to an independent audit to ensure their integrity and reliability in assessing performance.

Management recognizes the need for performance and accountability reporting, and fully supports assessments of risk factors that can have an impact on its ability to do so. Improved reporting enables managers to be accountable and supports the concepts of the Government Performance and Results Act (GPRA), which requires the Commission to: 1) establish a strategic plan with programmatic goals and objectives; 2) develop appropriate measurement indicators; and 3) measure performance in achieving those goals.

The financial summary as shown on page 30 highlights changes in financial position between September 30, 2006 and September 30, 2007. This overview is supplemented with brief descriptions of the nature of each required financial statement and its relevance. Certain significant balances or conditions featured in the graphic presentation are explained in these sections to help clarify their relationship to Commission operations. Readers are encouraged to gain a deeper understanding by reviewing the Commission's financial statements and notes to the accompanying audit report presented in the Financial Section of this report.

## Understanding the Financial Statements

The CFTC presents financial statements and notes in the format required for the current year by Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, which is revised annually by OMB in coordination with the U.S. Chief Financial Officers Council. CFTC's current year and prior year financial statements and notes are presented in a comparative format.

### Balance Sheet

The balance sheet presents, as of a specific point in time, the economic value of assets and liabilities retained or managed by the Commission. The difference between assets and liabilities represents the net position of the Commission.

For the year ended September 30, 2007, the balance sheet reflects total assets of \$23 million. This reflects a 23 percent decrease from FY 2006. Although the Commission's fund balance with the U.S. Department of the Treasury (Treasury) was only \$0.5 million less in FY 2007 than it was at the end of FY 2006, custodial accounts receivable balances dropped by 89 percent. The CFTC litigates against defendants for alleged violations of the CEA, as amended. Violators may be subject to a variety of sanctions including fines, injunctive orders, bars and suspensions, rescissions of illegal contracts, disgorgement, and restitution to customers. When collectible custodial receivables (non-entity assets) are high, these fines and penalties that have been assessed and levied against businesses for violation of law dominate the balance sheet.

In FY 2007, approximately \$264 thousand in net custodial receivables was attributable to civil monetary sanctions. This precipitous drop is largely explained by the timing of civil monetary penalties collections. In FY 2007, a \$2.7 million collection related to NRG Energy Inc. was booked in late September. For FY 2006, the majority of the \$5.7 million net receivable was attributable to a \$4.2 million debt collected from Dominion Resources in early October 2006. In addition, due to a month delay in publishing the annual schedule of fees notice in the *Federal Register*, only \$251 thousand out of \$608 thousand had been collected of the fees charged to recover the costs incurred by the Commission in the operation of its program of oversight of self-regulatory organization rule enforcement programs. In addition, the net value of general property, plant, and equipment decreased almost \$825 thousand, as the Commission began depreciating internally-developed software for the eLaw Program.

As should be expected from a small regulatory agency, payroll, benefits, and annual leave make up the majority of CFTC liabilities. Several factors influenced the change in the Commission's net position during FY 2007. This, as noted above, includes the timing of prior year write-offs of old debt, and the overall case management and analysis of debt by the Division of Enforcement.

### Statement of Net Cost

This statement is designed to present the components of the net cost of the Commission. Net Cost is the gross cost incurred less any revenues earned from Commission activi-

ties. The statement of net cost is categorized by the Commission's strategic goals. The Commission experienced a 2.4 percent decrease in the total net cost of operations during FY 2007. This is consistent with the continuing resolution budget the Commission received for its appropriation.

Goal One, which tracks activities related to market oversight, continues to require a significant share of Commission resources. The CFTC experienced a 12.9 percent increase in net cost of operations in FY 2007, rising to \$37.6 million. This increase was largely attributable to a shift in resources back from responding to the collapse of Refco LLC, in FY 2006.

Goal Two is representative of efforts to protect market users and the public. In FY 2007, the Goal Two, net cost of operations fell to \$35.6 million, a 12.4 percent reduction. These lower funding levels primarily impacted the Division of Enforcement, which conducted 20 percent less enforcement investigations than the previous fiscal year due to declining staffing levels due to the hiring freeze that was in effect for most of FY 2007 throughout the Commission.

Goal Three is representative of efforts to ensure market integrity. In FY 2007, the Goal Three net cost of operations was \$28.5 million, a decrease of 5.8 percent. Productivity improvements achieved through the use of an audit software tool helped to offset some of the reduction in resources. For example, staff resources were able to complete three major reviews of self-regulatory organization and derivatives clearing organization compliance programs. As futures markets become more global in nature, the Commission is increasingly called upon to register overseas clearinghouses, to approve complex cross-border trading and clearing linkages, and to perform effective ongoing supervision. This requires the Commission to invest resources in developing and maintaining effective relationships with foreign regulatory authorities.

### Statement of Budgetary Resources

This statement provides information about the provision of budgetary resources and its status as of the end of the year. Information in this statement is consistent with budget execution information and the information reported in the *Budget of the U. S. Government, FY 2007*.

The \$98.0 million appropriation level received in FY 2007 was based on a continuing resolution formula. As a consequence the level was slightly less than the enacted FY 2006 level \$98.4 million, however, as no rescission was enacted in FY 2007, the Commission received a small net increase of about \$580,000 to maintain a "steady state" and fund benefits and compensation, lease expenses, printing, and services to support systems users, telecommunications, operations, and maintenance of technology equipment. Gross outlay decreases are mainly due to an almost year-long hiring freeze that reduced disbursements for payroll and benefits, netted by an apportionment of no-year appropriation recoveries of \$3.4 million and the cancellation of expired accounts.

### Statement of Custodial Activity

This statement provides information about the sources and disposition of non-exchange revenues. Non-exchange revenue at the CFTC is primarily represented by fines, penalties, and forfeitures assessed and levied against businesses and individuals for violations of the CEA. Other non-exchange revenues include registration, and filing and appeal fees, as well as general receipts. The statement of custodial activity reflects total non-exchange revenue collected (cash collections) of \$12.4 million and a transfer of the collections to the Treasury in the same amount.

Historical experience has indicated that a high percentage of custodial receivables prove uncollectible. The methodology used to estimate the allowance for uncollectible amounts related to custodial accounts is that custodial receivables are considered 100 percent uncollectible unless otherwise noted in the judgment. An allowance for uncollectible accounts has been established and included in Accounts Receivable on the balance sheet. The allowance is based on past experience in the collection of accounts receivables and analysis of outstanding balances. Accounts are re-estimated quarterly based on account reviews and determination that changes to the net realizable value are needed. The re-estimate can cause wide swings in the statement line that reports Change in Accounts Receivable.



# MANAGEMENT ASSURANCES

## Management Overview

The CFTC is committed to management excellence and recognizes the importance of strong financial systems and internal controls to ensure accountability, integrity, and reliability. This operating philosophy has permitted the Commission to make significant progress in documenting and testing its internal controls over financial reporting for next year, as prescribed in OMB Circular A-123, *Management's Responsibility for Internal Control*. The graph below depicts all five components of the internal control process that must be present in an organization to ensure an effective internal control process.

**Control Environment** is the commitment to encourage the highest level of integrity and personal and professional standards, and promotes internal control through leadership philosophy and operation style.

**Risk Assessment** is the identification and analysis of risks associated with business processes, financial reporting, technology systems, and controls and legal compliance in the pursuit of agency goals and objectives.

**Control Activities** are the actions supported by management policies and procedures to address risk, e.g., performance reviews, status of funds reporting, and asset management reviews.

**Monitoring** is the assessment of internal control performance to ensure the internal control processes are properly executed and effective.

**Information and Communication** ensures the agency's control environment, risks, control activities, and performance results are communicated throughout the agency.



The Commission relies on its performance management and internal control framework to:

- Ensure that its divisions and mission support offices achieve their intended results efficiently and effectively; and
- Ensure the maintenance and use of reliable, complete, and timely data for decision-making at all levels.

The Commission strongly believes that the rapid implementation of audit recommendations is essential to improving its operations. Integration of Commission strategic, budget, and performance data permits management to make individual assurance statements with confidence. Moreover, data-driven reporting provides the foundation for Commission staff to monitor and improve its control environment.

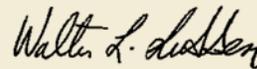
## Statement of Assurances

The Statement of Assurance is required by the Federal Managers' Financial Integrity Act (FMFIA) and OMB Circular A-123, *Management's Responsibility for Internal Control*. The assurance is for internal controls over operational effectiveness (we do the right things to accomplish our mission) and operational efficiency (we do things right).

### Statement of Assurance

*"CFTC management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). The CFTC conducted its assessment of the internal control over effectiveness and efficiency of operations, and compliance with applicable laws and regulations, in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, the CFTC can provide reasonable assurance that its internal control over operations, and compliance with applicable laws and regulations, as of September 30, 2007 was operating effectively and no material weaknesses were found in the design or operation of the internal controls.*

*In addition, the CFTC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, the CFTC can provide reasonable assurance that its internal control over financial reporting as of June 30, 2007 was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting."*



Walter L. Lukken  
Acting Chairman

November 15, 2007

During FY 2007, in accordance with the FMFIA, and using the guidelines of OMB, the Commission reviewed key components of its management and internal control system.

The objectives of the Commission's internal controls are to provide reasonable assurance that:

- Obligations and costs are in compliance with applicable laws;
- Assets are safeguarded against waste, loss, unauthorized use, or misappropriation;
- Revenues and expenditures applicable to Commission operations are properly recorded and accounted for to

permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over assets;

- All programs are efficiently and effectively carried out in accordance with applicable laws and management policy;
- Management has plans and a process to continue assessing controls in accordance with OMB Circular A-123, Appendix A; and
- Management has a process in place to assure prompt and proper implementation of corrective actions to resolve deficiencies in internal controls, including material weaknesses.

The efficiency of the Commission's operations is continually evaluated using information obtained from reviews conducted by the Government Accountability Office (GAO) and the Office of Inspector General (OIG), specifically requested studies, or observations of daily operations.

These reviews ensure that the Commission's systems and controls comply with the standards established by FMFIA. Moreover, managers throughout the Commission are responsible for ensuring that effective controls are implemented in their areas of responsibility. Individual assurance statements from division and office heads serve as a primary basis for the chairman's assurance that management controls are adequate. The assurance statements are based upon each office's evaluation of progress made in correcting any previously reported problems, as well as new problems identified by the OIG, GAO, other management reports, and the management environment within each office.

Commission organizations that have material weaknesses are required to submit plans for correcting those weaknesses. The plans, combined with the individual assurance statements, provide the framework for continually monitoring and improving the Commission's management and internal controls.

### Summary of Material Weaknesses (FMFIA § 2)

The Commission did not declare any material weaknesses in FY 2007. Between FY 2006 and FY 2007, the Commission made significant improvements in addressing one declared material weakness under FMFIA, in the area of financial reporting that hindered preparation of timely and accurate financial statements, in FY 2006. The major impediments that faced the Commission covered the following areas:

- *Establishing the custodial fines and interest receivable balance as well as estimating the allowance for loss on each receivable.* The Commission migrated to a new accounting system, and made enhancements to its case tracking processes and systems to resolve these findings.
- *Accounting for leases and knowledge of accounting principles.* CFTC now recognizes lease expense, for rental of its various office spaces, on a straight-line basis, as required under GAAP. CFTC restated its FY 2005 financial statements. The Commission resolved these findings by 1) configuring its new accounting system to recognize lease expense on a straight-line basis; 2) holding training on Federal Accounting Standards; and 3) enhancing the process used to review new leases or lease changes.
- *Recording accruals and preparing financial statements.* CFTC did not properly record the accounts payable, operating leases, subsequent cash disbursements, and undelivered orders. CFTC improved its process to properly record its accruals when it migrated to its new accounting platform and began using an invoice workflow application. This component of the material weakness was revised and repeated as a significant deficiency. It will be resolved in Fiscal Year 2008.

### Summary of Non-Conformances (FMFIA § 4)

The Commission declared no systems nonconformance under FMFIA, during FY 2007. The independent auditors' report for FY 2006 disclosed one instance of noncompliance that was required to be reported under Government Audit Standards and OMB Bulletin 07-04, *Audit Requirements for Federal Financial Statements*. The auditors disclosed noncompliance with the Federal Information Security Management Act (FISMA), noting continued improvements were required with entity-wide security and contingency planning programs, access controls, segregation of duties, and service continuity to fully meet guidelines of the E-Government Act of 2002 and OMB Circular A-130, *Management of Federal Information Resources*. The Commission took corrective actions between June 30, 2006 and June 30, 2007 that addressed the majority of the concerns leading to the audit disclosure—in particular testing contingency plans, putting configuration management plans into place, and implementing a formal enterprise configuration control board.



## FORWARD LOOKING – FUTURE BUSINESS TRENDS AND EVENTS

The futures industry has undergone enormous growth and change during the last 20 years—from the products that are trading to the platforms on which they are traded. As the Commission looks ahead, it expects technology, globalization, and innovation will continue to drive growth in the markets it regulates.

As this period of rapid change continues, the Commission expects to lose most of its experienced career staff, primarily through retirement, in the near future. During FY 2006, the Commission experienced its first wave of these retirements.

From a resources perspective, the Commission has struggled to operate at the level needed to do the job expected of it by Congress, the Administration, and the American people. The Commission finds itself repeatedly having to make difficult choices about how it will use its limited resources to fulfill its statutory mission.

It is anticipated that Commission efforts will be scaled back to the extent increased productivity cannot offset anticipated resource reductions. As noted in the discussion of the net cost of operations, the Commission attempts to balance its investment in three strategic goals, each focusing on a vital area of regulatory responsibility. To continue to be an effective regulator, the Commission will need to place greater reliance on risk management approaches to supervision. It will also continue to leverage needed systems and data maintained by other Federal agencies and, wherever possible, by SROs. Moving forward, the

Commission will be required to confront the jurisdictional challenges created by innovation and the worldwide creation and expansion of futures and option markets. These, coupled with a wide array of new surveillance issues, are expected to significantly change the way the Commission uses and allocates resources across its performance goals. From an operational perspective, the Commission will continue to allocate and deploy its resources in less traditional ways as described below. As this process accelerates, the Commission seeks to transform itself along the following dimensions.

### Technology

- Technology continues to make it possible for market participants to trade globally, 24 hours a day, on newly designed platforms. This presents a challenge to the Commission to maintain a robust, yet flexible, regulatory framework as market participants have an increasing number of choices available to them as to where, when, and how to trade.
- The expansion of electronic trading continues to require an increase in Commission staff trained to carry out oversight of more technologically driven markets and self-regulatory systems.
- As electronic trading of commodity futures and option contracts on Commission-regulated exchanges becomes the norm, the Commission must continue to upgrade its own technology and infrastructure so that it may

effectively discharge its statutory mandate of deterring and preventing price manipulation and any other disruptions to the integrity of the markets the Commission regulates.

- The continuing shift of market volume to the electronic trading environment poses new data processing challenges to the CFTC. Because this medium allows exchanges to gather and transmit much more information about trading activity, the CFTC must increase its overall capacity for processing and storage. In addition to the significant increase in the amount of information being made available to the CFTC, there has been a large increase in the number of contracts being traded. Therefore, to meet these challenges, the Office of Information and Technology Services (OITS) will continue to improve its computational performance. A variety of projects are underway that address specific CFTC business needs using the data and market information the Commission receives.
- Commission work continued on Project eLaw, an effort that provides law office automation and modernization to the Commission's Division of Enforcement, Office of the General Counsel (OGC), and Office of Proceedings. Project eLaw is a Commission-wide initiative that seamlessly integrates technology and work processes to support managers and staff across the Commission in their investigation, trial and appellate work. In FY 2007, the eLaw project became a major program supporting the Commission. The case management solution (Practice Manager) was further customized to best meet the needs and evolving requirements of the users. This year saw the program pursuing the area of computer forensics and audio analytics to further support the Division of Enforcement with their investigation and litigation work. The eLaw program will continue to support the Commission's legal practice in the areas of case planning, case management, litigation support, and document management.
- In FY 2008, the Commission will continue to maintain, support, and enhance the eLaw solution and consider expansion into other areas of the Commission that would benefit from the automated technology.

- Presently, the Commission is developing a new Trade Surveillance System (TSS) to replace its older trade surveillance system that was designed for open outcry trading and has not been significantly upgraded since its inception in the mid-1980s. TSS will give the Commission the ability to discharge its statutory mandate of deterring and preventing price manipulation and any other disruptions to the integrity of the markets the Commission regulates. Specifically, TSS will enhance staff's ability to effectively detect and deter trade practice violations in a rapidly changing environment, especially with respect to electronic trading data, and will provide staff with greater efficiency and flexibility. Trade violation detection software will perform sophisticated pattern recognition and data mining to automate basic trade practice surveillance, and detect novel and complex abusive practices in today's high-speed, high-volume global trading environment. TSS also will fill a vacuum in inter-market surveillance that only the Commission can address, *e.g.*, New York Mercantile Exchange (NYMEX) and Chicago Board of Trade (CBOT) metals contracts, and side-by-side trading, *e.g.*, simultaneous trading of a contract on a DCM's floor and the DCM's electronic trading platform.

#### Globalization

- The continued globalization of the futures and option markets through electronic linkages, strategic alliances and mergers, as well as increasing requests for the Commission to participate in U.S. government initiatives with economically important jurisdictions and to provide technical assistance to developing markets requires additional experienced staff to meet these demands.
- In such an integrated global marketplace, the possibility of market disruptions caused by economic changes, terrorism, epidemics, natural disasters or political developments could trigger global market systemic concerns. Because no one regulator will have all of the needed information or jurisdiction over markets, firms, and persons to ensure customer and market protections, the Commission's challenge will be to coordinate with global regulators.

## Marketplace

- Development and growth of renewable energy sources (*i.e.*, biofuels) could impact existing energy markets.
- Disruption of oil exports to the United States may disrupt energy markets.
- A significant portion of the power grids may be disabled for an extended period of time, crippling markets.
- Changes in the structure of the futures and options industry, such as the conversion of exchanges from member-owned entities to publicly-owned corporations, exchange mergers, and the introduction of new and novel contracts will mean that the Commission will require more staff to review novel and increasingly complex legal and regulatory issues.
- Convergence of products and markets requires increased interagency coordination with the SEC and the Federal Energy Regulatory Commission to address areas of mutual interest related to cross-jurisdictional issues, such as those presented by credit event products and commodity exchange-traded funds, and potential manipulation in the energy markets, respectively.
- Expansion of these markets results in strong competition for employees with the skills the Commission requires to meet its mission, continually challenging the agency to offer competitive compensation.

## Government

- Congress could pass new legislation impacting the markets and the role of the Commission.
- Congress might require an investigation of certain markets.
- Congress might not appropriate adequate funds for the Commission to effectively discharge its mission-critical functions.
- Prompt implementation of the confines of enhanced e-government business processes is a continual challenge within limited staff and financial resources.

## Information Technology

- Technology improvements will continue to empower the Commission in the future by increasing the availability of its most critical resource—time. Through these improvements, executive management may spend additional time on policy analysis and decision-making rather than on the processing and compiling of key data. The Commission will increasingly leverage business processes, services, and systems of larger agencies for internal operations, while externally relying more on exchange databases when conducting reviews and investigations.

## Human Capital

- Human capital management with an enhanced strategic focus continues to emphasize building the staff resources necessary to core business lines, with support requirements met through the use of leveraged resources and competitive sources of service.
- Competition to hire and retain staff is intense in a job market where scarce mission-critical skills command premium compensation levels. Even at “pay parity” salaries, the Commission must continually seek to improve the work environment so it can continue to attract, engage, and retain a workforce that is equal to the evolving challenges of market oversight.

## Management

- Compliance with the future demands and uncertainties of Homeland Security Presidential Directives 12 and 20, as well as Pandemic Influenza preparedness.

# INSPECTOR GENERAL'S FY 2007 ASSESSMENT



Office of the  
Inspector General

## U.S. COMMODITY FUTURES TRADING COMMISSION

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**TO:** Walter Lukken  
Acting Chairman

**FROM:** A. Roy Lavik *ARL*  
Inspector General

**DATE:** November 15, 2007

**SUBJECT:** Inspector General's Assessment Of The Most Serious Management  
Challenges Facing the Commodity Futures Trading Commission (CFTC)

### Introduction

The *Reports Consolidation Act of 2000 (RCA)* authorizes the CFTC to provide financial and performance information in a more meaningful and useful format for Congress, the President, and the public, through publication of the Performance and Accountability Report (PAR). The *RCA* requires the Inspector General to summarize the "most serious" management and performance challenges facing the agency and to assess the agency's progress in addressing those challenges, all for inclusion in the PAR. This memorandum fulfills our duties under the *RCA*.

In order to identify and describe the most serious management challenges, as well as the agency's progress in addressing them, we have relied on data contained in the CFTC financial statement audit and PAR report, as well as our knowledge of industry trends and CFTC operations. Since Congress left the determination and threshold of what constitutes a most serious challenge to the discretion of the Inspector General, we applied the following definition in preparing this statement:

Serious management challenges are mission critical areas or programs that have the potential for a perennial weakness or vulnerability that, without substantial management attention, would seriously impact agency operations or strategic goals.

This memorandum summarizes the results of the CFTC's current financial statement audit, describes the agency's progress on last year's management challenges, and finally discusses the most serious management challenges that we have identified: Modernization of Electronic Market Surveillance and Expansion of CFTC Oversight into New Markets.

### **CFTC Financial Statement Audit Results**

In accordance with the *Accountability of Tax Dollars Act*, CFTC, along with numerous other federal entities, is required to submit to an annual independent financial statement audit by the Inspector General, or by an independent external auditor as determined by the Inspector General. In 2004, the Office of the Inspector General (OIG) selected KPMG LLP, an independent public accounting firm, to conduct the required audit. Since then, KPMG LLP has annually conducted an audit of the CFTC's financial statements on the OIG's behalf and has rendered an opinion on the statements. The results of the KPMG audit are discussed in the PAR, and I am pleased to state that, for Fiscal Year 2007, the financial statement audit resulted in an unqualified audit opinion.

### **CFTC's Progress on Last Year's Challenges**

Last year we identified two most serious management challenges: Industry Consolidations, and Exchange Trading Revolutions. Events in 2007 have reinforced our prior assessment of the serious management challenges facing the CFTC. During the past year, the CME-CBOT and NYBOT-ICE mergers reflected our previously stated concern that industry consolidations might significantly impact how the CFTC allocates staff resources to fulfill its regulatory mission. Furthermore, these mergers have accelerated the structural change towards trading on electronic platforms, while triggering a significant diminution of on-floor trading. Electronic futures and options trading on all domestic exchanges accounted for 74% of trading volume during 2007 (through August 2007), compared with 64% last year.

Our review leads us to conclude that the agency has responded effectively to these management challenges. The agency's achievements are remarkable given the historically low full-time-equivalent staff (approximately 437 FTEs) employed at the agency during this recent fiscal year. However, we are uneasy about the CFTC's comparatively low funding. If it continues, the agency may be adversely impacted in its ability to conduct its mission.

### **Most Serious Management Challenges**

The OIG reviewed all the management challenges listed by program areas as well as external challenges mentioned in the PAR. As a result of our review, the OIG concludes that management fairly stated the challenges faced by the agency and identified in the PAR. Although the PAR identified challenges by program areas, the OIG adopted a broader agency-wide perspective in selecting management challenges. Given the aforementioned conditions and based on our familiarity with the CFTC and our review of current industry trends, we have identified two potential management challenges which we believe will challenge the CFTC in the coming year. Modernization of Electronic Market Surveillance and Expansion of CFTC Oversight into New Markets will stress the regulatory resolve of the CFTC in allocating its staff to its market oversight mission as mandated by Congress.

### **Modernization of Electronic Market Surveillance**

Last year we stated that the migration to trading on largely electronic exchanges challenged whether the agency has sufficient information technology infrastructure and staff to efficiently and effectively conduct timely surveillance of these dynamic and economically essential global markets. Continued expansion of electronic trading leads us to restate this concern and to emphasize the need for the CFTC to modernize and develop enhancements to its electronic market surveillance techniques and to establish new procedures for training its staff (who historically relied on trading floor based surveillance of derivatives markets) on how to carry out its regulatory mission under this new industry paradigm of electronic exchange trading.

The existing CFTC electronic market surveillance system relies on data systems that are the outgrowth of late twentieth century technology. It is suitable for an update in the twenty-first century. We applaud the agency's current efforts to develop an updated market surveillance system. Yet there remains a valid concern that both staff and new agency systems will be challenged if growth in electronic trading continues at its current rate. Our concern is further heightened by the second year of stagnant budgetary resources. This lack of funds will impact the agency's ability to invest in technological modernization, and to effectively maintain its electronic oversight of the largely electronic exchanges under its regulatory purview.

### **Expansion of CFTC Oversight into New Markets**

Exempt Commercial Markets – an area that in the past has not received significant agency resources – is increasingly demanding more attention. During the past year, members of Congress and industry leaders have expressed concern that, where Exempt Commercial Markets (that are largely electronic trading platforms) generate commodity prices that can impact the price discovery of equivalent exchange traded commodities, the CFTC ought to acquire greater awareness of those transactions, thus forcing the agency to reevaluate its previous regulatory model of focusing principally on designated exchange trading oversight. This expansion of the CFTC's oversight mission – regardless of whether expansion is legislated through Congressional action or expanded within the existing agency regulatory scheme – may strain agency human resources, as well as electronic market surveillance systems.

### **Conclusion**

We are optimistic that, with an adequate Fiscal Year 2008 budget, the CFTC will be able to address these management challenges, as well as those identified in the PAR. We look forward to identifying solutions to assist the CFTC in rendering the most cost-effective oversight of these burgeoning financial markets. We will partner with the Government Accountability Office, when necessary, to evaluate existing CFTC oversight in areas ranging from energy, human resources and new products such as emissions reduction trading. The OIG will continue to provide an independent and constructive review of agency operations so that the agency can continue to improve its performance in maintaining the integrity and usefulness of the products offered by the futures industry. The OIG takes its mission and authority seriously and remain committed to promote integrity, accountability, and transparency at this agency.

# PERFORMANCE SECTION



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## INTRODUCTION TO THE PERFORMANCE SECTION

*This Section includes details of Commission efforts to meet its strategic and performance goals. The Commission scrutinizes performance measures to ensure that the metrics adequately challenge the programs to reach the desired results, ensure accountability, and provide information that can be used to make financial decisions and develop future budgets.*



## STRATEGIC GOAL ONE: ECONOMIC UTILITY

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

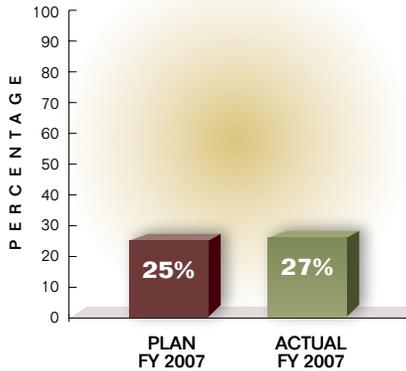
**Outcome 1.1:** Futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.

**Annual Performance Goal 1.1:** No price manipulation or other disruptive activities that would cause loss of confidence or negatively affect price discovery or risk shifting.

**PERFORMANCE MEASURE 1.1.1** Percentage Growth In Market Volume.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	24%	26%	26%

**FY 2007 Performance Results**



**Results:** 27%

**Measurement:** Percentage

**Status:** Effective

**Data Source:** Exchanges' trading volume data.

**Verification:** Exchange data is compared to FIA report.

**Lead Program Office**

Division of Market Oversight (DMO)

**Performance Trends & Variations**

Growth in the futures markets continued in FY 2007 with increased demand realized for products traded on the exchanges. The actual FY 2007 number is driven by changes in economic fundamentals, success of newly launched products, the number of new participants using these markets, and other changes in the marketplace.

**Performance Highlights**

Growth in the volume and complexity of trading in energy futures markets, including trading in related OTC and foreign markets, has been met by expanded data collection, enhanced information technology capabilities, more detailed analyses of transaction data, reassignment of current economists to energy market surveillance, and additional hires of economists for energy market surveillance.

**Data Source & Validation**

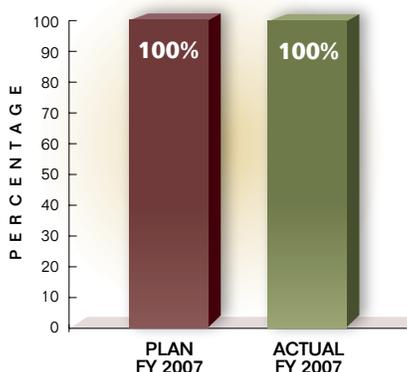
Exchanges are required to submit trading volume data to the Commission on a daily basis. This data is then stored in a Commission database for use in market surveillance analysis.

Exchange volume data is submitted to the Commission electronically for each business day, subjected to a series of edit and quality checks, and maintained in a central database. The data is also compared to monthly data published by the Futures Industry Association (FIA).

**PERFORMANCE MEASURE 1.1.2** Percentage of novel or innovative 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.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	100%	100%	100%

## FY 2007 Performance Results



<b>Results:</b>	100%
<b>Measurement:</b>	Percentage
<b>Status:</b>	Effective
<b>Data Source:</b>	Formal filings and signed letter responses by the Commission.
<b>Verification:</b>	Formal filing and disposition dates maintained in internal tracking system.

## Lead Program Office

Division of Market Oversight

## Performance Trends & Variations

DMO handled a number of proposals or requests for Commission action during the fiscal year that included newer approaches to derivatives trading or enhancements to the price-discovery process. The items, which included innovative products and exchange processes, were all addressed within six months of formal receipt.

## Data Source & Validation

Supporting documentation is in the form of formal filings with the Commission and signed letter responses by DMO or the Commission (upon DMO recommendation).

DMO is able to calculate review time by consulting an internal tracking system which reflects all formal filings that are made with DMO, including filing and disposition dates.

## Performance Highlights

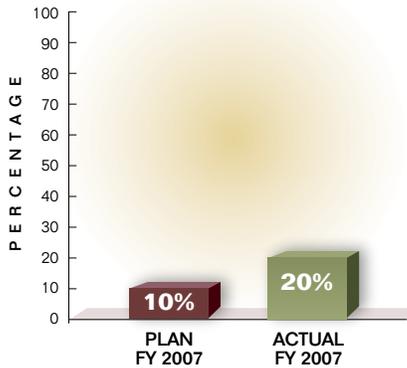
DMO was responsible for two particular actions that dramatically increased the availability of risk-management tools. On May 24, 2007, DMO issued a no-action relief to the Dubai Mercantile Exchange Limited (DME) to make its electronic trading and order matching system, DME Direct, available to DME members, and guaranteed customers in the United States without obtaining contract market designation or registration as a derivatives transaction execution facility pursuant to Sections 5 and 5a of the Act. The relief letter enabled U.S.-based traders to directly access DME's products, including its Oman sour crude oil contract—the first physically-delivered, Middle East-based energy futures contract ever to be offered by a futures exchange.

DMO also was responsible for the Commission's issuance of an order permitting NYMEX FBs and FTs subject to certain conditions to be considered eligible contract participants for the purposes of executing exempted transactions under Section 2(h)(1) of the Act. The order, issued in response to a petition by NYMEX, enables FBs and FTs at that exchange to execute bilateral OTC energy transactions pursuant to the exemptive provisions of Section 2(h)(1) of the Act.

**PERFORMANCE MEASURE 1.1.3** Percentage increase in number of products traded.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	12%	36%	25%

**FY 2007 Performance Results**



**Results:** 20%

**Measurement:** Percentage

**Status:** Effective

**Data Source:** Exchanges submit data on trading volume, open interest, delivery notices, exchange of futures and prices for all products traded.

**Verification:** Data is validated by internal program edits and quality checks in central database.

**Lead Program Office**

Division of Market Oversight

**Performance Trends & Variations**

The growth in the number of new products offered on the exchanges continued in FY 2007. The actual FY 2007 number is driven by customer demand for new products, exchange innovation, opportunities made available by the increasing use of electronic trading, and other changes in the marketplace. As such, these factors may not be foreseeable with high precisions.

**Data Source & Validation**

Exchanges are required to submit trading volume, open interest, delivery notices, exchange of futures, and prices to the Commission each business day for all products traded. This data is then stored in a Commission database for use in market surveillance analyses.

The exchange data is submitted to the Commission electronically for each business day, subjected to a series of edit and quality checks, and maintained in a central database.

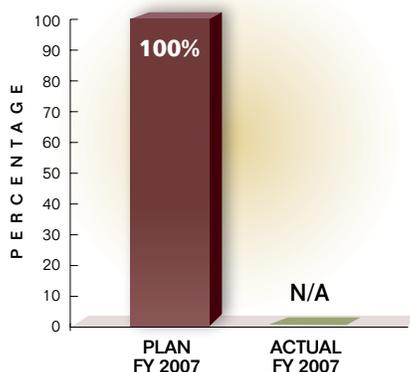
**Performance Highlights**

The number of products traded grew by approximately 20 percent in FY 2007, as futures innovation of energy products, security futures products, and weather derivative products continued at a rapid pace.

**PERFORMANCE MEASURE 1.1.4** Percentage of new exchange or clearinghouse organization applications completed within expedited review period.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	100%	100%	100%

### FY 2007 Performance Results



**Results:** Not Applicable

**Measurement:** Percentage

**Status:** Results Not Demonstrated

**Data Source:** New exchange(s) and DCO application(s).

**Verification:** Filings and Actions automated database tracks and calculates processing time from receipt date through to date of designation or registration.

### Lead Program Office

Division of Clearing and Intermediary Oversight (DCIO)

Division of Market Oversight

### Performance Trends & Variations

No exchange designation or DCO applications were filed in FY 2007. One exchange designation application was filed in FY 2006, but the formal review of that contract market application was stayed by the applicant.

### Data Source & Validation

Supporting documentation consists of the applications for designation as a contract market, including all attachments and supporting materials submitted by the applicant related materials produced by the DCIO and DMO staff in reviewing the application, a memorandum to the Commission, and the proposed order.

DCIO and DMO staff maintain files containing documentation related to the review of an application. The DCIO methodology for determining the statistic would be to tabulate the number of applications received and reviewed, determine the number that are completed within the expedited review period, and calculate the performance statistic. DMO staff use a database Filings and Actions (FILAC), which includes the date of receipt of the request for designation as a contract market, stays in the review process, and the date of designation. The database automatically calculates processing time.

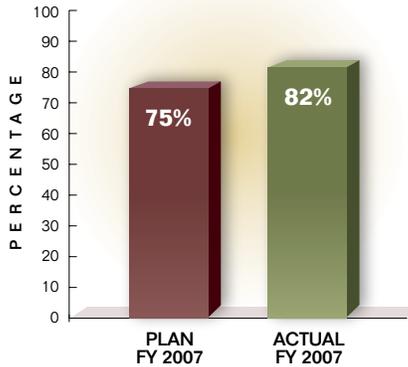
### Performance Highlights

Staff reviewed several draft filings by the applicant, which had stayed its application, and provided feedback within weeks regarding areas still missing from the application, as well as provided responsive feedback to other entities working on draft applications.

**PERFORMANCE MEASURE 1.1.5** Percentage of new contract certification reviews completed within three months to identify and correct deficiencies in contract terms that make contracts susceptible to manipulation.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	53%	54%	81%

**FY 2007 Performance Results**



**Results:** 82%

**Measurement:** Percentage

**Status:** Effective

**Data Source:** Exchange certification filings, certified rule amendments, and agency memoranda.

**Verification:** Filings and Actions automated database tracks and calculates processing time from receipt date through to date of designation or registration.

**Lead Program Office**

Division of Market Oversight

**Performance Trends & Variations**

In FY 2007, an unusually large proportion of new contract certifications were for weather index contracts and security futures products. Those contracts typically are easier to review than other contracts, and thus the percentage of completed reviews for contracts certified in FY 2007 was higher than anticipated.

U.S. exchanges continued to innovate in FY 2007. In this regard, the Chicago Mercantile Exchange (CME) requested approval of corporate credit event options and a credit index event contract. The U.S. Futures Exchange (USFE) and HedgeStreet certified binary options on mergers and acquisitions, and HedgeStreet certified binary options on corporate earnings and corporate revenues. Each of those contracts raised issues with respect to the jurisdictional boundary between the CFTC and the SEC. It is reasonable to expect that exchanges will continue to introduce novel and complex products in the future.

**Data Source & Validation**

DMO staff maintain files containing exchange certification filings, including new contract certification filings and certified rule amendments to correct deficiencies in new contract certification filings, and DMO memoranda. DMO memoranda provide descriptions, analyses, and conclusions regarding compliance with the CEA and Commission regulations and policies. The FILAC database includes the receipt date of the new product certification and the date of DMO’s memorandum. The database automatically calculates processing time.

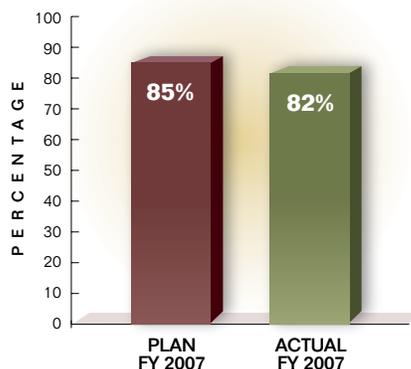
**Performance Highlights**

Commission staff completed reviews of more than 500 new contract certifications; approved three corporate credit event options; approved the North American Investment Grade High Volatility Credit Index Event futures contract; and identified contract design flaws in the NYMEX UxC Uranium futures contract.

**PERFORMANCE MEASURE 1.1.6** 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.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	70%	84%	86%

### FY 2007 Performance Results



**Results:** 82%

**Measurement:** Percentage

**Status:** Effective

**Data Source:** Exchange certification filings and agency memoranda.

**Verification:** Filings and Actions automated database tracks and calculates processing time from receipt date through to date of DMO memorandum.

### Lead Program Office

Division of Market Oversight

### Performance Trends & Variations

The percentage of product rule amendment certification reviews completed within three months of receipt by the Commission decreased over last year. This slight drop in performance is the result of several factors. A significant number of rule amendments associated with new product certifications were complex or lacked sufficient supporting data/information. Thus, Division staff either waited for data/information from the relevant exchange or sought to obtain the data/information from other sources. Because there is no statutory deadline for the reviews, there is no way to “stop the clock” while waiting for the necessary data/information. In addition, a few rule amendment reviews were the result of a staff member retirement several years ago. Visibility of his projects was lost until the FILAC tracking system was implemented. Those reviews were re-assigned to other staff and placed in their queues. Other rule amendment reviews were allowed to slip in favor of more important matters. In this regard, the Division is

understaffed relative to the volume of reviews it is required to accomplish. Therefore, the Division must prioritize its rule amendment reviews regarding contracts with very low trading volume. It is not reasonable to expect that the performance will improve significantly in the absence of an increase in staffing, which can not occur in the current budget environment.

### Data Source & Validation

DMO staff maintain files containing exchange certification filings and DMO memoranda. Those DMO memoranda provide descriptions, analyses, and conclusions regarding compliance with the CEA and Commission regulations. The FILAC database includes the receipt date of the certification filing and the date of DMO’s memorandum. The database automatically calculates processing time.

### Performance Highlights

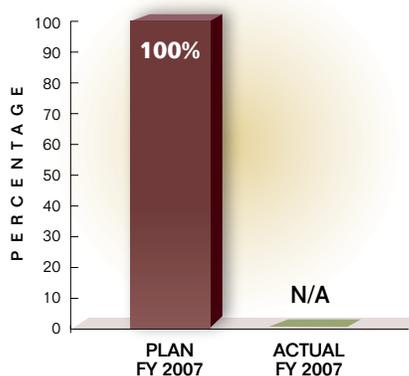
Commission staff completed reviews of 161 substantive product rule amendments and 195 substantive trading rule amendments.

**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 1.2:** To have an effective and efficient market surveillance program.

<b>PERFORMANCE MEASURE 1.2.1</b> Percentage of derivative clearing organization applications demonstrating compliance with Core Principles.				
History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	
	100%	100%	N/A	

### FY 2007 Performance Results



**Results:** Not Applicable

**Measurement:** Percentage

**Status:** Results Not Demonstrated

**Data Source:** New exchange(s) and DCO application(s) for registration.

**Verification:** Agency files containing applications, staff reviews, memoranda to the Commission and proposed Orders.

### Lead Program Office

Division of Clearing and Intermediary Oversight

### Performance Trends & Variations

No applications for registration as a DCO were received in FY 2007.

### Data Source & Validation

Supporting documentation would consist of an application for registration as a DCO, including all attachments and supporting materials submitted by the applicant; and related materials produced by DCIO staff in reviewing the application, including a memorandum to the Commission and proposed order.

DCIO staff maintain files containing supporting documentation related to the review of an application. The DCIO methodology for determining the statistic would be to tabulate the number of applications received and reviewed to determine that the applications demonstrated compliance with CEA Core Principles, and calculate the performance statistic.

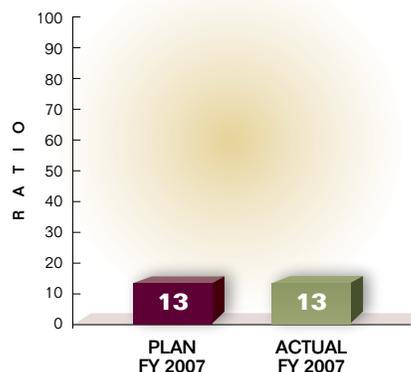
### Performance Highlights

None to report.

## PERFORMANCE MEASURE 1.2.2 Ratio of contracts surveilled per economist.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	10	11	12

### FY 2007 Performance Results



**Results:** 13

**Measurement:** Ratio

**Status:** Adequate

**Data Source:** Exchanges submit data to the Commission on all traded contracts, which are maintained in the Commission's database.

**Verification:** Data is validated by internal program edits and quality checks in central database.

### Lead Program Office

Division of Market Oversight

### Performance Trends & Variations

The target ratio of contracts surveilled per economist is above ideal levels. For this reason, an "Adequate" Status of Performance Result has been selected in spite of the fact that the actual number of contracts surveilled per economist did meet expectations. To increase the efficiency of DMO's surveillance efforts, similar contracts on the same underlying commodity are generally analyzed together. Even though the number of contracts increased during the year, the increase was mostly due to additional products on existing commodities. These additional products may not materially add to the economists' surveillance burden. Thus, they were not counted as distinct contracts for the purpose of arriving at the relevant ratio.

### Data Source & Validation

Exchanges submit data to the Commission on all traded contracts. The individual contracts are grouped by underlying commodity in a central database. This grouping is used in the adjustment of the number of contracts surveilled by each economist.

Exchanges submit data on all products traded to the Commission electronically for each business day. The data is subject to a series of edit and quality checks and is maintained in a central database. The total number of contracts is extracted from this data. This number is then modified by subtracting out individual contracts that are very similar to and have the same underlying commodity as other contracts. The final number is then divided by the number of regional office economists.

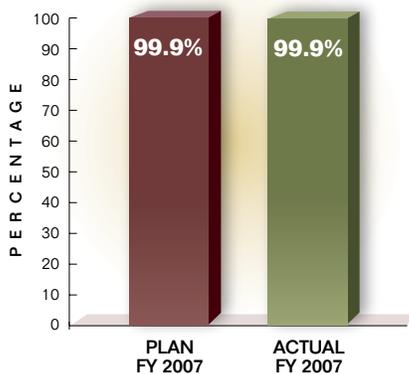
### Performance Highlights

The ratio of contracts surveilled per economist is too high to ensure full surveillance coverage of all futures markets. The efficiency and enthusiasm of surveillance economists are very high, but they are being stretched too thin, with consequential effects on morale and on the adequacy of surveillance coverage for some markets.

**PERFORMANCE MEASURE 1.2.3** Percentage of contract expirations without manipulation.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	99.9%	99.9%	99.9%

**FY 2007 Performance Results**



**Results:** 99.9%

**Measurement:** Percentage

**Status:** Effective

**Data Source:** Surveillance reports and large trader position reports.

**Verification:** Economists daily track and monitor futures expirations and economic fundamentals.

**Lead Program Office**

Division of Market Oversight

**Performance Trends & Variations**

This measurement examines the number of contract expirations without manipulation compared to the total number of futures and option expirations. The total number of expirations may vary throughout the year as different contracts enter and exit the market.

**Data Source & Validation**

The number of referrals to and from the Division of Enforcement, in conjunction with information and evidence gathered internally by surveillance economists, is used to find the number of expirations without manipulations. The total number of futures and option expirations is retrievable from the database.

Economists track and monitor futures expirations and economic fundamentals on a daily basis. The large trader reporting system is also used to generate detailed surveillance reports of large trader positions going into expiration. Information on reportable traders' positions is stored and kept in the system, and can be analyzed further through its internally developed integrated surveillance system.

**Performance Highlights**

Surveillance of energy markets has been the greatest challenge during FY 2007. During this year, DMO has enhanced its data collection, information processing, and surveillance analyses to keep pace with the rapidly growing and changing energy markets. Special calls were issued to InterContinental Exchange to obtain daily large trader reports on this OTC market. Daily NYMEX transaction data started to be received and analyzed to detect possible manipulative schemes. Software enhancements were made to Integrated Surveillance System (ISS) to better display and analyze positions in deferred futures months.



## STRATEGIC GOAL TWO: MARKET USERS AND PUBLIC

**Goal Two:** Protect market users and the public.

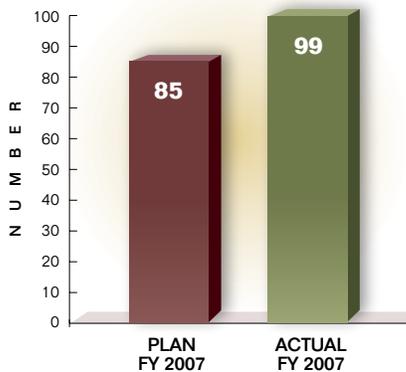
**Outcome 2.1:** Violations of Federal commodities laws are detected and prevented.

**Annual Performance Goal 2.1:** Violators have a strong probability of being detected and sanctioned.

**PERFORMANCE MEASURE 2.1.1** Number of enforcement investigations opened during the fiscal year.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	215	131	123

**FY 2007 Performance Results**



- Results:** 99
- Measurement:** Number
- Status:** Effective
- Data Source:** Agency documentation and reports maintained in the Practice Manager litigation management system.
- Verification:** Internal reports on investigations and litigation documented and maintained in internal Enforcement systems.

**Lead Program Office**

Division of Enforcement

**Performance Trends & Variations**

Performance target was met for FY 2007. Commencing in 2002, the complexity of Commission’s investigations has increased substantially over prior fiscal years (*e.g.*, the Commission’s investigation of alleged energy market manipulation). As a result of these investigations, the complexity of the Commission’s cases filed and litigated also has increased substantially since FY 2002. The Commission’s FY 2007 Plan target for this performance measure took into account both these factors and the Division of Enforcement’s FTE constraints.

**Data Source & Validation**

Internal Enforcement reports identify each of the litigations and investigations opened during the fiscal year. Staff prepare opening reports for each Enforcement investigation and litigation. These opening reports are recorded in internal Enforcement systems (Practice Manager).

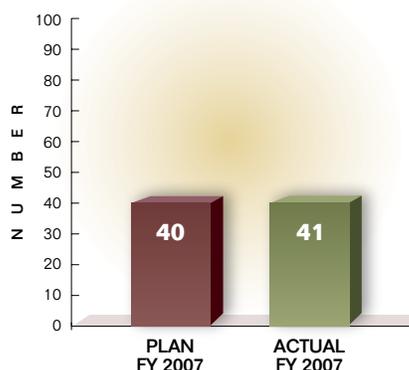
**Performance Highlights**

None to report.

## PERFORMANCE MEASURE 2.1.2 Number of enforcement cases filed during the fiscal year.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	83	69	38

### FY 2007 Performance Results



**Results:** 41

**Measurement:** Number

**Status:** Effective

**Data Source:** Agency documentation and reports maintained in the Practice Manager litigation management system.

**Verification:** Final complaints for each litigation are recorded in internal Enforcement system and made public via the Commission's Web site.

### Lead Program Office

Division of Enforcement

### Performance Trends & Variations

Performance target was met for FY 2007. Commencing in 2002, the complexity of Commission's investigations has increased substantially over prior fiscal years (*e.g.*, the Commission's investigation of alleged energy market manipulation). As a result of these investigations, the complexity of the Commission's cases filed and litigated also has increased substantially since FY 2002. The Commission's FY 2007 Plan target for this performance measure took into account both these factors and the Division of Enforcement's FTE constraints.

### Data Source & Validation

Staff are required to submit all final filed, stamped copies of the complaint for each litigation. These complaints are recorded in internal Enforcement systems (Practice Manager).

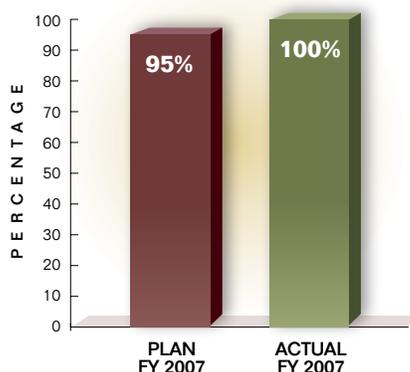
### Performance Highlights

Among the significant enforcement actions filed by the Commission during FY 2007 are the following: *CFTC v. Amaranth Advisors, L.L.C., et al.*, No. '07 CIV 6682 (S.D.N.Y. filed July 25, 2007) (charging attempted manipulation of the price of natural gas futures contracts on NYMEX on February 24 and April 26, 2006, and making false statements to NYMEX to cover up this misconduct); *CFTC v. Energy Transfer Partners, L.P.*, No. 3-07CV1301-K (N.D. Tex. filed July 26, 2007) (charging attempted manipulation of the price of physical natural gas at the Houston Ship Channel delivery hub during September and November 2005); *In re Marathon Petroleum Company*, CFTC Docket No. 07-09 (CFTC filed Aug. 1, 2007) (finding that Marathon Petroleum Company attempted to manipulate a price of spot cash West Texas Intermediate (WTI) crude oil delivered at Cushing, Oklahoma on November 26, 2003, by attempting to influence downward the Platts market assessment for spot cash WTI for that day); *CFTC v. Parish, et al.*, No. 2:07-cv-01044-DCN (D.S.C. filed April 17, 2007) (charging fraud in connection with an alleged pool with total value of approximately \$134 million); and *In re Merrill Lynch Investment Managers, LLC, et al.*, CFTC Docket No. 07-08 (CFTC filed July 31, 2007) (finding that registered CPOs repeatedly failed to distribute to pool participants and file with the NFA their commodity pools' annual reports in a timely manner).

**PERFORMANCE MEASURE 2.1.3** 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).

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	99%	100%	100%

### FY 2007 Performance Results



**Results:** 100%

**Measurement:** Percentage

**Status:** Effective

**Data Source:** Agency documentation and reports maintained in the Practice Manager litigation management system.

**Verification:** Final orders for each litigation are recorded in internal Enforcement system.

### Lead Program Office

Division of Enforcement

### Performance Trends & Variations

Performance target was met for FY 2007. During the FY 2007, the Division of Enforcement closed a total of 63 enforcement cases. In each of these closed cases the Commission obtained sanctions (e.g., civil monetary penalties, restitution and disgorgement, cease and desist orders, permanent injunctions, trading bans, and registration restrictions) against one or more of the respondents/defendants.

### Data Source & Validation

Enforcement results identify each litigation and litigation result obtained by the Division on behalf of the Commission.

Staff are required to submit all final orders for each litigation as part of closing activities for their files. These orders are recorded in internal Enforcement systems (Practice Manager).

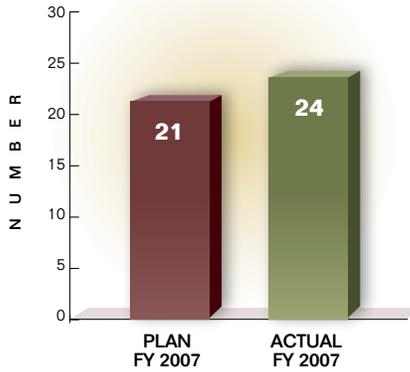
### Performance Highlights

None to report.

**PERFORMANCE MEASURE 2.1.4** Cases filed by other criminal and civil law enforcement authorities during the fiscal year that included cooperative assistance from the Commission.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	23	23	23

**FY 2007 Performance Results**



**Results:** 24

**Measurement:** Number

**Status:** Effective

**Data Source:** Copies of civil complaints, criminal information and indictments, and final Orders submitted to the Commission by cooperating authorities. Cooperative enforcement matters are maintained in the Practice Manager litigation management system.

**Verification:** Final orders for each litigation recorded in internal Enforcement system.

**Lead Program Office**

Division of Enforcement

**Performance Trends & Variations**

Performance target was met for FY 2007. The Commission believes that its performance in cooperative criminal and civil enforcement was effective. During the rating period, the Division of Enforcement continued to devote significant resources to cooperative enforcement with other criminal and civil law enforcement authorities.

**Data Source & Validation**

Copies of civil complaints, criminal information and indictments, and orders are collected by the Division of Enforcement’s Office of Cooperative Enforcement.

Staff and cooperating authorities submit final orders to the Office of Cooperative Enforcement, which maintains a database of all cooperative enforcement matters. In addition, pending cooperative enforcement matters are tracked through internal Enforcement systems (Practice Manager).

**Performance Highlights**

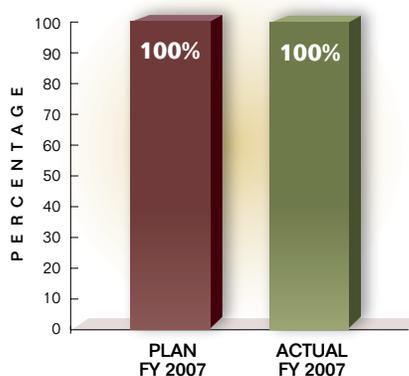
None to report.

**Outcome 2.2:** Commodity professionals meet high standards.

**Annual Performance Goal 2.2:** No unregistered, untested, or unlicensed commodity professionals.

<b>PERFORMANCE MEASURE 2.2.1</b> Percentage of self-regulatory organizations that comply with core principles.				
History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	
	100%	100%	100%	

### FY 2007 Performance Results



- Results:** 100%
- Measurement:** Percentage
- Status:** Effective
- Data Source:** Agency reports and files from reviews and analyses.
- Verification:** Interviews, walk-through demonstrations, empirical testing, and site visits of SROs and FCMs.

### Lead Program Office

Division of Clearing and Intermediary Oversight

### Performance Trends & Variations

Performance target was met for FY 2007. DCIO conducts periodic, routine examinations of the financial and sales practice programs of the SROs for the purpose of assessing the SROs' compliance with relevant Core Principles and with Commission regulations and interpretations. During FY 2007, DCIO completed a review of the financial and sales practice oversight program of one DCM. Based upon its review, DCIO concluded that the DCM's program was consistent with the relevant Core Principles, and with Commission regulations and interpretations.

DCIO also initiated an examination of the financial and sales practice program of a second DCM, during FY 2007. This examination is currently in progress. At this stage of the examination, DCIO has not identified any issues that would indicate a failure of the DCM's program to satisfy the relevant Core Principles and Commission regulations and interpretations.

DCM Core Principle 11 provides, in relevant part, that a DCM shall establish and enforce rules to ensure the financial integrity of FCMs and the protection of customer funds. DCIO and DCMs, in their capacity as SROs, receive and review monthly financial reports submitted by FCMs for the purpose of assessing whether the FCMs are in compliance with the Commission's and SROs' minimum financial requirements, including requirements relating to the safeguarding of customer funds. In addition,

Commission regulations and SRO rules require an FCM to file a notification with the Commission and its designated SRO whenever such FCM fails to meet its minimum capital or segregation requirement. DCIO's review and analysis of FCM financial reports and notifications, including appropriate coordination with the SROs during FY 2007, demonstrated that the SROs were complying with Core Principle 11.

## Data Source & Validation

Supporting documentation of DCIO's assessment of SROs' compliance with Core Principles is contained in reports and work papers prepared by staff while carrying out the review and analyzing relevant SRO materials. Such documentation is maintained in DCIO's files.

DCIO delivers a letter to the SRO requesting documents that reflect the systems, policies, procedures, practices, and internal controls implemented by the SRO. After reviewing these materials, DCIO staff interview selected management staff, followed by fieldwork at the SRO and a review of documents. The fieldwork at the SRO primarily consists of a walk-through demonstration. The purpose of the fieldwork is to confirm DCIO's understanding of the SRO's program and to provide reasonable assurance that it operates in the manner represented.

The testing of execution of procedures is performed by sample testing and documentation review. DCIO staff use standard statistical techniques to size and select samples in the areas of disclosure documents, financial reports, exemption and extension notices, compliance examinations, and sales practices. Samples are selected and tested to facilitate an understanding of the operation of a process or procedure in practice rather than to provide statistical assurances.

For further verification of compliance oversight procedures, DCIO staff also visit firms whose operations were reviewed by the SRO during the SRO's examination. Such reviews include performing the same testing steps that the SRO conducted in its examinations of the firms. The results of such DCIO testing are then compared to the workpapers of the SRO's examination of the selected firms.

DCIO also reviews monthly financial reports submitted by FCMs for purposes of assessing whether the FCMs comply with the Commission's and SROs' minimum financial requirements, including requirements to properly safeguard customer funds. DCIO further reviews notices submitted by an FCM stating that the firm is undercapitalized or undersegregated to assess whether the firm's SRO has taken appropriate measures to address the undercapitalization or undersegregation.

The methodology for collecting this statistic is based on ongoing oversight and planned reviews related to the aforementioned areas for which the results could potentially indicate an SRO's noncompliance with relevant Core Principles and with Commission regulations and interpretations.

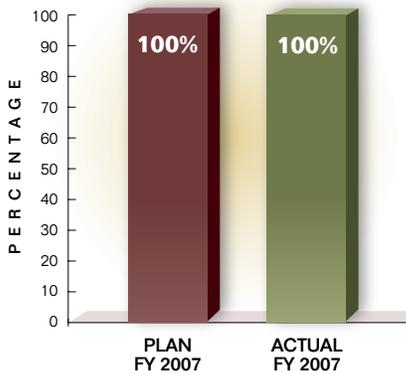
## Performance Highlights

The completed review assessed the DCM's financial and sales practice program, including staffing levels, conduct of examinations of FCMs, conduct of financial statement review, and disciplinary actions. DCIO concluded that the DCM's program was consistent with the relevant Core Principles and with Commission regulations and interpretations.

**PERFORMANCE MEASURE 2.2.2** Percentage of derivative clearing organizations that comply with core principles.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	100%	100%	100%

**FY 2007 Performance Results**



**Results:** 100%

**Measurement:** Percentage

**Status:** Effective

**Data Source:** Documentation from DCOs under review; agency reports; and financial surveillance materials.

**Verification:** Statistical data is obtained through financial surveillance and planned reviews.

**Lead Program Office**

Division of Clearing and Intermediary Oversight

**Performance Trends & Variations**

Performance target was met for FY 2007. Reviews of compliance with certain Core Principles were completed at six DCOs. Reviews of five DCOs found them to be in compliance with the Core Principles. One DCO was found to be in compliance with the Core Principles except that further demonstration was deemed necessary in one instance. No affirmative conclusion of noncompliance can be made at this time.

On a daily basis, DCIO staff conduct financial surveillance of DCOs and clearing members. Staff have identified no instances of noncompliance.

During the past fiscal year, 73 rule submissions, many containing multiple rules, were filed by DCOs under the self-certification provisions of the Act. Staff reviewed each of the submissions and found none that violated Core Principles.

**Data Source & Validation**

Each of the DCOs under review submits extensive documentation. DCIO staff create extensive workpapers in conducting the reviews of DCOs. When the reviews are complete, DCIO staff provide reports to the Commission. Files are maintained containing many of these materials.

Financial surveillance materials are also maintained in files. Some of them are maintained on a DCIO shared drive called Financial Surveillance Home. In addition, written reports are periodically prepared and kept on file.

A paper file is created for each DCO rule submission. Typically, a staff memorandum is included in the file.

The methodology for collecting this statistic is based on ongoing oversight and planned reviews related to the aforementioned areas for which the results potentially could indicate a DCO’s noncompliance with Core Principles.

**Performance Highlights**

The reviews of six DCOs to determine compliance with Core Principles represented the first comprehensive review of such entities since clearing organizations were required to register with the Commission under the CFMA and

became subject to the Commission's oversight authority. DCIO chose to review multiple DCOs simultaneously because this approach provided an opportunity to develop a deeper understanding of each DCO's policies and practices by comparing and contrasting them to the policies and practices of other DCOs. As a result of this approach, a number of benefits were derived, including the following:

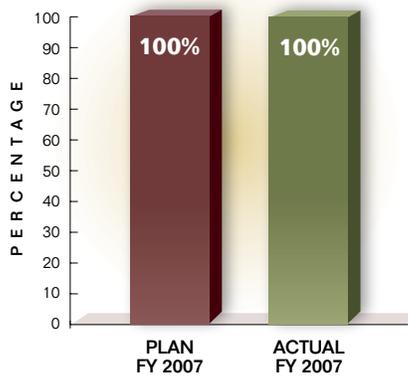
- 1) established new baseline of knowledge for DCIO

- regarding DCO programs;
- 2) strengthened working relationships with DCO staff;
- 3) established and strengthened relationships with settlement banks;
- 4) comparative process provided insights both for future oversight of DCOs and for DCIO's financial surveillance program;
- 5) obtained verification of Stressing Positions at Risk (SPARK) stress test results by comparing to DCO results; and
- 6) the process may serve as a template for future reviews.

**PERFORMANCE MEASURE 2.2.3** Percentage of professionals compliant with standards regarding testing, licensing, and ethics training.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	100%	100%	100%

**FY 2007 Performance Results**



**Results:** 100%

**Measurement:** Percentage

**Status:** Effective

**Data Source:** National Futures Association's audit reports.

**Verification:** NFA audits and the agency's ongoing oversight of NFA's compliance and registration programs.

**Lead Program Office**

Division of Clearing and Intermediary Oversight

**Performance Trends & Variations**

Performance target was met for FY 2007—100 percent of professionals were compliant with standards regarding testing, licensing, and ethics training.

**Data Source & Validation**

The methodology for collecting this statistic is based on information provided by NFA and DCIO's ongoing oversight and examinations periodically conducted with respect to NFA's registration and compliance programs.

DCIO relies on information provided by NFA. In FY 2007, NFA reported that, in 10 percent of the audits it completed, it cited the firms in its audit report for failing to have adequate ethics training procedures or failing to follow their procedures. In FY 2006, NFA reported that in 10 percent of the audits it completed, it cited the firms in its audit report for failing to have adequate ethics training procedures or failing to follow their procedures. However,

through subsequent follow-up activity for both FY 2006 and FY 2007, NFA confirmed that with one exception, the cited firms came into compliance. NFA issued a complaint against this one firm in September 2007, and the matter is not yet resolved.

During FY 2007, DCIO completed two final and one proposed rulemaking related to registration of intermediaries:

- 17 CFR Part 3, Registration of Intermediaries, at 72 Fed. Reg. 35918 (July 2, 2007) – Final amendments to regulations; 17 CFR Part 3, Registration of Intermediaries, at 72 Fed. Reg. 20788 (April 26, 2007) – Proposed amendments to regulations.
- 17 CFR Part 3, Termination of APs and Principals, at 72 Fed. Reg. 45392 (August 14, 2007) – Proposed amendments to regulations.
- 17 CFR, Part 170, Membership in a Registered Futures Association, at 72 Fed. Reg. 2614 (January 22, 2007) – Final amendments to regulations; 17 CFR Part 170, Membership in a Registered Futures Association, at 71 Fed. Reg. 64171 (November 1, 2006) – Proposed amendments to regulations.

## Performance Highlights

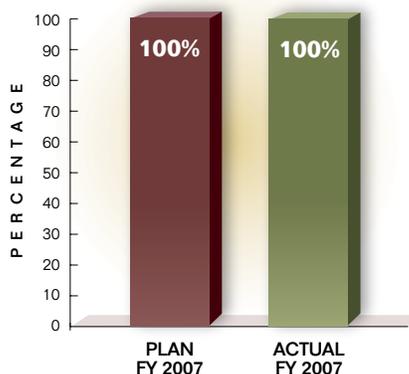
In January 2007, the Commission amended its regulations to require that all persons registered with the Commission as FCMs must become and remain members of at least one registered futures association (RFA). Currently, NFA is the sole RFA, and it also is an SRO. This action was consistent with the CFMA, which transformed the Commission's role to an oversight agency of, in the case of registration, NFA.

By requiring NFA membership, then, this action protects market users and the public. NFA audits its members, such as FCMs, to detect and prosecute violations resulting from their activities. By requiring NFA membership, this action furthers the goal of there being no unregistered, untested or unlicensed commodity professionals.

**PERFORMANCE MEASURE 2.2.4** Percentage of self-regulatory organizations that comply with requirement to enforce their rules.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	100%	100%	100%

**FY 2007 Performance Results**



**Results:** 100%

**Measurement:** Percentage

**Status:** Effective

**Data Source:** Agency reports and files from reviews and analyses.

**Verification:** Interviews, walk-through demonstrations, empirical testing and site visits of DCOs.

**Lead Program Office**

Division of Clearing and Intermediary Oversight

**Performance Trends & Variations**

Performance target was met for FY 2007. DCIO conducts periodic, routine examination of the financial and sales practice programs of the SROs for the purpose of assessing the SROs’ compliance with relevant Core Principles, and compliance with Commission regulations and interpretations. During FY 2007, DCIO completed a review of the financial and sales practice oversight program of one DCM. Based upon its review, DCIO concluded that the DCM’s program was consistent with the relevant Core Principles, and with Commission regulations and interpretations.

DCIO also initiated an examination of the financial and sales practice program of a second DCM, during FY 2007. This examination is currently in progress. At this stage of the examination, DCIO has not identified any issues that would indicate a failure of the DCM’s program to satisfy the relevant Core Principles and Commission regulations and interpretations.

DCM Core Principle 11 provides, in relevant part, that a DCM shall establish and enforce rules to ensure the financial integrity of FCMs and the protection of customer funds. DCIO and DCMs, in their capacity as SROs, receive and review monthly financial reports submitted by FCMs for the purpose of assessing whether the FCMs are in compliance with the Commission’s and SROs’ minimum financial requirements, including requirements relating to the safeguarding of customer funds. In addition, Commission regulations and SRO rules require an FCM to file a notification with the Commission and its designated SRO whenever such FCM fails to meet its minimum capital or segregation requirement. DCIO’s review and analysis of FCM financial reports and notifications, including appropriate coordination with the SROs during FY 2007, demonstrated that the SROs were complying with Core Principle 11.

**Data Source & Validation**

DCIO staff conduct risk-focused reviews of the financial and sales practice oversight programs of SROs. Supporting documentation is contained in the report and the workpa-

pers prepared by staff while carrying out the review and analyzing relevant SRO materials. Such documentation is maintained in DCIO's files.

DCIO delivers a letter to the SRO requesting documents that reflect the systems, policies, procedures, practices, and internal controls implemented by the SRO. After reviewing these materials, DCIO staff interview selected management staff, followed by fieldwork at the SRO and a review of documents. The fieldwork at the SRO primarily consists of a walk-through demonstration. The purpose of the fieldwork is to confirm DCIO's understanding of the SRO's program and to provide reasonable assurance that it operates in the manner represented.

The testing of execution of procedures is performed by sample testing and documentation review. DCIO staff use standard statistical techniques to size and select samples in the areas of disclosure documents, financial reports, exemption and extension notices, compliance examinations, and sales practices. Samples are selected and tested to facilitate an understanding of the operations of a process or procedure in practice rather than to provide statistical assurances.

For further verification of compliance oversight procedures, DCIO staff also visit firms whose operations were reviewed by the SRO. Such reviews include performing the same testing steps that the SRO conducted in its examinations of the firms. The results of such DCIO testing are then compared to the workpapers of the SRO's examination of the selected firms.

DCIO also reviews monthly financial reports submitted by FCMs for purposes of assessing whether the FCMs comply with the Commission's and SROs' minimum financial requirements, including requirements to properly safeguard customer funds. DCIO further reviews notices submitted by an FCM stating that the firm is undercapitalized or undersegregated to assess whether the firm's SRO has taken appropriate measures to address the undercapitalization or undersegregation.

The methodology for collecting this statistic is based on ongoing oversight and planned reviews related to the aforementioned areas for which the results potentially could indicate an SRO's and NFA's noncompliance with the requirement to enforce their rules in accordance with applicable Core Principles and Commission regulations and interpretations.

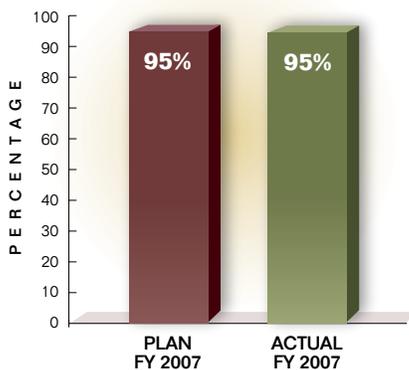
## Performance Highlights

The completed review assessed the DCM's financial and sales practice program, including staffing levels, conduct of examinations of FCMs, conduct of financial statement review, and disciplinary actions. DCIO concluded that the DCM's program was consistent with the relevant Core Principles and with Commission regulations and interpretations.

**PERFORMANCE MEASURE 2.2.5** Percentage of total requests receiving CFTC responses for guidance and advice.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	90%	90%	95%

**FY 2007 Performance Results**



- Results:** 95%
- Measurement:** Percentage (rounded to nearest 5%)
- Status:** Effective
- Data Source:** Signed letters (formal) and email & telephone responses (informal).
- Verification:** Agency files maintained in chronological files and responses to formal requests are published on Commission’s Web site.

**Lead Program Office**

Division of Clearing and Intermediary Oversight

**Performance Trends & Variations**

Performance target was met for FY 2007. DCIO staff respond to numerous requests for guidance and advice on the CEA and Commission regulations each year. Requests are received from members of the public, market participants, intermediaries, SROs, foreign entities, and others. These requests may be formal, such as written requests for no-action, interpretative, or exemption letters. DCIO also receives numerous informal requests for guidance and advice via email and phone calls.

Although DCIO responds to all requests received, it is not always possible for DCIO to respond within the fiscal year that it receives a request. Many of these requests are routine in nature and are responded to in a very short time frame, if not immediately. This is particularly true for many of the requests that are received via email and phone calls. Other requests that raise novel or complex issues, or requests for formal DCIO responses in the form of no-action letters, interpretations, or exemptions, take more time to research and to prepare a response. It should be

noted, however, that statistics on numbers of letters issued or email responses may not reflect the complexity of any particular matter or the resources necessary to address one issue versus another issue. In addition, matters commenced in one fiscal year may overlap into, and be completed during, a subsequent fiscal year, resulting in some imprecision in statistical measures for a given year. DCIO staff make every effort to respond to requests as quickly as possible, but the timeliness of a response also is affected by the speed with which a requester provides additional information sought by staff, and the length of time required by other Commission divisions or offices to review a draft response, factors outside the control of DCIO.

Meeting the performance target was due, among other reasons, to the ever-increasing experience and familiarity of staff with the Act and the Commission’s regulations, and to the use by requesters of electronic communications to more easily and readily present and supplement their requests for guidance.

## Data Source & Validation

Supporting documentation is in the form of responses to formal (by signed letter) and informal (by email and telephone) requests for guidance and advice contained in DCIO's files.

Responses to formal requests are posted on the Commission's Internet Web site and are maintained by hard copy in DCIO's chronological files; responses to non-routine, informal requests similarly are recorded by hard copy and maintained in DCIO's chronological files. The methodology for collecting these statistics is to compare the files of requests received with responses sent and to calculate the performance statistic.

## Performance Highlights

In FY 2007, DCIO responded favorably to several requests for registration relief from foreign affiliates of U.S.-registered FCMs, such that those affiliates were permitted to introduce institutional U.S. customers to any registered FCM for trading on U.S. commodity futures and option markets without having to register with the CFTC as, *e.g.*, an IB. To ensure that these affiliates met high standards in conducting this activity and to protect the investing public, DCIO conditioned this relief on the registered FCM of a foreign affiliate agreeing to be jointly and severally liable

for any violations of the Act or the Commission's regulations committed by the foreign affiliate in connection with the latter's handling of orders for these customers—including those orders executed by the affiliate and given up to another FCM. *See* Staff Letters 07-08, dated May 30, 2007, and 07-05, dated April 26, 2007, wherein DCIO issued this relief.

DCIO also issued two general letters of broad application providing guidance to registrants during FY 2007. The first letter provided guidance to CPOs on complying with the financial reporting requirements set forth in Part 4 of the Commission's regulations. The letter assisted CPOs in meeting their regulatory requirements by highlighting recent regulatory changes affecting the financial filings required of CPOs, and identified common deficiencies observed in prior year financial filings. This letter was issued January 31, 2007, and is available on the Commission's Web site.

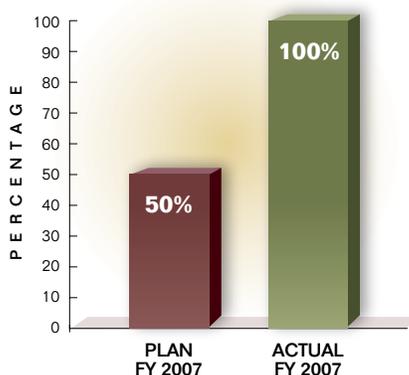
The second letter was addressed to all FCMs and provided information to assist the FCMs in meeting their obligation under the Act and Commission regulations to prepare and to file an audited annual financial report with the Commission and with their designated SROs. This letter was dated February 8, 2007, and is available on the Commission's Web site.

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

**Annual Performance Goal 2.3:** Customer complaints are resolved within one year from the date filed and appeals are resolved within six months.

<b>PERFORMANCE MEASURE 2.3.1(a)</b> Percentage of filed complaints resolved within one year of the filing date for Voluntary Proceedings.				
History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	
	67%	100%	71%	

### FY 2007 Performance Results



**Results:** 100%

**Measurement:** Percentage

**Status:** Effective

**Data Source:** Reparations case tracking system and Judgment Officer Disposition report.

**Verification:** Weekly and monthly reports and statistics submitted by Judgment Officer.

### Lead Program Office

Office of Proceedings

### Performance Trends & Variations

A claim of any size can be adjudicated through the voluntary proceeding if all complainants and respondents consent to use this approach and if the complainant submits the required \$50 filing fee. All evidence is submitted in writing and there is no oral hearing. The decision issued by the Judgment Officer (JO) is final and is not appealable.

Prior to FY 2007, data for the voluntary, summary and formal proceedings were combined, with a goal of completing all proceedings within one year of the date the complaint was received. In FY 2007, the performance goal was re-examined and revised to provide goals and results for each of the different types of proceedings. The change reflects the impact of the time required to correct complaint deficiencies, prepare and submit documentary evidence, and prepare for the hearings, as well as the complexity of the cases.

The voluntary proceedings tend to take less time because, given the non-appealable nature of the proceedings and the more informal nature of the resolution process, the parties are more inclined to settle and the proceeding completed through a review of written documentation.

The summary and formal proceedings take more time because of the evidentiary and hearing requirements of the proceedings; the summary tend to take slightly longer, in part because more parties are pro se. A variety of other factors can affect the length of the proceeding, including motions for extensions of time and stays pending payment of penalties agreed to in settlement.

In FY 2007, 100 percent of the voluntary proceeding complaints were resolved in one year or less from the date of filing, demonstrating that complaints heard in the voluntary forum were processed and resolved in a timely and efficient manner. Voluntary proceedings typically conclude more quickly because a final decision is issued after all written submissions are received; there is no oral hearing.

### **Data Source & Validation**

The reparations case tracking system generates reports that provide the total number of cases decided by fiscal year, the date that each case was received, the date of the decision, the number of processing days, and decision type. There is also a report that provides the same information by separating the data by administrative law judge (ALJ) or JO and fiscal year. These reports are used to provide the statistical information for the performance measure.

The Office of Proceedings uses "Repcase," the integrated computerized case tracking system, to collect, maintain, and analyze performance information for each reparations case. The reparations case reports are separated into two

sections: complaints and hearings. The data and information collected in the Complaints Section consist of the number of cases pending the first of the month, the number of cases received during the month, the number of cases disposed of in complaints, and the number of cases pending at the end of the month. The data and information collected for the Hearings Section consist of the number of cases pending with an ALJ or JO at the beginning of the month, the number of cases assigned during the month, including remands, reassignments, and motions to vacate, the number and type of cases disposed of during the month, and the number of cases pending with each ALJ and JO at the end of the month.

The data can be verified and validated by the reports and statistics that the presiding officer submits on a monthly basis. A monthly report is prepared on the reparations cases pending one year or more. Weekly reports are prepared for the executive director and a monthly report is prepared and submitted to the chairman. The latter includes monthly and yearly statistics regarding reparations and administrative enforcement cases.

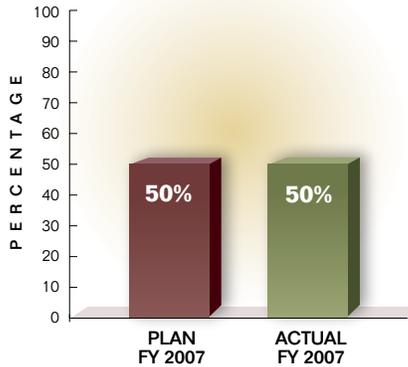
### **Performance Highlights**

In FY 2007, 100 percent of the voluntary proceeding cases were resolved in one year. This accomplishment supports the outcome measure, objective, and goal being addressed because it demonstrates that all the voluntary proceeding cases are being resolved in one year or less from the date of filing.

**PERFORMANCE MEASURE 2.3.1(b)** Percentage of filed complaints resolved within one year and six months of the filing date for Summary Proceedings.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	50%	52%	66%

**FY 2007 Performance Results**



- Results:** 50%
- Measurement:** Percentage
- Status:** Effective
- Data Source:** Reparations case tracking system and Judgment Officer Disposition report.
- Verification:** Weekly and monthly reports and statistics submitted by Judgment Officer.

**Lead Program Office**

Office of Proceedings

**Performance Trends & Variations**

If the complainant does not select the voluntary proceeding and the claim amount is \$30,000 or less, the complainant must select the summary proceeding and submit a \$125 filing fee. In the summary proceeding process, evidence is submitted in writing and an oral hearing may be held by telephone. The decision by the JO is appealable to the Commission and, ultimately, to the U.S. Court of Appeals.

As explained in Performance Measure 2.3.1(a) above, the Commission previously measured all cases together, with a goal of resolving all types of cases (voluntary, summary, and formal) within one year of filing. However, because of differences in the three decisional processes and the external factors that can affect them, a new goal of resolving 50 percent of summary complaints within one year and six months was set.

In FY 2007, 50 percent of the summary proceeding complaints were resolved in one year and six months. The results show that the remaining 50 percent of the cases took longer than a year and six months to process and resolve, due in part to the retirement of one of the two JOs at the end of FY 2006. The other JO assumed the retiring JO's case load, which contributed to the length of time required to process the cases. In addition, some of the cases took more than one year and six months to process because of parties' non-compliance with deficiency letters, delays in submitting required documents, requests for extensions of time, and other processing and review factors. The Commission plans to assess procedures and the amount of time it takes to process the complaints from time of receipt to the date of the decision to determine what, if any, processes may be improved.

In resolving the summary proceeding complaints, the targets cannot be arbitrarily set at a level at which achievement is automatic because of the various external factors involved in processing and resolving the complaints.

## Data Source & Validation

The reparations case tracking system generates reports that provide the total number of cases decided by fiscal year, the date that each case was received, the date of the decision, the number of processing days, and decision type. There is also a report that provides the same information by separating the data by ALJ or JO and fiscal year. These reports are used to provide the statistical information for the performance measure.

The Office of Proceedings uses "Repcase," the integrated computerized case tracking system, to collect, maintain, and analyze performance information for each reparations case. The reparations case reports are separated into two sections: complaints and hearings. The data and information collected in the Complaints Section consist of the number of cases pending the first of the month, the number of cases received during the month, the number of cases disposed of in complaints, and the number of cases pending at the end of the month. The data and information collected for the Hearings Section consist of the

number of cases pending with an ALJ or JO at the beginning of the month, the number of cases assigned during the month, including remands, reassignments, and motions to vacate, the number and type of cases disposed of during the month, and the number of cases pending with each ALJ and JO at the end of the month.

The data can be verified and validated by the reports and statistics that the presiding officer submits on a monthly basis. A monthly report is prepared on the reparations cases pending one year or more. Weekly reports are prepared for the executive director and a monthly report is prepared and submitted to the chairman. The latter includes monthly and yearly statistics regarding reparations and administrative enforcement cases.

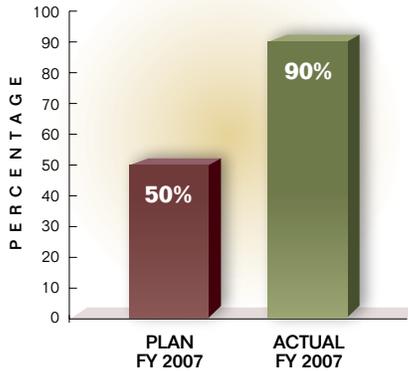
## Performance Highlights

None to report.

**PERFORMANCE MEASURE 2.3.1(c)** Percentage of filed complaints resolved within one year and six months of the filing date for Formal Proceedings.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	100%	79%	78%

**FY 2007 Performance Results**



- Results:** 90%
- Measurement:** Percentage
- Status:** Effective
- Data Source:** Reparations case tracking system and Administrative Law Judges' Disposition reports.
- Verification:** Weekly and monthly reports and statistics submitted by Administrative Law Judges.

**Lead Program Office**

Office of Proceedings

**Performance Trends & Variations**

The formal proceeding can be selected if the complainant does not select the voluntary proceeding and if the claim amount is more than \$30,000. The complainant must submit a \$250 filing fee. In addition to the submission of documentary evidence, an oral hearing may be held in a location that is, to the extent possible, convenient to the parties. The decision is appealable to the Commission and, ultimately, to the U.S. Court of Appeals.

As explained in Performance Measure 2.3.1(a) above, the Commission previously measured all cases together, with a goal of resolving all types of cases (voluntary, summary, and formal) within one year of filing. However, because of differences in the three decisional processes and the external factors that can affect them, a new goal of resolving 50 percent of formal complaints within one year and six months was set.

In FY 2007, 90 percent of the formal proceeding complaints were resolved in one year and six months. The results demonstrate that problem-free reparations complaints are being processed in an effective and efficient manner; however, the length of time it takes to reach a decision after a complainant files a complaint can vary substantially. The time that it takes to process and resolve this type of complaint depends upon, among other factors, the facts and complexity of the case; whether the parties are cooperative in discovery and prepare and submit their evidence quickly; whether any procedural disputes arise; and whether an oral hearing is required (and if so, when it can be scheduled.) *Pro se* complainants and inexperienced attorneys also impact the amount of time it takes to process this type of case. The Commission will assess the process to determine if any improvements can be made that would increase the percentage of formal complaints resolved within one year and six months from the date of filing.

In resolving the formal proceeding complaints, the targets cannot be arbitrarily set at a level at which achievement is automatic because of the various external factors that are involved in processing and resolving the complaints.

## Data Source & Validation

The reparations case tracking system generates reports, which provide the total number of cases that were decided by fiscal year, the date that each case was received, the date of the decision, the number of processing days, and decision type. There is also another report that provides the same information by separating the data by ALJ or JO and fiscal year. These reports are used to provide the statistical information for the performance measure.

The Office of Proceedings uses "Repcase," the integrated computerized case tracking system, to collect, maintain, and analyze performance information for each reparations case. The reparations case reports are separated into two sections: complaints and hearings. The data and information collected in the Complaints Section consist of the number of cases pending the first of the month, the number of cases received during the month, the number of cases disposed of in complaints, and the number of cases pending at the end of the month. The data and information collected for the Hearings Section consist of the

number of cases pending with an ALJ or JO at the beginning of the month, the number of cases assigned during the month, including remands, reassignments, and motions to vacate, the number and type of cases disposed of during the month, and the number of cases pending with each ALJ and JO at the end of the month.

The data can be verified and validated by the reports and statistics that the presiding officer submits on a monthly basis. A monthly report is prepared on the reparations cases pending one year or more. Weekly reports are prepared for the executive director and a monthly report is prepared and submitted to the chairman. The latter includes monthly and yearly statistics regarding reparations and administrative enforcement cases.

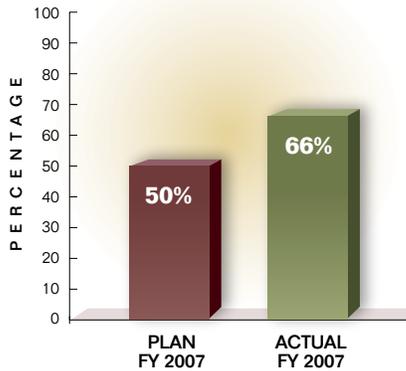
## Performance Highlights

None to report.

**PERFORMANCE MEASURE 2.3.2** Percentage of appeals resolved within six months.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	35%	46%	46%

**FY 2007 Performance Results**



- Results:** 66%
- Measurement:** Percentage
- Status:** Effective
- Data Source:** Opinions and orders issued by the Commission.
- Verification:** Final opinions and orders are posted on the Commission's Web site. Pending cases are maintained by the Secretariat; status reports are issued monthly.

**Lead Program Office**

Office of Proceedings

**Performance Trends & Variations**

The performance of OGC under this measure is effective, exceeding the goal for the year (50 percent of appeals resolved within six months) and substantially exceeding the results for the two prior fiscal years. The performance also is effective because OGC exceeded its goal despite substantial constraints on its ability to control ultimate outcomes under this measure. Once an appeal is filed, its resolution may be delayed by one or more appealing parties, who may seek extensions of filing deadlines. After OGC staff review a case and make a recommendation to the Commission regarding its resolution, OGC no longer controls the case. The case rests with the commissioners and their advisors, who face competing priorities. Finally, the performance of OGC this year particularly warrants being deemed effective because the performance measure was exceeded in a year when OGC lost approximately one-third of its professional staff.

**Performance Analysis & Review**

OGC maintained its productivity from FY 2005 to FY 2006 and anticipates exceeding its planned FY 2007 goal of 50 percent, based on actual results through the first three quarters. The increased number of cases resolved within six months resulted primarily from the disposition of matters through delegated authority.

**Data Source & Validation**

The principal supporting documentation consists of the opinions and orders issued by the Commission.

Apart from this documentation, which is posted on the Commission's Web site, the Office of Proceedings, OGC, and the Secretariat maintain dockets on the status of pending cases. In addition, OGC prepares monthly reports to the Commission on the status of cases. Performance data is validated as follows: the date of the notice of appeal or other pleading bringing a matter before the Commission starts the six-month time period. The Commission's order disposing of a matter stops the time period.

## Performance Highlights

In FY 2007, the Commission signaled the importance of maintaining the user-friendly nature of the customer reparations forum.

- The Commission vacated an initial decision that dismissed a claim because the *pro se* complainant did not file a detailed prehearing memorandum discussing issues of law. The Commission remanded the case for a hearing (*Anderson v. Beach*);
- The Commission exercised its rarely used authority to take sua sponte review of an initial decision to determine whether sanctions imposed on the complainant and a respondent for deficient responses to a prehearing order constituted an abuse of discretion (*Wade v. Chevalier*).



## STRATEGIC GOAL THREE: INDUSTRY

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

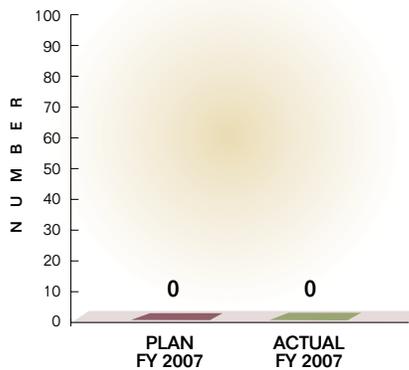
**Outcome 3.1:** Clearing organizations and firms holding customer funds have sound financial practices.

**Annual Performance Goal 3.1:** 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 MEASURE 3.1.1(a)** Lost Funds: Number of customers who lost funds.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	0	0	0

**FY 2007 Performance Results**



**Results:** 0

**Measurement:** Number

**Status:** Effective

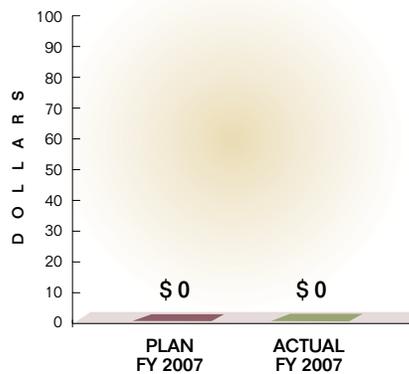
**Data Source:** Agency database for filing financial reports, 1-FR-FCM and FOCUS reports.

**Verification:** Exchanges' daily trading data and FCMs' financial filings are maintained in SPARK and 1-FR data systems.

**PERFORMANCE MEASURE 3.1.1(b)** Lost Funds: Amount of funds lost.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	\$ 0	\$ 0	\$ 0

**FY 2007 Performance Results**



**Results:** \$0

**Measurement:** Dollars

**Status:** Effective

**Data Source:** Agency database for filing financial reports, 1-FR-FCM and FOCUS reports.

**Verification:** Exchanges' daily trading data and FCMs' financial filings are maintained in SPARK and 1-FR data systems.

## Lead Program Office

Division of Clearing and Intermediary Oversight

### Performance Trends & Variations

Performance target was met for FY 2007. No customers who deposited funds with FCMs for trading on DCMs experienced any losses during FY 2007, as a result of the FCM's failure to adhere to Commission regulations. However, a registered FCM filed for bankruptcy protection in August 2007. DCIO is continuing to monitor the FCM's bankruptcy proceedings and, as of September 30, 2007, no customers trading on DCMs have lost funds due to the FCM's bankruptcy.

FCMs are required to segregate customer funds for trading on DCMs in designated accounts with a bank, trust company, clearing organization, or other FCM. FCMs holding funds for customers trading on non-U.S. contract markets are required to comply with Part 30 of the Commission's regulations with respect to the custody of the customers' funds.

FCMs also are required to prepare daily calculations demonstrating compliance with the customer funds custody requirements. These calculations must be prepared by 12:00 noon demonstrating compliance as of the end of business on the previous business day.

DCIO conducts financial and risk surveillance activities to closely monitor the operations of FCMs in possession of customer funds. These surveillance activities include DCIO's SPARK system, combined with required financial warning notices from the FCMs and constant market monitoring.

### Data Source & Validation

Supporting documentation is contained in DCIO's files and the database maintained for filing 1-FR-FCM forms and FOCUS reports.

The methodology for collecting and maintaining the data to use to analyze and validate this item is part of the daily procedures for handling the SPARK and 1-FR data systems. The data is obtained from daily trading information obtained from the exchanges, combined with the periodic financial filings of the FCMs.

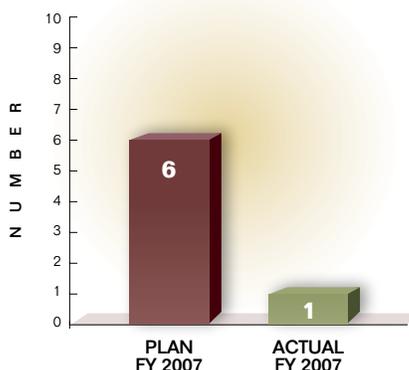
### Performance Highlights

There were no losses of regulated customer funds due to firm failures or the inability of customers to transfer their funds from a failing firm to a sound firm in FY 2007 or FY 2006.

**PERFORMANCE MEASURE 3.1.2** Number of rulemakings to ensure market integrity and financially sound markets.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	1	3	3

**FY 2007 Performance Results**



**Results:** 1

**Measurement:** Number

**Status:** Effective

**Data Source:** Code of Federal Regulations: proposed and final amendments to regulations.

**Verification:** Proposed and final regulations are published in the *Federal Register* and posted on the Commission's Web site.

**Lead Program Office**

Division of Clearing and Intermediary Oversight

**Performance Trends & Variations**

Not meeting the FY 2007 performance target is not viewed as a performance deficiency. Unrelated to performance, a number of factors may contribute to not meeting the plan. The number of rulemakings to ensure market integrity and financial soundness is not a number that can be precisely predetermined. The final number of rulemakings is driven, in part, by changes in the marketplace, or in the structure of exchanges, clearing organizations, and intermediaries that operate within that marketplace. The number can be a function of what is needed to allow appropriate market interrelationships to be maintained and to allow registered entities to operate in the most efficient manner possible. These factors may not be foreseeable at the time the performance estimate is prepared. In addition, the need for a rulemaking may not be known or may not have reached a decision-making point until further analysis, study, and

other actions or events have taken place. This also can account for a difference between the FY 2007 Plan and Actual.

DCIO completed one rulemaking that effectively addressed regulatory efforts to ensure market integrity and financially sound markets. This rulemaking, concerning limitations on withdrawals of equity, was designed to help preserve and enhance the required compliance by FCMs and IBs with the Commission's minimum financial requirements, while strengthening protection of market participants and the public. The Commission may now, by written order, temporarily prohibit an FCM from carrying out equity withdrawal transactions that could be detrimental to the financial integrity of the FCM or could adversely affect its ability to meet customer obligations.

**Data Source & Validation**

DCIO staff maintain files of the supporting documentation related to the respective rulemakings. The methodology for collecting these statistics is by tabulating the number of

rulemakings for the fiscal year. In addition, proposed and final regulations are published in the *Federal Register* and are posted on the Commission's Web site.

During FY 2007, DCIO completed one final rulemaking related to FCM net capital:

- 17 CFR Part 1, Limitations on Withdrawals of Equity Capital, at 72 Fed Reg. 1148 (January 10, 2007) – Final amendments to regulations.

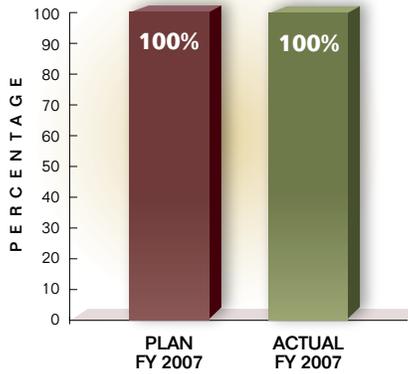
## Performance Highlights

The Commission completed a rulemaking amending its regulations to provide that the Commission may, by written order, temporarily prohibit an FCM from carrying out equity withdrawal transactions that would reduce the firm's regulatory excess adjusted net capital by 30 percent or more. The purpose of this rule amendment was to provide the Commission with explicit authority to prevent an FCM from transferring equity out of the FCM during a financial emergency. The Commission's order would be based on the Commission's determination that such withdrawal transactions could be detrimental to the financial integrity of the FCMs or could adversely affect their ability to meet customer obligations. The amendment also provides that an FCM may file with the Commission a petition for rescission of an order temporarily prohibiting equity withdrawals from the FCM.

**PERFORMANCE MEASURE 3.1.3** Percentage of clearing organizations that comply with requirement to enforce their rules.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	100%	100%	100%

**FY 2007 Performance Results**



**Results:** 100%

**Measurement:** Percentage

**Status:** Effective

**Data Source:** Documentation from DCOs under review; agency reports & files; and financial surveillance materials.

**Verification:** Statistical data is obtained through financial surveillance and planned reviews.

**Lead Program Office**

Division of Clearing and Intermediary Oversight

**Performance Trends & Variations**

Performance target was met for FY 2007. Reviews of compliance with Core Principles were completed at six DCOs. Reviews of five DCOs found them to be in compliance with the Core Principles. One DCO was found to be in compliance with the Core Principles except that further demonstration was deemed necessary in one instance. No affirmative conclusion of noncompliance can be made at this time.

On a daily basis, DCIO staff conduct financial surveillance of DCOs and clearing members. Staff have identified no instances of noncompliance.

During the past fiscal year, 73 rule submissions, many containing multiple rules, were filed by DCOs under the self-certification provisions of the CEA. Staff reviewed each of the submissions and found none that violated CEA Core Principles.

**Data Source & Validation**

Each of the DCOs under review submits extensive documentation. DCIO staff create extensive workpapers in conducting the reviews of DCOs. When the reviews are complete, DCIO staff provide reports to the Commission. Files are maintained containing many of these materials.

Financial surveillance materials are also maintained in files. Some of them are maintained on a DCIO electronic shared drive called *Financial Surveillance Home*. In addition, written reports are periodically prepared and kept on file.

A paper file is created for each DCO rule submission. Typically, a staff memorandum is included in the file.

The methodology for collecting this statistic is based on ongoing oversight and planned reviews related to the aforementioned areas for which the results potentially could indicate a DCO's noncompliance with the requirement to enforce its rules.

## Performance Highlights

The reviews of six DCOs to determine compliance with Core Principles represented the first comprehensive review of such entities since clearing organizations were required to register with the Commission under the CFMA and became subject to the Commission's oversight authority. DCIO chose to review multiple DCOs simultaneously because this approach provided an opportunity to develop a deeper understanding of each DCO's policies and practices by comparing and contrasting them to the policies and practices of other DCOs. As a result of this approach,

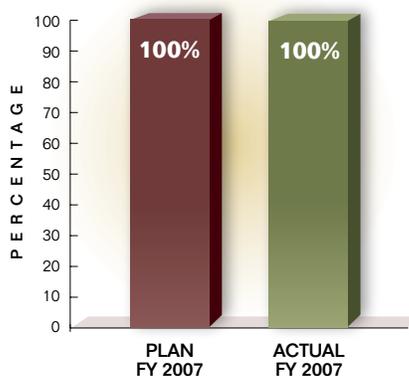
a number of benefits were derived, including the following: 1) established new baseline of knowledge for DCIO regarding DCO programs; 2) strengthened working relationships with DCO staff; 3) established and strengthened relationships with settlement banks; 4) comparative process provided insights both for future oversight of DCOs and for DCIO's financial surveillance program; 5) obtained verification of SPARK stress test results by comparing to DCO results; and 6) the process may serve as a template for future reviews.

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

**Annual Performance Goal 3.2:** No loss of funds resulting from failure of self-regulated organizations to ensure compliance with their rules.

<b>PERFORMANCE MEASURE 3.2.1</b> Percentage of intermediaries who meet risk-based capital requirements.				
History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	
	100%	100%	100%	

### FY 2007 Performance Results



**Results:** 100%

**Measurement:** Percentage

**Status:** Effective

**Data Source:** Agency database for filing financial reports, 1-FR-FCM and FOCUS reports.

**Verification:** Exchanges' daily trading data and FCMs' financial filings are maintained in SPARK and 1-FR data systems.

### Lead Program Office

Division of Clearing and Intermediary Oversight

### Performance Trends & Variations

Performance target was met for FY 2007. The Act, Commission regulations, and SRO rules require FCMs to comply with minimum financial requirements and related reporting requirements at all times. Included in the minimum financial requirements is the Commission's and SROs' risk-based capital requirement.

Any FCM failing to meet the risk-based capital requirement must provide immediate notice to the Commission and to the firm's designated SRO. Furthermore, Commission regulations provide that any FCM that fails to meet minimum capital requirements, including the risk-based capital requirement, must transfer all customer accounts and immediately cease operating as an FCM until it can demonstrate compliance.

The Commission and SROs monitor FCMs' compliance with the risk-based capital requirement through review of monthly financial reports, regulatory notices, and the conduct of in-field examination. DCIO also uses the SPARK system, combined with required financial warning notices and market monitoring, to closely monitor the financial condition of FCMs.

## Data Source & Validation

Supporting documentation is contained in DCIO's files and the database maintained for the filing of 1-FR-FCM forms and FOCUS reports.

The methodology for collecting and maintaining the data used to analyze and validate this item is part of the daily procedures for handling the SPARK and 1-FR data systems. The data is obtained from daily trading information obtained from the exchanges combined with the periodic financial filings of the FCMs.

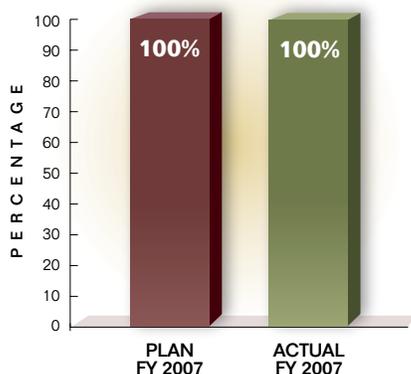
## Performance Highlights

DCIO staff reviewed all regulatory notices received from FCMs during FY 2007. This review included assessing each firm's actions to ensure that all firms that reported a failure to maintain the minimum capital requirement either took the necessary steps to bring themselves back into compliance or properly transferred their customers' accounts to other, adequately capitalized FCMs. DCIO staff reviewed approximately 2,700 FCM financial reports submitted during FY 2007 for compliance with the minimum financial requirements. DCIO staff also conducted examinations of several FCMs during FY 2007 to assess the firms' compliance with Commission and SRO capital rules.

**PERFORMANCE MEASURE 3.2.2** Percentage of self-regulatory organizations that comply with requirement to enforce their rules.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	100%	100%	100%

**FY 2007 Performance Results**



**Results:** 100%

**Measurement:** Percentage

**Status:** Effective

**Data Source:** Documentation from SROs under review; agency reports and files; and financial surveillance materials.

**Verification:** SRO financial filings are maintained in SPARK and 1-FR data systems.

**Lead Program Office**

Division of Clearing and Intermediary Oversight  
 Division of Market Oversight

**Performance Trends & Variations**

**Division of Clearing and Intermediary Oversight**

Performance target was met for FY 2007. DCIO conducts periodic, routine examination of the financial and sales practice programs of the SROs for the purpose of assessing the SROs’ compliance with relevant Core Principles and Commission regulations and interpretations. During FY 2007, DCIO completed a review of the financial and sales practice oversight program of one DCM. Based upon its review, DCIO concluded that the DCM’s program was consistent with the relevant Core Principles, and with Commission regulations and interpretations.

DCIO also initiated an examination of the financial and sales practice program of a second DCM, during FY 2007. This examination is currently in progress. At this stage of the examination, DCIO has not identified any issues that would indicate a failure of NYMEX’s program to satisfy the relevant Core Principles and Commission regulations and interpretations.

DCM Core Principle 11 provides, in relevant part, that a DCM shall establish and enforce rules to ensure the financial integrity of FCMs and the protection of customer funds. DCIO and DCMs, in their capacity as SROs, receive and review monthly financial reports submitted by FCMs for the purpose of assessing whether the FCMs are in compliance with the Commission’s and SROs’ minimum financial requirements, including requirements relating to the safeguarding of customer funds. In addition, Commission regulations and SRO rules require an FCM to file a notification with the Commission and its designated SRO whenever such FCM fails to meet its minimum capital or segregation requirement. DCIO’s review and analysis of FCM financial reports and notifications, including appropriate coordination with the SROs during FY 2007, demonstrated that the SROs were complying with Core Principle 11.

**Division of Market Oversight**

DMO staff conduct rule enforcement reviews (RERs) of DCMs on a regular cycle to ensure that exchanges enforce their rules. CEA Core Principle 2 specifically requires that exchanges monitor and enforce compliance with their rules. DMO reviews exchange compliance with CEA Core Principle 2 when it conducts an RER of an exchange’s trade

practice surveillance program. RERs also examine the adequacy of an exchange's market surveillance, audit trail, disciplinary, and dispute resolution programs. When DMO examines these programs, its review includes an analysis to ensure that an exchange is enforcing its rules that relate to the particular program under review. During FY 2007, DMO completed a RER of the CME that included, among other things, review of CME's trade practice surveillance program, including a detailed analysis of CME's surveillance systems. The CME RER resulted in a report that found that CME maintains an adequate trade practice surveillance program that includes the use of sophisticated surveillance systems. DMO also initiated a review of CBOT's market surveillance program, which is expected to be completed in early FY 2008. Although the CBOT RER focused on market surveillance, market surveillance issues sometimes directly relate to trade practice abuses. In FY 2007, or shortly thereafter, DMO expects to issue a report of its combined RER of the Chicago Climate Futures Exchange (CCFE), USFE, and HedgeStreet. These exchanges all contract with the NFA to perform trade practice surveillance. In reviewing these exchanges' trade practice surveillance programs, DMO is carefully reviewing and analyzing NFA's automated surveillance system. Finally, in FY 2007, DMO initiated an RER of NYMEX which includes, among other things, review of NYMEX's market surveillance and trade practice surveillance programs. Although the combined RER of CCFE, USFE, and HedgeStreet and the NYMEX RER are still in progress, staff have not identified any material deficiencies.

DMO also conducts ongoing daily surveillance of all exchanges to ensure that exchanges are enforcing their rules.

## Data Source & Validation

### Division of Clearing and Intermediary Oversight

DCIO staff conduct risk-focused reviews of the financial and sales practice oversight programs of SROs and NFA on risk-based examination cycles. DCIO delivers a letter to the SRO, requesting documents that reflect the systems, policies, procedures, practices, and internal controls implemented by the SRO. After reviewing these materials, DCIO staff interview selected management staff, followed by performing fieldwork at the exchange and a review of docu-

ments. The fieldwork at the SRO primarily consists of a walk-through demonstration. The purpose of the fieldwork is to confirm DCIO's understanding of the SRO's program and to provide reasonable assurance that it operates in the manner represented.

The testing of execution of procedures is performed by sample testing and documentation review. DCIO staff use standard statistical techniques to size and select samples in the areas of disclosure documents, financial reports, exemption and extension notices, compliance examinations, and sales practices. Samples are selected and tested to facilitate an understanding of the operations of a process or procedure in practice rather than to provide statistical assurances.

For further verification of compliance oversight procedures, DCIO staff also visit firms whose operations were reviewed by the SRO during 2004. Such reviews include performing the same testing steps that the SRO conducted in its examinations of the firms. The results of such DCIO testing are then compared to the workpapers of the SRO's examination of the selected firms.

DCIO also reviews monthly financial reports submitted by FCMs for purposes of assessing whether the FCMs comply with the Commission's and SROs' minimum financial requirements, including requirements to properly safeguard customer funds. DCIO further reviews notices submitted by an FCM stating that the firm is undercapitalized or undersegregated to assess whether the firm's SRO has taken appropriate measures to address the undercapitalization or undersegregation.

The methodology for collecting this statistic is based on ongoing oversight and planned reviews related to the aforementioned areas for which the results could potentially indicate an SRO's noncompliance with the requirement to enforce its rules in accordance with applicable Core Principles and Commission regulations.

### Division of Market Oversight

Each DCM that is the subject of an RER, and its third-party service provider, if applicable, submits extensive documentation during the course of RERs. DMO staff also create workpapers during their analysis of submitted documentation. Exchange submissions and staff workpapers are organized and maintained in DMO files.

DMO also maintains a log of its exchange floor surveillance and maintains trade practice investigation files that include exchange trade data and staff's analysis.

When initiating an RER, DMO sends a letter to the exchange requesting documents that reflect systems, policies, procedures, and practices that relate to the CEA Core Principles and programs under review. After reviewing the requested material, DMO staff conduct an on-site visit that includes interviewing senior exchange officials and reviewing files that demonstrate exchange staff's use of surveillance systems as part of the investigatory process. The verification of procedures and adequacy of exchange surveillance system is measure by determining whether the exchange initiated a sufficient number of investigations given exchange volume, the adequacy of investigation, and the exchange's success in bringing disciplinary actions.

The methodology for collecting this statistic is based on ongoing oversight and planned RERs relating to the aforementioned areas for which the results potentially could indicate a DCM's noncompliance with the requirement to enforce its rules.

## **Performance Highlights**

### **Division of Clearing and Intermediary Oversight**

The completed review assessed the DCM's financial and sales practice program, including staffing levels, conduct of examinations of FCMs, conduct of financial statement review, and disciplinary actions. DCIO concluded that the DCM's program was consistent with the relevant Core Principles and with Commission regulations and interpretations.

### **Division of Market Oversight**

DMO found in its CME RER report that CME maintains an adequate trade practice surveillance program to enforce its rules. In this regard, CME monitors all trading through a combination of visual, video, and automated computer surveillance, and conducts investigations capable of detecting violations of CME rules. DMO noted that since its last RER of CME's trade practice surveillance program in 2002, CME refined its automated surveillance systems and developed a new tool to allow compliance staff to conduct real-time surveillance of orders and trading on Globex, CME's electronic trading platform.

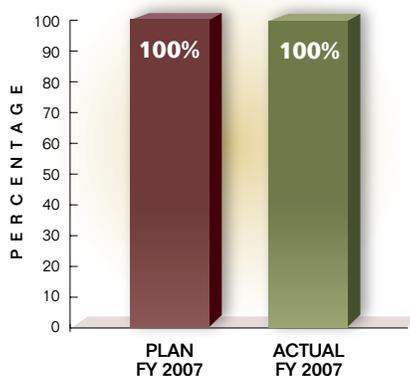
**Outcome 3.3:** Markets are free of trade practice abuses.

**Annual Performance Goal 3.3:** Minimize trade practice abuses.

**PERFORMANCE MEASURE 3.3.1** Percentage of exchanges deemed to have adequate systems for detecting trade practice abuses.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	100%	100%	100%

**FY 2007 Performance Results**



**Results:** 100%

**Measurement:** Percentage

**Status:** Effective

**Data Source:** Agency reports and files from reviews and analyses, and documentation from exchanges subject to a rule enforcement review.

**Verification:** Reviews and analysis of systems, procedures, policies, practices, and manuals. Reviews include site visits.

**Lead Program Office**

Division of Market Oversight

**Performance Trends & Variations**

DMO staff conduct RERs of DCMs on a regular cycle that includes review and analysis of systems for detecting trade practice abuses. During FY 2007, DMO completed an RER of the CME that included, among other things, review of CME’s trade practice surveillance program, including a detailed analysis of CME’s surveillance systems. The CME RER resulted in a report that found that CME maintains an adequate trade practice surveillance program that includes the use of sophisticated surveillance systems. DMO also initiated a review of CBOT’s market surveillance program,

which is expected to be completed in early FY 2008. Although the CBOT RER focused on market surveillance, market surveillance issues sometimes directly relate to trade practice abuses. In FY 2007, or shortly thereafter, DMO expects to issue a report of its combined RER of the CCFE, USFE, and HedgeStreet. These exchanges all contract with the NFA to perform trade practice surveillance. In reviewing these exchanges’ trade practice surveillance programs, DMO is carefully reviewing and analyzing NFA’s automated surveillance system. Finally, in FY 2007, DMO initiated an RER of NYMEX which includes, among other things, review of NYMEX’s market surveillance and trade practice surveillance programs. Although the combined RER of CCFE, USFE, and HedgeStreet and the NYMEX RER are still in progress, staff have not identified any material deficiencies.

## Data Source & Validation

Each DCM that is subject of an RER, and its third-party service provider, if applicable, submits extensive documentation during the course of RERs. DMO staff also create workpapers during its analysis of submitted documentation. Exchange submissions and staff workpapers are organized and maintained in DMO files.

When initiating an RER, DMO sends a letter to the exchange requesting documents that reflect the systems, policies, procedures, and practices that relate to the CEA Core Principles and programs under review. With respect to an exchange's surveillance systems, DMO requested copies of all manuals, procedures, and/or guidelines relating to any automated surveillance system used by the exchange in connection with trade practice surveillance. After reviewing the requested material, DMO staff conduct an on-site visit that includes interviewing senior exchange officials and reviewing files that demonstrate exchange staff's use of surveillance systems as part of their investigatory process. The verification of procedures and adequacy of exchange surveillance systems is measured by determining whether the exchange initiated a sufficient number

of investigations given exchange volume, the adequacy of investigations, and the exchange's success in bringing disciplinary actions.

The methodology for collecting this statistic is based on RERs relating to review and evaluation of exchange systems for detecting trade practice abuses.

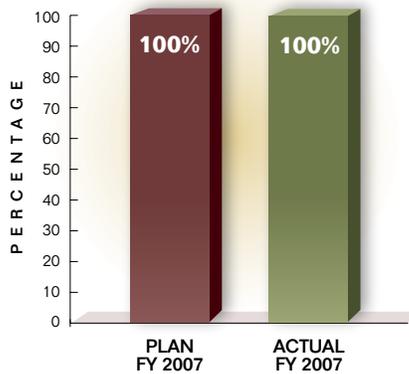
## Performance Highlights

DMO found in its CME RER report that CME maintains an adequate trade practice surveillance program to detect trading abuses. In this regard, CME monitors all trading through a combination of visual, video, and automated computer surveillance, and conducts investigations capable of detecting violations of CME rules. DMO noted that since its last RER of CME's trade practice surveillance program in 2002, CME has refined its automated surveillance systems and has developed a new tool to allow compliance staff to conduct real-time surveillance of orders and trading on Globex, CME's electronic trading platform.

**PERFORMANCE MEASURE 3.3.2** Percentage of exchanges that comply with requirement to enforce their rules.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	100%	100%	100%

**FY 2007 Performance Results**



- Results:** 100%
- Measurement:** Percentage
- Status:** Effective
- Data Source:** Agency reports and files from reviews and analyses, and documentation from exchanges subject to a rule enforcement review.
- Verification:** Statistical data is obtained through financial surveillance and planned reviews.

**Lead Program Office**

Division of Clearing and Intermediary Oversight  
 Division of Market Oversight

**Performance Trends & Variations**

**Division of Clearing and Intermediary Oversight**

Performance target was met for FY 2007. DCIO conducts periodic, routine examination of the financial and sales practice programs of the SROs for the purpose of assessing the SROs’ compliance with relevant Core Principles, and compliance with Commission regulations and interpretations. During FY 2007, DCIO completed a review of the financial and sales practice oversight program of one DCM. Based upon its review, DCIO concluded that the DCM’s program was consistent with the relevant Core Principles and with Commission regulations and interpretations.

DCIO also initiated an examination of the financial and sales practice program of a second DCM, during FY 2007. This examination is currently in progress. At this stage of the examination, DCIO has not identified any issues that would indicate a failure of the DCM’s program to satisfy the relevant Core Principles and Commission regulations and interpretations.

DCM Core Principle 11 provides, in relevant part, that a DCM shall establish and enforce rules to ensure the financial integrity of FCMs and the protection of customer funds. DCIO and DCM’s, in their capacity as SROs, receive and review monthly financial reports submitted by FCMs for the purpose of assessing whether the FCMs are in compliance with the Commission’s and SRO’s minimum financial requirements, including requirements relating to safeguarding customer funds. In addition, Commission regulations and SRO rules require an FCM to file a notification with the Commission and its designated SRO whenever such FCM fails to meet its minimum capital or segregation requirement. DCIO’s review and analysis of FCM financial reports and notifications, including appropriate coordination with the SROs during FY 2007, demonstrated that the SROs were complying with Core Principle 11.

**Division of Market Oversight**

DMO staff conduct RERs of DCMs on a regular cycle to ensure that exchanges enforce their rules. CEA Core Principle 2 specifically requires that exchanges monitor and enforce compliance with their rules. DMO reviews exchange compliance with CEA Core Principle 2 when it conducts an RER of an exchange’s trade practice surveillance program. RERs also examine the adequacy of an

exchange's market surveillance, audit trail, disciplinary, and dispute resolution programs. When DMO examines these programs, its review includes an analysis to ensure that an exchange is enforcing its rules that relate to the particular program under review. During FY 2007, DMO completed an RER of the CME that included, among other things, review of CME's trade practice surveillance program, including a detailed analysis of CME's surveillance systems. The CME RER resulted in a report that found that CME maintains an adequate trade practice surveillance program that includes the use of sophisticated surveillance systems. DMO also initiated a review of CBOT's market surveillance program, which is expected to be completed in early FY 2008. Although the CBOT RER focused on market surveillance, market surveillance issues sometimes directly relate to trade practice abuses. In FY 2007, or shortly thereafter, DMO expects to issue a report of its combined RER of the CCFE, USFE, and HedgeStreet. These exchanges all contract with the NFA to perform trade practice surveillance. In reviewing these exchanges' trade practice surveillance programs, DMO is carefully reviewing and analyzing NFA's automated surveillance system. Finally, in FY 2007, DMO initiated an RER of NYMEX which includes, among other things, review of NYMEX's market surveillance and trade practice surveillance programs. Although the combined RER of CCFE, USFE, and HedgeStreet and the NYMEX RER are still in progress, staff have not identified any material deficiencies.

DMO also conducts ongoing daily surveillance of all exchanges to ensure that exchanges are enforcing their rules.

## Data Source & Validation

### Division of Clearing and Intermediary Oversight

DCIO staff conduct risk-focused reviews of the financial and sales practice oversight programs of SROs. Supporting documentation of DCIO's assessment of exchanges complying with requirements to enforce their rules is contained in the report and the workpapers prepared by DCIO staff while carrying out the review and analyzing relevant exchange's materials. Such documentation is contained in DCIO's files.

DCIO delivers a letter to the exchange, requesting documents that reflect the systems, policies, procedures, practices, and internal controls implemented by the exchange. After reviewing those materials, DCIO staff interview selected management staff, followed by performing fieldwork at the exchange and a review of documents. The fieldwork at the exchange primarily consists of a walk-through demonstration. The purpose of the fieldwork is to confirm DCIO's understanding of the exchange and to provide reasonable assurance that it operated in the manner represented.

The testing of execution of procedures is performed by sample testing and documentation review. DCIO staff use standard testing and documentation review. DCIO staff use standard statistical techniques to size and select samples in the areas of financial reports and audits. Samples are selected and tested to facilitate an understanding of the operation of a process or procedure in practice rather than to provide statistical assurances.

For further verification of compliance oversight procedures, DCIO staff also visit firms whose operations are reviewed by the exchange. Such reviews include performing the same testing steps that the SRO conducts in its examinations of the firms. The results of such DCIO testing are compared to the workpapers of the exchange's examination of the selected firms.

DCIO also reviews monthly financial reports submitted by FCMs for purposes of assessing whether the FCMs comply with the Commission's and SROs' minimum financial requirements, including requirements to properly safeguard customer funds. DCIO further reviews notices submitted by an FCM stating that the firm is undercapitalized or undersegregated to assess whether the firm's SRO has taken appropriate measures to address the undercapitalization or undersegregation.

The methodology for collecting the statistic is based on ongoing oversight and planned reviews related to the aforementioned areas for which the results could potentially indicate an exchange's noncompliance with the requirement to enforce its rules.

### Division of Market Oversight

Each DCM that is the subject of an RER, and its third-party service provider, if applicable, submits extensive documentation during the course of RERs. DMO staff also create workpapers during their analysis of submitted documentation. Exchange submissions and staff workpapers are organized and maintained in DMO files.

DMO also maintains a log of its exchange floor surveillance and maintains trade practice investigation files that include exchange trade data and staff's analysis.

When initiating an RER, DMO sends a letter to the exchange requesting documents that reflect systems, policies, procedures, and practices that relate to the CEA Core Principles and programs under review. After reviewing the requested material, DMO staff conduct an on-site visit that includes interviewing senior exchange officials and reviewing files that demonstrate exchange staff's use of surveillance systems as part of the investigatory process. The verification of procedures and adequacy of exchange surveillance system is measured by determining whether the exchange initiated a sufficient number of investigations given exchange volume, the adequacy of investigation, and the exchange's success in bringing disciplinary actions.

The methodology for collecting this statistic is based on ongoing oversight and planned RERs relating to the aforementioned areas for which the results potentially could indicate a DCM's noncompliance with the requirement to enforce its rules.

## Performance Highlights

### Division of Clearing and Intermediary Oversight

The completed review assessed the DCM's financial and sales practice program, including staffing levels, conduct of examinations of FCMs, conduct of financial statement review, and disciplinary actions. DCIO concluded that the DCM's program was consistent with the relevant Core Principles and with Commission regulations and interpretations.

### Division of Market Oversight

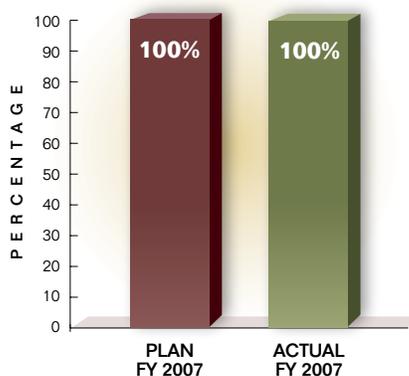
DMO found in its CME RER report that CME maintains an adequate trade practice surveillance program to enforce its rules. In this regard, CME monitors all trading through a combination of visual, video, and automated computer surveillance, and conducts investigations capable of detecting violations of CME rules. DMO noted that since its last RER of CME's trade practice surveillance program in 2002, CME has refined its automated surveillance systems and has developed a new tool to allow compliance staff to conduct real-time surveillance of orders and trading on Globex, CME's electronic trading platform.

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

**Annual Performance Goal 3.4:** Rulemakings issued and requests responded to reflect the evolution of the markets and protect the interests of the public.

<b>PERFORMANCE MEASURE 3.4.1</b> Percentage of CFMA Section 126(b) objectives addressed.				
History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	
	100%	100%	100%	

### FY 2007 Performance Results



**Results:** 100%

**Measurement:** Percentage

**Status:** Effective

**Data Source:** Agency reports, files, and documentation.

**Verification:** Formal MOUs or seriatim approvals are published in the *Federal Register* and posted on the Commission's Web site.

### Lead Program Office

Executive Direction and Support

### Performance Trends & Variations

The Commission's Office of International Affairs (OIA) assists the Commission in formulating and implementing its international policy. OIA's activities track the objectives set forth in section 126(b) of the CFMA, which endorsed the Commission's international activities and encouraged the Commission to continue to: 1) coordinate with foreign regulatory authorities; 2) participate in international regulatory organizations and forums; and 3) provide technical assistance to foreign governmental bodies. These efforts are intended to facilitate cross-border transactions and the supervision of such transactions by developing interna-

tionally accepted standards, enhancing international supervisory cooperation, and improving the quality and timelines of international information sharing.

These performance measures have been met by: 1) engaging in discussions with foreign regulators both on a bilateral basis and within Treasury's country dialogues, on an "as needed" basis to address regulatory issues, as well as by carrying forward discussions with the Committee of European Securities Regulators (CESR); 2) participating in meetings and working groups organized by the International Organization of Securities Commissions (IOSCO), and the Council of Securities Regulators of the Americas (COSRA); and 3) by organizing the annual Commission training symposium and international regulators meeting, as well as by coordinating technical assistance missions to foreign market authorities.

OIA can anticipate certain recurring activities such as participating in the IOSCO Technical Committee and its constituent working groups, participating in Treasury country dialogues, and organizing the annual training seminar and international regulators' meeting. Other international matters are event-driven, such as the need to engage in bilateral discussions with a foreign regulator to negotiate a market surveillance arrangement, or ad hoc in nature, such as requests for technical assistance. Even within the recurring forums of IOSCO and COSRA, for example, market events may result in the development of a new task force project, which, if it affects Commission regulatory interests, warrants Commission involvement.

To date, OIA has been able, within the limits of its staff resources, to provide international coordination, representation and technical assistance at acceptable levels as approved by the chairman. However, the electronic integration of global markets, cross-border mergers, market alliances and requests by foreign entities for regulated status under the CEA, as well as increasing calls on the CFTC to participate in Treasury-organized dialogues with commercially important jurisdictions such as India and China, have led to increasing demands that are straining the capacity of OIA to provide adequate levels of international coordination, representation and technical assistance services to and on behalf of the Commission. Although these demands can be met by the additional staff resources allocated to OIA for FY 2009, the failure to fund these potential resources will make it unlikely that OIA will be able to address the increasing demands resulting from the globalization of U.S. futures markets.

## Data Source & Validation

OIA staff maintain files of supporting documentation under key words that reflect the Section 126(b) topics. Projects are also found in the Commission Secretariat's file, e.g., formal Memoranda of Understanding (MOUs) or *seriatim*<sup>7</sup> approvals of IOSCO documents, and published *Federal Register* notices. IOSCO projects are also contained in those final reports adopted by the IOSCO Technical Committee and published on the IOSCO Web site.

<sup>7</sup> Latin for "in a series" or "in order." CFTC issues are approved *seriatim*; meaning issues are approved by the Commissioners in order of hierarchy, or time in office.

## Performance Highlights

### Coordination with foreign regulatory authorities

- MOU (November 17, 2006), between the CFTC and United Kingdom (U.K.) Financial Services Authority (FSA) concerning consultation, cooperation and the exchange of information related to market oversight. The MOU establishes a framework for the CFTC and FSA to share information that the respective authorities need to detect potential abusive or manipulative trading practices that involve trading in related contracts on U.K. and U.S. derivatives exchanges. Sharing necessary information on linked markets will provide the regulators with a more complete view of these markets for oversight purposes.
- CFTC Initiative with the CESR—Completed "frequently asked questions" document, which provides firms and market users access to compliance-type questions and answers. This resource helps firms, exchanges, and market users to understand how to comply with local rules and regulations, and thereby facilitate trans-Atlantic business.
- OIA participated in, and provided staff support to the chairman in meetings with various global market authorities, including CESR, the French market regulator, and European Union officials and industry representatives. These meetings establish relationships and provide a forum for raising and resolving regulatory issues.

### Participation in international regulatory organizations and forums

- Participated in work projects of the IOSCO. Staff participated actively in the standing committees on secondary markets and intermediaries, and provided support for the work of the standing committee on collective investments, which addressed issues such as guidance on information sharing for cross-border market supervision, and electronic recordkeeping, point of sale disclosure issue and hedge fund valuation, respectively, as well as on the IOSCO Implementation Task Force, which developed and encourages IOSCO's

member jurisdictions to undergo assisted assessment of compliance with the IOSCO Principles. These projects help foster a higher level of global regulation.

- Participated in Treasury-organized regulatory dialogues—Participated in Treasury-led dialogues in China and India, which support Treasury’s policy goals, and encourage foreign jurisdictions to foster conditions favoring access to products and market, as well as discussions under the North American Free Trade Agreement (NAFTA). OIA staff also provide issues of concern to staff at Treasury in connection with Treasury’s participation in the Financial Stability Forum.

#### Providing technical assistance

- China – CFTC senior staff mission to the China Securities Regulatory Commission (CSRC) to provide technical information relevant to the trading of financial futures contracts. This technical assistance program supported the general policy goals of Treasury with respect to China’s currency.
- India – CFTC senior staff mission, funded by the U.S. Agency for International Development (USAID), to Mumbai, India (May 23-29, 2007) to provide technical assistance to the Forward Markets Commission (FMC). This technical assistance program, which follows the signing of a technical assistance arrangement between the CFTC and FMC, fosters ongoing cooperation between the CFTC and FMC. Domestic and foreign market participants benefit from developed markets that are financially sound and free from abusive practices.

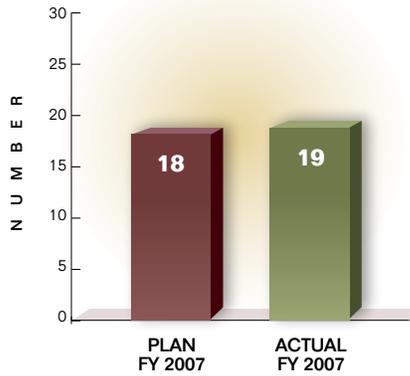
- International Symposium and Training Program on Regulation of Derivative Products, Markets, and Financial Intermediaries (October 2006) – This annual symposium, attended by over 70 participants from 27 countries, allows the CFTC to share its experiences and exchange ideas concerning how derivatives regulators can better meet new risks and challenges. This training program will help facilitate cooperation and essential dialogue so that the CFTC may continue to ensure customer and market protections.

- International Regulators Meeting (March 2007) – Annual international regulators meeting held in conjunction with the FIA annual conference, brought together over 40 global regulators to address regulatory challenges of a changing marketplace. Such meetings allow regulators to identify issues of common concern and to share ideas about different approaches to address such issues.

**PERFORMANCE MEASURE 3.4.2** Number of rulemakings, studies, interpretations, and guidances to ensure market integrity and exchanges' compliance with regulatory requirements.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	6	6	20

**FY 2007 Performance Results**



**Results:** 19

**Measurement:** Number

**Status:** Effective

**Data Source:** *Federal Register*; proposed and final amendments to regulations; notices and orders; and staff statements of guidance.

**Verification:** Proposed and final regulations are published in the *Federal Register* and posted on the Commission's Web site.

**Lead Program Office**

Division of Clearing and Intermediary Oversight  
 Division of Market Oversight

**Performance Trends & Variations**

**Division of Clearing and Intermediary Oversight**

DCIO completed a combined total of 10 rulemakings, studies, interpretations, and statements of guidance that addressed regulatory efforts to ensure market integrity and exchanges' compliance with regulatory requirements.

The number of rulemakings, studies, interpretations, and statements of guidance to ensure market integrity and exchanges' compliance with regulatory requirements is not a number that can be precisely predetermined. The final number of these combined statistics reported by DCIO is driven, in part, by changes in the marketplace, or in the structure of the exchanges, clearing organizations, and intermediaries that operate within that marketplace. The number can be a function of what is needed to allow appropriate market interrelationships to be maintained and to allow the exchanges, clearing organizations, and

intermediaries to operate in the most efficient manner possible. These factors may not be foreseeable at the time the performance estimate is prepared. In addition, the need for a rulemaking, study, interpretation, or guidance may not be known or may not have reached a decision-making point until further analysis and other actions or events have taken place. This also can account for a difference between the FY 2007 Plan and Actual.

**Division of Market Oversight**

The number of rulemakings, studies, interpretations, and statements of guidance is not a number that can be forecasted precisely. The final number is driven, in part, by changes in the marketplace or in the operations of exchanges that may not be foreseeable at the time the performance estimate is prepared.

**Data Source & Validation**

**Division of Clearing and Intermediary Oversight**

The supporting documentation is maintained in DCIO's files related to the respective rulemakings, studies, interpretations, and statements of guidance.

DCIO staff maintain files of the supporting documentation related to the respective rulemakings, studies, interpretations, and statements of guidance. The methodology for collecting these statistics is by tabulating the number of such rulemakings, studies, interpretations, and statements of guidance for the fiscal year. In addition, proposed and final regulations are published in the *Federal Register* and, along with staff statements of guidance, are posted on the Commission's Web site.

During FY 2007, DCIO completed the following rulemakings, studies, interpretations, and statements of guidance:

- 17 CFR Parts 1, 3, 4, 15 and 166, Exemption from registration for certain foreign persons, at 72 Fed. Reg. 15637 (April 2, 2007) – Proposed amendments to regulations.
- 17 CFR Part 3, Registration of Intermediaries at 72 Fed. Reg. 35918 (July 2, 2007) – Final amendments to regulations; 17 CFR Part 3, Registration of Intermediaries, at 72 Fed. Reg. 20788 (April 26, 2007) – Proposed amendments to regulations.
- 17 CFR Part 3, Termination of APs and Principals, at 72 Fed. Reg. 45392 (August 14, 2007) – Proposed amendments to regulations.
- 17 CFR Part 4, Advertising by Commodity Pool Operators, Commodity Trading Advisors, and the Principals Thereof, at 72 Fed. Reg. 8106 (February 23, 2007) – Final amendments to regulations.
- 17 CFR Part 30, Foreign Futures and Options Transactions, at 72 Fed. Reg. 14413 (March 28, 2007) – Order.
- 17 CFR Part 30, Foreign Futures and Options Transactions, at Fed. Reg. 50646 (September 4, 2007) – Order.
- 17 CFR Part 170, Membership in a Registered Futures Association, at 72 Fed. Reg. 2614 (January 22, 2007) – Final amendments to regulations; 17 CFR Part 170, Membership in a Registered Futures Association, at 71 Fed. Reg. 64171 (November 1, 2006) – Proposed amendments to regulations.
- 17 CFR Part 4, Electronic Filing of Notices of Exemption and Exclusion Under Part 4 of the Commission's regulations, at 72 Fed. Reg. 1658 (January 16, 2007) – Final amendments to regulations; 17 CFR Part 4, Electronic Filing of Notices of Exemption and Exclusion Under Part 4 of the Commission's regulations, at 71 Fed. Reg. 60454 (October 13, 2006).
- 17 CFR Part 1, Limitations on Withdrawals of Equity Capital, at 72 Fed. Reg. 1148 (January 10, 2007) – Final amendments to regulations.
- 17 CFR Part 1, Financial Reporting Requirements for Introducing Brokers, at 71 Fed. Reg. 67462 (November 22, 2006) – Final amendments to regulations.

#### Division of Market Oversight

DMO staff maintain files of the supporting documentation related to the referenced rulemakings and study. The methodology for collecting these statistics is by tabulating the number of such rulemakings and studies for the fiscal year. In addition, the referenced rulemakings and study were published in the *Federal Register* and posted on the Commission's Web site.

- 17 CFR Part 140 - Boards of Trade Located Outside of the United States and No-Action Relief From the Requirement To Become a Designated Contract Market or Derivatives Transaction Execution Facility, at 71 Fed. Reg. 64443 (November 2, 2006) – Final amendments to regulations.
- 17 CFR Part 38 - Conflicts of Interest in Self-Regulation and Self-Regulatory Organizations, at 72 Fed. Reg. 6936 (February 14, 2007) – Final amendments to regulations.
- Staff Letter 07-02 dated March 6, 2007, granting no-action relief to permit the Tokyo Financial Exchange, Inc. (TFX), to make its electronic trading and order matching system, LIFFE CONNECT™, as well as its Application Program Interface, available to TFX members in the U.S. without obtaining contract market designation or registration as a derivatives transaction execution facility pursuant to Sections 5 and 5a of the Act.

- 17 CFR Part 38 Conflicts of Interest in Self-Regulation and Self-Regulatory Organizations, at 72 Fed. Reg. 14051 (March 26, 2007) – Proposed amendments to regulations.
- Staff Letter 07-06 dated May 24, 2007, granting no-action relief to permit the DME, to make its electronic trading and order matching system, DME Direct, available to DME members and guaranteed customers in the U.S. without obtaining contract market designation or registration as a derivatives transaction execution facility pursuant to Sections 5 and 5a of the Act.
- 17 CFR Part 21 Special Calls, at 72 Fed. Reg. 5029 (August 31, 2007) – Final amendments to regulations;
- 17 CFR Part 21 Special Calls, at 72 Fed. Reg. 34417 (June 22, 2007) – Proposed amendments to regulations.
- 17 CFR Parts 40 and 41, Confidential Information and Commission Records and Information, at 72 Fed. Reg. 39764 (July 20, 2007) – Proposed amendments to regulations.
- 17 CFR Parts 36 and 40, Amendments Pertinent to Registered Entities and Exempt Commercial Markets, at 72 Fed. Reg. 45185 (August 13, 2007) – Proposed amendments to regulations.

## Performance Highlights

### Division of Clearing and Intermediary Oversight

In February 2007, the Commission strengthened its regulations on advertising by CPOs, CTAs, and the principals thereof in response to the evolving nature of the managed money marketplace and in order to protect the interests of prospective CPO and CTA clients. Thus, with respect to CPO and CTA advertising, these amendments: 1) restrict the use of testimonials; 2) clarify the required placement of the prescribed simulated or hypothetical performance disclaimer; and 3) include within the regulation's coverage advertisements through electronic media. The Commission also amended its capital rules in January 2007 by authorizing the Commission, by order, to temporarily restrict the withdrawal of equity capital from an FCM if, in the Commission's judgment, such withdrawal would have a material adverse consequence on the FCM's ability to protect customer funds and otherwise operate as a market intermediary.

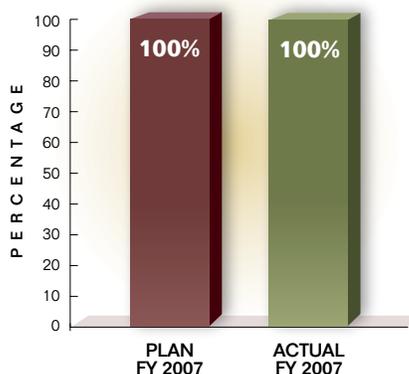
### Division of Market Oversight

In November 2006, after analyzing a substantial number of comment letters and conducting a public hearing, the Commission issued a Statement of Policy that affirms the use of the no-action process to permit foreign boards of trade to provide direct access to their electronic trading systems to U.S. members or authorized participants. The Statement of Policy also provides additional guidance and endorses procedural enhancements intended to protect the integrity of the futures markets and market participants. In August 2007, the Commission expanded its access to market data for surveillance purposes by adopting several amendments relating to special calls for information not routinely submitted under the large trader reporting system. The amendments add to the types of information which must be furnished upon special call and directly apply the Commission's authority to issue special calls to foreign brokers.

**PERFORMANCE MEASURE 3.4.3** 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.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	100%	100%	100%

### FY 2007 Performance Results



**Results:** 100%

**Measurement:** Percentage

**Status:** Effective

**Data Source:** Applicant's letter requesting relief and Commission letter of response.

**Verification:** Applicant's letter and supporting documentation maintained in internal tracking system, FILAC. Responses to formal request published on Commission's Web site.

### Lead Program Office

Division of Market Oversight

### Performance Trends & Variations

In FY 2007, DMO issued nine no-action letters in response to requests for formal no-action relief from requirements of the CEA. Each letter was issued by DMO within six months of the receipt of the relief request.

### Data Source & Validation

Supporting documentation is in the form of the applicant's letter requesting relief and the DMO's signed letter in response to the formal requests for guidance and advice.

DMO maintains the FILAC internal tracking system for recording DMO actions, such as the issuance of no-action letters, which reflects the dates for relief requests and responsive letters, as well as the length of staff review. Responses to formal requests are posted on the Commission's Web site.

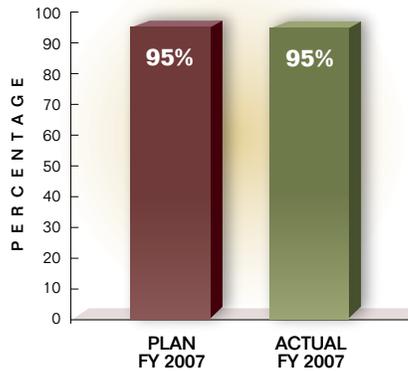
### Performance Highlights

On May 24, 2007, DMO issued a no-action relief to the DME, to make its electronic trading and order matching system, DME Direct, available to DME members and guaranteed customers in the United States without obtaining contract market designation or registration as a derivatives transaction execution facility pursuant to Sections 5 and 5a of the CEA. The relief letter enabled U.S.-based traders to directly access DME's products, including its Oman sour crude contract—the first physically-delivered, Middle East-based energy futures contract to ever be offered by a futures exchange.

**PERFORMANCE MEASURE 3.4.4** Percentage of total requests receiving CFTC responses for guidance and advice.

History of Results:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual
	90%	90%	95%

**FY 2007 Performance Results**



- Results:** 95%
- Measurement:** Percentage
- Status:** Effective
- Data Source:** Signed letters (formal) and email & telephone responses (informal).
- Verification:** Agency files maintained in chronological files and responses to formal request are published on Commission's Web site.

**Lead Program Office**

Division of Clearing and Intermediary Oversight  
 Division of Market Oversight

**Performance Trends & Variations**

**Division of Clearing and Intermediary Oversight**

Performance target was met for FY 2007. DCIO staff respond to numerous requests for guidance and advice on the Act and Commission regulations each year. Requests are received from members of the public, market participants, intermediaries, SROs, foreign entities, and others. These requests may be formal, such as written requests for no-action, interpretative, or exemption letters. DCIO also receives numerous informal requests for guidance and advice via email and phone calls.

Although DCIO responds to all requests received, it is not always possible for DCIO to respond within the fiscal year that it receives a request. Many requests are routine in nature and are responded to in a very short time frame, if not immediately. This is particularly true for many of the requests that are received via email and phone calls. Other requests that raise novel or complex issues, or requests for

formal DCIO responses in the form of no-action letters, interpretations, or exemptions, may take more time because of the need for research and for preparation of an appropriate response. It is noted that the statistics on numbers of letters issued or email responses may not reflect the complexity of any particular matter or the resources necessary to address one particular issue. In addition, matters commenced in one fiscal year may overlap into, and be completed during, a subsequent fiscal year, resulting in some imprecision in statistical measure for a given year. DCIO staff make every effort to respond to requests as quickly as possible, but the timeliness of a response also is affected by the speed with which a requester provides additional information sought by staff, and the length of time required by other Commission divisions or offices to review a draft response, factors outside the control of DCIO. All these factors contributed to DCIO responding to requests, on a percentage basis, as planned.

**Division of Market Oversight**

DMO staff respond to numerous requests for guidance and advice on the CEA and Commission regulations each year. These requests may be informal, via email or phone calls, or formal in the form of requests for no-action, interpretative, or exemptive letters. Staff respond to informal

guidance and advice request in a very short period of time, usually no longer than a period of days. To the extent that staff are unable to provide an informal response to such requests, the requester is advised to submit a formal request for guidance. DMO staff strive to address such formal requests within six months of receipt.

## Data Source & Validation

### Division of Clearing and Intermediary Oversight

Supporting documentation is in the form of responses to formal (by signed letter) and informal (by email and telephone) requests for responses for guidance and advice.

Responses to formal requests are posted on the Commission's Web site and are maintained by hard copy in the chronological files; responses to non-routine, informal requests similarly are recorded by hard copy and maintained in the chronological files. The methodology for collecting these statistics is by comparing the files of requests received with responses sent and calculating the performance statistic.

### Division of Market Oversight

DMO does not track the length of time needed to respond to informal requests for guidance. Staff, however, operate under the presumption that, if guidance cannot be provided in response to informal requests, the requester is advised to submit a written request for a no-action, interpretative, or exemptive letter. Supporting documentation, with respect to no-action, interpretative, and exemptive requests, is in the form of an email or signed letter from the requesting entity and DMO's signed letter in response.

DMO maintains the FILAC internal tracking system for recording DMO actions, such as the issuance of no-action, interpretative and exemptive letters, which reflects the dates of request and responsive letters, as well as the length of staff review. Responses to formal requests are posted on the Commission's Web site.

## Performance Highlights

### Division of Clearing and Intermediary Oversight

In FY 2007, DCIO responded favorably to several requests for registration relief from foreign affiliates of U.S.-registered FCMs, such that those affiliates were permitted to introduce institutional U.S. customers to any registered FCM for trading on U.S. commodity futures and option markets without having to register with the CFTC, *e.g.*, as an IB. This action was intended to foster a flexible regulatory environment by being responsive to evolving intermediary activities. For the proper protection of the public, however, DCIO conditioned this relief on the registered FCM of a foreign affiliate agreeing to be jointly and severally liable for any violations of the Act or the Commission's regulations committed by the foreign affiliate in connection with the latter's handling of orders for these customers—including those orders executed by the affiliate and given up to another FCM. See Staff Letters 07-08, dated May 30, 2007, and 07-05, dated April 26, 2007, wherein DCIO issued this relief.



## FINANCIAL SECTION



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## A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

For the third consecutive year, the public accounting firm KPMG LLP, on behalf of our Inspector General, reported that the financial statements included in this report were presented fairly, in all material respects, and in conformity with the U.S. generally accepted accounting principles (GAAP) for Federal agencies.

We have also greatly improved our audit results over previous years by having no material weaknesses, and for the first time, becoming compliant with laws and regulations. This was greatly facilitated by migrating to a financial management systems platform operated by the U.S. Department of Transportation's (DOT) Enterprise Services Center, an OMB-designated financial management line of business service provider. During the last year, this business arrangement has enabled the CFTC to accumulate, analyze and present reliable financial information, or provide reliable, timely information for managing current operations and timely reporting of financial information to central agencies. Furthermore, our new system was found to be in substantial compliance with the Federal Financial Management Improvement Act of 1996 (although CFTC is not required to comply with FFMA, it has elected to do so).

Since FY 2004, KPMG had disclosed noncompliance with the Federal Information Security Management Act (FISMA). Specifically, KPMG recommended that the Commission continue to improve entity-wide security and contingency planning programs, access controls, segregation of duties, and service continuity to fully meet guidelines of the

E-Government Act of 2002 and OMB Circular A-130, *Management of Federal Information Resources*. The Commission was able to substantially comply with FISMA in this audit cycle.

Last year, Commission error and other deficiencies led KPMG to find that there were material weaknesses in the controls over financial reporting, and that there were reportable conditions in the controls over financial management systems, undelivered orders, and fixed assets.

Although the three reportable conditions were resolved, the Commission was only able to successfully remediate two of the three components of the material weakness. The component of the material weakness in the controls over Recording Accruals and Preparing Financial Statements was revised and repeated as a significant deficiency. A corrective action plan to improve the process controls used to estimate accounts payable and accruals will be issued within the next 30 days. The Commission recognizes that this condition impacts reporting balances, and if left uncorrected it increases the risk that future statements could be misstated.

A handwritten signature in black ink that reads "Mark Carney". The signature is written in a cursive, flowing style.

Mark Carney  
Chief Financial Officer

November 15, 2007

# LIMITATIONS OF FINANCIAL STATEMENTS

Management has prepared the accompanying financial statements to report the financial position and operational results for the CFTC for FY 2007 and FY 2006 pursuant to the requirements of Title 31 of the U.S. Code, section 3515 (b).

While these statements have been prepared from the books and records of the Commission in accordance with GAAP for Federal entities and the formats prescribed by OMB Circular A-136, *Financial Reporting Requirements*, these statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the understanding that they represent a component of the U.S. government, a sovereign entity. One implication of this is that the liabilities presented herein cannot be liquidated without the enactment of appropriations, and ongoing operations are subject to the enactment of future appropriations.



Commodity Futures Trading Commission  
**STATEMENTS OF CHANGES IN NET POSITION**  
 For the Years Ended September 30, 2007 and 2006

	2007	2006
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
Balance Sheet, October 1	\$ 14,306,400	\$ 18,108,000
Budgetary Financing Sources		
Appropriations Received	60,326,147	60,348,000
Other Financing Sources		
Interest Payable Received	9,978,903	2,000,170
Net Gain of Operations	1,007,753,800	198,220,918
Net Change	1,178,633	9,220,268
<b>TOTAL CUMULATIVE RESULTS OF OPERATIONS, SEPTEMBER 30</b>	<b>\$15,748,933</b>	<b>\$18,968,868</b>
<b>UNEXPENDED APPROPRIATIONS</b>		
Balance Sheet, October 1	\$ 13,834,300	\$ 14,000,270
Budgetary Financing Sources		
Appropriations Received	32,381,140	69,288,000
Loans Received		980,000
Loans Expended	(103,820)	(768,716)
Repayments Made	(60,176,112)	(50,244,000)
Total Payments Financing Sources	28,181	18,275,284
Total Unexpended Appropriations, September 30	\$ 14,188,601	\$ 13,005,648
<b>NET POSITION</b>	<b>\$ 1,560,332</b>	<b>\$ 5,963,220</b>

The accompanying text may be integral part of these financial statements.

# PRINCIPAL FINANCIAL STATEMENTS

Commodity Futures Trading Commission

## BALANCE SHEETS

As of September 30, 2007 and 2006

	2007	2006
<b>ASSETS</b>		
<b>INTRAGOVERNMENTAL:</b>		
Fund Balance with Treasury (Note 2)	\$ 19,507,914	\$ 20,055,508
Accounts Receivable (Note 3)	5,806	-
Prepayments (Note 1H)	131,142	461,038
<b>Total Intragovernmental</b>	<b>19,644,862</b>	<b>20,516,546</b>
Custodial Receivables, Net (Note 3)	620,311	5,756,605
Accounts Receivable (Note 3)	120,470	63,855
General Property, Plant and Equipment, Net (Note 4)	2,850,911	3,674,493
<b>TOTAL ASSETS</b>	<b>\$ 23,236,554</b>	<b>\$ 30,011,499</b>
<b>LIABILITIES</b>		
<b>INTRAGOVERNMENTAL:</b>		
FECA Liabilities	\$ 32,787	\$ 29,484
Accounts Payable	274,334	236,108
Advances Received from Federal Source	-	-
<b>Total Intragovernmental</b>	<b>307,121</b>	<b>265,592</b>
Accounts Payable	2,686,039	2,338,427
Accrued Funded Payroll	2,566,433	4,099,832
Annual Leave	4,849,189	5,083,005
Actuarial FECA Liabilities (Note 7)	190,216	281,801
Custodial Liabilities	620,311	5,756,605
Contingent Liabilities (Note 9)	310,000	11,600
Deposit Fund Liabilities	47,563	47,488
Other - Deferred Lease Liabilities (Note 8)	3,169,541	2,837,403
Other	10,001	-
<b>Total Liabilities</b>	<b>\$ 14,756,414</b>	<b>\$ 20,721,753</b>
<b>NET POSITION</b>		
Cumulative Results of Operations	\$ (5,700,823)	\$ (4,568,800)
Unexpended Appropriations	14,180,963	13,858,546
<b>Total Net Position</b>	<b>8,480,140</b>	<b>9,289,746</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 23,236,554</b>	<b>\$ 30,011,499</b>

The accompanying notes are an integral part of these financial statements.

**STATEMENTS OF NET COST**

For the Years Ended September 30, 2007 and 2006

	2007		2006	
<b>GOAL 1: ENSURE THE ECONOMIC VITALITY OF THE COMMODITY FUTURES AND OPTION MARKETS</b>				
Gross Costs	\$	37,675,178	\$	33,361,940
Less: Earned Revenue		(33,952)		(7,407)
<b>NET COST OF OPERATIONS- GOAL ONE</b>	<b>\$</b>	<b>37,641,226</b>	<b>\$</b>	<b>33,354,533</b>
<b>GOAL 2: PROTECT MARKET USERS AND THE PUBLIC</b>				
Gross Costs	\$	35,638,682	\$	40,659,866
Less: Earned Revenue		(32,117)		(9,029)
<b>NET COST OF OPERATIONS- GOAL TWO</b>	<b>\$</b>	<b>35,606,565</b>	<b>\$</b>	<b>40,650,837</b>
<b>GOAL 3: ENSURE MARKET INTEGRITY IN ORDER TO FOSTER OPEN, COMPETITIVE, AND FINANCIALLY SOUND MARKETS</b>				
Gross Costs	\$	28,510,946	\$	30,234,259
Less: Earned Revenue		(25,694)		(6,714)
<b>NET COST OF OPERATIONS- GOAL THREE</b>	<b>\$</b>	<b>28,485,252</b>	<b>\$</b>	<b>30,227,545</b>
<b>GRAND TOTAL</b>				
Gross Costs	\$	101,824,806	\$	104,256,065
Less: Earned Revenue		(91,763)		(23,150)
<b>TOTAL NET COST OF OPERATIONS</b>	<b>\$</b>	<b>101,733,043</b>	<b>\$</b>	<b>104,232,915</b>

*The accompanying notes are an integral part of these financial statements.*

Commodity Futures Trading Commission

**STATEMENTS OF CHANGES IN NET POSITION**  
For the Years Ended September 30, 2007 and 2006

	2007	2006
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>BEGINNING BALANCES, OCTOBER 1</b>	\$ (4,568,800)	\$ (6,106,083)
<b>BUDGETARY FINANCING SOURCES</b>		
Appropriations Used:	96,725,117	101,840,088
<b>OTHER FINANCING SOURCES</b>		
Imputed Financing Sources	3,875,903	3,930,110
<b>Net Cost of Operations</b>	<b>(101,733,043)</b>	<b>(104,232,915)</b>
<b>Net Change</b>	<b>1,132,023</b>	<b>1,537,283</b>
<b>TOTAL CUMULATIVE RESULTS OF OPERATIONS, SEPTEMBER 30</b>	<b>\$ (5,700,823)</b>	<b>\$ (4,568,800)</b>
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>BEGINNING BALANCES, OCTOBER 1</b>	\$ 13,858,546	\$ 19,085,210
<b>BUDGETARY FINANCING SOURCES</b>		
Appropriations Received	97,981,140	98,386,000
Less: Rescinded	-	(983,860)
Less: Canceled	(933,606)	(788,716)
Appropriations Used	(96,725,117)	(101,840,088)
Total Budgetary Financing Sources	322,417	(5,226,664)
<b>Total Unexpended Appropriations, September 30</b>	<b>\$ 14,180,963</b>	<b>\$ 13,858,546</b>
<b>NET POSITION</b>	<b>\$ 8,480,140</b>	<b>\$ 9,289,746</b>

*The accompanying notes are an integral part of these financial statements.*

## STATEMENTS OF BUDGETARY RESOURCES

For the Years Ended September 30, 2007 and 2006

	2007	2006
<b>BUDGETARY RESOURCES</b>		
Unobligated Balance, October 1	\$ 4,734,164	\$ 3,768,541
Recoveries of Prior Year Unpaid Obligations	4,715,177	5,598,356
<b>Total Prior Resources</b>	<b>9,449,341</b>	<b>9,366,897</b>
<b>NEW RESOURCES:</b>		
Appropriations	97,981,140	98,386,000
Spending Authority from Offsetting Collections		
Collected	98,788	208,371
Change in Receivables from Federal sources	73,467	(175,595)
Change in Unfilled Customer Orders		
Advance Received	10,001	-
Without Advance from Federal Sources	951	-
<b>Total New Resources</b>	<b>\$ 98,164,347</b>	<b>\$ 98,418,776</b>
<b>PERMANENTLY NOT AVAILABLE:</b>		
Cancellation of Expired Accounts	(933,606)	(788,716)
Enacted Reduction	-	(983,860)
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$ 106,680,082</b>	<b>\$ 106,013,097</b>
<b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations Incurred, Direct	\$ 99,575,548	\$ 101,255,783
Obligations Incurred, Reimbursable	118,453	23,150
<b>Total Obligations Incurred (Note 12)</b>	<b>99,694,001</b>	<b>101,278,933</b>
Unobligated Balance Apportioned	3,475,149	552,827
Unobligated Balance Not Available	3,510,932	4,181,337
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$ 106,680,082</b>	<b>\$ 106,013,097</b>
<b>CHANGE IN OBLIGATED BALANCES</b>		
<b>NET OBLIGATED BALANCE, OCTOBER 1</b>		
Unpaid Obligations	\$ 15,273,855	\$ 19,851,847
Uncollected customer payments from Federal sources	-	(175,595)
<b>Net Obligated Balance, October 1</b>	<b>\$ 15,273,855</b>	<b>19,676,252</b>
Gross Obligations Incurred	99,694,001	101,278,933
Gross Outlays	(97,703,992)	(100,258,569)
Recoveries of Prior Year Unpaid Obligations	(4,715,177)	(5,598,356)
Change in Receivables from Federal sources	(74,417)	175,595
	<b>\$ 12,474,270</b>	<b>\$ 15,273,855</b>
<b>NET OBLIGATED BALANCE, SEPTEMBER 30</b>		
Unpaid Obligations	\$ 12,548,687	\$ 15,273,855
Uncollected customer payments from Federal sources	(74,417)	-
<b>Net Obligated Balance, September 30</b>	<b>\$ 12,474,270</b>	<b>\$ 15,273,855</b>
<b>NET OUTLAYS</b>		
Gross Outlays	\$ 97,703,992	\$ 100,258,569
Offsetting Collections Received	(108,789)	(208,371)
Distributed Offsetting Receipts	(12,378)	(5,499)
<b>NET OUTLAYS</b>	<b>\$ 97,582,825</b>	<b>\$ 100,044,699</b>

The accompanying notes are an integral part of these financial statements.

Commodity Futures Trading Commission

**STATEMENTS OF CUSTODIAL ACTIVITY**

For the Years Ended September 30, 2007 and 2006

	2007	2006
<b>REVENUE ACTIVITY</b>		
<b>SOURCES OF CASH COLLECTIONS:</b>		
Registration and Filing Fees	\$ 287,615	\$ 1,239,020
Fines, Penalties, and Forfeitures	12,143,639	12,395,880
General Proprietary Receipts	12,378	5,499
<b>Total Cash Collections</b>	<b>12,443,632</b>	<b>13,640,399</b>
<b>Change in Accounts Receivable</b>	<b>(5,136,294)</b>	<b>(22,907,240)</b>
<b>Total Custodial Revenue</b>	<b>\$ 7,307,338</b>	<b>\$ (9,266,841)</b>
<b>DISPOSITION OF COLLECTIONS</b>		
<b>TRANSFERRED TO OTHERS, BY RECIPIENT:</b>		
Treasury	12,443,632	(13,640,399)
Change in Custodial Liabilities	5,136,294	22,907,240
<b>NET CUSTODIAL ACTIVITY</b>	<b>\$ -</b>	<b>\$ -</b>

*The accompanying notes are an integral part of these financial statements.*

# NOTES TO THE FINANCIAL STATEMENTS

As of and For the Fiscal Years Ended September 30, 2007 and 2006

## Note 1. Summary of Significant Accounting Policies

### A. Reporting Entity

The Commodity Futures Trading Commission (CFTC) is an independent agency of the executive branch of the Federal Government. Congress created the CFTC in 1974 under the authorization of the Commodity Exchange Act (CEA) with the mandate to regulate commodity futures and option markets in the United States. The agency's mandate was renewed and expanded under the Futures Trading Acts of 1978, 1982, and 1986; under the Futures Trading Practices Act of 1992; and under the CFTC Reauthorization Act of 1995. The Commodity Futures Modernization Act of 2000 reauthorized the Commission. Since its inception, the CFTC has continuously operated through authorized appropriations.

The CFTC is responsible for ensuring the economic utility of futures markets by encouraging their competitiveness and efficiency, ensuring their integrity, and protecting market participants against manipulation, abusive trade practices, and fraud.

### B. Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations for the CFTC, as required by the Chief Financial Officers' Act of 1990 along with the Accountability of Tax Dollars Act of 2002, and the Government Management Reform Act of 1994. They are presented in accordance with the form and content requirements contained in Office of Management and Budget (OMB) Circular No. A-136, "Financial Reporting Requirements," dated June 29, 2007.

The principal financial statements have been prepared in all material respects from the agency's books and records in conformity with U.S. generally accepted accounting principles (GAAP), as prescribed for the federal government by the Federal Accounting Standards Advisory Board (FASAB). The application and methods for applying these principles

are appropriate for presenting fairly the entity's assets, liabilities, net cost of operations, changes in net position, and budgetary resources.

The financial statements report on the CFTC's financial position, net cost of operations, changes in net position, budgetary resources, and custodial activities. The books and records of the agency served as the source of information for preparing the financial statements in the prescribed formats. All agency financial statements and reports used to monitor and control budgetary resources are prepared from the same books and records. The statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity.

The Balance Sheets present the financial position of the agency. The Statements of Net Cost present the agency's operating results; the Statements of Changes in Net Position display the changes in the agency's equity accounts. The Statements of Budgetary Resources present the sources, status, and uses of the agency's resources and follows the rules for the Budget of the United States Government. The Statements of Custodial Activity present the sources and disposition of collections for which the CFTC is the fiscal agent, or custodian, for the Treasury General Fund Miscellaneous Receipt accounts.

Throughout these financial statements, assets, liabilities, revenues and costs have been classified according to the type of entity with whom the transactions were made. Intragovernmental assets and liabilities are those from or to other federal entities. Intragovernmental earned revenues are collections or accruals of revenue from other federal entities, and intragovernmental costs are payments or accruals to other federal entities. The CFTC does not transact business among its own operating units, and therefore, intra-entity eliminations were not needed.

### C. Budgetary Resources and Status

The CFTC is funded through congressionally approved appropriations. The CFTC is responsible for administering the salaries and expenses of the agency through the execution of these appropriations.

Congress annually enacts one-year appropriations that provide the CFTC with the authority to obligate funds within the respective fiscal year for necessary expenses to carry out mandated program activities. In addition, Congress enacted a permanent indefinite appropriation that is available until expended. All appropriations are subject to quarterly apportionment as well as Congressional restrictions.

The CFTC's budgetary resources for FY 2007 consist of:

- Unobligated balances of resources brought forward from the prior year,
- Recoveries of obligations in prior years, and
- New resources in the form of appropriations and spending authority from offsetting collections.

Unobligated balances associated with resources expiring at the end of the fiscal year remain available for five years after expiration only for upward adjustments of prior year obligations, after which they are canceled and may not be used. All unused monies related to canceled appropriations are returned to Treasury and the canceled authority is reported as a line item on the Statements of Budgetary Resources and the Statements of Changes in Net Position.

#### D. Entity and Non-Entity Assets

Assets consist of entity and non-entity assets. Entity assets are those assets that the CFTC has authority to use for its operations. Non-entity assets are those held by the CFTC that are not available for use in its operations. Non-entity assets held by the CFTC include deposit fund balances, custodial fines, and interest receivable, net. (See Note 3)

#### E. Fund Balance with Treasury

Fund Balance with Treasury is the aggregate amount of the CFTC's funds with Treasury in expenditure, receipt, and deposit fund accounts. Appropriated funds recorded in expenditure accounts are available to pay current liabilities and finance authorized purchases. Custodial collections recorded in the deposit fund account and miscellaneous receipts accounts of the Treasury are not available for agency use. At fiscal year end, receipt account balances are cleared and returned to Treasury.

The CFTC does not maintain bank accounts of its own, has no disbursing authority, and does not maintain cash held

outside of Treasury. Treasury disburses funds for the agency on demand. Spending authority from offsetting collections is recorded in the agency's expenditure account and is available for agency use subject to certain limitations. (See Note 2)

#### F. Accounts Receivable

Accounts receivable consists of amounts owed by other federal agencies and the public to the CFTC and is valued net of an allowance for uncollectible amounts. The allowance is based on past experience in the collection of receivables and analysis of the outstanding balances. Accounts receivable arise from reimbursable operations, earned refunds or the Civil Monetary Sanctions program. (See Note 3)

#### G. Property, Equipment, and Software

Property, equipment, and software represent furniture, fixtures, equipment, and information technology hardware and software, which are capitalized and depreciated or amortized over their useful lives.

The CFTC capitalizes assets annually if they have useful lives of at least two years and an individual value of \$25,000 or more. Bulk or aggregate purchases are capitalized when the individual useful lives are at least two years and a value of \$25,000 or more. Property, equipment, and software that do not meet the capitalization criteria are expensed when acquired. Depreciation and amortization is computed on a straight-line basis using a 5-year life. The Commission's assets are valued net of accumulated depreciation. (See Note 4)

#### H. Prepayments

Payments in advance of the receipt of goods and services are recorded as prepayments, and recognized as expenses when the related goods and services are received. Prepayments reported on the Balance Sheet were made primarily to the Department of Transportation (DOT) for the transit subsidy program, and the Postal Service for postage services.

#### I. Liabilities

The CFTC's liabilities consist of actual and estimated amounts that are likely to be paid as a result of transactions covered by budgetary resources for which Congress has appropriated funds or funding, or are otherwise available from reimbursable transactions to pay amounts due.

Liabilities include those covered by budgetary resources in existing legislation and those not yet covered by budgetary resources (See Note 5). The CFTC liabilities not covered by budgetary resources include:

- Annual leave benefits which will be funded by annual appropriations as leave is taken,
- Actuarial Federal Employees Compensation Act (FECA) liabilities,
- Custodial liabilities for custodial revenue transferred to Treasury at fiscal year end,
- Contingent liabilities,
- Deposit funds, and
- Other- Deferred Lease Liabilities.

The CFTC's liabilities that are covered by budgetary resources are considered current liabilities.

#### **J. Accounts Payable**

Accounts payable consists primarily of contracts for goods or services, such as leases, utilities, telecommunications, and consulting and support services.

#### **K. Accrued Payroll and Benefits and Annual Leave Liability**

The accrued payroll liability represents amounts for salaries and benefits owed for the time since the payroll was last paid through the end of the fiscal year. The annual leave liability is the amount owed employees for unused annual leave as of the end of the fiscal year. At the end of each quarter, the balance in the accrued annual leave account is adjusted to reflect current balances and pay rates. Sick leave and other types of non-vested leave are expensed as taken.

The agency's employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). On January 1, 1987, FERS went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS.

For employees under FERS, the CFTC contributes an amount equal to one percent of the employee's basic pay to the tax deferred Thrift Savings Plan and matches employee contributions up to an additional four percent of pay. FERS and CSRS employees can contribute a portion their gross earnings to the plan up to IRS limits; however, CSRS employee receive no matching agency contribution.

#### **L. Leases**

The CFTC does not have any capital lease liabilities. The operating leases consist of commercial property leases for the CFTC's headquarters and regional offices. Lease expenses are recognized on a straight-line basis.

#### **M. Deposit Funds**

Deposit funds are expenditure accounts used to record monies that do not belong to the Federal government. They are held awaiting distribution based on a legal determination or investigation. The CFTC deposit fund is used to record and later distribute monetary awards to the appropriate defendants as restitution.

#### **N. Net Position**

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations are appropriations that have not yet been used to acquire goods and services or provide benefits. Appropriations are considered expended, or used, when goods and services have been acquired by the CFTC or benefits have been provided using the appropriation authority, regardless of whether monies have been paid or payables for the goods, services, or benefits have been established. Appropriations were used primarily to acquire goods and services to operate the CFTC's programs or to provide benefits.

Cumulative results of operations represent the excess of financing sources over expenses since inception. Cumulative results of operations are derived from the net effect of capitalized assets, expenses, exchange revenue, and unfunded liabilities.

## O. Earmarked Funds

As of September 30, 2007, the CFTC's financing sources did not have any earmarked funds. Earmarked funds were not received by the agency for designated activities, benefits or purposes as specifically required by statute.

## P. Revenues

The CFTC receives reimbursement and earns revenue for the following activities:

- Reimbursement for travel, subsistence, and related expenses from non-federal sources for attendance at meetings or similar functions that an employee has been authorized to attend in an official capacity on behalf of the Commission.
- Reimbursement for Intergovernmental Personnel Act Mobility Program assignments from state and local governments, institutions of higher education, and other eligible organizations for basic pay, supplemental pay, fringe benefits, and travel and relocation expenses.
- Reimbursement from non-federal sources for registration fees to cover the cost of expenses related to the CFTC's annual International Regulators Conference.

## Q. Net Cost of Operations

Net cost of operations is the difference between the CFTC's expenses and its earned revenue. The presentation of program results by strategic goals is based on the CFTC's current Strategic Plan established pursuant to the Government Performance and Results Act of 1993.

The mission statement of the CFTC is to protect market users and the public from fraud, manipulation, and abusive practices related to the sale of commodity and financial futures and options, and to foster open, competitive, and financially sound futures and option markets. The mission is accomplished through three strategic goals, each focusing on a vital area of regulatory responsibility:

- Ensure the economic vitality of the commodity futures and option markets,
- Protect market users and the public, and
- Ensure market integrity in order to foster open, competitive, and financially sound markets.

## R. Custodial Activity

The CFTC collects penalties and fines levied against firms for violation of laws as described in the Commodity Exchange Act as codified at 7 U.S.C. § 1, et seq, and the Commodities Futures Modernization Act of 2000, Appendix E of P.L. 106-554, 114 Stat. 2763. Unpaid fines, penalties and accrued interest are reported as custodial receivables, with an associated custodial liability. The receivables and the liability are reduced amounts determined to be uncollectible. Revenues earned and the losses from bad debts are reported to Treasury.

Collections made by the CFTC during the year are deposited and reported into designated Treasury miscellaneous receipt accounts for:

- Registrations and filing fees,
- Fees, fines, penalties and forfeitures, and
- General miscellaneous recoveries and refunds.

At fiscal year end, custodial collections made by the CFTC are returned to Treasury. The CFTC does not retain any amount for custodial activities including reimbursement of the cost of collection.

## S. Use of Management Estimates

The preparation of the accompanying financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenues, and expenses. Actual results could differ from these estimates.

## T. Tax Status

The CFTC is not subject to Federal, state or local income taxes. Accordingly, no provision for income taxes is recorded.

## U. Reconciliation of Net Obligations and Net Cost of Operations

In compliance with Office of Management and Budget (OMB) Circular No. A-136, the Commission has added a reconciliation of net obligations and net cost of operations (See Note 15).

## Note 2. Fund Balance with Treasury

### A. Reconciliation to Treasury

There are no differences between the Fund Balance reflected in the CFTC Balance Sheets and the balance in the Treasury accounts.

### B. Fund Balance with Treasury

Fund Balances with Treasury consist of entity assets such as appropriations and reimbursements for services rendered. Obligation of these funds is controlled by quarterly apportionments made by OMB. Work performed under reimbursable agreements is initially financed by the annual appropriation and is subsequently reimbursed. Other funds include non-entity deposit fund receipts.

Fund Balance with Treasury at September 30, 2007 and 2006 consisted of the following:

	2007		2006	
<b>APPROPRIATED FUNDS</b>	\$	19,460,351	\$	20,008,020
Other Funds:				
Deposit Fund		47,563		47,488
<b>TOTAL APPROPRIATED FUND BALANCE WITH TREASURY</b>	<b>\$</b>	<b>19,507,914</b>	<b>\$</b>	<b>20,055,508</b>

### C. Status of Fund Balance with Treasury

Status of Fund Balance with Treasury at September 30, 2007 and 2006 consisted of the following:

	2007		2006	
<b>APPROPRIATED FUNDS</b>				
Unobligated Fund Balance				
Available	\$	3,261,296	\$	42,385
Expired		213,853		510,443
Unavailable		3,510,932		4,181,337
Obligated Balance Not Yet Disbursed		12,474,270		15,273,855
<b>Total Appropriated Funds</b>		<b>19,460,351</b>		<b>20,008,020</b>
<b>Deposit Fund</b>		<b>47,563</b>		<b>47,488</b>
<b>TOTAL FUND BALANCE WITH TREASURY</b>	<b>\$</b>	<b>19,507,914</b>	<b>\$</b>	<b>20,055,508</b>

## Note 3. Accounts Receivable

Accounts receivable consist of amounts owed to the CFTC by other Federal agencies and the public. Accounts receivable are valued net of estimated uncollectibles. Non-custodial accounts receivable are primarily for overpayments of expenses to other agencies, or vendors, and repayment of employee benefits. Historical experience has indicated that most of the non-custodial receivables are collectible and there are no material uncollectible amounts.

Custodial receivables (non-entity assets) are those for which fines and penalties have been assessed and levied against businesses for violation of law. The CFTC litigates against defendants for alleged violations of the CEA, as amended.

Violators may be subject to a variety of sanctions including fines, injunctive orders, bars or suspensions, rescissions of illegal contracts, disgorgements, and restitutions to customers.

Historical experience has indicated that a high percentage of custodial receivables prove uncollectible. The methodology used to estimate the allowance for uncollectible amounts related to custodial accounts is that custodial receivables are considered 100% uncollectible unless otherwise noted in the judgment. An allowance for uncollectible accounts has been established and included in accounts receivable on the balance sheets. The allowance is based on past experience in the collection of accounts receivable and analysis of outstanding balances. Accounts are re-estimated quarterly based on account reviews and the agency determination that changes to the net realizable value are needed.

Accounts receivable, as of September 30, 2007 and 2006, consisted of the following:

	2007	2006
Custodial Receivables, Net:		
Civil Monetary Penalty Interest	\$ 28,980,636	\$ 9,438,316
Civil Monetary Penalties, Fines, and Administrative Fees	1,145,896,795	530,489,941
Less: Allowance for Loss on Interest	(28,980,222)	(9,421,924)
Less: Allowance for Loss on Penalties, Fines, and Administrative Fees	(1,145,633,370)	(524,749,728)
Registration and Filing Fees	356,472	-
<b>NET CUSTODIAL RECEIVABLES</b>	<b>\$ 620,311</b>	<b>\$ 5,756,605</b>
Other Intragovernmental Accounts Receivable	\$ 5,806	\$ -
Other Accounts Receivable with the Public	\$ 120,470	\$ 63,855
<b>OTHER ACCOUNTS RECEIVABLE</b>	<b>\$ 126,276</b>	<b>\$ 63,855</b>

#### Note 4. Property, Equipment, and Software, Net

Assets are capitalized annually if they have useful lives of at least two years and an individual value of \$25,000 or more. Bulk or aggregate purchases are capitalized when the individual useful lives are at least two years and a value of \$25,000 or more. Depreciation and amortization is computed on a straight-line basis using a 5-year life. The CFTC did not defer any maintenance in FY 2007 or FY 2006. Property and Equipment as of September 30, 2007 and 2006 consisted of the following:

2007					
Major Class	Service Life and Method	Cost	Accumulated Amortization/Depreciation	Net Book Value	
Equipment	5 Years/Straight Line	\$ 1,146,835	\$ (564,103)	\$ 582,732	
IT Software	5 Years/Straight Line	2,966,169	(697,990)	2,268,179	
		<b>\$ 4,113,004</b>	<b>\$ (1,262,093)</b>	<b>\$ 2,850,911</b>	
2006					
Major Class	Service Life and Method	Cost	Accumulated Amortization/Depreciation	Net Book Value	
Equipment	5 Years/Straight Line	\$ 1,146,835	\$ (334,735)	\$ 812,100	
IT Software	5 Years/Straight Line	2,966,169	(103,776)	2,862,393	
		<b>\$ 4,113,004</b>	<b>\$ (438,511)</b>	<b>\$ 3,674,493</b>	

## Note 5. Liabilities Not Covered by Budgetary Resources

As of September 30, 2007 and 2006, the following liabilities not covered by budgetary resources exist:

	2007		2006	
<b>INTRAGOVERNMENTAL - FECA LIABILITIES</b>	<b>\$</b>	<b>32,787</b>	<b>\$</b>	<b>29,484</b>
Annual Leave		4,849,189		5,083,005
Actuarial FECA Liabilities		190,216		281,801
Custodial Liabilities		620,311		5,756,605
Contingent Liabilities		310,000		11,600
Deposit Fund Liabilities		47,563		47,488
Deferred Lease Liabilities		3,169,541		2,837,403
Other		10,001		-
<b>TOTAL LIABILITIES NOT COVERED BY BUDGETARY RESOURCES</b>	<b>\$</b>	<b>9,229,608</b>	<b>\$</b>	<b>14,047,386</b>

## Note 6. Retirement Plans and Other Employee Benefits

The CFTC imputes costs and the related financing sources for its share of retirement systems accruing to its past and present employees that are in excess of the amount of contributions from the CFTC and its employees, which are mandated by law. The Office of Personnel Management (OPM), which administers federal civilian retirement programs, provides the cost information to the CFTC. The CFTC recognizes the full cost of providing future pension and Other Retirement Programs (ORB) for current employees as required by Statement of Federal Financial Accounting Statement (SFFAS) No. 5, "Accounting for Liabilities of the Federal Government".

Full costs include pension and ORB contributions paid out of the CFTC's appropriations and costs financed by OPM. The amount financed by OPM is recognized as an imputed financing source. This amount was \$3,875,903 for the year ended September 30, 2007 and \$3,930,110 for the year ended September 30, 2006. Reporting amounts such as plan assets, accumulated plan benefits, or unfunded liabilities, if any, is the responsibility of OPM.

Liabilities for future pension payments and other future payments for retired employees who participate in the Federal Employees Health Benefits Program and the Federal Employees Group Life Insurance Program are reported by OPM rather than CFTC.

## Note 7. Actuarial FECA Liabilities

FECA provides income and medical cost protections to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims against the CFTC and subsequently seeks reimbursement from the CFTC for these paid claims. Accrued FECA liabilities represent amounts due to DOL for claims paid on behalf of the agency. Accrued FECA liabilities at September 30, 2007 and September 30, 2006 were \$32,787 and \$29,484, respectively.

Actuarial FECA liability represents the liability for future workers compensation (FWC) benefits, which includes the expected liability for death, disability, medical, and miscellaneous cost for approved cases. The liability is determined using a formula provided by DOL annually as of September 30th using a method that utilizes historical benefits payment patterns related to a specific incurred period to predict the ultimate payments related to that period. The projected annual benefits payments are discounted to present value using OMB's economic assumptions for ten-year Treasury notes and

bonds. To provide more specifically for effects of inflation on liability for FWC benefits, wage inflation factors (Consumer Price Index-Medical) are applied to the calculation of projected future benefits. These factors are also used to adjust historical payments so benefits are stated in current-year constant dollars. Actuarial FECA liabilities at September 30, 2007 and September 30, 2006 were \$190,216 and \$281,801, respectively.

## Note 8. Leases

The CFTC leases office space in publicly owned buildings for its locations in Washington D.C., Chicago, New York, and Kansas City. The lease contracts for publicly-owned buildings are operating leases. The CFTC has no real property. Future estimated minimum lease payments are not accrued as liabilities and are expensed on a straight-line basis.

As of September 30, 2007, future estimated minimum lease payments through FY 2011, and thereafter, is as follows:

Fiscal Year	Dollars
2008	\$ 10,608,222
2009	10,801,167
2010	10,970,480
2011	11,268,766
2012	9,898,728
Thereafter	24,737,283
Total Minimum lease payments	78,284,646
Add: Amount representing estimated executory costs (such as taxes, maintenance, and insurance)	18,329,439
<b>TOTAL MINIMUM LEASE PAYMENTS, INCLUDING ESTIMATED EXECUTORY COSTS</b>	<b>\$ 96,614,085</b>

Lease expense is recognized on a straight-line basis. Because the lease payment amounts vary, and in some cases, CFTC received periods of up-front free rent, a deferred lease liability representing expense amounts in excess of payments to date, has been recorded. The deferred lease liabilities at September 30, 2007 and September 30, 2006 were \$3,169,541 and \$2,837,403, respectively.

## Note 9. Contingent Liabilities

The CFTC records commitments and contingent liabilities for legal cases in which payment has been deemed probable and for which the amount of potential liability has been estimated, including certain judgments that have been issued against the agency and which have been appealed. In FY 2007, the Commission estimates a probable liability of \$310,000 in connection with a Merit Systems Protection Board suit.

## Note 10. Undelivered Orders

The amount of budgetary resources obligated for undelivered orders as of September 30, 2007 and 2006 consisted of the following:

	2007	2006
Undelivered Orders	\$ 7,204,942	\$ 8,599,488

The amount of undelivered orders represents the value of unpaid and paid obligations recorded during the fiscal year, upward adjustments of obligations that were originally recorded in a prior fiscal year, and recoveries resulting from downward adjustments of obligations that were originally recorded in a prior fiscal year.

## Note 11. Apportionment Categories of Obligations Incurred

Obligations incurred and reported in the Statements of Budgetary Resources in 2007 and 2006 consisted of the following:

	2007	2006
Direct Obligations, Category A	\$ 99,575,548	\$ 101,255,783
Reimbursable Obligations, Category A	118,453	23,150
<b>TOTAL OBLIGATIONS INCURRED</b>	<b>\$ 99,694,001</b>	<b>\$ 101,278,933</b>

## Note 12. Permanent Indefinite Appropriations

The CFTC's permanent indefinite appropriation as authorized by Public Law 107-38 funds emergency expenses to respond to the terrorist attacks on the United States that occurred on September 11, 2001. The fund provides support to deal with consequences of the attacks and support national security.

## Note 13. Explanation of Differences between the Statement of Budgetary Resources and Budget of the United States Government

The CFTC had no material differences between the amounts reported in the Statement of Budgetary Resources and the actual amounts reported in the Budget of the U.S. Government for FY 2006. The Budget of the U.S. Government with actual numbers for FY 2007 has not yet been published. The expected published date is February 2008. A copy of the Budget can be obtained from OMB's Internet site at <http://www.whitehouse.gov/omb/>.

## Note 14. Intra-governmental Cost and Exchange Revenue by Goal

As required by the Government Performance and Results Act of 1993, the agency's reporting has been aligned with the following major goals presented in the 2004 – 2009 CFTC Strategic Plan, *Keeping Pace with Change*:

1. Ensure the Economic Vitality of the Commodity Futures and Option Markets;
2. Protect Market Users and the Public; and
3. Ensure Market Integrity in Order to Foster Open, Competitive, and Financially Sound Markets.

The Net Cost of Operations is derived from transactions between the Commission and public entities, as well as with other federal agencies. The details of the intra-governmental costs and revenues, as well as those with the public, are as follows:

	2007		2006	
<b>GOAL 1: ENSURE THE ECONOMIC VITALITY OF THE COMMODITY FUTURES AND OPTION MARKETS</b>				
Intragovernmental Gross Costs	\$	9,335,684	\$	5,254,073
Less: Earned Revenue		(1,332)		-
<b>Intragovernmental Net Cost of Operations</b>	<b>\$</b>	<b>9,334,352</b>	<b>\$</b>	<b>5,254,073</b>
Gross Costs with the Public	\$	28,339,494	\$	28,107,867
Less: Earned Revenue		(32,620)		(7,407)
<b>Net Cost of Operations with the Public</b>	<b>\$</b>	<b>28,306,874</b>	<b>\$</b>	<b>28,100,460</b>
<b>TOTAL NET COST OF OPERATIONS – GOAL ONE</b>	<b>\$</b>	<b>37,641,226</b>	<b>\$</b>	<b>33,354,533</b>
<b>GOAL 2: PROTECT MARKET USERS AND THE PUBLIC</b>				
Intragovernmental Gross Costs	\$	8,831,052	\$	6,403,402
Less: Earned Revenue		(1,260)		-
<b>Intragovernmental Net Cost of Operations</b>	<b>\$</b>	<b>8,829,792</b>	<b>\$</b>	<b>6,403,402</b>
Gross Costs with the Public	\$	26,807,630	\$	34,256,464
Less: Earned Revenue		(30,857)		(9,029)
<b>Net Cost of Operations with the Public</b>	<b>\$</b>	<b>26,776,773</b>	<b>\$</b>	<b>34,247,435</b>
<b>TOTAL NET COST OF OPERATIONS – GOAL TWO</b>	<b>\$</b>	<b>35,606,565</b>	<b>\$</b>	<b>40,650,837</b>
<b>GOAL 3: ENSURE MARKET INTEGRITY IN ORDER TO FOSTER OPEN, COMPETITIVE, AND FINANCIALLY SOUND MARKETS</b>				
Intragovernmental Gross Costs	\$	7,064,842	\$	4,761,504
Less: Earned Revenue		(1,008)		-
<b>Intragovernmental Net Cost of Operations</b>	<b>\$</b>	<b>7,063,834</b>	<b>\$</b>	<b>4,761,504</b>
Gross Costs with the Public	\$	21,446,104	\$	25,472,755
Less: Earned Revenue		(24,686)		(6,714)
<b>Net Cost of Operations with the Public</b>	<b>\$</b>	<b>21,421,418</b>	<b>\$</b>	<b>25,466,041</b>
<b>TOTAL NET COST OF OPERATIONS – GOAL THREE</b>	<b>\$</b>	<b>28,485,252</b>	<b>\$</b>	<b>30,227,545</b>
<b>NET COST OF OPERATIONS</b>	<b>\$</b>	<b>101,733,043</b>	<b>\$</b>	<b>104,232,915</b>

### Note 15. Reconciliation of Net Obligations and Net Cost of Operations

The schedule presented in this footnote reconciles the net obligations with the net cost of operations. Resources Used to Finance Activities reflects the budgetary resources obligated and other resources used to finance the activities of the agency. Resources Used to Finance Items Not Part of the Net Cost of Operations adjusts total resources used to finance the activities of the entity to account for items that were included in net obligations and other resources but were not part of the net cost of operations. Components Requiring or Generating Resources in Future Periods identifies items that are recognized as a component of the net cost of operations for the period but the budgetary resources (and related obligation) will not be provided (or incurred) until a subsequent period. Components Not Requiring or Generating Resources includes items

recognized as part of the net cost of operations for the period but will not generate or require the use of resources. Net Cost of Operations agrees with the Net Cost of Operations as reported on the Statements of Net cost.

	2007	2006
<b>RESOURCES USED TO FINANCE ACTIVITIES</b>		
<b>BUDGETARY RESOURCES OBLIGATED</b>		
Obligations Incurred	\$ 99,694,001	\$ 101,278,933
Less: Spending Authority from Offsetting Collections and Recoveries	(4,898,384)	(5,631,132)
Obligations Net of Offsetting Collections and Recoveries	94,795,617	95,647,801
Less: Offsetting Receipts	(12,378)	(5,499)
Net Obligations After Offsetting Receipts	94,783,239	95,642,302
<b>OTHER RESOURCES</b>		
Imputed Financing from Cost Absorbed by Others	3,875,903	3,930,110
<b>Total Resources Used to Finance Activities</b>	<b>\$ 98,659,142</b>	<b>\$ 99,572,412</b>
<b>RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS</b>		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not yet Provided	1,587,752	6,707,559
Resources That Fund Expenses Recognized in Prior Periods (Decrease in unfunded liabilities)	(325,401)	(465,635)
Offsetting Receipts	12,378	5,499
Resources that Finance the Acquisition of Fixed Assets	-	(2,447,064)
<b>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</b>	<b>\$ 1,274,729</b>	<b>\$ 3,800,359</b>
<b>COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD</b>		
Increase in Contingent Liabilities	298,400	11,600
Increase in Unfunded Deferred Leases and FECA Liability	335,441	670,885
Decrease in Prepayments	329,896	-
Increase in exchange revenue receivable from the public	(40,300)	(53,523)
<b>Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods</b>	<b>\$ 923,437</b>	<b>\$ 628,962</b>
<b>COMPONENTS NOT REQUIRING OR GENERATING RESOURCES</b>		
Depreciation and Amortization	<b>823,582</b>	225,049
Revaluation of Assets or Liabilities	-	6,133
Other	52,153	-
<b>Total Components of Net Cost of Operations that will Not Require or Generate Resources</b>	<b>\$ 875,735</b>	<b>\$ 231,182</b>
<b>Total Components of Net Cost of Operations that will Not Require or Generate Resources in the Current Period</b>	<b>\$ 1,799,172</b>	<b>\$ 860,144</b>
<b>NET COST OF OPERATIONS</b>	<b>\$ 101,733,043</b>	<b>\$ 104,232,915</b>



## REPORT OF THE INDEPENDENT AUDITORS



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report

Acting Chairman and Inspector General of the  
U.S. Commodity Futures Trading Commission:

We have audited the accompanying balance sheets of the Commodity Futures Trading Commission (CFTC) as of September 30, 2007 and 2006, and the related statements of net cost, changes in net position, and custodial activity, and statements of budgetary resources (hereinafter referred to as "financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our fiscal year 2007 audit, we also considered CFTC's internal controls over financial reporting and performance measures and tested CFTC's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these financial statements.

### **SUMMARY**

As stated in our opinion on the financial statements, we concluded that CFTC's financial statements as of and for the years ended September 30, 2007 and 2006, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in our opinion, CFTC changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in fiscal year 2007.

Our consideration of internal control over financial reporting resulted in the following condition being identified as a significant deficiency:

- Improvement is Needed over Recording Accruals

However, we do not consider the significant deficiency above to be a material weakness.

We noted no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

The following sections discuss our opinion on CFTC's financial statements; our consideration of CFTC's internal controls over financial reporting and performance measures; our tests of CFTC's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; and management's and our responsibilities.



## OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheets of the Commodity Futures Trading Commission as of September 30, 2007 and 2006, and the related statements of net cost, changes in net position, and custodial activity, and the statements of budgetary resources for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commodity Futures Trading Commission as of September 30, 2007 and 2006, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statements, CFTC changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in fiscal year 2007.

The information in the Management Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

The information in the FY 2007 Performance Section, Other Accompanying Information, Appendices, and pages 2 and 3 are presented for purposes of additional analysis and are not required as part of the financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects CFTC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of CFTC's financial statements that is more than inconsequential will not be prevented or detected by CFTC's internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by CFTC's internal control.

In our fiscal year 2007 audit, we consider the deficiency described in Exhibit I to be a significant deficiency in internal control over financial reporting. However, we believe that the significant deficiency described in Exhibit I is not a material weakness. Exhibit II presents the status of prior year comments.



We also noted certain additional matters that we reported to the management of CFTC in a separate letter dated November 15, 2007.

### **INTERNAL CONTROL OVER PERFORMANCE MEASURES**

Our tests of internal control over performance measures, as described in the Responsibilities section of this report, disclosed no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

### **COMPLIANCE AND OTHER MATTERS**

The results of our tests of compliance described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed no instances in which CFTC's financial management systems did not substantially comply with the three requirements discussed in the Responsibilities section of this report.

\* \* \* \* \*

### **RESPONSIBILITIES**

**Management's Responsibilities.** The United States Code Title 31 Section 3515 and 9106 require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet these reporting requirements, CFTC prepares and submits financial statements in accordance with OMB Circular No. A-136.

Management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with U.S. generally accepted accounting principles;
- Preparing the Management Discussion and Analysis (including the performance measures);
- Establishing and maintaining effective internal control; and
- Complying with laws, regulations, and contracts applicable to CFTC, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies.

**Auditors' Responsibilities.** Our responsibility is to express an opinion on the fiscal year 2007 and 2006 financial statements of CFTC based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable



assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CFTC's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2007 audit, we considered CFTC's internal control over financial reporting by obtaining an understanding of CFTC's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of CFTC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CFTC's internal control over financial reporting.

As required by OMB Bulletin No. 07-04 in our fiscal year 2007 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis and Performance sections, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to report deficiencies in the design of internal control over key performance measures in accordance with OMB Bulletin 07-04. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether CFTC's fiscal year 2007 financial statements are free of material misstatement, we performed tests of CFTC's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to CFTC. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 07-04 and FFMIA, we are required to report whether financial management systems for executive departments and agencies subject to the *Chief Financial*



*Officers Act of 1990* substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. As an agency requiring financial statement reporting under the *Accountability of Tax Dollars Act of 2002*, CFTC is not subject to FFMIA. However, it has elected to implement the provisions as described above. Therefore, we performed tests of compliance with FFMIA Section 803(a) requirements.

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CFTC's response to the finding identified in our audit is presented in Exhibit I. We did not audit CFTC's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of CFTC's management, CFTC's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 15, 2007

## Exhibit I

## U.S. COMMODITY FUTURES TRADING COMMISSION

## Significant Deficiency

**Improvement is Needed over Recording Accruals*****Condition:***

Although CFTC has developed and implemented a process for estimating its interim and year-end accounts payable and accruals, the process needs improvement. At year-end, each individual Contracting Officer's Technical Representative (COTR) evaluates contracts for open obligations to determine whether a liability should be accrued, and informs the Office of Financial Management.

We noted that CFTC did not properly record accruals for five out of eight items tested, resulting in a net overstatement of \$466,650. In addition, we identified six unrecorded liabilities and one improperly recorded liability out of 35 subsequent cash disbursements tested, resulting in a net understatement of \$189,399.

As part of our accruals testing, we noted that certain amounts recorded into Markview, CFTC's online procurement approval system, by the COTR as being payable as of September 30, 2007 were not properly recorded in the general ledger because they were awaiting approval in the system. Per further investigation by CFTC, approximately \$2,425 of invoices entered into Markview were not recorded in the general ledger in addition to the exceptions noted above.

Separately, we noted an overstatement of \$71,772 in CFTC's year-end reconciliation of the Accounts Payable sub-ledger to the general ledger.

***Criteria:***

Office of Management and Budget's Circular No. A-136, *Financial Reporting Requirements*, defines accounts payable as the amounts owed by the reporting agency for goods and services received from other entities, progress in contract performance made by other entities, and rents due to other entities.

Statement of Federal Financial Accounting Standards No. 1, *Accounting for Selected Assets and Liabilities*, paragraph 74, states that when the entity accepts title to goods, whether goods are received or in transit, the entity should recognize a liability for the unpaid amount of the goods. If invoices for those goods are not available when the financial statements are prepared, the amounts should be estimated.

***Cause:***

Differences in the accrual amount are a result of inadequate knowledge of the COTRs over the purpose of the accrual and inadequate review of the estimated payables. The Office of Financial Management (OFM) did not discover these errors during its review of the accruals.

U.S. COMMODITY FUTURES TRADING COMMISSION

Significant Deficiency

Unrecorded liabilities which were identified through subsequent disbursements were not included in CFTC's year end accrual because these contracts were not reviewed or were overlooked by the COTRs. CFTC did not identify these contracts as having potential unrecorded liabilities and therefore they were not reviewed in the accrual process.

CFTC did not accrue for some liabilities which were not approved in Markview. In these instances, CFTC assumed that all invoices entered into Markview prior to year end were posted to USSGL account 2110, Accounts Payable (AP). This was not true. Only invoices that were approved in Markview were posted to USSGL account 2110. Therefore, all invoices that were pending approval were not recorded in AP as of September 30, 2007.

The difference noted in the AP reconciliation was due to cancelled invoices in the AP subledger, which were not properly reversed in the accounting system due to management oversight.

***Effect:***

The aggregated amount of all known differences identified in our sample totaled to a net overstatement of accounts payable of \$346,598. CFTC management adjusted its general ledger for most of the errors, resulting in a remaining understatement of accounts payable of \$2,500.

***Recommendations:***

We recommend that CFTC Office of Financial Management, in coordination with the COTRs:

- 1 Ensure that COTRs receive the necessary training over the purpose and intent of estimating accruals, and understand the proper year-end cutoff procedures;
- 2 Review a sample of estimated accruals submitted by the COTRs for reasonableness by examining the related contracts, or inquiring of the COTRs if the payment details are not clearly set out in the contract;
- 3 Ensure that all invoices entered into Markview are approved in a timely manner;
- 4 Review the posting processes in Delphi to ensure all invoices entered into Markview are included in accounts payable; and
- 5 Perform monthly reconciliations between the AP subledger to the general ledger and resolve any discrepancies.

***Agency Response:***

We concur with this finding and agree with the recommendations.

## Exhibit II

## U.S. COMMODITY FUTURES TRADING COMMISSION

## Fiscal Year 2007 – Status of Prior Year Comments

The status of prior year material weaknesses, reportable conditions, and compliance matters is presented below.

Internal Control Over Financial Reporting	Fiscal Year 2007 Status
<i>Material Weakness</i>	
Improvement Needed over Financial Reporting <ul style="list-style-type: none"> <li>• Allowance for Custodial Fines Receivable</li> <li>• Accounting for Leases and Knowledge of Accounting Principles</li> <li>• Recording Accruals and Preparing Financial Statements</li> </ul>	<ul style="list-style-type: none"> <li>• Resolved.</li> <li>• Resolved.</li> <li>• Revised and repeated as a significant deficiency.</li> </ul>
<i>Reportable Conditions</i>	
Financial Management Systems Need Improvement	Resolved.
Improvement is Needed in the Fixed Asset System	Resolved.
Improvement is Needed in Evaluating Undelivered Orders and Recording Budgetary Transactions	Resolved.
<i>Compliance with Laws and Regulations</i>	
Noncompliance with the <i>Federal Information Security Management Act</i>	Resolved.
Noncompliance with the <i>Federal Financial Management Improvement Act of 1996</i> (although CFTC is not required to comply with FFMIA, it has elected to do so)	Resolved.

**OTHER ACCOMPANYING INFORMATION**



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*Summary of Audit and Management Assurances .... 135*



## MANAGEMENT CHALLENGES

### Management Address Inspector General's FY 2006 Assessment

The Commission has addressed or is addressing the concerns identified in the FY 2006 PAR. In FY 2006, the IG identified two "serious management challenges" facing the Commission: 1) Industry Consolidations, and 2) Exchange Traded Revolutions.

The following is the IG's FY 2006 assessment for each challenge and the Commission's actions taken in FY 2007 to address these challenges.

#### Challenge #1, Industry Consolidations

FY 2006 IG Assessment: *"Recently, the two largest floor based derivatives exchanges have agreed to merge. This consolidation wave in the derivatives industry will likely continue and combined with the trend towards demutualization in ownership result in fewer non-publicly traded exchanges. Consequently, the CFTC will have to evaluate its decisions and actions relative to other regulatory agencies such as the SEC and others (exchange shareholders, non-U.S. regulators and other stakeholders) that are now directly affected by actions undertaken by the CFTC affecting the consolidated entity. Active consultation with members of the President's Working Group on Financial Markets will be essential in order to effectively address any unanticipated market disruptions."*

#### FY 2007 Actions Taken or Actions in Progress:

- Guidance issued to strengthen futures exchange governance by calling for increased public representation at key levels of decision-making, including boards of directors.

#### Challenge #2, Exchange Traded Revolutions

FY 2006 IG Assessment: *"The passage of the Commodity Futures Modernization Act on December 15, 2000 fundamentally changed the role of the CFTC from a prescriptive regulator to more of a principles based regulator. Since then the sheer volume of on exchange trading of derivatives has grown dramatically to over 2 billion derivative contracts traded annually on U.S.-based exchanges. Along with this tremendous growth in trading volume we have witnessed structural changes in the industry that challenge the flexibility and resourcefulness of the regulatory paradigm ushered in by the CFMA. Recently the agency has responded to these changes by expanding its views on best practices issues such as corporate governance which may foster greater responsiveness to exchange stakeholders.*

*Further the agency has historically relied on floor based surveillance of derivatives markets which now are rapidly dwindling in trading volume prominence. Currently over sixty percent of exchange traded derivatives are conducted on an electronic platform. This raises the question of whether the agency has the information technology infrastructure and staff to efficiently and effectively conduct timely surveillance of these dynamic and economically essential global markets."*

**FY 2007 Actions Taken or Actions in Progress:**

- As part of the Commission's overall mission to ensure market integrity and customer protection, it collects trade data from all U.S. future exchanges and conducts investigations to detect possible trading abuses through the Exchange Database System (EDBS), which was developed in the mid-1980s. Presently, the Commission is developing a new trade surveillance system, TSS, to replace EDBS because it has not been significantly upgraded since its inception. New technology will enhance staff's ability to effectively detect and deter trade practice violations in a rapidly changing environment, especially with respect to electronic trading data, and will provide staff with greater efficiency and flexibility. TSS also will fill a vacuum in inter-market surveillance that only the Commission can address, *e.g.*, side-by-side and simultaneous trading of a contract on a DCM's floor and the DCM's electronic trading platform.
- In addition, the Commission is in the process of purchasing a software product that will be used in conjunction with the database system in order to support its TSS program. Full deployment of the database system and new software began in FY 2007 and should be fully operational in late FY 2009. The new software will perform sophisticated pattern recognition using advanced data analysis techniques to automate basic trade practice surveillance. The software will also have the capability to detect novel and complex abusive practices in today's high-speed, high-volume global trading environment. Several new and important functions that do not exist in its current systems will enable the Commission to conduct inter-market surveillance across different trading platforms and exchanges.



# SUMMARY OF AUDIT AND MANAGEMENT ASSURANCES

## Summary of FY 2007 Financial Statement Audit

Audit Opinion:	Unqualified				
Restatement:	No				
<b>MATERIAL WEAKNESS</b>	<b>BEGINNING BALANCE</b>	<b>NEW</b>	<b>RESOLVED</b>	<b>CONSOLIDATED</b>	<b>ENDING BALANCE</b>
Financial Reporting	1	0	1	0	0

## Summary of Management Assurances

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA § 2)						
Statement of Assurance:	Unqualified					
<b>MATERIAL WEAKNESS</b>	<b>BEGINNING BALANCE</b>	<b>NEW</b>	<b>RESOLVED</b>	<b>CONSOLIDATED</b>	<b>REASSESSED</b>	<b>ENDING BALANCE</b>
Financial Reporting	1	0	1	0	0	0
EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA § 2)						
Statement of Assurance:	Unqualified					
<b>MATERIAL WEAKNESS</b>	<b>BEGINNING BALANCE</b>	<b>NEW</b>	<b>RESOLVED</b>	<b>CONSOLIDATED</b>	<b>REASSESSED</b>	<b>ENDING BALANCE</b>
No Items to Report	0	0	0	0	0	0
CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FMFIA § 4)						
Statement of Assurance:	Systems conform to financial management system requirements					
<b>NON-CONFORMANCE</b>	<b>BEGINNING BALANCE</b>	<b>NEW</b>	<b>RESOLVED</b>	<b>CONSOLIDATED</b>	<b>REASSESSED</b>	<b>ENDING BALANCE</b>
Federal Information Security Act	1	0	1	0	0	0
COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)						
	<b>AGENCY</b>			<b>AUDITOR</b>		
Overall Substantial Compliance	Yes			Yes		
1. System Requirements				Yes		
2. Accounting Standards				Yes		
3. USSGL at Transaction Level				Yes		

# APPENDIX



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## FY 2007 COMMISSIONERS

### The Commissioners

#### Walter L. Lukken, Acting Chairman



Walter Lukken was appointed Acting Chairman by the Commission on June 27, 2007. In September 2007, President Bush nominated Mr. Lukken to be Chairman of the Commission. He was first appointed Commissioner in 2002 and is now serving his second term due to expire in 2010.

Acting Chairman Lukken has testified several times before Congress and represents the agency as part of the President's Working Group on Financial Markets. He works frequently with other domestic and foreign financial regulators.

Acting Chairman Lukken serves as chairman of the CFTC's Global Markets Advisory Committee (GMAC). The GMAC was created by the Commission to provide an industry forum in which it can discuss the many complex and novel issues raised by the ever-increasing globalization of futures markets. In this role, he frequently repre-

sents the Commission before international organizations and forums, including the International Organization of Securities Commissions (IOSCO) and the Committee of European Securities Regulators (CESR). He spoke before the U.S.-China Joint Economic Committee hosted by the U.S. Department of Treasury on the developing role of derivatives markets in China.

Prior to joining the CFTC, Acting Chairman Lukken served for five years as counsel on the professional staff of the U.S. Senate Agriculture Committee under Chairman Richard Lugar (R-IN), specializing in futures and derivatives markets. In this capacity, he was prominently involved in the development, drafting and passage of the CFMA (H.R. 5660).

A native of Richmond, Indiana, he 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. Acting Chairman Lukken is a member of the Illinois Bar.

**PHOTO ABOVE:** Acting Chairman Lukken and Commissioner Sommers stand in the foreground of a photograph of the brass CFTC seal recovered from the Ground Zero rubble of the World Trade Center in the aftermath of the September 11, 2001 terrorist attack. The original seal is in remarkably fine condition and presently displayed in the main reception area of the CFTC's relocated New York Office at 140 Broadway. Thankfully, all CFTC employees were safely evacuated on September 11. (See <http://www.cftc.gov/newsroom/cftcevents/archive/opaspotlight080703.html> for more information on the Homecoming Ceremony for the CFTC's seal held at the New York Office on August 7, 2003.)

Michael V. Dunn, Commissioner



Michael V. Dunn was nominated to a second term as a Commissioner of the Commodity Futures Trading Commission by President Bush on June 16, 2006, and confirmed by the Senate on August 3, 2006. Mr. Dunn has served as a Commissioner since December 6, 2004. On January

9, 2006, he was chosen by his colleagues to chair the Commission's Agriculture Advisory Committee and on March 13, 2006, he was appointed chairman of the Commission's Forex Task Force.

Prior to joining the CFTC, Mr. Dunn served as Director, Office of Policy and Analysis at the Farm Credit Administration (FCA). 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.

Jill E. Sommers, Commissioner



Jill E. Sommers was sworn in as a CFTC Commissioner on August 8, 2007 to a term that expires April 13, 2009. Commissioner Sommers has worked in the commodity futures and options industry in a variety of capacities throughout her career. In 2005, she was the Policy Director and Head of Government

Affairs for the International Swaps and Derivatives Association, where she worked on a number of over-the-counter derivatives issues.

Prior to that, Ms. Sommers worked for the Chicago Mercantile Exchange, including overseeing regulatory and legislative affairs for the exchange. During her tenure with the exchange, she had the opportunity to work closely with congressional staff drafting the Commodity Futures Modernization Act of 2000.

Commissioner Sommers started her career in Washington in 1991 as an intern for Senator Robert J. Dole (R-KS), where she worked in various capacities until 1995. She later worked as a legislative aide for two consulting firms specializing in agricultural issues, Clark & Muldoon, P.C. and Taggart and Associates.

A native of Fort Scott, Kansas, Ms. Sommers holds a Bachelor of Arts degree from the University of Kansas. She and her husband, Mike, currently reside in the Washington, DC area and have three children ages 5, 4, and 3.

**Bart Chilton, Commissioner**

**B**art Chilton was sworn in as CFTC Commissioner on August 8, 2007. He was formerly the Chief of Staff and Vice President for Government Relations at the National Farmers Union—one of the oldest and largest trade associations.

In 2005, Mr. Chilton was a Schedule C political appointee of President Bush at the U.S. Farm Credit Administration where he served as an Executive Assistant to the Board. From 2001 - 2005, Mr. Chilton was a Senior Advisor to Senator Tom Daschle, the Democrat Leader of the U.S. Senate where he worked on myriad issues including, but not limited to, agriculture and transportation policy.

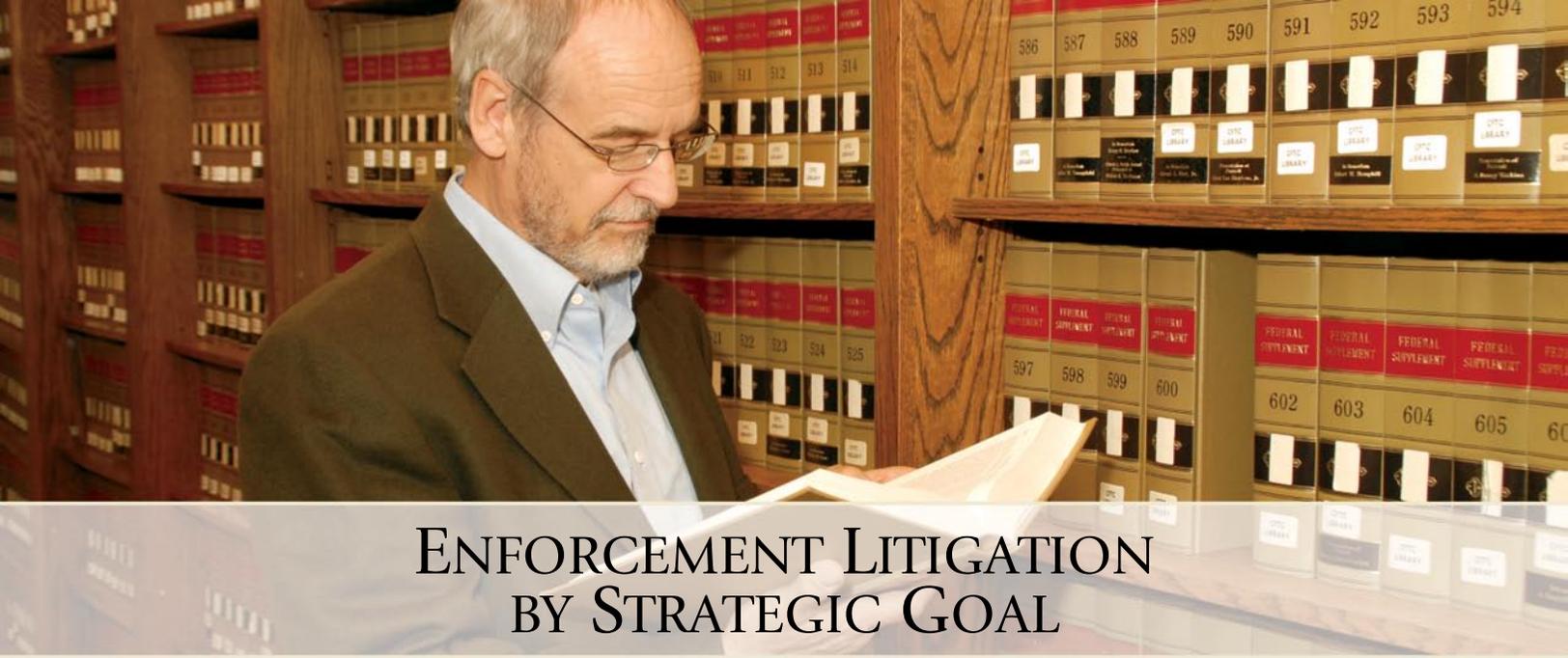
From 1995 - 2001, Mr. Chilton was a Schedule C political appointee of President Clinton where he rose to Deputy Chief of Staff to the U.S. Secretary of Agriculture Dan Glickman. In this role, Chilton became a member of the Senior Executive Service (SES)—government executives selected for their leadership qualifications to serve in the

key positions just below the top Presidential appointees. As an SES member, Chilton served as a major link between Secretary Glickman and the rest of the Federal work force at USDA.

From 1985 - 1995, Mr. Chilton worked in the U.S. House of Representatives as Legislative Director for three different Members of Congress on Capitol Hill. He also worked in the U.S. House as the Executive Director of the bipartisan Congressional Rural Caucus.

Mr. Chilton previously served on the Board of Directors of Bion Environmental Technologies, and the Association of Family Farms—where he also served on the Executive Committee and as Treasurer.

Mr. Chilton was born in Delaware and spent his youth in Indiana where he attended Purdue University (1979 - 1982). He studied political science and communications and was a collegiate leader of several organizations. Mr. Chilton and his wife, Sherry Daggett Chilton, reside on the Western Shore of the Chesapeake Bay.



## ENFORCEMENT LITIGATION BY STRATEGIC GOAL

### Enforcement Litigation by Goal One

#### Manipulation, Attempted Manipulation & False Reporting

##### ■ *CFTC v. Amaranth Advisors, L.L.C., et al.*

On July 25, 2007, the Commission filed a civil enforcement action charging Amaranth Advisors, L.L.C., Amaranth Advisors (Calgary) ULC (collectively Amaranth), and Brian Hunter with attempted manipulation. Specifically, the complaint alleges that the defendants intentionally and unlawfully attempted to manipulate the price of natural gas futures contracts on the NYMEX on February 24 and April 26, 2006. February 24, 2006 was the last day of trading (expiry day) for the March 2006 NYMEX natural gas futures contract and April 26, 2006 was the expiry day of the May 2006 NYMEX natural gas futures contract. The settlement price of each NYMEX natural gas futures contract is determined by the volume weighted average of trades executed from 2:00-2:30 p.m. (the closing range) on the expiry day of such contracts. The complaint alleges that, for each of the expiry days at issue, the defendants acquired more than 3,000 NYMEX natural gas futures contracts in advance of the closing range, which they planned to, and for the most part did, sell during the closing range. The complaint also alleges that defendants held large short natural gas financially-settled swaps positions, primarily held on the Intercontinental Exchange (ICE). The settlement price of the ICE swaps is based on the NYMEX natural gas futures settlement price determined by trading done during the closing range on expiry day. The complaint alleges that

defendants intended to lower the prices of the NYMEX natural gas futures contracts to benefit defendants' larger swaps positions on ICE and elsewhere. The complaint also alleges that, in response to an inquiry from NYMEX about the April 26, 2006 trading, Amaranth Advisors L.L.C. made false statements to NYMEX to cover up defendants' attempted manipulation. The Commission received cooperation from the Federal Energy Regulatory Commission (FERC), SEC, and NYMEX in connection with this matter. *CFTC v. Amaranth Advisors, L.L.C., et al.*, No. '07 CIV 6682 (S.D.N.Y. filed July 25, 2007).

##### ■ *CFTC v. Energy Transfer Partners, L.P.*

On July 26, 2007, the Commission filed a civil enforcement action charging Energy Transfer Partners, L.P. (ETP), and three ETP subsidiaries (Energy Transfer Company (a/k/a La Grange Acquisition, L.P.) (ETC), Houston Pipeline Company (HPLC), and ETC Marketing, Ltd. (ETC Marketing)) with attempted manipulation. Specifically, the complaint alleges that the defendants attempted to manipulate the price of physical natural gas at the Houston Ship Channel (HSC) delivery hub during September and November 2005. The complaint further alleges that the defendants attempted to manipulate the October 2005 and December 2005 HSC monthly index prices of natural gas published by Platts (a division of The McGraw-Hill Companies, Inc.) in its *Inside FERC's Gas Market Report (Inside FERC)*. The complaint alleges that the defendants used Hurricane Rita as a pretext for their scheme. Specifically, the complaint states that Hurricane Rita made landfall in the Texas and Louisiana Gulf region on September 24, 2005, and demand

for natural gas in Houston dropped as residents fled the hurricane. Anticipating this occurrence, the defendants allegedly devised a four-step plan to take advantage of—and financially benefit from—Hurricane Rita’s impact. As alleged, the first step in the defendants’ plan was to build their short position in the October 2005 HSC financial basis swap. A basis swap is a swap whose cash settlement price is calculated based on the basis between a futures contract and the spot price of the underlying commodity or a closely related commodity on a specified date. In this instance, the two legs of the swap are the monthly HSC index price published by *Inside FERC* and the final settlement price of the Henry Hub futures contract traded on the NYMEX. As a short, the defendants were obligated to pay the longs the HSC index price; thus they benefited from a lower HSC index price. Second, in the days just before and after Hurricane Rita, the defendants allegedly built up a huge inventory of physical gas with the intent to deliver that gas to HSC, despite the lack of demand in the Houston area. Third, on September 28, 2005, the defendants sold a vast quantity of natural gas for delivery during October 2005 at HSC with the intent to push down, or cap, the price of physical natural gas at HSC. They purportedly made most of these sales on ICE. In fact, the defendants represented 96 percent by volume of all the trades that took place that day on ICE in the HSC contract. The fourth and final step in the defendants’ plan allegedly occurred when they reported the September 28, 2005, sales to Platts with the intent and belief that Platts would use these transactions in calculating the October *Inside FERC* monthly price index at HSC—presumably at lower or stabilized prices to the benefit of the defendants’ short swaps positions. The complaint further alleges that the defendants attempted to manipulate the price for November 2005 physical natural gas at HSC and attempted to manipulate the December *Inside FERC* monthly index price. Defendants purportedly repeated the same course of action in the November/December 2005 time period as they did during September/October 2005. The Commission received cooperation from the FERC in connection with this matter. *CFTC v. Energy Transfer Partners, L.P.*, No. 3-07CV1301-K (N.D. Tex. filed July 26, 2007).

■ *In re Marathon Petroleum Company.*

On August 1, 2007, the Commission filed and simultaneously settled an administrative enforcement action against Marathon Petroleum Company (MPC), a subsidiary of

Marathon Oil Corporation, finding that MPC attempted to manipulate a price of spot cash WTI crude oil delivered at Cushing, Oklahoma on November 26, 2003, by attempting to influence downward the Platts market assessment for spot cash WTI for that day. The Platts market assessment for WTI is derived from trading activity during a particular 30-minute period of the physical trading day. The Platts market assessment for WTI is used as the price of crude oil in certain domestic and foreign transactions. At the time in question, MPC priced approximately 7.3 million barrels of physical crude oil per month off the Platts market assessment for WTI. As a net purchaser of foreign crude oil priced off the Platts spot cash WTI assessment, if its conduct was successful, MPC would have benefited from a lower Platts spot cash WTI assessment. The order finds that, on November 26, 2003, MPC purchased NYMEX WTI contracts with the intention of selling physical WTI during the Platts window at prices intended to influence the Platts WTI spot cash assessment downward. Further, during the Platts window, MPC knowingly offered WTI through the prevailing bid at a price level calculated to influence downward the Platts WTI assessment. The Commission assessed sanctions, including a cease and desist order, and a civil monetary penalty (\$1,000,000). *In re Marathon Petroleum Company*, CFTC Docket No. 07-09 (CFTC filed Aug. 1, 2007).

## Enforcement Litigation by Goal Two

### Commodity Pools, Hedge Funds, Commodity Pool Operators, and Commodity Trading Advisors

■ *CFTC v. Hoffman.*

On November 28, 2006, the Commission filed a civil enforcement action against Peter D. Hoffman alleging that, while acting as an unregistered CTA, Hoffman fraudulently solicited customers to open discretionary trading accounts and violated the trading prohibition in a previous Commission order. Specifically, the complaint alleges that, since at least February 2000 and continuing through April 2004, Hoffman circumvented the trading prohibition against him by funding and/or directing trading in a series of commodity futures accounts. See *In re Hoffman*, CFTC Docket No. 99-9 (CFTC March 30, 1999) (simultaneously filing and settling an administrative action finding that Hoffman fraudulently solicited customers for a commodity trading advisory service while acting as an unregistered

CTA and imposing sanctions including a five-year trading ban). The complaint further alleges that, during that same time period and thereafter, Hoffman defrauded his clients by falsely claiming he was a successful trader, failing to disclose the prior Commission order against him, and acting as a CTA without the benefit of Commission registration. On November 29, 2006, the court entered a statutory restraining freezing assets and preserving books and records. *CFTC v. Hoffman*, No. 06C 6473 (N.D. Ill. Nov. 28, 2006).

■ *In re Acceleration Capital, LLC.*

On January 16, 2007, the Commission simultaneously filed and settled an administrative enforcement action against Acceleration Capital, LLC (Acceleration Capital), a registered CPO and CTA. The charges are based on the activities of Toby Wayne Denniston II, a former agent of Acceleration Capital, who in August 2006 settled identical charges brought by the Commission. See *In re Denniston*, CFTC Docket No. 06-05 (CFTC filed Aug. 7, 2006). The order finds that between November 2004 and August 2005, Denniston misappropriated more than \$190,000 from Acceleration Mercury Fund 4X LP, a commodity pool located in Northridge, California, for his own use and benefit. Denniston carried out the misappropriation by forging signatures on at least 58 checks. According to the order, to conceal his misappropriation, Denniston regularly altered the pool's bank and trading account statements and created false account statements to be sent to pool participants. Based on the liability of the company for its agents' activities, the order accordingly finds that Acceleration Capital is liable for Denniston's misappropriation of funds and false statements to customers in violation of the CEA. Without admitting or denying the findings, Acceleration Capital consented to entry of the order that included the following sanctions: a cease and desist order; revocation of Acceleration Capital's registration; payment of \$218,000 restitution; and order to comply with certain undertakings, including not applying for registration with the Commission. The order further orders Acceleration Capital's principal, Yuri Plyam, and any entities controlled by him, to comply with the undertaking to neither act as a CPO or AP of a CPO, or claim exemption from registration as a CPO or AP of a CPO. *In re Acceleration Capital, LLC*, CFTC Docket No. 07-03 (CFTC filed Jan. 16, 2007).

■ *CFTC v. Renaissance Asset Management, LLC, et al.*

On January 24, 2007, the Commission filed an injunctive enforcement action against Renaissance Asset Management, LLC (RAM), a registered CPO and CTA, and Anthony Ramunno, Jr., RAM's chief operating officer, alleging commodity pool fraud. The complaint alleges that, since at least June 2005, RAM and Ramunno have received investor funds and operated a commodity pool sequentially under the names RAM 1 LLP and RAM 1 LLC. The complaint alleges that, during the week of January 15-29, 2007, NFA commenced an emergency audit of RAM based on a potential RAM investor's suspicions regarding the Pool Annual Reports. During the audit, Ramunno purportedly provided NFA staff with copies of what he claimed were RAM's audited Pool Annual Reports prepared by Grant Thornton LLP for 2004 and 2005—despite the fact that Grant Thornton LLP has never performed any services for RAM. An internal RAM report, for the period ending December 31, 2006, reflects that there are approximately 94 investor accounts and total pool assets of at least \$32 million. Furthermore, according to the complaint, Ramunno contacted staff at the Atlanta FBI office and admitted to “committing fraud.” On the same day the complaint was filed, the court entered a statutory restraining order freezing assets and preserving books and records. To date, the Federal Bureau of Investigations (FBI) has seized an estimated \$5.5 million in assets from Ramunno and RAM. The Commission received cooperation from the NFA, the FBI field office in Atlanta, and the DOJ in connection with this matter. *CFTC v. Renaissance Asset Management, LLC, et al.*, No. 1:07-CV-0200 (N.D. Ga. filed Jan. 24, 2007).

■ *CFTC v. Cornerstone Capital Management, LLC.*

On January 31, 2007, the Commission filed an injunctive enforcement action against Cornerstone Capital Management, LLC (Cornerstone), which is a hedge fund that is registered as a CPO and CTA, and Joseph Profit II, Cornerstone's CEO. The complaint alleges that, from at least May 2005 through January 24, 2007, the defendants employed schemes to defraud actual and prospective commodity pool participants and clients by misrepresenting the rates of return Cornerstone generated for its pool participants and the value of assets it managed in its Icon Fund. For example, the defendants claimed that Cornerstone had assets under management ranging from

\$20 million to \$60 million, though Profit admitted that as of January 23, 2007, the Cornerstone Capital Management Icon Fund had at most received a little more than \$2.25 million in assets from participants. In addition to the U.S. mail and other means, defendants allegedly solicited participants and clients through the Web site [www.cornerstonecapitalmanagement.com](http://www.cornerstonecapitalmanagement.com). The complaint further alleges that Profit willfully concealed material information from the NFA, and further failed to submit an NFA-required Annual Report for 2005. On the same day the complaint was filed, the court entered a statutory restraining order freezing assets and preserving books and records. The Commission received cooperation from the NFA and the U.S. Attorney for the Northern District of Georgia in connection with this matter. *CFTC v. Cornerstone Capital Management, LLC*, No. 1:07-CV-0274 (N.D. Ga. filed Jan. 31, 2007).

■ *CFTC v. Parish, et al.*

On April 17, 2007, the Commission filed an injunctive enforcement action against Parish Economics, LLC (Parish Economics) and its president and owner, Albert E. Parish Jr., alleging commodity pool fraud. Specifically, the complaint alleges that the defendants, among other things, offered and sold interests in four investment pools. One of these pools, the Futures Pool, purportedly invested in “the commodity and stock futures and options markets.” Beginning in January 2003, the defendants misrepresented the total amount of funds contained in the investment pools as a whole and the total amount of funds invested in the Futures Pool individually, the complaint charges. Additionally, defendants purportedly provided Futures Pool participants with false periodic account statements showing that participants’ funds were invested in the Futures Pool when, in fact, such participants’ funds were misappropriated by the defendants. Specifically, the defendants represented on their Web site, [www.parisheconomics.com](http://www.parisheconomics.com), and to an investment advisor (IA) that at the end of 2006 the total value of the investment pools was approximately \$134 million, and that the value of the Futures Pool was approximately \$52 million. On March 21, 2007, defendants provided the IA with a futures account trading statement purporting to show that the Futures Pool had an account value as of February 28, 2007, of approximately \$52 million. However, according to the complaint, the

defendants only had three open futures accounts that, as of February 28, 2007, had a cumulative value of only \$120,000. The complaint further alleges that the defendants provided account statements to at least three Futures Pool participants that, in the aggregate, represented that the Futures Pool had a value of at least \$407,244 at the end of 2005, \$645,181 at the end of 2006, and \$970,300 as of February 28, 2007. In reality, since January 1, 2005, the total value of Futures Pool assets never exceeded \$150,000, the complaint alleges. Finally, the complaint charges the defendants with failing to register with the CFTC and to operate the Futures Pool consistent with Federal law. The Commission received cooperation from the SEC and the U.S. Attorney’s Office for the District of South Carolina in connection with this matter. *CFTC v. Parish, et al.*, No. 2:07-cv-01044-DCN (D.S.C. filed Apr. 17, 2007).

■ *CFTC v. Demasi, et al.*

On April 26, 2007, the Commission filed a civil enforcement action charging Anthony A. Demasi and his company, Tsunami Capital, LLC (Tsunami Capital), with fraud in their operation of a commodity pool. Specifically, the complaint alleges that, from at least December 2004 to the present, Demasi and Tsunami Capital fraudulently solicited and accepted at least \$300,000 from at least three individuals for the purpose of trading financial futures as part of a commodity pool called Tsunami Lakeshore. As alleged, Demasi convinced at least one pool participant to invest by providing him with a false track record that showed two years of trading profits, when, in fact, Tsunami Lakeshore did not have an active account during most of the period and had lost money during the months when it did. The complaint also alleges that Demasi and Tsunami Capital distributed false statements to at least two pool participants throughout 2005 showing that their investments were earning substantial profits in 2005 and the first quarter of 2006. However, the Tsunami Lakeshore trading account was closed in January 2005, and the only other trading accounts maintained by Tsunami Capital sustained losses or were less profitable than represented in five of the six quarterly statements they received. On the same day the action was filed, the court entered a statutory restraining order freezing assets and preserving books and records. *CFTC v. Demasi, et al.*, No. 07C 2256 (N.D. Ill. filed Apr. 26, 2007).

■ *CFTC v. Heierle, et al.*

On September 12, 2007, the Commission filed a civil enforcement action charging Joerg Heierle and the company he managed, INH-Interholding SA (INH), alleging commodity pool fraud. Specifically, the complaint alleges that, since at least October 2001 through April 2007, defendants fraudulently solicited at least \$4.4 million from participants to invest in an INH commodity futures and options pool that Heierle would operate and manage, and concealed trading losses by issuing false statements to participants regarding the profitability of their INH investments. As alleged, defendants' solicitations falsely represented that the INH commodity pools were historically profitable and that Heierle was a successful trader. However, as alleged, there are no trading accounts in the name of INH, and the known trading accounts controlled by Heierle sustained losses during that time period totaling \$80,000. Moreover, during the relevant time period, the known trading accounts controlled by Heierle allegedly sustained overall net trading losses of approximately \$1,000,000. In addition to the fraud charges, the complaint charges INH and Heierle with registration and other regulatory violations. According to the complaint, Heierle disappeared in April 2007, and pool participants have not been able to access their funds since that time. On September 18, 2007, the court entered a statutory restraining order freezing assets and preserving books and records. The Commission received cooperation from the State of Florida Office of Financial Regulation in connection with this matter. *CFTC v. Heierle, et al.*, No. 07-22396 CIV-LENARD/TORRES (S.D. Fla. filed Sept. 12, 2007).

■ *CFTC v. Amerman, et al.*

On September 18, 2007, the Commission filed a civil enforcement action charging Gregg R. Amerman, and three companies he controlled (World Alliance Group, Inc. (World Alliance), Gregg Amerman Companies, Inc. (Amerman Inc.), and Zero Doubt, LLC (Zero Doubt)). The complaint alleges that, from at least September 2002 to April 2004, Amerman solicited nearly \$1.2 million from 22 customers to invest in a commodity pool he operated named Dream Venture Group LLC (DVG). DVG, in turn, allegedly invested the funds in a hedge fund named Tech Traders, Inc. (Tech Traders), and negotiated an undisclosed fee arrangement that would ultimately provide Amerman

funding for his companies, World Alliance, Amerman Inc., and Zero Doubt. Tech Traders, along with other companies and individuals, is a subject in an ongoing Commission action in which it and other defendants have been ordered by the U.S. District Court for the District of New Jersey to pay more than \$30 million in sanctions (*See CFTC v. Equity Financial Group LLC, et al.*, No. 04 CV 1512 (D.N.J. entered June 28, 2007)). As alleged, during the relevant time period, Amerman invested more than \$1 million of the solicited funds with Tech Traders. In turn, Tech Traders sent almost \$1.3 million back to the DVG bank account. Though, at best, Amerman was entitled to approximately \$135,000 in fees under the undisclosed fee agreement, he allegedly took more than \$810,000 for himself and the companies he controlled. Accordingly, at least \$675,000 of the \$810,000 that Amerman retained from the funds he received from Tech Traders was misappropriated. The CFTC's complaint also alleges that Amerman: 1) distributed false account statements to customers, which reported profits that were higher than the profits Tech Trader reported to him; 2) commingled pool funds with his personal funds and the funds of the relief defendants; and 3) acted illegally as an unregistered CPO. The Commission received cooperation from the Office of the U.S. Attorney for the Northern District of Georgia in connection with this matter. *CFTC v. Amerman, et al.*, No. 1:07-CV-2280 (N.D. Ga. filed Sept. 18, 2007).

### CTAs, Managed Accounts, and Trading Systems

■ *In re Camp, et al.*

On February 20, 2007, the Commission filed and simultaneously settled an administrative enforcement action against Man Financial, Inc. (Man), a registered FCM, and Steven M. Camp, a registered AP of Man. The order finds that Camp fraudulently solicited customers to open commodity futures and options on futures accounts at Man, and finds that Man failed to diligently supervise Camp. Specifically, the CFTC order, entered on February 20, 2007, finds that, from September 2002 through March 2003, Camp solicited customers of a Web-based members-only trading system called the Natural Trigger Point System (NTPS) to trade through Man. NTPS provided online signals for the purchase and sale of commodity futures and options on commodity futures. While Camp knew that the trading for his customers using NTPS signals was not prof-

itable, Camp, nevertheless, misrepresented that the system was successful and that his customers who traded the system had made profits. Customers who funded accounts at Man to be traded pursuant to NTPS signals collectively lost a total of approximately \$73,000. Meanwhile, supervisory employees at Man did not reasonably monitor Camp's sales solicitations of accounts to be traded pursuant to letters of direction in favor of third-party system developers. Separately, the order also finds that, during the period August 2004 through June 2005, Camp fraudulently solicited customers to open accounts at Man to be traded by a CTA, who purportedly created a program for trading commodity futures and options on commodity futures. Camp defrauded at least six customers during that period by misrepresenting the profitability of the CTA's purported trading program and failing to disclose that customers for whom he placed trades using the CTA's recommendations sustained overall losses. Those six customers collectively sustained losses totaling approximately \$165,000. At the time, due to deficiencies in Man's supervisory system, Man did not detect that Camp was making material misrepresentations about the profitability of the CTA's trading system and failing to disclose to prospective customers losses sustained by the CTA's accounts. Without admitting or denying the findings, the defendants consented to entry of the order that included the following sanctions, among others: permanent trading ban against Camp; injunction from Camp applying for registration or acting in a capacity requiring such registration; and payment of restitution (Man – \$196,990) and civil monetary penalties (Man – \$120,000, and Camp – \$120,000). Also, Man was ordered to strengthen its supervisory system for overseeing sales solicitations by employees pursuant to letters of direction in favor of third-party providers. *In re Camp, et al.*, CFTC Docket No. 07-04 (CFTC filed Feb. 20, 2007).

■ *CFTC v. Evors.*

On September 17, 2007, the U.S. District Court for the Middle District of Florida against Edward J. Evors of Tampa, Florida, and two Nevada companies controlled by him: Bally Lines Ltd. (Bally Lines) and GPS Fund, Ltd. (GPS). The complaint alleges that Evors solicited and received at least \$450,000 from members of the general public to invest with Tech Traders to trade commodity futures contracts. However, as alleged, instead of investing the customer funds with Tech Traders, Evors purportedly spent the funds for his personal use, and attempted to conceal his

misappropriation by sending customers false account statements that misrepresented the nature of their investment. The complaint against Evors alleges that he solicited funds for investment with Tech Traders as many as 12 months after Tech Traders had ceased doing business. As noted above in the discussion of *Amerman*, Tech Traders, along with other companies and individuals, is a subject of an ongoing Commission action. On September 18, 2007, the court entered a statutory restraining order freezing assets and preserving books and records. *CFTC v. Evors*, No. 8:07-cv-01658-RAL-MAP (M.D. Fla. filed Sept. 17, 2007).

■ *In re Miklas.*

On September 20, 2007, the Commission filed an administrative enforcement action against Maros Miklas alleging that he misappropriated a customer's funds under the guise of trading commodity futures. Specifically, the complaint alleges that Miklas became acquainted with the customer, Kim Lim, in late 2005 through an Internet chat room Miklas ran on Paltalk.com. Miklas provided Lim with fictitious trading reports that portrayed Miklas as a successful futures trader. In January 2006, Miklas persuaded Lim to open two futures trading accounts and to sign a power of attorney to Miklas to trade those accounts. As alleged, on December 21, 2006, Miklas, while trading his own account and Lim's accounts on the Chicago Board of Trade's eCBOT electronic trading platform, cheated and defrauded Lim by engaging in a series of illegal trades that resulted in losses totaling \$213,066 to Lim and gains of \$211,304 to Miklas. *In re Miklas*, CFTC Docket No. 07-10 (CFTC filed Sept. 20, 2007).

## Foreign Currency

■ *CFTC v. Financial Risk Int'l, et al.*

On December 4, 2006, the Commission filed an injunctive enforcement action against Financial Risk International, Inc. (FRI), Financial Risk Management, Inc. (FRM), and Stephanie Ann Gallitano, the incorporator and a director of both FRI and FRM, alleging fraud in connection with forex option transactions. Specifically, the complaint alleges that, between approximately March and June 2004, FRI employees, including Gallitano, engaged in the fraudulent solicitation of at least 257 members of the retail public to open accounts and engage in speculative forex options trading at both registered and unregistered FCMs.

According to the complaint, FRI and Gallitano's fraudulent sales pitches included false representations that large profits were likely or virtually guaranteed; that risks were minimal or could be substantially eliminated; that profit opportunities were only available if investments were made quickly; that previous FRI customers had made substantial profits and new customers could expect similar profits; that any previous losses could be recouped with additional investments; and that Gallitano was an expert in trading commodity options. In fact, as the complaint alleges, FRI customers sustained more than \$3 million in losses during the relevant period. While making these false representations, FRI and Gallitano failed to disclose material information, including the substantial risks associated with trading forex options; and FRI's consistently losing trading track record, including that nearly 100 percent of FRI's customers lost money during the relevant period, according to the complaint. The complaint also alleges that FRI is liable as principal for the fraud violations of its employees, Gallitano is liable for FRI's fraud as controlling person of the firm, and both Gallitano and FRM aided and abetted FRI's commission of fraud. On the same day the complaint was filed, the court entered an *ex parte* statutory restraining order freezing assets and preserving books and records. *CFTC v. Financial Risk Int'l, et al.*, No. 06-61812 (S.D. Fla. filed Dec. 4, 2006).

■ *CFTC v. UForex Consulting, LLC, et al.*

On January 9, 2007, the Commission filed a civil enforcement action against UForex Consulting, LLC, (UForex), Paulo Correa (UForex's president and CEO), and Mario Garcia (UForex's chief forex advisor) alleging fraudulent solicitation of customers to trade off-exchange forex futures. Specifically, the complaint alleges that, from January 2002 through at least November 2004, Correa (individually, doing business as, and as the controlling person of UForex) and Garcia fraudulently solicited and accepted more than \$3.7 million from at least 127 retail customers for the purported purpose of trading OTC forex contracts that purportedly cleared through yet another company controlled by Correa. As alleged, Correa's and Garcia's sales pitches touted historical returns of between five percent and 10 percent per month and promised high profits with limited or no risk. According to the complaint, for months, UForex sent customers monthly account state-

ments that falsely reported that their accounts were profitable. However, in October 2004, UForex sent customers statements, accompanied by a letter from Correa, informing them that most of the funds were lost trading foreign currencies. Based on the October 2004 statements, UForex customers in aggregate lost approximately 70 percent—or \$2.9 million—of their investment. Additionally, as alleged, Correa misappropriated at least \$2 million of the customers' funds for his personal use. On the same day the complaint was filed, the court issued an *ex parte* statutory restraining order freezing defendants' assets and preserving books and records. *CFTC v. UForex Consulting, LLC, et al.*, No. 6:07-CV-0046 (W.D. La. filed Jan. 9, 2007).

■ *CFTC v. Rusfeldt, et al.*

On March 12, 2007, the Commission filed an injunctive enforcement action against Rusfeldt Investments LLP and its owner, Aden Rusfeldt, alleging fraudulent solicitation of customers to trade forex futures. Specifically, the complaint alleges that, beginning in at least October 2005, defendants fraudulently solicited members of the retail public to engage in speculative forex futures trading through accounts managed by Rusfeldt. According to the complaint, Rusfeldt's fraudulent sales pitches included false representations that large profits were likely or virtually guaranteed, that risks were minimal or could be substantially eliminated, and that new customers could expect to benefit from Rusfeldt's profitable past trading performance. In fact, Rusfeldt's customers sustained more than \$1.5 million in losses during the relevant period. Additionally, while their Web site represented that Rusfeldt was compensated only if his trading made profits in client accounts, in reality the defendants received commission rebates on all trades made in client accounts regardless of whether those trades were profitable. Further, the complaint alleges that the defendants failed to disclose material information, including Rusfeldt's losing trading track record and his collection of commission rebates from the FCMs at which his clients opened trading accounts. On March 13, 2007, the court entered a statutory restraining order preserving books and records. On March 31, 2007, the Court issued an Order of Preliminary Injunction, which, among other things, prohibits the defendants from engaging in any commodity interest trading. *CFTC v. Rusfeldt*, No. 07-130 (S.D. Tex. filed Mar. 12, 2007).

■ *CFTC v. Millenium Trading Group, Inc., et al.*

On April 9, 2007, the Commission filed an injunctive enforcement action against Millenium Trading Group, Inc. (MTG), Cedric R. Stanton, the president and owner of MTG, and Worldwide Clearing, LLC (WWC), a registered FCM. The complaint alleges that MTG and Stanton fraudulently solicited customers to open commodity trading accounts by misrepresenting 1) the company's profitability, 2) the risks involved in trading forex futures, 3) MTG's purported success, and 4) the commissions charged to customers. The complaint further alleges that MTG was an agent of WWC, thereby making WWC liable for MTG's fraudulent activities. Also, as alleged, WWC was significantly involved in supervising MTG's activities and furthered the fraudulent activity by, for example, informing at least one MTC customer that WWC was so satisfied with MTG and Stanton's trading guidelines and strategies that it was using those same guidelines and strategies with other IBs with whom it worked. *CFTC v. Millenium Trading Group, Inc., et al.*, No. 2:07-cv-11626 (E.D. Mich. filed Apr. 9, 2007).

■ *CFTC v. Addison Financial Group, Inc., et al.*

On May 16, 2007, the Commission filed a civil enforcement action charging The Liberty Mutual Group, Inc., Addison Financial Group, Inc., Hamlin Mercer Group, Inc., Colfax Management Group, Inc. (collectively, the Addison Enterprise), Alan Lerner, Forefront Investment LP, Todd Guthrie, and Benji Dayan for, among other things, fraud in connection with the offer and sale of illegal off-exchange forex options. Specifically, the complaint alleges that, from at least February 2005 through at least June 2006, Lerner, as president of the Addison Enterprise, induced and/or caused its account executives to fraudulently solicit members of the retail public to engage in illegal off-exchange forex options transactions with Forefront Investments LP. The account executives failed to disclose the abysmal trading results in Addison Enterprise customers' accounts. The complaint further alleges that, while Addison Enterprise account executives touted the large profit potential and minimal risk of loss in trading forex options, most, if not all, customers were losing money. During the relevant period, Addison Enterprise customers suffered losses of more than \$7 million—\$3 million of which was paid to the Addison Enterprise as commissions. On the same day the action was filed, the court entered a statutory

restraining order freezing assets and preserving books and records. The Commission received cooperation from the Florida Office of Financial Regulations in connection with this matter. *CFTC v. Addison Financial Group, Inc., et al.*, No. 07-21267 CIV-LENAR/TORRES (S.D. Fla. filed May 16, 2007).

■ *CFTC v. Lavin, et al.*

On August 1, 2007, the Commission filed a civil enforcement action charging Joseph Clark Lavin (a/k/a Joseph Ivcevic) and his companies (Global Asset Partners, LTD (a/k/a Global Asset Partners, LLC); Global Currency Trading Group, LLC; and Global Currency Trading Fund, LLC) with fraudulent solicitation of retail customers throughout the United States, Canada, France, and Panama to trade forex options. Specifically, the complaint alleges that, beginning in or about January 2001, Lavin, individually, and as the agent of his Global companies, engaged in a scheme to defraud customers of more than \$16 million. Lavin allegedly told potential customers that customer funds would earn profits of 2.5 percent per month, or greater, and failed to disclose that the defendants were receiving one percent per month as a commission. As further alleged in the complaint, the defendants, after accepting money from customers, issued false reports to these customers that misrepresented "profits" and concealed the commissions. The Commission received cooperation from the SEC, the U.S. Attorney's Office for the Western District of Washington, the F.B.I, and the Internal Revenue Service in connection with this matter. *CFTC v. Lavin, et al.*, No. 2:07-cv-01185-RSL (W.D. Wash. filed Aug. 1, 2007).

### Other Illegal Off-Exchange

■ *CFTC v. New York Options Exchange, et al., CFTC v. International Energy Exchange, et al., New York Petroleum Option Exchange, et al., and American Futures and Options Exchange, et al.*

On March 22, 2007, the Commission filed four injunctive enforcement actions against 1) New York Options Exchange (NYOEX) and Tahoe Futures (Tahoe), 2) International Energy Exchange (INTENX) and Vitol Capital Management (Vitol), 3) New York Petroleum Option Exchange (NYPOE) and HPR Commodities (HPR), and 4) American Futures and Options Exchange (AFOEX), Metro Financials

(Metro), and American Futures and Options Trading Commission (AFOTC) alleging fraud in the solicitation of customers to purchase commodity futures and options contracts. Combined, the complaints allege that the defendants, through misrepresentations on their Web sites, defrauded customers out of millions of dollars. In each of the cases, customers were solicited to trade commodity futures and/or options, including on energy and currency. Customers were duped into believing that: 1) NYOEX, INTENX, NYPOE and AFOEX are futures exchanges; 2) Tahoe, Vitol, HPR and Metro are their respective brokers; and 3) all these entities are located in the United States. As alleged, Tahoe, Vitol, HPR and Metro leased the use of fax numbers with U.S. area codes to deceive customers into believing that they are all U.S.-based companies. As part of the fraud, the complaints allege that INTENX, NYOEX and NYPOE on their Web sites listed firms as their members when, in fact, none were members and had never heard of INTENX, NYOEX and NYPOE. In addition, Metro, in order to bolster its credibility, directed customers to AFOTC's Web site, which purported to be the regulatory body that regulates the commodity futures and option markets in the United States when, in fact, AFOTC is a fictitious entity. *CFTC v. New York Options Exchange, et al.*, No. 07 CV 2376 (S.D.N.Y. filed March 22, 2007); *CFTC v. International Energy Exchange, et al.*, No. 07 CV 2378 (S.D.N.Y. filed March 22, 2007); *CFTC v. New York Petroleum Option Exchange, et al.*, No. 07 CV 2379 (S.D.N.Y. filed March 22, 2007); and *CFTC v. American Futures and Options Exchange, et al.*, No. 07 CV 2377 (S.D.N.Y. filed Mar. 22, 2007).

### Statutory Disqualification

#### ■ *In re Worldwide Commodity Corporation and In re South Coast Commodities, Inc.*

On December 7, 2006, the Commission filed Notices of Intent to Revoke Registration against registered IBs Worldwide Commodity Corporation (Worldwide) and its successor corporation South Coast Commodities, Inc. (South Coast). The Commission seeks to determine whether Worldwide's and South Coast's registrations should be revoked based upon entry of a consent order of permanent injunction against them. *CFTC v. Worldwide Commodity Corp., et al.*, No. CV 2-04-cv 3461 (E.D. Pa. entered Sept. 19, 2006). The consent order found, among other things, that Worldwide and South Coast fraudulently

solicited customers to trade options on commodity futures contracts, and imposed sanctions including a permanent injunction from further violations, ordered the payment of restitution (\$5 million) and civil monetary penalties (\$3.5 million). *In re Worldwide Commodity Corp.*, CFTC Docket No. SD 07-02 (CFTC filed Dec. 7, 2006), and *In re South Coast Commodities, Inc.*, CFTC Docket No. SD 07-01 (CFTC filed Dec. 7, 2006).

#### ■ *In re Next Financial Services, et al.*

On July 23, 2007, the Commission issued a Notice of Intent to Revoke Registration against registered IBs Next Financial Services Unlimited, Inc. (Next) and New World Trading, LLC (New World) seeking to determine whether registrants were subject to statutory disqualification of their registrations based upon the entry of a permanent injunction order and final judgment against them in a Commission civil enforcement action. *CFTC v. Next Financial Services Unlimited, Inc., et al.*, No. 04-80562-CIV-RYSKAMP/VITUNAC, Consent Order (S.D. Fla. entered Jan. 12, 2007) (imposing sanctions including permanent injunction, trading and registration bans, restitution (\$3 million) and civil monetary penalties (\$2 million)). The district court found that the registrants, from at least September 2003 through at least June 2004, fraudulently solicited nearly \$3.4 million from at least 199 retail customers in and outside the United States to invest in options on forex. The order further found that the defendants misrepresented the profit potential and risk involved in trading forex options, and also misrepresented the level of trading experience of Next and New World employees. *In re Next Financial Services, et al.*, CFTC Docket No. SD 07-03 (CFTC filed July 23, 2007).

#### ■ *In re Commodity Investment Group, Inc.*

On July 26, 2007, the Commission issued a Notice of Intent to Revoke Registration against registered IB Commodity Investment Group, Inc. (CIG) seeking to determine whether CIG was subject to statutory disqualification of its registration based upon the entry of a permanent injunction order and final judgment against it in a Commission civil enforcement action. *CFTC v. Commodity Investment Group, Inc., et al.*, No. 05-CV-5741 (HB), Consent Order (S.D.N.Y. entered Feb. 27, 2007). The consent order finds that CIG, through its APs, engaged in fraudulent sales

solicitations by, among other things: misrepresenting the likelihood of profiting from trading commodity options; minimizing the risk of loss; and (in light of the profit representations made) failing to disclose that more than 90 percent of CIG's customers lost money trading commodity options. The consent order prohibits CIG from, among other things, seeking registration with the Commission in any capacity and imposes \$11,819,785 in restitution and \$7 million in civil monetary penalties. *In re Commodity Investment Group, Inc.*, Docket No. SD 07-04 (CFTC filed July 26, 2007).

■ *In re Rotmistrenko.*

On July 30, 2007, the Commission issued a Notice of Intent to Revoke Registration against registered CIA and AP Udo Rotmistrenko seeking to determine whether he was subject to statutory disqualification based on a Federal criminal action in which Rotmistrenko pled guilty to 24 counts of mail and wire fraud in soliciting investments in forex trading. On June 18, 2007, the U.S. District Court for the Southern District of New York sentenced Rotmistrenko to 51 months in prison and ordered him to pay \$1,800,410 in restitution. On March 18, 2005, prior to Rotmistrenko's May 31, 2005 entering of a guilty plea in the criminal action, the Commission suspended Rotmistrenko's registrations based on the filing of the criminal charges. *In re Rotmistrenko*, CFTC Docket No. SD 04-05, Order (CFTC entered March 18, 2005). Under the Act, Rotmistrenko's suspension remains in effect until his indictment is disposed of or until the Commission terminates the suspension. Rotmistrenko's guilty plea and sentencing disposes of the criminal indictment against him and now constitutes a basis for revoking his registration. *In re Rotmistrenko*, CFTC Docket No. SD 07-05 (CFTC filed July 30, 2007).

## Enforcement Litigation by Goal Three

### Financial, Supervision, Compliance and Recordkeeping

■ *In re Rosenthal Collins Group.*

On January 10, 2007, the Commission simultaneously filed and settled an administrative enforcement action against Rosenthal Collins Group (RCG), a registered FCM. The order finds that RCG failed to collect trading cards from

a FB in a timely fashion, and, that during the course of a Commission investigation, RCG failed to produce trading cards of that FB to the Commission. Specifically, the order finds that the Division of Enforcement issued document requests to RCG to produce trading cards, records that FCMs are required to maintain and produce upon request. RCG was unable to produce 49 of the requested trading cards. Without admitting or denying the findings, RCG consented to entry of the order that included, among other sanctions, a \$25,000 civil monetary penalty. *In re Rosenthal Collins Group*, CFTC Docket No. 07-02 (CFTC filed Jan. 10, 2007).

■ *In re Pioneer Futures Inc.*

On March 7, 2007, the Commission simultaneously filed and settled an administrative enforcement action against Pioneer Futures Inc. (Pioneer), a registered FCM, for failure to maintain and produce required trading records to the Commission upon request. Specifically, the order finds that, during the course of an investigation of trading at the CME and in response to document requests from the Commission's Division of Enforcement, Pioneer failed to produce trading cards of two local traders and trading records relating to customer orders filled by FBs on behalf of Pioneer customers. Pioneer's failure to produce the requested trading records impaired the Division's ability to fully investigate the trading activities of persons under investigation. The Commission assessed sanctions against Pioneer, including a \$25,000 civil monetary penalty. *In re Pioneer Futures Inc.*, CFTC Docket No. 07-05 (CFTC filed Mar. 7, 2007).

■ *CFTC v. Forefront Investments Corporation.*

On March 20, 2007, the Commission filed an injunctive enforcement action against Forefront Investments Corporation (Forefront), a registered FCM, alleging violations of the Commission's minimum net capital and recordkeeping requirements. Specifically, the complaint alleges that, as of January 31, 2007, and perhaps earlier, Forefront's net capitalization was below the adjusted net capital required by the Act and a Commission regulation. As of March 19, 2007, the complaint charges, Forefront's adjusted net capitalization remained below the required adjusted net capital with Forefront's total liabilities equaling \$8,000,000 while its assets were only \$6,760,000. Furthermore, the complaint charges

Forefront with failing to maintain books and records that it is required to maintain pursuant to a Commission regulation. On March 21, 2007, the court issued a statutory restraining order freezing assets and preserving books and records. On March 27, 2007, the court issued a preliminary injunction appointing a receiver to marshal the assets of Forefront. The Commission received cooperation from the NFA and the U.S. Attorney for the Eastern District of Virginia in connection with this matter. *CFTC v. Forefront Investments Corporation*, No. 3:07CV152 (E.D. Va. filed Mar. 20, 2007).

■ *CFTC v. Lake Shore Asset Management Limited.*

On June 26, 2007, the Commission filed a civil enforcement action charging Lake Shore Asset Management Limited (LAM), a registered CPO and CTA, refused to make its books and records available for inspection and was unable or unwilling to provide required information about its pool participants and trading performance. The complaint alleges that LAM's director, Laurence Rosenberg, told the NFA that none of LAM's business is conducted in Bermuda and that all telephone calls to the Bermuda office are forwarded to an office in Toronto, Canada, where all trading is done and all books and records are maintained. Nevertheless, the address for the Toronto office provided by LAM in NFA registration materials is actually a mail drop, not a business address. The complaint further alleges that on June 14, 2007, Rosenberg represented that LAM managed approximately 250 accounts and operated several commodity pools, and the total assets of the pools and managed accounts were approximately \$1 billion. However, a day later, Rosenberg provided the NFA with access to LAM's protected Web pages and the NFA learned that assets for all commodity pools and managed accounts totaled \$466,710,761, dramatically less than Rosenberg's estimate of \$1 billion. The complaint also alleges that, between June 14, 2007 and the present, LAM's principals, including Rosenberg, made several inconsistent statements concerning assets in the pools and managed accounts, LAM's ownership, U.S. investors in the pools, and the location of its books and records. On June 27, 2007, the court issued an ex parte restraining order preserving books and records and freezing assets, which was vacated by the Seventh Circuit on August 2, 2007. *CFTC v. Lake Shore Asset Management Limited*, No. 07 C 3598 (N.D. Ill. filed June 26, 2007).

■ *In re Interactive Brokers LLC.*

On July 17, 2007, the Commission filed and simultaneously settled an administrative enforcement action against registered FCM Interactive Brokers LLC (IBL) finding that IBL failed to diligently supervise its compliance employees' handling of a customer account. Specifically, Commission found that IBL failed to supervise diligently its compliance employees' handling of a commodity futures trading account maintained in the name of Kevin J. Steele, a Canadian who used the account to defraud more than 200 Canadian, German, and U.S. citizens of approximately \$8.1 million in a commodity pool fraud that was the subject of an earlier Commission enforcement action. *CFTC v. Steele*, No. 05-3130 (N.D.Ill. filed May 25, 2005). The Commission found that, from February 2003 through May 2005, IBL accepted 135 third-party deposits in the form of wire transfers and checks totaling \$7.7 million into Steele's personal account, but did not have procedures reasonably designed to detect the deposit of third-party funds in an individual trading account. The frequency and magnitude of deposits and withdrawals to Steele's account, relative to his stated liquid net worth, and the pattern of deposits followed by withdrawals suggested that Steele might be operating as an unregistered CPO. IBL compliance staff telephoned Steele on at least three occasions to inquire about the trading activity in his account. Each time, IBL compliance staff accepted Steele's explanations as reasonable without conducting any additional or independent inquiries. The Commission assessed sanctions against IBL including: a cease and desist order; and an order for IBL to disgorge \$175,000 in commissions it earned from Steele's account and to remit those funds to the Clerk of the Provincial Court of British Columbia, which will distribute the funds to the defrauded investors. The Commission received cooperation from the NFA, the Integrated Market Enforcement Branch of the Royal Canadian Mounted Police's Federal and International Operations Directorate, and the British Columbia Securities Commission in connection with this matter. *In re Interactive Brokers LLC*, CFTC Docket No. 07-07 (CFTC filed July 17, 2007).

■ *In re Merrill Lynch Investment Managers, LLC, et al.*

On July 31, 2007, the Commission simultaneously filed and settled an administrative enforcement action against registered CPOs Merrill Lynch Investment Managers, LLC

(MLIM) and Merrill Lynch Alternative Investments, LLC (MLAI). The Commission found that, beginning in 2001 and continuing through at least 2005, MLIM and MLAI repeatedly failed to distribute to pool participants and file with the NFA their commodity pools' annual reports in a timely manner. The Commission assessed sanctions including: a cease and desist order; and a civil monetary penalty (\$500,000). *In re Merrill Lynch Investment Managers, LLC, et al.*, CFTC Docket No. 07-08 (CFTC filed July 31, 2007).

■ *CFTC v. Nations Investments, LLC.*

On July 30, 2007, the Commission filed a civil enforcement action charging Nations Investments, LLC (Nations), a registered FCM, with violations of the minimum net capital requirements of the Act and Commission regulations. Specifically, the complaint alleges that, as of July 21, 2007, and perhaps earlier, Nations' net capitalization was below the adjusted net capital required by the Act and a Commission regulation with Nations' total liabilities equaling \$5 million while its assets were less than \$2 million. On July 30, 2007, the court entered a statutory restraining order freezing assets and preserving books and records. The court also froze the assets of relief defendants, Sulaiman "Sal" Husain, a Director, Chief Financial Officer, and principal of Nations, and Sammy Joe Goldman, an owner and former principal of Nations. Husain and Goldman allegedly contributed to the undercapitalization—which ultimately rose to approximately \$4.5 million—by withdrawing a total of \$1 million from Nations' accounts. On August 7, 2007, the court approved the appointing of a receiver to marshal the assets of Nations. The Commission received cooperation from the NFA in connection with this matter. *CFTC v. Nations Investments, LLC*, No. 07-61058 CIV-COOKE (S.D. Fla. filed July 30, 2007)

■ *In re Russell Investments Ireland Limited, et al.*

On September 27, 2007, the Commission simultaneously filed and settled an administrative enforcement action against Russell Investments Ireland Limited (RIIL) and Russell Investments Cayman Ltd. (RICL), both of whom were registered with the Commission as CPOs, finding that they failed to timely file with NFA annual reports for commodity pools they operated. Specifically,

the Commission found that RIIL and RICL are CPOs for commodity pools that operate as funds and as funds of funds, whose fiscal year on March 31st. Accordingly, RIIL and RICL were required to file with the NFA their commodity pools' annual reports on or around June 30th for the fund, and August 31st for the fund of funds. The order finds that, for the fiscal years ending March 31, 2002 and March 31, 2004, RIIL and RICL failed to distribute to pool participants and to file with the NFA in a timely manner any of their commodity pools' annual reports. The Commission assessed sanctions against RIIL and RICL including, an order to pay a civil monetary penalty of \$120,000. *In re Russell Investments Ireland Limited, et al.*, CFTC Docket No. 07-12 (CFTC filed Sept. 27, 2007).

### Trade Practice

■ *In re Karkazis.*

On December 27, 2006, the Commission simultaneously filed and settled an administrative enforcement action against Harry Karkazis, a registered FB. The Commission found that, between April 2002 and July 2002, Karkazis profited from indirectly trading opposite his customers orders in the Standard and Poor's 500 commodity futures contract at the CME. That is, Karkazis took the opposite side of his customer orders into his own account through noncompetitive round-turn trades. The order also finds that 64 percent of Karkazis' trading cards produced by his clearing member during the investigation were time-stamped late. Finally, the order finds that Karkazis was unable to account for the whereabouts of one of his pre-numbered trading cards that he had failed to submit to his clearing member. Without admitting or denying the findings, Karkazis consented to entry of the order that included the following sanctions among others: a three-month registration suspension and a \$35,000 civil monetary penalty. *In re Karkazis*, CFTC Docket No. 07-01 (CFTC filed Dec. 27, 2006).

■ *In re Lui.*

On April 25, 2007, the Commission simultaneously filed and settled an administrative action against Pak Tong Lui (a/k/a Patrick Lui) finding that Lui knowingly prearranged trading in customer accounts he controlled. Specifically, the Commission found that Lui, who is not registered

with the Commission, traded during thinly traded overnight hours in November and December 2005 at least 15 customer accounts opposite each other in the E-Mini Russell 2000 futures contract traded on the CME's Globex electronic trading platform. The electronic trading resulted in 11 of the 15 customer accounts losing an aggregate of \$55,505 and the remaining four accounts realizing profits of roughly the same aggregate amount found that these prearranged trades negated market risk and price competition, and therefore constituted both fictitious sales under the CEA and noncompetitive trades under CFTC regulations. Lui also was found to have illegally traded customer accounts without being properly registered with the CFTC as a CTA. The Commission assessed sanctions including: a cease and desist order; an order to pay a civil monetary penalty (\$30,000) and restitution (\$55,505); and an order to comply with specific undertakings, including not to apply for, or seek exemption from, registration with the Commission for a period of four years. *In re Lui*, CFTC Docket No. 07-06 (CFTC filed Apr. 25, 2007).

■ *CFTC v. Supama International DMCC, et al.*

On April 5, 2007, the Commission filed a civil enforcement action against Supama International DMCC, Naresh Kumar Jain, Aaristo Commodities and Futures DMCC, Kanta Nath Jain, and Hainke & Anderson Trading LLC, all of Dubai, United Arab Emirates, alleging non-competitive trading. Specifically, the complaint alleges that the defendants engaged in a series of illegal commodity futures transactions in copper, gold, crude oil, and natural gas offered by the NYMEX on the Globex electronic trading platform involving back-month, illiquid contracts. The complaint further charges that the defendants passed hundreds of thousands of dollars among their futures trading accounts through these illegal commodity futures transactions. Moreover, the complaint alleges that the defendants engaged in a pattern of trading activity on several days in March and April 2007, whereby one defendant bought commodity futures contracts at low prices from another defendant and immediately sold them back to that defendant at higher prices. In each series of offsetting transactions, one defendant profited and another defendant incurred a loss, with no change in open positions held by those defendants. On April 5, 2007, and April 20, 2007, the court entered statutory restraining orders freezing

certain of the defendants' assets and preserving books and records. The Commission received cooperation from the NYMEX, Man Financial Inc, and Dubai FSA in connection with this matter. *CFTC v. Supama Int'l DMCC, et al.*, No. 07 CV 2770 (S.D.N.Y. filed Apr. 5, 2007).

■ *In re CIC Banque Credit Industriel D'Alsace Et De Lorraine Société Anonyme.*

On September 27, 2007, the Commission filed and simultaneously settled an administrative enforcement action against CIC Banque Credit Industriel D'Alsace Et De Lorraine Société Anonyme (Banque CIAL), based in Strasbourg, France, finding that it engaged in wash sales in the Five Year and Two Year Treasury Note Futures Markets on June 30, 2004. Banque CIAL is part of Crédit Industriel et Commercial (CIC), a French banking group. Specifically, the Commission found that on June 30, 2004, a trader at Banque CIAL in France placed orders through a Canadian broker to simultaneously buy and sell 2,940 contracts of September 2004 Five Year Treasury Note futures contracts. After being transmitted to a U.S. broker, the orders were executed by brokers on the trading floor of the CBOT at the same price and approximately at the same time. Upon receiving confirmations for the Five Year Note futures, the Banque CIAL trader placed a second set of orders to simultaneously buy and sell 2,363 contracts of September 2004 Two Year Treasury Note futures contracts. These orders were also executed at approximately the same time and at the same price on the CBOT. According to the Commission's order, these transactions were not intended to make a profit or loss for Banque CIAL or expose Banque CIAL to market risk, and they did not result in a net change in market position. Indeed, Banque CIAL's avowed purpose in entering the transactions was to assess its internal risk management system. The Commission assessed sanctions against Banque CIAL including: an order to comply with its undertaking to implement compliance procedures that insure that transactions made by it on U.S. markets fully comply with all laws, rules and regulations governing those markets; and an order to pay a civil monetary penalty of \$80,000. *In re CIC Banque Credit Industriel D'Alsace Et De Lorraine Société Anonyme*, CFTC Docket No. 07-11 (CFTC filed Sept. 27, 2007).



# CFTC INFORMATION TECHNOLOGY SYSTEMS

## Integrated Surveillance System (ISS)

*User:* Market Oversight

*Functionality:* ISS collects futures and options position data for large traders from reporting firms and open interest, volume, price, and clearing member data from exchanges that is used to monitor future and options trading in order to detect any market anomalies that may occur.

## Regulatory Statement Review (RSR)

*User:* Clearing and Intermediary Oversight

*Functionality:* RSR Express is a tool used by the Commission staff to review monthly and annual 1-FR and Focus reports from firms and to monitor the financial status of firms and the changes to that status over time.

## Stressing Positions at Risk (SPARK)

*User:* Clearing and Intermediary Oversight and Market Oversight

*Functionality:* SPARK is a tool used by Commission staff to perform “what if” analysis to determine the effect of market movement on maintenance margin.

## Filings and Actions (FILAC)

*User:* Clearing and Intermediary Oversight and Market Oversight

*Functionality:* FILAC manages data associated with the approval organizations, products, rules, foreign filings, and actions.

## Exchange Database System (EDBS)

*User:* Market Oversight, Enforcement, Chief Economist

*Functionality:* EDBS is used for trade practice surveillance, trading analyses, statistical studies, and research projects for the Commission.

## Trade Surveillance System (TSS)

*User:* Market Oversight, Enforcement, Chief Economist

*Functionality:* TSS is a new system that will enable CFTC staff to conduct surveillance in the rapidly expanding area of electronic trading, both intra and inter-exchange and across side-by-side platforms. TSS will retain the important legacy data and functionality of EDBS, which it will gradually replace.

## Project eLaw

*User:* Enforcement, General Counsel, and Proceedings

*Functionality:* The eLaw Program is an automated law office that seamlessly integrates technology and work processes to support Commission managers and staff in their investigative, trial, and appellate work.



# GLOSSARY OF ABBREVIATIONS AND ACRONYMS

## A Guide to the Language of the Futures Industry

<http://www.cftc.gov/educationcenter/glossary/>

Because the acronyms of many words and phrases used throughout the futures industry are not readily available in standard references, the Commission’s Office of External Affairs compiled a glossary to assist members of the public.

This glossary is not inclusive, nor are general definitions intended to state or suggest the views of the Commission concerning the legal significance, or meaning of any word or term. Moreover, no definition is intended to state or suggest the Commission’s views concerning any trading strategy or economic theory.

## Glossary of Acronyms

AE	.....	The Actuarials Exchange, LLC
AFOEX	.....	American Futures and Option Exchange
AFOTC	.....	American Futures and Option Trading Commission
ALJ	.....	Administrative Law Judge
AP	.....	Associated Person
BTEX	.....	BrokerTec Futures Exchange
CBOT	.....	Chicago Board of Trade
CCORP	.....	The Clearing Corporation
CCX	.....	Chicago Climate Exchange, Inc.
CDXCHANGE	.....	Commodities Derivative Exchange, Inc.
CCFE	.....	Chicago Climate Futures Exchange

CEA	Commodity Exchange Act
CESR	Council of European Securities Regulators
CFE	CBOE Futures Exchange
CFFE	Cantor Financial Futures Exchange
CFTC	Commodity Futures Trading Commission
CFMA	Commodity Futures Modernization Act of 2000
CIC	Crédit Industrial et Commercial
CIG	Commodity Investment Group, Inc.
CME	Chicago Mercantile Exchange
CME AM	CME Alternative Marketplace, Inc.
COMEX	Commodity Exchange Division
COSRA	Council of Securities Regulators of the Americas
CPO	Commodity Pool Operator
CSCE	Coffee Sugar and Cocoa Exchange
CSRC	China Securities Regulatory Commission
CSRS	Civil Service Retirement System
CTA	Commodity Trading Advisor
DCIO	Division of Clearing and Intermediary Oversight (CFTC)
DCM	Designated Contract Market
DCO	Derivatives Clearing Organization
DME	Dubai Mercantile Exchange Limited
DMO	Division of Market Oversight (CFTC)
DOJ	U.S. Department of Justice
DOL	U.S. Department of Labor
DOT	U.S. Department of Transportation
DVG	Dream Venture Group, LLC
DTB	Deutsche Terminbörse
ECM	Exempt Commercial Markets
EDBS	Exchange Database System
EPFE	Exchange Place Futures, LLC
ETC	Energy Transfer Company
ETP	Energy Transfer Partners, L.P.
FASAB	Federal Accounting Standards Advisory Board

<b>FB</b>	.....	Floor Brokers
<b>FBI</b>	.....	Federal Bureau of Investigation
<b>FCA</b>	.....	Farm Credit Administration
<b>FCM</b>	.....	Futures Commission Merchant
<b>FCOM</b>	.....	FutureCom
<b>FECA</b>	.....	Federal Employees Compensation Act
<b>FERC</b>	.....	Federal Energy Regulatory Commission
<b>FERS</b>	.....	Federal Employees' Retirement System
<b>FIA</b>	.....	Futures Industry Association
<b>FILAC</b>	.....	Filings and Actions
<b>FISMA</b>	.....	Federal Information Security Management Act
<b>FLETT</b>	.....	Flett Exchange
<b>FMC</b>	.....	Forward Markets Commission
<b>FMFIA</b>	.....	Federal Managers' Financial Integrity Act
<b>FMHA</b>	.....	Farmers Home Administration
<b>FOREX</b>	.....	Foreign Currency
<b>FRI</b>	.....	Financial Risk International, Inc.
<b>FRM</b>	.....	Financial Risk Management, Inc.
<b>FSA</b>	.....	Financial Services Authority
<b>FT</b>	.....	Floor Trader
<b>FTE</b>	.....	Full-time Equivalent
<b>FTPA</b>	.....	Futures Trading Practices Act of 1992
<b>FY</b>	.....	Fiscal Year
<b>GAAP</b>	.....	U.S. Generally Accepted Accounting Principles
<b>GAO</b>	.....	Government Accountability Office
<b>GCC</b>	.....	Guaranty Clearing Corporation
<b>GFI</b>	.....	GFI Group Inc.
<b>GFI FOREXMATCH</b>	.....	GFI Group Inc., ForexMatch
<b>GINNIE MAE</b>	.....	Government National Mortgage Association
<b>GMAC</b>	.....	Global Markets Advisory Committee
<b>GPRA</b>	.....	Government Performance and Results Act
<b>GPS</b>	.....	GPS Fund, Ltd.
<b>HPLC</b>	.....	Houston Pipeline Company

HPR	HPR Commodities
HSC	Houston Ship Cannel
HSE	HoustonStreet Exchange, Inc.
IA	Investment Advisor
IB	Introducing Broker
IBL	Interactive Brokers LLC
ICAP	ICAP Commodity Derivatives Trading System
ICAP ETC	ICAP Electronic Trading Community
ICAP HYDE	ICAP Hyde Limited Trading System
ICC	Intermarket Clearing Corporation
ICE	InterContinental Exchange
IMAREX	International Maritime Exchange
INET	INET Futures Exchange
INH	INH-Interholding SA
INTENX	International Energy Exchange
INTRADE	INTRADE Board of Trade
IOSCO	International Organization of Securities Commissions
ISDA	International Swaps and Derivatives Association
ISS	Integrated Surveillance System
JO	Judgment Officer
KCBT	Kansas City Board of Trade
LAM	Lake Shore Asset Management Limited
LCH	London Clearing House
LLC	Limited Liability Corporation
LONGITUDE	Longitude, LLC
MACE	MidAmerica Commodity Exchange
MAN	Man Financial, Inc.
MATCHBOXX ATS	Matchboxx Alternate Trading System
MDA	Management's Discussion and Analysis
ME	Merchants Exchange
MGE	Minneapolis Grain Exchange
MLAI	Merrill Lynch Alternative Investments, LLC
MLIM	Merrill Lynch Investment Managers, LLC

<b>MOU</b> .....	Memoranda of Understanding
<b>MPC</b> .....	Marathon Petroleum Company
<b>MTG</b> .....	Millenium Trading Group, LLC
<b>NAFTA</b> .....	North American Free Trade Agreement
<b>NFA</b> .....	National Futures Association
<b>NFU</b> .....	National Farmers Union
<b>NGX</b> .....	Natural Gas Exchange
<b>NODEL</b> .....	Nodel Exchange, LLC
<b>NQLX</b> .....	NQLX LLC
<b>NTP</b> .....	NetThruPut
<b>NTPS</b> .....	Natural Trigger Point Systems
<b>NYBOT</b> .....	New York Board of Trade
<b>NYCC</b> .....	New York Clearing Corporation
<b>NYCE</b> .....	New York Cotton Exchange
<b>NYFE</b> .....	New York Futures Exchange
<b>NYMEX</b> .....	New York Mercantile Exchange
<b>NYOEX</b> .....	New York Options Exchange
<b>NYPOE</b> .....	New York Petroleum Option Exchange
<b>OCC</b> .....	The Options Clearing Corporation
<b>OCX</b> .....	OneChicago Futures Exchange
<b>OGC</b> .....	Office of the General Counsel (CFTC)
<b>OIA</b> .....	Office of International Affairs (CFTC)
<b>OIG</b> .....	Office of Inspector General (CFTC)
<b>OITS</b> .....	Office of Information and Technology Services (CFTC)
<b>OMB</b> .....	Office of Management and Budget
<b>ONXCC</b> .....	OnExchange Clearing Corporation
<b>OPEX</b> .....	Optionable, Inc.
<b>OPM</b> .....	Office of Personnel Management
<b>OPTIONS ATS</b> .....	Options ATS, LLC
<b>ORB</b> .....	Other Retirement Programs
<b>OTC</b> .....	Over-the-Counter
<b>PBOT</b> .....	Philadelphia Board of Trade
<b>PWG</b> .....	President’s Working Group

<b>RAM</b> .....	Renaissance Asset Management, LLC
<b>RCG</b> .....	Rosenthal Collins Group
<b>RER</b> .....	Rule Enforcement Reviews
<b>RFA</b> .....	Registered Futures Association
<b>RICL</b> .....	Russell Investments Cayman Ltd.
<b>RIIL</b> .....	Russell Investments Ireland Limited
<b>RSR</b> .....	Regulatory Statement Review
<b>SEC</b> .....	Securities and Exchange Commission
<b>SL</b> .....	Spectron Live.com Limited
<b>SPARK</b> .....	Stressing Positions at Risk
<b>SRO</b> .....	Self-Regulatory Organization
<b>SSFAS</b> .....	Statement of Federal Financial Accounting Statement
<b>STORM</b> .....	Storm Exchange, Inc.
<b>SWAPSTREAM</b> .....	Swapstream Operating Services, Ltd.
<b>TCX</b> .....	Trade Capture Exchange
<b>TFS</b> .....	Traditional Financial Services Pulp and Paper Division
<b>TFSE</b> .....	TFS Energy, LLC
<b>TFX</b> .....	Tokyo Financial Exchange, Inc.
<b>TREASURY</b> .....	U.S. Department of the Treasury
<b>TS</b> .....	TradeSpark, LP
<b>TSS</b> .....	Trade Surveillance System
<b>UK</b> .....	United Kingdom
<b>USAID</b> .....	United States Agency for International Development
<b>USDA</b> .....	U.S. Department of Agriculture
<b>USFE</b> .....	US Futures Exchange
<b>USSGL</b> .....	United States Standard General Ledger
<b>WBOT</b> .....	Weather Board of Trade
<b>WTI</b> .....	West Texas Intermediate
<b>WWC</b> .....	Worldwide Clearing, LLC
<b>WXL</b> .....	WeatherXchange Limited
<b>XBOT</b> .....	Exempt Boards of Trade
<b>YELLOW JACKET</b> .....	Yellow Jacket Software, Inc.

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