COMMODITY FUTURES TRADING COMMISSION

AGENCY FINANCIAL REPORT

FISCAL YEAR 2012

COMMODITY FUTURES TRADING COMMISSION

Gary Gensler
Chairman

Tony Thompson
Executive Director

Mark Carney
Chief Financial Officer

November 2012

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COMMODITY FUTURES TRADING COMMISSION

AGENCY FINANCIAL REPORT

FISCAL YEAR 2012

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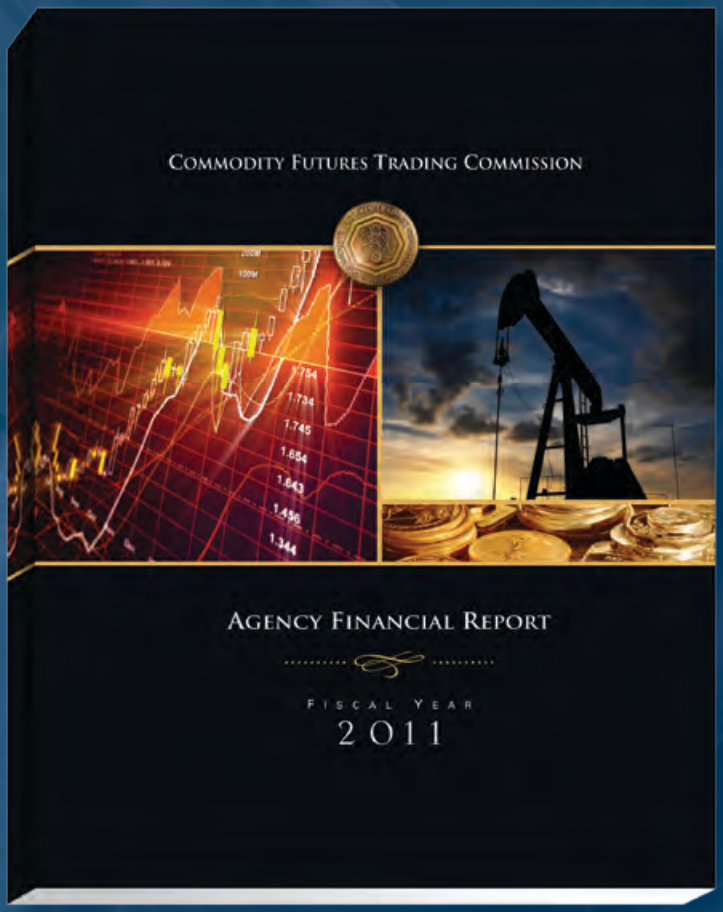

Commodity Futures Trading Commission

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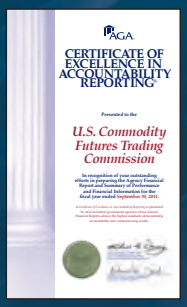

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Fiscal Year 2012 Commissioners

Back row from left; **Scott D. O'Malia**, *Commissioner*; **Bart Chilton**, *Commissioner*; **Mark Wetjen**, *Commissioner*

Front row from left; **Jill E. Sommers**, *Commissioner*; **Gary Gensler**, *Chairman*

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CFTC Mission

To protect market users and the public from fraud, manipulation, abusive practices and systemic risk related to derivatives that are subject to the Commodity Exchange Act, and to foster open, competitive, and financially sound markets.

A Message from the Chairman

I am pleased to present the Agency Financial Report for Fiscal Year 2012. It chronicles a critical time in the history of the Commodity Futures Trading Commission (CFTC or Commission), a year of transition and real progress toward ensuring that the futures and swaps markets are transparent and work for the American public.

The New Era of Swaps Market Reform

This past year has been a very active year for the CFTC. We have made significant progress in bringing comprehensive oversight to the once opaque swaps market.

The swaps marketplace had operated without the basic transparency and common-sense reforms of the financial markets that Americans have benefitted from since the 1930s.

Those historic reforms put in place in the aftermath of the Great Depression established a foundation of transparency, competition and market integrity for the futures and securities markets. This democratization of our financial markets has led to many decades of economic growth and innovation.

The 2008 financial disaster caused great damage. Eight million American jobs were lost, millions of Americans lost their homes, and thousands of businesses closed their doors.

In response, Congress and the President borrowed from what has worked best in the futures markets in passing the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

U.S. President Barack Obama, right, speaks in the Rose Garden of the White House with Timothy F. Geithner, U.S. treasury secretary, center, and Gary Gensler, chairman of the Commodity Futures Trading Commission (CFTC), in Washington, D.C., U.S., on Tuesday, April 17, 2012. Obama urged Congress to bolster federal supervision of oil markets, including bigger penalties for market manipulation and greater power for regulators to increase the amount of money traders must put up to back their energy bets.

(Photo by Andrew Harrer/Bloomberg via Getty Images)

The CFTC is now close to completing the Dodd-Frank rule set with 41 finalized rules of the road for the swaps market. Last month, at the start of Fiscal Year 2013, the new era of swaps market reform began.

Also of note, the CFTC finished an agency-wide reorganization in Fiscal Year 2012.

As we begin 2013, the agency is increasingly shifting to the implementation of rules, as well as the direct oversight of the swaps market. We will require the necessary resources to oversee this vast market.

Given this new era of swaps market reform, it's the natural order of things that market participants have questions and have sought further guidance. This regularly occurs as we move to market implementation from congressional legislation and agency rulemaking.

We welcome inquiries from market participants. My fellow commissioners and I, along with the CFTC staff, are all committed to sorting through issues as they arise. Fine-tuning is expected.

The CFTC also will continue to consult broadly on appropriately phasing in compliance. The Commission has included phased compliance schedules within many of our rules. Extensive information on the compliance schedule for each of the CFTC's reforms is available on our website.

I believe it's also critical that we continue our efforts to put in place aggregate position limits across futures and swaps, as Congress directed the CFTC to do.

Promoting Transparency

Dodd-Frank reforms are bringing needed transparency to the swaps market.

Transparency lowers costs for investors, consumers and businesses. It increases liquidity, efficiency and competition. And it shifts some of the information advantage from swap dealers to businesses across the country that use these markets to lock in a price or rate and hedge a risk.

In 2012, the agency completed significant transparency rules and bright lights have begun to shine on the swaps market. Swaps transactions are being reported to regulators through swap data repositories. The public also will benefit from real-time reporting of the price and volume of transactions beginning in 2013, based on the CFTC's completed rules. Regulators and the public will have their first full window into the swaps marketplace.

In addition, the CFTC will initiate a new weekly report so that the public can benefit from seeing aggregate data in the swaps market. This week, the CFTC put out to public comment the first draft proposal of this report. For years, the public has benefited from the futures market data we have published in our weekly Commitment of Traders reports, and our goal is to provide similar transparency to the public for the swaps market. After reviewing the public input, we intend to issue this swaps data regularly in 2013.

In the coming months, the CFTC is working to finalize reforms that promote pre-trade transparency, including rules on minimum block sizes and trading platforms called swap execution facilities. Market participant compliance for these rules will be phased throughout 2013.

Lowering Risk and Democratizing the Market through Clearing

Another significant Dodd-Frank reform is bringing swaps into central clearing, which will lower the risk of the highly interconnected financial system.

For over a century, through good times and bad, central clearing in the futures market has lowered risk to the broader public.

Central clearing also equalizes access to the market and democratizes it by eliminating the need for market participants to individually determine counterparty credit risk, as now the clearinghouse stands between buyers and sellers.

In 2012, the CFTC largely finished the clearing rule set. Clearinghouses have adopted risk management reforms, including critical customer protection enhancements. The so-called "LSOC rule" (legal segregation with operational comingling) for swaps prevents clearing organizations from using the collateral attributable to cleared swaps customers who haven't defaulted to cover losses of defaulting customers. In addition, clearinghouses have to collect margin on a gross basis.

To complete the process of bringing swaps into central clearing, the Commission is working to finalize the initial set of clearing determinations regarding which interest rate swaps and credit default swap indices should be required to be cleared. This would lead to required clearing by swap dealers and the largest hedge funds as early as February 2013. Compliance would be phased in for other market participants through the summer of 2013.

In 2013, the CFTC also will be considering possible clearing determinations for physical commodity swaps.

Lowering Risk through Swap Dealer Oversight

Dodd-Frank reform also means comprehensive oversight of swap dealers, which will lower their risk to the rest of the economy.

As the result of CFTC rules completed in 2012, swap dealers have begun the process of registering and, for the first time, will come under comprehensive regulation. We anticipate many dealers will register in early 2013.

Once registered, swap dealers will report their trades to both regulators and the public. In addition, they will implement crucial back office standards that lower risk and increase efficiency. Swap dealers also will be required to implement sales practices that prohibit fraud, treat costumers fairly, and improve transparency.

Moving forward, in consultation with international regulators, the CFTC will move to finalize guidance on the cross-border application of swaps market reform and an accompanying release on phased-compliance for foreign swap dealers.

The CFTC also is collaborating on a global approach to margin requirements for uncleared swaps through the Basel Committee on Banking Supervision and the International Organization of Securities Commissions (IOSCO).

I would anticipate the CFTC, in coordination with domestic prudential regulators and international regulators, would take up the final rules on margin in 2013, so as to benefit from this international work.

WASHINGTON, D.C. - JULY 18: Federal Reserve Board Chairman Ben Bernanke (2nd L) speaks as (L-R) Chairman of the Commodity Futures Trading Commission Gary Gensler, U.S. Secretary of the Treasury Timothy Geithner, and acting chairman of the Federal Deposit Insurance Corporation Martin Gruenberg listen during a meeting of the Financial Stability Oversight Council (FSOC) July 18, 2012 at the Treasury Department in Washington, D.C. Members of FSOC voted during the meeting on a report to Congress regarding a study of contingent capital required by the Dodd-Frank Act, and also voted on the Council's annual report. (Photo by Alex Wong/Getty Images)

Once these margin rules as well as related rules on capital are completed, I would envision that compliance for market participants would be phased in throughout 2013.

Customer Protection

Segregation of customer funds is a core foundation of customer protection in both the futures and swaps markets.

The CFTC in Fiscal Year 2012 completed a number of important reforms to enhance the protection of customer funds. These include the completed amendments to rule 1.25 regarding the investment of customer funds, as well as the LSOC and gross margining rules.

The Commission also worked closely with market participants and self-regulatory organizations (SROs) on new rules for customer protection at the National Futures Association (NFA). These include requiring Futures Commission Merchants (FCMs) to hold sufficient funds in Part 30 secured accounts (funds held for U.S. foreign futures and options customers trading on foreign contract markets) to meet their total obligations to customers trading on foreign markets computed under the net liquidating equity method. In addition, FCMs must maintain written policies and procedures governing the maintenance of excess funds in customer segregated and Part 30 secured accounts. Withdrawals of 25 percent or more would necessitate pre-approval in writing by senior management and must be reported to the designated SRO and the CFTC.

Gary Gensler, chairman of the U.S. Commodity Futures Trading Commission (CFTC), speaks at the Securities Industry and Financial Markets Association (SIFMA) annual meeting in New York, U.S., on Tuesday, Oct. 23, 2012. Swaps market participants will have a grace period before trades are required to be cleared, settling confusion over a rule that will begin early next year, said Gensler. *(Photo by Peter Foley/Bloomberg via Getty Images)*

These steps were significant, but market events this year have further highlighted that the Commission must do everything within our authorities and resources to strengthen oversight programs and the protection of customers and their funds.

In the fall of 2012, the Commission sought public comment on further enhancements to protect customer funds.

This proposal is about ensuring customers have confidence that the funds they post as margin or collateral are fully segregated and protected.

It is the direct result of significant input from the public and market participants that the CFTC gathered throughout 2012, working with the Futures Industry Association, the NFA and the self-regulatory organizations.

The proposal, which the CFTC looks forward to finalizing in 2013, would strengthen the controls around customer funds at FCMs. It also would set new regulatory accounting requirements that would provide stronger protections for customer money held by FCMs and would raise minimum standards for independent public accountants who audit FCMs. And it would provide regulators with daily direct electronic access to FCMs' bank and custodial accounts for customer funds.

Benchmark Interest Rates

In 2012, the CFTC brought the most significant case in our history against Barclays for attempting to manipulate the London Interbank Offered Rate (LIBOR) and violating the Commodity Exchange Act's false reporting provision.

Looking forward to 2013, one of the most critical challenges for the markets, international regulators and the CFTC is how to best ensure benchmark rates, such as LIBOR, are honest and reliable.

As they are a key component of our financial markets, they must work for the rest of the economy. LIBOR is the reference rate for nearly half of U.S. adjustable-rate mortgages; for about 70 percent of the U.S. futures market; and for a majority of our swaps market.

I believe for a benchmark rate for any commodity or swap to be reliable and have integrity, it's best to be anchored in real, observable transactions.

When market participants submit for a benchmark rate that lacks observable underlying transactions, even if operating in

good faith, they may stray from what real transactions would reflect. When a benchmark is separated from real transactions, it is more vulnerable to misconduct.

The underlying market for interbank transactions in London, however, has largely diminished.

The CFTC is consulting with a number of international organizations with regard to next steps for benchmark rates. In particular, the UK Financial Services Authority (FSA) and the CFTC are co-chairing the IOSCO task force plans to seek public consultation hopefully starting in December 2012. This will include a public roundtable and culminate in a report and recommendations in the spring.

The IOSCO task force will be seeking public input on best practices that should apply to the benchmark process and entities that produce benchmarks, as well as possible mechanisms and protocols that would best ensure for a smooth transition to new benchmarks when and if needed.

Futures Trading Commission Chairman Gary Gensler (R) answers questions from senators while testifying with Securities and Exchange Commission Chairman Mary Schapiro before the Senate Banking, Housing and Urban Affairs Committee about derivatives reform in the Dirksen Senate Office Building on Capitol Hill May 22, 2012 in Washington, D.C. The committee questioned the regulators about 'reducing systemic risk and improving market oversight' in the wake of the Dodd-Frank Act. (Photo by Chip Somodevilla/ Getty Images)

Resources

As the CFTC moves from finalizing Dodd-Frank reforms to implementing them, the agency needs additional resources consistent with the agency's expanded mission and scope.

At 703 on board staff at the start of Fiscal Year 2013, the CFTC's hardworking staff is just 10 percent more in numbers than at our peak in the 1990s. The futures market has grown more than five-fold since that time, and the swaps market is eight times larger than the futures market.

Given this reality, the President requested $308 million to fund 1,015 full time employees and a much-need increase in technology for Fiscal Year 2013. Under the most recent continuing resolution, the agency was funded at a rate of $206.6 million.

With an expanded mission due to the Dodd-Frank mandate, the CFTC completed an agency reorganization in Fiscal Year 2012. This includes a new division for oversight of swap dealers and intermediaries and a reorganization of our critical technology programs.

The CFTC places a strong emphasis on being an effective steward of its operating funds. I am pleased that for the eighth consecutive year, the Commission has received an unqualified opinion on its financial statements. For the sixth consecutive year, the auditors disclosed no material instances of noncompliance with laws and regulations. I can also report that the CFTC had no material internal control weaknesses and that the financial and performance data in this report are reliable and complete under Office of Management and Budget guidance.

Conclusion

The 1930s reforms brought light to the securities and futures markets, helping to promote decades of economic growth and are at the core of our strong capital markets.

The swaps market reforms that are being implemented hold out similar potential. Bright lights of transparency will shine, dealers will come under comprehensive regulation and standardized swaps between financial entities will be centrally cleared.

The public will benefit and our markets will be stronger in this new era.

Gary Gensler
November 15, 2012

The Commissioners

"These mini-Madoff scams took place all across the nation. The consequences for the investors-turned-victims can be pretty horrific—people losing money for their kids' college funds, for needed health care expenses, or for their own retirement. In most instances it is preventable with a little education and some due diligence fact checking."

– Commissioner Chilton

"As futures and option markets have become increasingly global and interconnected over the last decade, the work of the Global Markets Advisory Committee has been critical to the Commission's efforts to ensure the integrity and competitiveness of U.S. markets."

– Commissioner Sommers

"The reforms of the 1930s brought light to the securities and futures markets, helping to promote decades of economic growth and are at the core of our strong capital markets. The swaps market reforms that are being implemented hold out similar potential. Bright lights of transparency will shine, dealers will come under comprehensive regulation and standardized swaps between financial entities will be centrally cleared."

– Chairman Gensler

"The role of the Technology Advisory Committee is more important than ever as the Commission undertakes the historic task of implementing the Dodd-Frank Act. Because technology is a vital component of the futures and derivatives markets, it is imperative that the Commission deploy state of the art technology to meet its surveillance and enforcement responsibilities. The TAC's recommendations regarding market design, structure, and functionality will provide invaluable information as we move forward."

– Commissioner O'Malia

"It is critical for the Commission to finish its landmark work to implement the Dodd-Frank Act while protecting the integrity of the commodities markets under its more historic jurisdiction. This will ensure that U.S. taxpayers are protected from the risks arising from the derivatives markets while preserving the utility of these markets."

– Commissioner Wetjen

FY 2012 Commissioners

Gary Gensler, Chairman

Gary Gensler was sworn in as the Chairman of the Commodity Futures Trading Commission on May 26, 2009. Chairman Gensler previously served at the U.S. Department of the Treasury as Under Secretary of Domestic Finance (1999-2001) and as Assistant Secretary of Financial Markets (1997-1999). He subsequently served as a Senior Advisor to the Chairman of the U.S. Senate Banking Committee, Senator Paul Sarbanes, on the Sarbanes-Oxley Act, reforming corporate responsibility, accounting and securities laws.

As Under Secretary of the Treasury, Chairman Gensler was the principal advisor to Treasury Secretary Robert Rubin and later to Secretary Lawrence Summers on all aspects of domestic finance. The office was responsible for formulating policy and legislation in the areas of U.S. financial markets, public debt management, the banking system, financial services, fiscal affairs, Federal lending, Government Sponsored Enterprises, and community development. In recognition of this service, he was awarded Treasury's highest honor, the Alexander Hamilton Award.

Prior to joining Treasury, Chairman Gensler worked for 18 years at Goldman Sachs where he was selected as a partner; in his last role he was Co-head of Finance. Chairman Gensler is the co-author of a book, *The Great Mutual Fund Trap*, which presents common sense investment advice for middle income Americans.

He is a summa cum laude graduate from the University of Pennsylvania's Wharton School in 1978, with a Bachelor of Science in Economics and received a Master of Business Administration from Wharton School's graduate division in 1979. He lives with his three daughters outside of Baltimore, Maryland.

Jill E. Sommers, Commissioner

Jill E. Sommers was sworn in as a Commissioner of the Commodity Futures Trading Commission on August 8, 2007 to a term that expired April 13, 2009. On July 20, 2009 she was nominated by President Barack Obama to serve a five-year second term, and was confirmed by the United States Senate on October 8, 2009.

Commissioner Sommers serves as the Primary Sponsor of the Commission's Global Markets Advisory Committee, which meets periodically to discuss issues of concern to exchanges, firms, market users and the Commission regarding the regulatory challenges of a global marketplace.

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 in the Government Affairs Office of the Chicago Mercantile Exchange (CME), where she was instrumental in overseeing regulatory and legislative affairs for the exchange. During her tenure with the CME, 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), working 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, D.C. area and have three children ages 10, 9, and 8.

Bart Chilton, Commissioner

Bart Chilton was nominated by President Bush and confirmed by the U. S. Senate in 2007. In 2009, he was re-nominated by President Obama and reconfirmed by the Senate. He has served as the Chairman of the CFTC's Energy and Environmental Markets Advisory Committee (EEMAC). His career spans 25 years in government service—working on Capitol Hill in the House of Representatives, in the Senate, and serving in the Executive Branch during the Clinton, Bush and Obama Administrations.

Prior to joining the CFTC, Mr. Chilton was the Chief of Staff and Vice President for Government Relations at the National Farmers Union where he represented family farmers. 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 to 2005, Mr. Chilton was a Senior Advisor to Senator Tom Daschle, the Democrat Leader of the United States Senate, where he worked on myriad issues including agriculture and transportation policy.

From 1995 to 2001, Mr. Chilton was a Schedule C political appointee of President Clinton where he rose to Deputy Chief of Staff to U. S. Secretary of Agriculture Dan Glickman. In this role, Mr. 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 most senior Presidential appointees. As an SES member, Mr. Chilton served as a liaison between Secretary Glickman and the Federal work force at USDA.

From 1985 to 1995, Mr. Chilton worked in the U. S. House of Representatives where he served as Legislative Director for three different Members of Congress on Capitol Hill and as the Executive Director of the bipartisan Congressional Rural Caucus.

Mr. Chilton has served as a strong advocate for consumers and businesses alike and is the author of *Ponzimonium: How Scam Artists are Ripping Off America*.

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, split their time between Washington, D.C. and Arkansas.

Scott O'Malia, Commissioner

Scott O'Malia was confirmed by the U.S. Senate on October 8, 2009, as Commissioner of the Commodity Futures Trading Commission, and was sworn in on October 16, 2009. He is currently serving a five-year term that expires in April 2015.

Born in South Bend, Indiana and raised in Williamston, Michigan, Commissioner O'Malia learned about commodity prices firsthand growing up on a small family farm. As a Commissioner of the Commodity Futures Trading Commission (CFTC), he brings both his agricultural background and experience in energy markets, where he has focused his professional career.

Before starting his term at the CFTC, Commissioner O'Malia served as the Staff Director to the U.S. Senate Appropriations Subcommittee on Energy and Water Development, where he focused on expanding U.S. investment in clean-energy technologies, specifically promoting low-cost financing and technical innovation in the domestic energy sector.

From 2003 to 2004, Commissioner O'Malia served on the U.S. Senate Energy and National Resources Committee under Chairman Pete Domenici (R-N.M.), as Senior Policy Advisor on oil, coal and gas issues. From 1992 to 2001, he served as Senior Legislative Assistant to U.S. Sen. Mitch McConnell (R.-Ky.), now the Senate Minority Leader. During his career, O'Malia also founded the Washington office of Mirant Corp., where he worked on rules and standards for corporate risk management and energy trading among wholesale power producers.

In his time at the CFTC Commissioner O'Malia has advanced the use of technology to more effectively meet the agency's oversight responsibilities and is seeking the reestablishment of the long dormant CFTC Technology Advisory Committee (C-TAC). As Chairman of the newly reinstated Committee, Commissioner O'Malia intends to harness the expertise of the C-TAC membership to establish technological 'best practices' for oversight and surveillance considering such issues as algorithmic and high frequency trading, data collection standards, and technological surveillance and compliance.

Commissioner O'Malia earned his Bachelor's Degree from the University of Michigan. He and his wife, Marissa, currently live in Northern Virginia with their three daughters.

Mark Wetjen, Commissioner

Mark P. Wetjen was sworn in as a Commissioner of the U.S. Commodity Futures Trading Commission on October 25, 2011. Commissioner Wetjen brings to the agency seven years of experience working for the Majority Leader of the U.S. Senate, Senator Harry Reid, whom he advised on all financial-services-related matters, including the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Commissioner Wetjen worked closely with the relevant congressional committees on Title VII of the Act, which the CFTC is charged with implementing. Before his service in the U.S. Senate, Commissioner Wetjen was a lawyer in private practice and represented clients in a variety of litigation, transactional and regulatory matters.

Born and raised in Dubuque, Iowa, Commissioner Wetjen received a bachelor's degree from Creighton University and a law degree from the University of Iowa College of Law. He lives with his wife, Nicole, and son on Capitol Hill.

Consumer Advisory and Public Service Announcement

CFTC Whistleblower Program

The CFTC Whistleblower Program—created by the Dodd-Frank Act—allows for payment of monetary awards to eligible whistleblowers, and provides anti-retaliation protections for whistleblowers, who share information with or assist the CFTC.

How does the whistleblower program work?

- The CFTC will pay monetary awards to eligible whistleblowers who voluntarily provide us with original information about violations of the Commodity Exchange Act that lead us to bring enforcement actions that result in more than $1 million in monetary sanctions.
- The CFTC can also pay whistleblower awards based on monetary sanctions collected by other authorities in actions that are related to a successful CFTC enforcement action, and are based on information provided by a CFTC whistleblower.
- The total amount of a whistleblower award will be between 10 and 30 percent of the monetary sanctions collected in either the CFTC action or the related action.

Who can be a whistleblower?

- A whistleblower can be any person who sends us original information, from a corporate officer or insider, to a trader or market observer, to an investor or fraud victim.

How can I become a whistleblower?

To become a whistleblower, you must complete and submit a Form TCR either electronically, by mail or by facsimile.

To submit a Form TCR electronically, visit *http://www.cftc.gov*, and click on the "File a Tip or Complaint" button on the right-hand side of the page. Use the first link under the description of the whistleblower program.

To submit a Form TCR by mail or facsimile, print a Form TCR from the "Whistleblower Program" webpage on *http://www.cftc.gov*, and use the following address or number:

Commodity Futures Trading Commission
Whistleblower Office
1155 21st Street, NW, Washington, DC 20581
Fax: (202) 418-5975

Am I protected against retaliation?

The Dodd-Frank Act prohibits retaliation by employers against individuals who provide us with information about possible violations of the Commodity Exchange Act, or who assist us in any investigation or proceeding based on such information.

Learn more about the anti-retaliation provisions by reading Appendix A to the Whistleblower Rules.

How can I learn more?

Visit the "Whistleblower Program" webpage, which has copies of our rules, filing forms, notices and frequently asked questions.

Consumer Advisory and Public Service Announcement

CFTC Customer Protection: Fraud Awareness, Prevention and Reporting

Trading Futures and Options: Protection Against Fraud

The CFTC is the Federal agency that regulates the trading of commodity futures and option contracts in the United States and takes action against firms or individuals suspected of illegally or fraudulently selling commodity futures and options. The CFTC's fraud awareness, prevention and reporting initiatives involve: educating futures market users, protecting futures market participants, and reviewing information and complaints that market participants send to us.

About the Futures Markets

- Individual investors/traders or "retail customers" rarely ever trade commodity futures and options
- Trading commodity futures and options is a volatile, complex, and risky venture
- Many individual traders lose all of their initial payment, and they could owe more than the initial payment

Before you trade

Know the basics in futures trading

- Consider your financial experience, goals, and resources and determine how much you can afford to lose above and beyond your initial payment.
- Understand commodity futures and options contracts and your obligations in entering into them.
- Understand your exposure to risk and other aspects of trading by thoroughly reviewing disclosure documents your broker is required to give you.
- Know that trading on margin can make you responsible for losses much HIGHER than the amount you initially invested.
- Quickly contact CFTC if you have a problem or question.

Watch out for these warning signs

- Get-rich-quick schemes that sound too good to be true. Once your money is gone, it may be impossible to get it back.
- Predictions or guarantees of large profits. Always get as much information as you can about a firm or individual's track record and verify that information.
- Firms or individual who say there is little risk. Written risk disclosure statements are important to read thoroughly and understand.
- Calls or emails from strangers about investment or trading opportunities.
- Requests for immediate cash or money transfers by overnight express, the Internet, mail, or any other method.

What should you do?

Visit the our Web site for more information:
www.cftc.gov/ConsumerProtection

Report possible violations of commodity futures trading laws:

Call the CFTC's Division of Enforcement at:
866-FON-CFTC (866-366-2382)

Submit our online form located at:
www.cftc.gov/ConsumerProtection/FileaTiporComplaint

Send us a letter addressed to:
CFTC, Office of Cooperative Enforcement
1155 21st Street, NW • Washington, DC 20581

How This Report is Organized

This document consists of two primary sections and supplemental sections:

Management's Discussion and Analysis

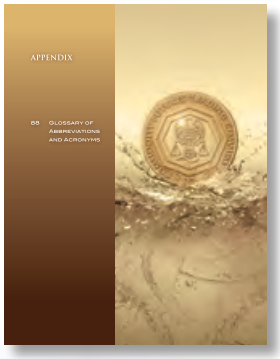
The Management's Discussion and Analysis (MD&A) section is an overview of the entire report. The MD&A presents performance and financial highlights for FY 2012 and discusses compliance with legal and regulatory requirements, business trends and events, and management issues.

Financial Section

The Financial Section includes the Commission's financial statements and the Independent Auditors' report.

Other Accompanying Information

Other Accompanying Information contains the Inspector General's FY 2012 assessment of management challenges facing the Commission and the Commission's summary of audit and management assurances.



Appendix

The Appendix contains the glossary of abbreviations and acronyms used throughout the report.

For more information on the information presented in this report please contact Mark Carney, Chief Financial Officer, at 202-418-5477.

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Commission at a Glance

Who We Are

The Commission consists of five Commissioners. The President appoints and the Senate confirms the CFTC Commissioners to serve staggered five-year terms. No more than three sitting Commissioners may be from the same political party. With the advice and consent of the Senate, the President designates one of the Commissioners to serve as Chairman.

The Office of the Chairman oversees the Commission's principal divisions and offices that administer and enforce the Commoditiy Exchange Act (CEA) and the regulations, policies, and guidance thereunder.

The Commission is organized largely along programmatic and functional lines. The four programmatic divisions—the Division of Clearing and Risk (DCR), Division of Enforcement (DOE), Division of Market Oversight (DMO), and the Division of Swap Dealer and Intermediary Oversight (DSIO)—are partnered with, and supported by, a number of offices, including the Office of the Chief Economist (OCE), Office of Data and Technology (ODT), Office of the Executive Director (OED), Office of the General Counsel (OGC), and the Office of International Affairs (OIA). The Office of the Inspector General (OIG) is an independent office of the Commission.

CFTC Organizational Programs

Below are brief descriptions of the organizational programs within the CFTC:

- **The Commission**

  The Offices of the Chairman and the Commissioners provide executive direction and leadership to the Commission. The Offices of the Chairman include: Public Affairs, Legislative Affairs, and Diversity and Inclusion.

- **Division of Clearing and Risk**

  The DCR program oversees derivatives clearing organizations (DCOs) and other market participants that may pose risk to the clearing process including futures commission merchants, swap dealers, major swap participants and large traders, and the clearing of futures, options on futures, and swaps by DCOs. The DCR staff prepare proposed regulations, orders, guidelines, and other regulatory work products on issues pertaining to DCOs; review DCO applications and rule submissions and make recommendations to the Commission; make determinations and recommendations to the Commission to which types of swaps should be cleared; make determinations and recommendations to the Commission as to the initial eligibility or continuing qualification of a DCO to clear swaps; assess compliance by DCOs with the CEA and Commission regulations, including examining systemically important DCOs at least once a year; and conduct risk assessment and financial surveillance through the use of risk assessment tools, including automated systems to gather and analyze financial information, to identify, quantify, and monitor the risks posed by DCOs, clearing members, and market participants and its financial impact.

- **Division of Enforcement**

  The DOE program investigates and prosecutes alleged violations of the CEA and Commission regulations. Possible violations involve improper conduct related to commodity derivatives trading on U.S. exchanges, or the

improper marketing and sales of commodity derivatives products to the general public.

Division of Market Oversight

The DMO program fosters markets that accurately reflect the forces of supply and demand for the underlying commodities and are free of disruptive activity. To achieve this goal, program staff oversees trade execution facilities, performs market and trade practice surveillance, reviews new exchange applications and examines existing exchanges to ensure their compliance with the applicable core principles. Other important work includes evaluating new products to ensure they are not susceptible to manipulation, and reviewing exchange rules and actions to ensure compliance with the CEA and CFTC regulations.

Division of Swap Dealer and Intermediary Oversight

The DSIO program oversees the registration and compliance activities of intermediaries and the futures industry self-regulatory organizations (SROs), which include the U.S. derivatives exchanges and the National Futures Association (NFA). Program staff develops regulations concerning registration, fitness, financial adequacy, sales practices, protection of customer funds, cross-border transactions, and anti-money laundering programs, as well as policies for coordination with foreign market authorities and emergency procedures to address market-related events that impact intermediaries. With the passage of the Dodd-Frank Act, DSIO also will be responsible for the development of, or monitoring for compliance with, regulations addressing registration requirements, business conduct standards, capital adequacy, and margin requirements for swap dealers and major swap participants.

Office of the Chief Economist

The OCE provides economic support and advice to the Commission, conducts research on policy issues facing the Commission, and educates and trains Commission staff. The OCE plays an integral role in the implementation of new financial market regulations by providing economic expertise and cost-benefit considerations underlying those regulations.

Office of Data and Technology

The Office of Data and Technology provides technology and data management support for Commission market and financial oversight, surveillance, enforcement, legal support, and public transparency activities. The Commission's over-arching information technology (IT) strategy is to increase the integration of IT into the Commission's operating model. That strategy is followed by giving priority to services that provide the greatest mission benefit, architecting services using small components that can be assembled and reassembled with agility, and delivering solutions in short, iterative phases. ODT ensures that data is managed as an enterprise asset and aggressively promotes and adopts industry data standards. ODT also provides secure and stable network, communication, storage, computing, and information management infrastructure and services.

Office of the Executive Director

The Commission's ability to achieve its mission of protecting the public, derivative market participants, U.S. economy, and the U.S. position in global markets is driven by well-informed and reasoned executive direction, strong and focused management, and an efficiently-resourced, dedicated, and productive workforce. These attributes of an effective organization combine to lead and support the critical work of the Commission to provide sound regulatory oversight and enforcement programs for the U.S. public. The Executive Director ensures the Commission's continued success, continuity of operations, and adaptation to the ever-changing markets it is charged with regulating, directs the effective and efficient allocation of CFTC resources, develops and implements management and administrative policy, and ensures program performance is measured and tracked Commission-wide. The OED includes the following programs: Business Management and Planning, Counsel to the Executive Director, Financial Management, Human Resources, Diversity and Inclusion, Whistleblower, and Consumer Outreach.

Office of the General Counsel

The OGC provides legal services and support to the Commission and all of its programs. These services include: 1) engaging in defensive, appellate, and amicus

curiae litigation; 2) assisting the Commission in the performance of its adjudicatory functions; 3) providing legal advice and support for Commission programs; 4) drafting and assisting other program areas in preparing Commission regulations; 5) interpreting the CEA; and 6) providing advice on legislative and regulatory issues.

Office of International Affairs

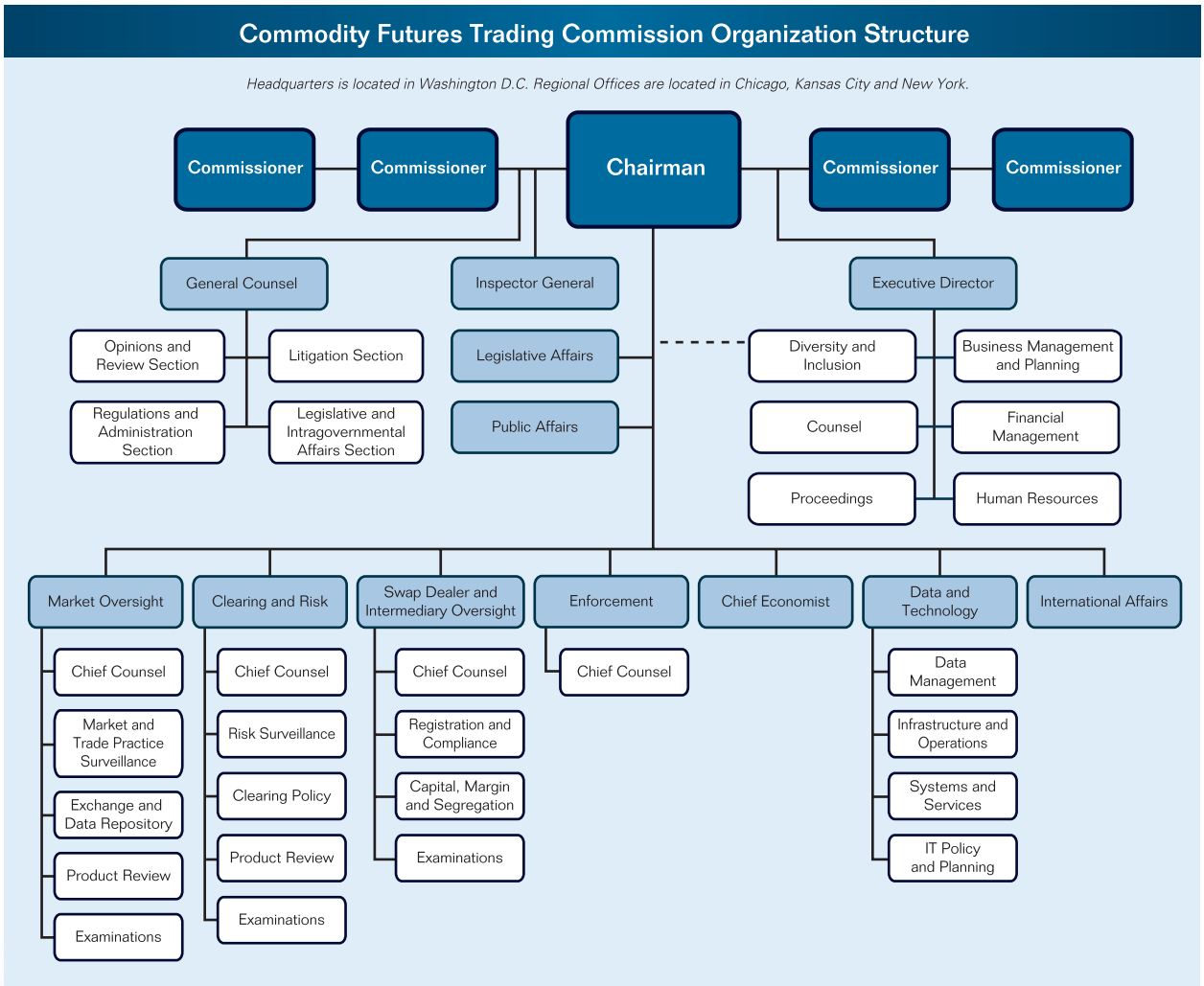
The OIA advises the Commission regarding international regulatory initiatives; provides guidance regarding international issues raised in Commission matters; represents the Commission in international organizations, such as IOSCO; coordinates Commission policy as it relates to policies and initiatives of major foreign jurisdictions, the G20, Financial Stability Board and the U.S. Treasury Department; and provides technical assistance to foreign market authorities.

Office of the Inspector General

The OIG is an independent organizational unit at the CFTC. The mission of the OIG is to detect waste, fraud, and abuse and to promote integrity, economy, efficiency, and effectiveness in the CFTC's programs and operations. As such it has the ability to review all of the Commission's programs, activities, and records. In accordance with the Inspector General Act of 1978, as amended, the OIG issues semiannual reports detailing its activities, findings, and recommendations.

CFTC Organization Structure, Locations and Facilities

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



Why We Exist

CFTC Mission

To protect market users and the public from fraud, manipulation, abusive practices and systemic risk related to derivatives that are subject to the Commodity Exchange Act, and to foster open, competitive, and financially sound markets.

The Commission administers the CEA, 7 U.S.C. section 1, *et seq*. The 1974 Act brought under Federal regulation futures trading in all goods, articles, services, rights and interests; commodity options trading; leverage trading in gold and silver bullion and coins; and otherwise strengthened the regulation of the commodity futures trading industry.

On July 21, 2010, President Obama signed the Dodd-Frank Act. The Dodd-Frank Act amended the CEA to establish a comprehensive new regulatory framework to include swaps, as well as enhanced authorities over historically regulated entities. The Dodd-Frank Act was enacted to:

- Reduce systemic risk,
- Increase transparency, and
- Promote market integrity within the financial system

The U.S. swaps and futures market are estimated at $222 trillion and $29 trillion, respectively. By any measure, the markets under CFTC's regulatory purview are large and economically significant. Given the enormity of these markets and the critical role they play in empowering legitimate, prudential, and non-speculative hedging strategies, it is essential to protect the financial stability of the nation to ensure that these markets are transparent, open and competitive.

Estimated notional value of the U.S. markets:

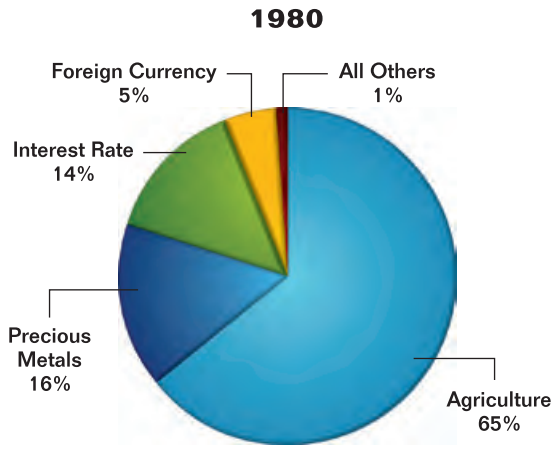
Commodity Futures Industry

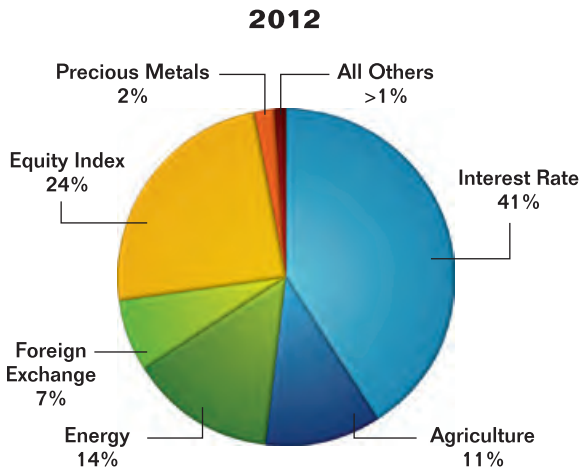
The first derivatives—called futures—began trading at the time of the Civil War, when grain merchants came together and created this new marketplace. When the Commission was founded in 1974, the vast majority of derivatives trading consisted of futures trading in agricultural sector products. These contracts gave farmers, ranchers, distributors, and end-users of products ranging from corn to cattle an efficient and effective set of tools to hedge against price risk.

Commodity and Option Trading Activity

Over the years, however, the derivatives industry has become increasingly diversified. The agriculture sector continues to use the futures markets as actively as ever to effectively lock in prices for crops and livestock months before they enter the marketplace. However, 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. Over a 32-year span, on-exchange commodity futures and option trading activity in the agricultural sector decreased 54 percent, while the financial sector commodity futures and option contracts increased 53 percent:[1]





Industry Growth

Fundamental changes in technology, products and platforms of U.S. futures trading have increased the Commission's need for sophisticated technology, specialized skills and additional resources to keep pace. In the futures industry, exchanges, in particular have under gone a decade-long transition from geographically–defined trading pits to electronic platforms with global reach. From 2000 to 2012, electronic trading grew from approximately nine percent of volume to 84 percent on all U.S. designated contract markets (DCMs). Over the same time period, the number of actively-traded futures and options contracts listed on U.S. exchanges increased more than eight-fold, from approximately 266 contracts in 2000 to approximately 2,268 contracts in 2012. Total DCM futures and options trading volume rose from approximately 580 million contracts in 2000 to approximately 3.13 billion in 2012, an increase of 440 percent.

Indicator	2000	2012	Percent Change
Notional Value of Futures Market[a]	$12 Trillion	$29 Trillion	+142%
Notional Value of Swaps Market[b]	$40.5 Trillion	$222.5 Trillion[2]	+449%
Types of Contracts Traded[a]	266	2,268	+753%
Total Contract Volume[c]	580 Million	3.13 Billion	+440%
Volume of Electronic Trading on all U.S. DCMs[d]	9%	84%	+75%
Customer Funds in Futures Commission Merchants (FCM) Accounts[e]	$56.7 Billion	$186.3 Billion	+229%

Sources:

a. CFTC Integrated Surveillance System
b. Office of the Comptroller of the Currency
c. Futures Industry Association
d. CFTC Trade Surveillance System
e. 1-FR Reports filed by FCMs and posted at: *http://www.cftc.gov/MarketReports/FinancialDataforFCMs/index.htm*

[1] *A timeline of significant dates in the history of futures regulation before the creation of the CFTC and significant dates in CFTC history from 1974 to the present is located at: http://www.cftc.gov/About/HistoryoftheCFTC/index.htm.*

[2] *As of 2nd quarter of 2012.*

CFTC Regulated Entities

The Commission's regulatory scope encompasses trading entities, clearing entities, and data repositories and the sole registered futures association, NFA. For the overwhelming number of market participants, the Commission's role is as a second-line regulator, where the agency relies on the designated self-regulatory organizations (DSROs) to perform critical regulatory responsibilities. The Commission's direct regulatory activities in registration, product reviews, and examinations are primarily focused on the DCMs, DCOs, Swap Data Repositories (SDRs), NFA, and soon, Swap Execution Facilities (SEFs). The Commission also conducts limited scope direct examinations of intermediary trading entities, as resources are available. While the DSRO's are obligated to conduct surveillance and enforcement activities for entities under their purview, the Commission conducts surveillance and enforcement activities across all market participants. In FY 2012, the Commission regulated the activities of 65,619 registrants:

Registered Entities	Number of Registrants as of September 30, 2012
Designated Contract Markets (DCMs)	18
Swap Execution Facilities (SEFs)	0
Foreign Boards of Trade (FBOTs)	21
Associated Persons (APs)	52,369
Commodity Pool Operators (CPOs)	1,183
Commodity Trading Advisors (CTAs)	2,530
Floor Brokers (FBs)	6,316
Floor Traders (FTs)	1,286
Futures Commission Merchants (FCMs)	137
Retail Foreign Exchange Dealers (RFEDs)	14
Introducing Brokers (IBs)	1,535
Swap Dealers (SDs)	0
Major Swap Participants (MSPs)	0
Designated Clearing Organizations (DCOs)	14
Clearing Members	192
Systemically Important DCOs (SIDCOs)	2
Swap Data Repositories[3] (SDRs)	2

Dodd-Frank Reforms

In July 2010, the U.S. Congress addressed the economic risks of swaps when it passed the Dodd-Frank Act. Though the CFTC and its predecessor agencies have regulated derivatives since the 1920s, its jurisdiction was limited to futures. Now, the Commission, along with the Securities and Exchange Commission (SEC), is tasked with bringing its regulatory expertise to the swaps marketplace. These products, which have not previously been regulated in the United States, were at the center of the 2008 financial crises. The historical Dodd-Frank Act authorizes the CFTC to:

> "The Wall Street Reform Bill will—for the first time—bring comprehensive regulation to the swaps marketplace. Swap dealers will be subject to robust oversight. Standardized derivatives will be required to trade on open platforms and be submitted for clearing to central counterparties. The Commission looks forward to implementing the Dodd-Frank Bill to lower risk, promote transparency and protect the American public."
>
> – *CFTC Chairman Gary Gensler*

[3] *Number of SDR registrants are those entities with provisional registration status.*

Regulate Swap Dealers

- Swap dealers will be subject to capital and margin requirements to lower risk in the system.
- Swap dealers will be required to meet robust business conduct standards to lower risk and promote market integrity.
- Swap dealers will be required to meet recordkeeping and reporting requirements so that regulators can police the markets.

Increase Transparency and Improve Pricing in the Derivatives Marketplace

- Instead of trading out of sight of the public, standardized derivatives will be required to be traded on regulated exchanges or swap execution facilities.
- Transparent trading of swaps will increase competition and bring better pricing to the marketplace. This will lower costs for businesses and their consumers.

Lower Risk to the American Public

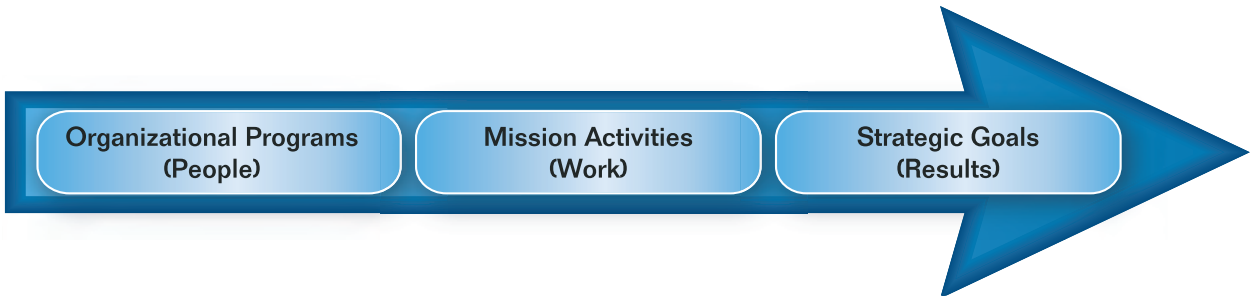
- Standardized derivatives will be moved into central clearinghouses to lower risk in the financial system.
- Clearinghouses act as middlemen between two parties to a transaction and take on the risk that one counterparty defaults on their obligations.
- Clearinghouses have lowered risk in the futures marketplace since the 1980s. The Dodd-Frank Act will bring this crucial market innovation to the swaps marketplace.

How We Operate

Strategic Response

The Commission's updated Strategic Plan was published in February 2011 and is located at *http://www.cftc.gov/reports/strategic-plan/2015/index.htm*. It integrated the expanded responsibilities under the Dodd-Frank Act. As a set of guiding principles for implementing new regulatory and mission activities, this plan provides direction during a time of uncertainty. These strategic goals were constructed in a focused way, lending credence to unifying goals found within the CEA and Dodd-Frank Act.

The CFTC organizational programs support the strategic plan goals through nine key mission activities identified by the Commission.



The Commission's strategic goals are defined on page 30 in the Summary of Performance. In FY 2012, the Commission spent $115.7 conducting mission activities in support of the Commission's top four strategic plan goals and spent $83.2 conducting mission support activities in support of regulatory and organizational excellence.

Strategic Goals (Abbreviated)		
STRATEGIC GOAL 1: MARKET INTEGRITY STRATEGIC GOAL 2: FINANCIAL INTEGRITY STRATEGIC GOAL 3: ROBUST ENFORCEMENT STRATEGIC GOAL 4: CROSS-BORDER COOPERATION		
2012 Mission Activities	**Dollars in Millions**	**FTE**
1. Registration and Registration Compliance	$ 10.1	32
2. Product Reviews	$ 5.2	19
3. Surveillance, including Data Acquisition and Analytics	$ 42.2	118
4. Examinations	$ 17.3	76
5. Enforcement	$ 37.9	165
6. International Policy Coordination	$ 3.0	14
Strategic Goals (Abbreviated)		
STRATEGIC GOAL 5: REGULATORY AND ORGANIZATIONAL EXCELLENCE		
2012 Mission Support Activities	**Dollars in Millions**	**FTE**
1. Economic and Legal Counsel	$ 25.4	108
2. Data Infrastructure and Technology Support	$ 31.1	38
3. Agency Direction, Management and Administration	$ 26.7	117
TOTAL	**$198.9M**	**687 FTE**

MISSION ACTIVITIES

Registration and Registration Compliance

The Commission performs a thorough review of the registration applications of all entities seeking to be registered as DCMs and DCOs. Multi-disciplinary review teams of attorneys, industry economists, trade practice analysts and risk analysts ensure that the Commission undertakes a thorough analysis of such applications to ensure compliance with the applicable statutory core principles and Commission regulations. Site visits may be required to validate needed technical and self-regulatory capabilities.

Product Reviews

The Commission reviews new product filings as well as issuing no-action letters related to product issues. The CFTC's traditional scope of work includes reviewing new futures and options contract filings, reviewing contract rule submissions, and developing new rules and policies to accommodate innovations in the industry. Currently, the Commission conducts due diligence reviews of new contract filings to ensure that the contracts are not readily susceptible to manipulation or price distortion, and that the contracts are subject to appropriate position limits or position accountability. The Commission also analyzes amendments to contract terms and conditions to ensure that the amendments do not render the amended contracts readily susceptible to manipulation and do not otherwise affect the value of existing positions.

Surveillance, including Data Acquisition and Analytics

The Commission performs three broad types of surveillance: market and trade practice, financial and risk, and business analytics. The Commission monitors trading and positions of market participants on an on-going basis. Commission staff screen for potential market manipulations and disruptive trading practices, as well as trade practice violations. The Commission also monitors changing market conditions and developments, such as shifting patterns of commercial or speculative trading or the introduction of new trading activities, to assess possible market impacts on internal review techniques and/or evaluate the impact such changes may have on exchange trading rules and contracts. The Commission also conducts risk and financial surveillance of DCOs, clearing futures commission merchants, and other market participants such as swap dealers, major swap participants, and large traders that may pose a risk to the clearing process. CFTC also maintains a business analytics platform for performing data analysis. The platform allows staff analyzing industry data to keep pace with the continuing growth in industry data volume and complexity. The Commission estab-

lished a Strategic Plan objective to ensure that information technology systems support the Commission's existing and expanded responsibilities to ensure financially sound markets, mitigate systemic risk, and monitor intermediaries.

Examinations

Examinations are formal, structured assessments of regulated entities' operations or oversight programs to assess on-going compliance with statutory and regulatory mandates. Regular examinations are the most effective method of ensuring that the entities' are complying with the core principles established in the CEA (as amended). Examinations are performed by multi-disciplinary teams of individuals, attorneys, industry economists, trade practice analysts, risk analysts and accountants depending on the scope.

Enforcement

The Commission protects market participants and other members of the public from fraud, manipulation and other abusive practices in the commodities, futures and swaps markets. Its cases range from quick strike actions against Ponzi enterprises that victimize investors across the country, to sophisticated manipulative and disruptive trading schemes in markets the Commission regulates including oil, gas, precious metals and agricultural goods.

International Policy Coordination

The global nature of the futures and swaps markets makes it imperative that the United States consult and coordinate with foreign authorities. The Commission is actively communicating internationally to promote robust and consistent standards and avoid conflicting requirements, wherever possible. The Commission participates in numerous international working groups regarding swaps, including the IOSCO Task Force on over-the-counter (OTC) Derivatives, which the CFTC co-chairs. The CFTC, SEC, European Commission and European Securities Market Authority are intensifying discussions through a technical working group. The Commission also is consulting with many other jurisdictions such as Hong Kong, Singapore, Japan, and Canada.

Discussions have focused on the details of the Dodd-Frank rules, including mandatory clearing, trading, reporting and regulation of derivatives market intermediaries. The Commission's international outreach efforts directly support global consistency in the oversight of the swaps markets.

Economic and Legal Counsel

The Commission supports an in-depth, analytical research program that focuses on innovations in trading technology, developments in trading instruments, and the role of market participants in the futures, options, and swap markets. A team of specialized economists supports the Commission's numerous divisions by analyzing these constantly evolving components of markets to help anticipate and mitigate significant regulatory, surveillance, clearing, and enforcement challenges. Economic expertise is especially important for the development and implementation of new financial regulations related to the Dodd Frank Act and the oversight of a new swaps regime.

The Commission's legal services include: 1) engaging in defensive, appellate, and amicus curiae litigation; 2) interpreting the CEA; 3) providing legal advice and support for Commission Divisions; 4) drafting and assisting other Divisions in preparing Commission regulations; 5) assisting the Commission in the performance of its adjudicatory functions; and 6) providing advice on legislative and regulatory issues.

Data Infrastructure and Technology Support

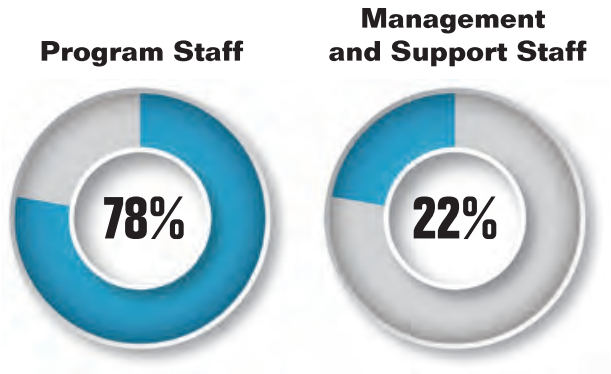
The Commission's over-arching IT strategy is to increase the integration of IT into the Commission operating model, which is described in Goal Five of the Strategic Plan. This strategy has become increasingly more important and complex as the Commission's regulatory scope has expanded faster than its resources. In order to do this rapidly with the most practical investment, the Commission's approach is to manage data as an enterprise asset, promote and adopt industry data standards, give priority to services that provide the greatest mission benefit, architect services using small components that can be assembled and reassembled with agility, and deliver solutions in short, iterative phases. The first area of focus must be on data understanding and ingestion—particularly because CFTC has a unique imperative to aggregate various types of data from multiple industry sources across multiple markets, much of which is new to the Commission staff. Receipt and analysis of the first wave of registrant reporting will give Commission staff insight into the markets and business process, which can be used to firm-up requirements and designs for internal surveillance systems. Likewise, the same business analytics tools used for data understanding and ad hoc mining of mature datasets will also be used to automate transparency reporting.

Agency Direction, Management, and Administration Support

As stated in the CFTC's Strategic Plan, the Commission's ability to achieve its mission of protecting the public, derivative market participants, U.S. economy and the U.S. position in global markets is driven by well-informed and reasoned executive direction, strong and focused management, and an efficiently-resourced, dedicated, and productive workforce. These attributes of an effective organization combine to lead and support the critical work of the Commission to provide sound regulatory oversight and enforcement programs for the U.S. public. To ensure the Commission's continued success, continuity of operations, and adaptation to the ever-changing markets it is charged with regulating, the Commission must lead effectively and maintain a well-qualified workforce supported by a modern IT infrastructure and working environment.

Our People

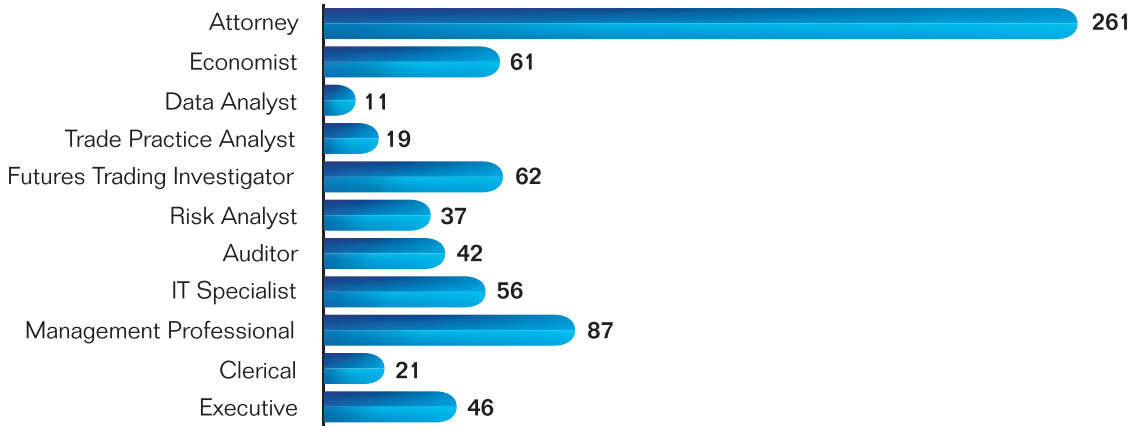
Collectively, the Commission employs 703 full-time permanent employees that comprise 549 programmatic staff (attorneys, economists, auditors, risk and trade analysts, and other financial specialists) and 154 management and support staff to accomplish five strategic goals and nine key mission activities in the regulation of commodity futures, options and swaps.



Personnel by Position Type

Among the full-time personnel, the majority of Commission staff is analytical professionals with strong academic records and specialized skills in the commodities industry.

Personnel by Position Type



Attorneys across the CFTC's divisions and offices represent the Commission in administrative and civil proceedings, assist U.S. Attorneys in criminal proceedings involving violations of the CEA, develop regulations and policies governing clearinghouses, exchanges and intermediaries, and monitor compliance with applicable rules. In response to the globalization of the derivatives markets, attorneys represent the CFTC internationally in multilateral regulatory organizations and in bilateral initiatives with individual foreign regulators. Commission attorneys also participate in country dialogues organized by the U.S. Department of the Treasury. Much of the Commission's legal work involves complex and novel issues.

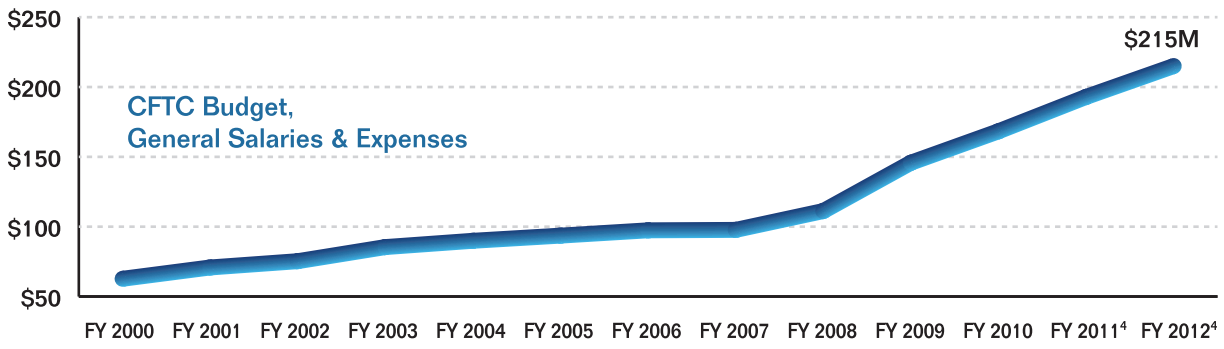
Auditors, Risk Analysts, Trade Practice Analysts, and Attorneys examine records and operations of derivatives exchanges, clearinghouses, and intermediaries for compliance with the provisions of the CEA and the Commission's regulations. Derivatives trading investigators and specialists perform regulatory and compliance oversight to detect potential fraud, market manipulations and trade practice violations. Risk analysts also perform analyses, which include stress testing, to evaluate financial risks at the trader, firm, and clearinghouse levels.

Economists and Data Analysts monitor trading activities and price relationships in derivatives markets to detect and deter price manipulation and other potential market disruptions. These analysts also monitor compli-ance with position limits. Economists and analysts evaluate filings for new derivatives contracts and amendments to existing contracts to ensure that they meet the Commission's statutory and regulatory standards. Economists also analyze the economic effect of various Commission and industry actions and events, evaluate policy issues and advise the Commission accordingly.

Management Professionals support the CFTC mission by performing strategic planning, information technology, human resources, staffing, training, accounting, budgeting, contracting, procurement, and other management operations.

Our Resources

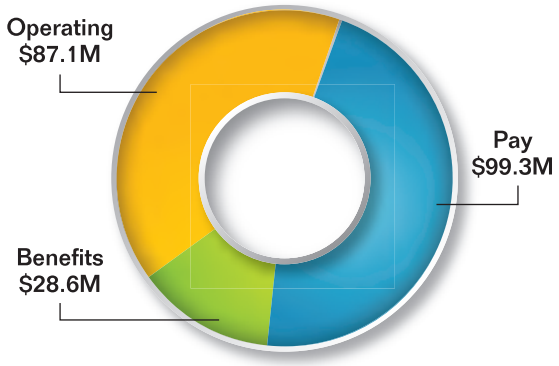
Annual Obligations



Pay, Benefits and Operating

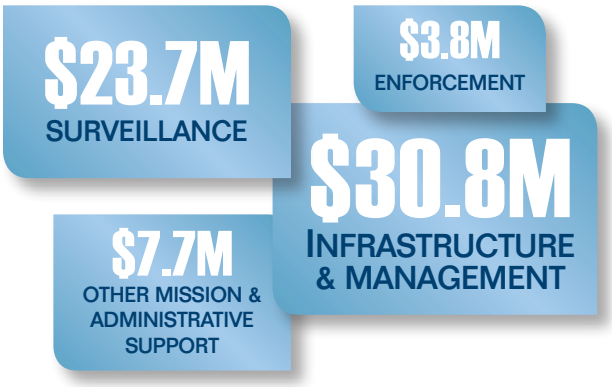
Personnel costs were 59.5 percent of the Commission's total obligations in FY 2012.

Breakout of Pay, Benefits and Operating Costs



Technology Portfolio

In FY 2012, The Commission invested $66 million for development, modernization, and enhancements to its surveillance and enforcement systems and general operations and maintenance to its infrastructure.



[4] *Includes multi-year funds.*

Performance Highlights by Strategic Goal

Strategic Plan Overview

The FY 2011 - 2015 Strategic Plan, released in February 2011, incorporated enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) which gave CFTC unprecedented oversight responsibility of the swaps marketplace. This new responsibility is in addition to CFTC's mission of ensuring the fair, open, and efficient functioning of the futures market and represents approximately an eight times growth to the CFTC's regulatory portfolio. The CFTC 2011 - 2015 Strategic Plan remains consistent with prior year's goals, but expands its scope to address the regulation of swaps and the resource growth accompanied with this new mission.

FY 2011 – 2015 Strategic Goals	
Goal 1	Protect the public and market participants by ensuring market integrity, promoting transparency, competition and fairness and lowering risk in the system.
Goal 2	Protect the public and market participants by ensuring the financial integrity of derivatives transactions, mitigation of systemic risk, and the fitness and soundness of intermediaries and other registrants.
Goal 3	Protect the public and market participants through a robust enforcement program.
Goal 4	Enhance integrity of U.S. markets by engaging in cross-border cooperation, promoting strong international regulatory standards, and encouraging ongoing convergence of laws and regulation worldwide.
Goal 5	Promote Commission excellence through executive direction and leadership, organizational and individual performance management, and effective management of resources.

Strategic Goals and Key Results

The following section includes a high-level discussion of each of the five strategic goals, as well as a tactical goal for Dodd-Frank Act rule making, and the related key results. The selected accomplishments described below demonstrate significant progress made in FY 2012 toward the achievement of the Commission's mission and strategic goals. However, progress in some areas continues to be hampered due to limited resources and staffing resources that were reallocated from existing authorities to new authorities under the Dodd-Frank Act.

The Commission's Annual Performance Report (APR), to be issued in February 2013 as part of its Congressional Budget Justification in conjunction with the President's Budget, will present more detailed analysis of performance results for FY 2012.

Objective 0.1 Financial Reform Legislation

The focused rule writing efforts required by the Dodd-Frank Act continue to be treated as a tactical goal that has an Objective, Strategy and Performance Measure. In addition, CFTC staff continues to be diverted from their usual functions to work on Dodd-Frank Act related activities throughout FY 2012. Where proposed and interim final rules have been issued, the Commission remains strong in its position to afford as much opportunity as practicable for public comment both through written submissions and through public meetings. The Commission fully considers the comments and continues to offer this opportunity as additional proposed rules are developed. The CFTC has and will continue to work with the SEC and other regulators to maximize consistency, minimize overlap or duplication, and develop the best possible final rules.

Objective 0.1 Key Results

The Dodd-Frank Act set a timeframe of 360 days (or less in a few instances) for completion of the rules. The Dodd-Frank Act was signed by the President on July 21, 2010, making July 16, 2011 the final date for completion of all the rules. The Commission was unable to complete all rules, within this time, for several reasons:

- The Commission operated under a Continuing Resolution for most of FY 2011 and was unable to hire needed staff and apply critical effort and skills to the completion of this objective.
- To ensure development and implementation of rules that are well balanced between risk mitigation and cost to the industry and public, significant, and open interaction with Congress, industry, and the public was necessary and appropriate.
- While some rules are fairly straight forward, many are intricate and raise interrelated and complex issues. Staff requires appropriate time to analyze, summarize, and consider all comments and aspects of a proposed rule, discuss the proposed rule and comments with the Commissioners, gain feedback, and develop draft final rules for deliberation by the Commission.

Despite the above limitations, the Commission was able to accomplish the following Dodd-Frank Act related rule-making tasks within the 360 day time frame:

- Issued 54 proposed rules and issued seven final rules.
- Received, reviewed, and analyzed over 27,000 comments.
- Held a second comment period for more than 25 rules.
- Held more than 14 technical conferences.

Actions taken by the Commission since July 2011:

- July – September 2011, issued nine final rules and four proposed rules.
- October 2011 – September 2012, issued 24 final rules and 18 proposed rules and orders.

Strategic Goal One

Strategic Goal One

Protect the public and market participants by ensuring market integrity, promoting transparency, competition and fairness and lowering risk in the system.

FY 2012 INVESTMENT

Net Cost: $59.2 Million

Staffing: 317 FTE

Derivatives markets are designed to provide a means for market users to offset price risks inherent in their businesses and to act as a public price discovery platform from which prices are broadly disseminated for public use. For derivatives markets to fulfill their role in the national and global economy, they must operate efficiently and fairly, and serve the needs of market users. The markets best fulfill this role when they are open, competitive, and free from fraud, manipulation, and other abuses such that the prices discovered on the markets reflect the forces of supply and demand.

The Commission strives to assure that Goal One is effectively met through the combined use of five oversight strategies: 1) the review of new contracts and rules and changes to contracts and rules; 2) continual surveillance of trading activity in the futures and swaps markets; 3) the review of regulated exchanges, DCMs and SEFs, to ensure that they are fulfilling their self-regulatory obligations; 4) the review of registered swap data repositories to ensure that they are fulfilling their reporting and recordkeeping requirements; and 5) the adoption of policies and strategies to promote market transparency.

Goal One Key Results

- During FY 2012, the Commission completed the review process on 229 new product certifications, 21 foreign stock index certification reviews, 34 product-related rule filing reviews, and 490 rule certifications.
- The Commission designated two contract markets and provisionally registered one SDR.
- In order to enhance the Commission's surveillance program, it developed new analysis tools to increase to efficiency to evaluate price movements and market events including tools to connect transaction and position data-

bases, a method for determining participants' contributions to price formation, pre-arranged trading violation detection and block trading violation detection.

- In fulfillment of a charge from the Dodd-Frank Act, the Commission proposed rules for ownership and control reports and SEFs. The Commission finalized new rules that were common to registered entities (Part 40), rules governing the registration of SDRs (Part 49) and the reporting and recordkeeping requirements of swap data (Parts 43, 45, and 46). Additionally, the Commission finalized new rules for DCMs including new principles and governance requirements.
- Commission staff began using SDR facilities to analyze swaps and continued to work with industry to implement data standards and improve data quality, focusing on standards for legal entity identifies, unique swap identifiers, large trader position and open interest reporting as well as harmonizing data across SDRs and addressing other Dodd-Frank Act reporting requirements.
- The Commission also completed a preliminary assessment of order message data that will support the routine surveillance of pre-trade activity and provide more transparency into high frequency and algorithmic trading.

Strategic Goal Two

Strategic Goal Two

Protect the public and market participants by ensuring the financial integrity of derivatives transactions, mitigation of systemic risk, and the fitness and soundness of intermediaries and other registrants.

FY 2012 INVESTMENT

Net Cost: $54.6 Million

Staffing: 310 FTE

In fostering financially sound markets, the Commission's 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 integral to the financial integrity of derivatives transactions—together, they protect against the financial difficulties of one trader becoming a systemic problem. Several aspects of the regulatory framework that contribute to the Commission achieving Goal Two are: 1) requiring that market participants post margin to secure their ability to fulfill financial obligations; 2) requiring participants on the losing side of trades to meet their obligations, in cash, through daily (sometimes intraday) margin calls; 3) requiring FCMs to maintain minimum levels of operating capital; and, 4) requiring FCMs to segregate customer funds from their own funds.

The Commission works with the exchanges and the NFA to closely monitor the financial condition of the FCMs themselves, who must provide the Commission, exchanges, and NFA with various monthly and annual financial reports. The exchanges and NFA conduct routine, periodic audits and daily financial surveillance of their respective member FCMs. As a regulator, the Commission reviews the audit and financial surveillance programs of the exchanges and NFA and also monitors the financial condition of FCMs directly, as appropriate. This includes reviewing each FCM's exposure to risk from large customer positions that it carries. The Commission also conducts extensive daily surveillance of risks posed by traders, firms, and DCOs and periodically reviews clearing organization procedures for monitoring risks and protecting customer funds.

The Commission works with the NFA to ensure that those seeking registration as intermediaries meet high qualification and fitness standards through the registration process. The Commission also drafts and interprets rules that apply to the conduct of business by these intermediaries.

With the implementation of the Dodd-Frank Act, the Commission has substantially greater responsibilities, including oversight of newly registered derivatives dealers, as well as implementation of enhanced compliance requirements for intermediaries and new core principle requirements for DCOs. The Commission also will be responsible for determining the initial eligibility or the continuing

qualification of a DCO to clear swaps, as well as for the review of swaps submitted to the Commission for a determination as to whether the swaps are required to be cleared. The Commission also will be implementing new statutory provisions regarding review of new rules and rule amendments submitted by DCOs. In addition, the scope of the Commission's reviews of DCOs, designated self-regulatory organizations, and intermediaries will be expanded to include swap transactions and swap intermediaries.

Goal Two Key Results

- The Commission adopted regulations concerning the registration process for swap dealers and major swap participants.
- The Commission adopted final rules: 1) establishing reporting, recordkeeping, and daily trading records requirements for swap dealers and major swap participants; 2) establishing and governing the duties of swap dealers and major swap participants; 3) establishing conflicts of interest requirements for SDs, MSPs, FCMs, and IBs; 4) concerning the designation, qualifications, and duties of the chief compliance officers of FCMs, SDs, and MSPs; and 5) establishing requirements for swap trading relationship documentation, swap confirmation, portfolio reconciliation and portfolio compression for SDs and MSPs.
- The Commission adopted business conduct standards rules for swap dealers and major swap participants governing their dealings with counterparties generally, and additional requirements when they deal with "Special Entities."
- The Commission proposed new regulations, and amendments to existing regulations, to enhance protections for customers and to strengthen the safeguards surrounding the holding of money, securities and other property deposited by customers with FCMs and DCOs. The proposals expand upon previous Commission actions to enhance customer protections, including rolling back certain exemptions from investment standards for customer funds under Regulation 1.25 and the adoption of the Legal Segregation with Operational Commingling model for cleared swap transactions.
- The Commission finalized rules that implement the Dodd-Frank Act statutory core principles for DCOs, and are found in Part 39 of the Commission's regulations. Taken together, these rules are designed to implement international standards for central counterparties as reflected in the "Principles for Financial Market infrastructures" issued by the Committee on Payment and Settlement Systems of the Bank for International Settlements and IOSCO.
- The Commission met its target to perform risk analysis and stress-testing on 550,000 large trader and clearing member positions to ascertain those with significant risk and confirm that such risks are being appropriately managed.
- The Commission made significant progress in updating systems to support expanded financial and risk surveillance activity. New systems were implemented to support Internal Revenue Service (IRS) and credit default swaps (CDS) stress testing and margin analysis and to provide tools for valuation and portfolio analysis. Existing systems were updated to support increased financial reporting. At the same time, automated services were implemented for retrieving market data and reference data. This allows staff more time to focus their surveillance on high risk areas. The Commission is now well-prepared to use the increased DCO reporting that will begin early in FY 2013 to effectively monitor swaps-related clearing activities.

Strategic Goal Three

Strategic Goal Three

Protect the public and market participants through a robust enforcement program.

FY 2012 INVESTMENT

Net Cost: $60.9 Million

Staffing: 253 FTE

The Commission is committed to prosecuting violations of the CEA and Commission regulations to protect market participants and promote market integrity. The Commission investigates and litigates cases that have the greatest impact, whether they are against some of the world's largest financial institutions for attempted manipulation, false reporting, customer fund violations, wash trading, or supervision failures, or against a Ponzi schemer who perpetrates a multi-million dollar scam on the unsuspecting public. As a result of these efforts, the Commission filed 102 enforcement actions in FY 2012. The Commission also opened more than 350 new investigations in FY 2012, among the highest annual count of new investigations in program history. In addition, the DOE obtained orders imposing more than $900 million in sanctions, including orders imposing more than $450 million in civil monetary penalties and directing the payment of more than $450 million in restitution and disgorgement.

Goal Three Key Results

Cases Involving Manipulation, False Reporting, Wash Trades and Position Limits

- In a landmark case, the CFTC filed charges against Barclays PLC and two affiliates for attempted manipulation and false reporting concerning LIBOR and other global benchmark interest rates. The charges were simultaneously settled pursuant to an Order requiring Barclays to pay $200 million, the largest fine ever imposed by the CFTC, and requiring Barclays to implement a number of measures to ensure the integrity of the bank's benchmark submissions.
- The CFTC settled charges previously filed in Federal court against a global proprietary trading company, Optiver Holding BV, two of its subsidiaries and three then-company officers for manipulating and attempting to manipulate crude oil and other energy futures contracts. The court-approved settlement required the defendants to pay $14 million and included trading limitations for one of the corporate defendants and the three individual defendants.

- The CFTC filed charges against Joseph F. Welsh, a former broker with MF Global, alleging that Welsh attempted to manipulate prices of palladium and platinum futures contracts, and with aiding and abetting the attempted manipulations of Christopher L. Pia, a former portfolio manager of Moore Capital Management, LLC. Both Pia and Moore Capital settled the separate actions against them prior to FY 2012. The case against Welsh is pending in Federal court in New York.
- The CFTC filed charges against Royal Bank of Canada (RBC), alleging a multi-hundred million dollar wash trading scheme involving stock futures contracts. The CFTC's complaint, which is pending in Federal court in New York, also alleged that RBC made false statements concerning material aspects of its wash sale scheme to OneChicago, LLC, an electronic futures exchange, and to CME Group, Inc.
- The CFTC filed a number of separate actions against traders who exceeded the limits on the quantity of futures contracts they were lawfully permitted to hold, in the cotton, wheat, corn, and soybean markets. The penalties imposed in these cases pursuant to settlement orders ranged from $140,000 to $600,000, and in one case the sanction included disgorgement of $1 million in profits made from the excessively large position.

Cases Involving Customer Funds Safeguards and Supervision Obligations

- The CFTC filed charges against Peregrine Financial Group Inc., a FCM, and its owner, Russell R. Wasendorf, Sr. alleging misappropriation of customer funds, violations of customer fund segregation laws, and making material false statements to the CFTC. The suit, which is pending in Federal court in Chicago, was filed within 24 hours after the fraud came to light.
- The CFTC filed charges against JPMorgan Chase Bank for its unlawful handling of Lehman Brothers, Inc.'s customer funds prior to and after Lehman filed for bankruptcy in the midst of the financial crisis of 2008. The charges were simultaneously settled pursuant to an Order requiring JPMorgan to pay $20 million, the largest CFTC sanction for a segregated fund violation to date.
- The CFTC filed charges against MBF Clearing Corp. (MBF), a registered FCM, alleging that MBF violated laws requiring the segregation of customer funds and that the firm failed to adhere to its supervision obligations. The case is pending in Federal court in New York.
- The CFTC filed charges against Forex Capital Markets LLC (FXCM) for failing to supervise the handling of more than 57,000 customer accounts that were disadvantaged by FXCM's system that allowed for one-sided "slippage" in forex prices. The charges, which also included a separate violation for FXCM's failure to produce certain records promptly to the DOE, were settled simultaneously pursuant to an Order requiring FXCM to pay more than $14 million.
- The CFTC filed charges against Goldman Sachs Execution & Clearing, L.P. (GSEC), a FCM, for supervision violations arising from GSEC's failure to investigate signs of questionable conduct by a GSEC client. The charges were simultaneously settled pursuant to an Order requiring GSEC to pay $7 million.
- The CFTC filed charges against Rosenthal Collins Group, LLC (RCG), a FCM, for failing to supervise an RCG account that an RCG client was using to perpetrate a multi-million dollar commodity futures Ponzi scheme. (The DOE charged the RCG client, Enrique F. Villalba, and his company for the underlying fraud prior to FY 2012.) The charges against RCG were simultaneously settled pursuant to an Order requiring RCG to pay $2.5 million.

Cases Involving Ponzi and Other Fraud Schemes, and False Statements to the CFTC

- The CFTC filed charges against Ronnie Wilson and Atlantic Bullion & Coin, Inc. alleging that they operated a $90 million Ponzi scheme involving fraudulent contracts for purchases and sales of silver. The complaint, which is pending in a Federal court in South Carolina, uses the agency's new Dodd-Frank Act authority prohibiting fraud schemes in connection with a contract of sale of a commodity in interstate commerce.
- The CFTC filed charges against Nikolai S. Battoo and his four companies alleging fraud in connection with commodity pools that allegedly accepted over $140 million from U.S. investors. The case is pending in Federal court in Chicago.

- The CFTC filed charges against Steven Pousa of Australia, Joel Friant of the United States, and their company Investment Intelligence Corp, alleging they conducted a global fraudulent off-exchange forex scheme, allegedly accepting at least $53 million from at least 960 clients. The case is pending in a Federal court in Texas.

- The CFTC filed charges against Donald Newell and his company Quiddity LLC, a registered CPO and trading advisor, alleging that they fraudulently allocated more profitable trades to themselves and less profitable trades to their customers. The DOE also charged Newell under the Commission's new Dodd-Frank Act authority with making material false statements to the DOE during its investigation of this matter. The case is pending in Federal court in Chicago.

Cooperation with Law Enforcement Partners

- In FY 2012, the CFTC worked actively with Federal and state criminal and civil law enforcement authorities, including by assisting them in more than 200 investigations and prosecutions, 50 of which were related to separate actions commenced by the CFTC. The DOE also continued to give assistance to and receive assistance from international regulators. For example, in FY 2012 the DOE received responses to more than 300 requests for assistance that it made of more than 70 different regulators under the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information, and other information-sharing arrangements. The international regulatory community has been instrumental to the CFTC's success in a number of important actions.

Whistleblower Program

- The Commission's Whistleblower Office (WBO) receives and processes tips, complaints, and award claims from whistleblowers, as well as tips and complaints from non-whistleblower correspondents. During FY 2012, WBO developed and implemented internal policies and procedures, and helped design and launch a new web portal on *http://www.cftc.gov* where individuals can file tips and complaints electronically. WBO is also raising awareness of the program among interested stakeholders—including whistleblowers and their attorneys, industry and professional groups, other government agencies, SROs, and academia—through panel and seminar appearances, webinars, speeches, articles, web postings, and by answering questions posed directly to WBO about the program.

Information Technology

- The Commission has streamlined tips, complaints, and referrals reporting for both whistleblowers and other market participants. Reporting is now supported by an online portal which provides straight-through processing to the eLaw systems used to support enforcement activities.

- The Commission continues to upgrade eLaw technology and implement new capabilities like Financial Investigatory Software that reduces the time required to ingest, parse, and conduct preliminary analysis of bank statements and other financial data. This ensures that staff remains on a level playing field with industry legal staff. The Commission has also increased the use of analysis tools by investigators to provide more insight into potential enforcement actions.

Strategic Goal Four

Strategic Goal Four

Enhance integrity of U.S. markets by engaging in cross-border cooperation, promoting strong international regulatory standards, and encouraging ongoing convergence of laws and regulation worldwide.

FY 2012 INVESTMENT

Net Cost: $6.9 Million

Staffing: 29 FTE

The implementation of comprehensive regulations under the Dodd-Frank Act legislation marks a new era in the swaps marketplace by mandating, among other things, the regulation of swap dealers, clearing of swaps, and transparency with respect to those transactions. However, regulation in the United States alone will not be sufficient to protect the financial system.

Because the swaps market is conducted on a global basis, it is possible for swaps executed offshore by U.S. financial institutions to transmit the risk of those transactions back to the United States. This happened with the offshore affiliates of AIG, Lehman Brothers, Citigroup, Bear Stearns, and Long Term Capital Management and most recently when JPMorgan Chase executed swaps through its London branch.

Recognizing this risk, the United States joined with other G20 leaders in 2009 to require that all major market jurisdictions bring swaps under regulation. Since that date, the Commission has been engaged in an unprecedented outreach to major market jurisdictions and expanded involvement in numerous international working groups to encourage the adoption of robust swaps regulation.

This added emphasis is in addition to the Commission's long-standing engagement with foreign regulators to establish customer and market protection arrangements in futures trading. It is also in addition to the Commission's strong role in international standard setting organizations such as IOSCO, which recently recognized the Commission's long history of contributions by voting to make the Commission a full member.

Finally, the CFTC also provides technical assistance to emerging and recently-emerged markets to help these jurisdictions in establishing and implementing laws and regulations that foster global market integrity. The Commission's international training symposium has consistently attracted wide attendance by foreign regulators who look to the Commission as a global standard setter in derivatives regulation.

Goal Four Key Results

- The Commission's international staff coordinated the Commission's engagement with the European Commission and Parliament with the objective of encouraging harmonization of European regulatory development with Dodd-Frank Act policies. The Commission initiated similar discussions with other foreign regulators. Additionally, the OIA organized a roundtable on the cross-border application of the Dodd-Frank Act.

- The CFTC exceeded its performance target for international working group participation as it continued its engagement in technical level working groups on OTC derivatives with global regulatory authorities, such as the European Commission, European Securities Markets Authority, and regulatory authorities in Australia, Canada, Japan, Singapore, and Hong Kong. Commission staff participated in the OTC Derivatives Regulators Forum, which has created new subgroups for FX and Commodity Derivatives repositories. The Commission also participated in the Financial Stability Board (FSB) OTC derivatives working group, which is monitoring progress by countries in implementing the G20's OTC derivatives mandates and the FSB legal identifier task force. The Commission, as co-chair of an IOSCO-CPSS task force on OTC derivatives regulation, authored a report on data reporting and aggregation requirements.

- The Commission's international staff participated in Dodd-Frank Act rulemakings in order to provide input on the cross-border implications of those rulemakings, continued to coordinate a review of cross-border arrangements that will be needed under the Dodd-Frank Act with major market jurisdictions such as the European Union, and developed draft memoranda of understanding on the supervision of dually-regulated cross-border clearinghouses. The Commission led a joint CFTC-SEC study on swap and clearing regulation in the United States, Asia, and Europe.

- The Commission successfully advocated for the CFTC to be considered as an Ordinary member with full voting rights, thus ending decades of being considered an Associate member. This will allow the Commission to have a greater voice in shaping international policies within IOSCO. Commission staff continued to participate actively in the various IOSCO working groups: Standing Committee 2 on secondary markets, Standing Committee 3 on intermediaries, the OTC derivatives task force, and the newly established Assessment Committee. Commission staff are participating in a working group to issue a report regarding effective and practical access by regulators and other official international authorities to trade repository data.

- The Commission also co-chaired the IOSCO committee on commodity futures markets and in that capacity took a leading role in developing a final report that established principles for price reporting agencies in oil. This report was requested by IOSCO and the G-20 as a means to enhance transparency in global oil markets. The Commission also co-chaired an international study on the extent of derivatives regulators' implementation of the IOSCO principles for commodity derivatives markets.

- The Commission participated in several bilateral meetings with European Financial regulators led by the U.S. Department of Treasury to discuss, among other things, the E.U. Data Protection Directive, crisis management, Basel II and III, the Volcker rule and OTC derivatives, China Strategic and Economic dialogues with China and India, dialogues under North American Free Trade Agreement, and U.S. Treasury-led dialogues with the European Commission. The Commission participated in a G-20 study groups on commodities and on fossil fuel volatility.

- The Commission met its performance target of training at least 65 non-U.S. regulators in FY 2012 primarily through the annual symposium for foreign regulators organized by the Commission. Additionally, Commission staff provided technical assistance training to authorities in Brazil and Jamaica. The Commission also coordinated the annual international regulatory conference at Boca Raton, Florida.

- International data on position limits, accountability levels, reporting levels, and aggregated contracts data for U.S. and International Exchanges is now being shared with surveillance and enforcement staff to increase awareness of cross-border activity.

Strategic Goal Five

Strategic Goal Five

Promote Commission excellence through executive direction and leadership, organizational and individual performance management, and effective management of resources.

FY 2012 INVESTMENT

Cost: $25.7 Million

Staffing: 106 FTE

Strategic Goal Five addresses those areas that enable the Commission to execute its mission of protecting market users and the public from fraud, manipulation, and abusive practices. Excellence in this area is reflected in strong and focused planning and governance, top notch information technology and infrastructure, superb facilities, efficient execution of resources, and an educated and productive workforce. FY 2012 proved exceptionally challenging as financial resources grew slower than mission needs causing CFTC to carefully prioritize requirements to meet Dodd-Frank Act initiatives while maintaining excellence monitoring the futures market. The key results summarize CFTC's mission support strategy.

Goal Five Key Results

- The CFTC implemented a new automated hiring system to replace the labor intensive and slower manual hiring process. The new system will significantly increase hiring efficiency and speed, allow CFTC to effectively meet projected hiring goals, and remain competitive in the labor market.
- CFTC successfully increased the number of Diversity and Inclusion collateral-duty employees providing counseling services from eight to 23, and implemented an integrated approach to counselor training which resulted in savings of 45 percent over FY 2011. These enhancements to program management allow CFTC to provide readily-available services to employees in headquarters and regional offices, while enhancing conflict resolution competencies in the workplace.
- The Commission implemented the Strategic Learning Initiative, which included the development and deployment of a division-specific training needs assessment process. In addition, the Commission designed and implemented instructor-led courses and launched new e-learning campaigns to meet the Commission's regulatory, management, and leadership training and development requirements.
- The Consumer Outreach Office was established to develop education initiatives that help customers protect themselves against fraud.

- The Executive Director established a detailed operational level Performance Plan for the FY 2012-2013 performance cycle to better manage OED and commission-wide initiatives. The plan provides the first step towards a comprehensive Agency Performance Plan and includes key milestones and activities. This Plan is used for both the management of initiatives and to evaluate performance of executives.

- The CFTC reengineered its Budget Program Activity Codes to provide a method for collecting time, labor, and expense data that is aligned with the Commission's budget and mission critical activities. During FY 2012, the agency successfully standardized a structure that reflects the requirements of CFTC programs and functions through a multi-divisional working group; put into place a governance framework and provided for future changes to the structure in accordance with best practices; and implemented a comprehensive training program for supervisors, timekeepers, and each employee to support front-end data integrity.

- CFTC earned the Guardian Award recognizing agency excellence in security and suitability programs and operations. The award focuses specifically on agency achievements in security and suitability process automation, program implementation, or policy development resulting in enhanced timeliness, capability, capacity, and/or quality.

- CFTC established an information governance program to provide better coordination on matters involving the collection and use of information. Initial issues addressed include, among other things, use of employees' personal mobile devices for business "Bring Your Own Device (BYOD)", the handling of controlled unclassified information, critical security controls, and the use of social media.

- CFTC implemented new rules and guidance that allow a judgment officer to hear all reparations cases and statutory disqualification matters, as well as wage garnishment matters. The agency will borrow administrative law judges from other agencies if needed to hear administrative enforcement matters. Those changes, combined with implementation of Practice Manager, an electronic litigation support system, allow the Office of Proceedings to perform at a high functional level with only four permanent staff and one contractor.

- To expand CFTC's compliance with Federal Information Security Management Act, we entered into a contract for a Personally Identifiable Information inventory, a review of NFA's privacy policies, and other privacy support. We also removed social security numbers from all CFTC forms and developed a new privacy threshold analysis that allows the procurement staff to determine which contracts require a privacy impact assessment.

- In the 4th quarter of FY 2012, the Commission instituted a commitment accounting procedure for all purchase requisitions. Immediately after funds have been certified available for a purchase requisition, a commitment or reservation of funds is entered into the Commission's financial system to ensure that funds are available before contractual documents are awarded/obligated. This provides greater transparency into the true status of budgetary resources and consequently reduces the financial risk of the agency.

Information Technology

- In addition to scaling up storage, processing, and communication bandwidth to support increased activity related to the Dodd-Frank Act, the Commission also migrated internet connections to a Department of Homeland Security-sanctioned Managed Trusted Internet Protocol Service and began implementing continuous monitoring of information security controls in order to enhance cyber-security.

- To better support increasingly mobile and internationally-focused staff, the Commission piloted new mobile device technology. Based on the results of the pilot and other assessments, the Commission is prepared to begin a prioritized, targeted refresh of desktop and mobile technology in FY 2013 to increase the effectiveness of staff.
- To help the effective transition of its workforce to the Dodd-Frank Act regulatory environment, the Commission leveraged cloud-based, software-as-a-service (SaaS) solutions to improve the hiring, training, and learning management, and staff time reporting processes. To increase the use and effectiveness of SaaS to support management and administration, the Commission also consolidated administrative and staff data into a central database supported by web services. In addition to allowing the Commission to streamline vendor management, staff and contractor, and ethics compliance processes, this has also allowed for the consolidation and increased control over sensitive personally identifiable information.
- In addition to implementing a public-facing portal to streamline the submission of documents and information related to registration and compliance, product review, and enforcement activities, the Commission also continued to improve its public website to support increased transparency, improving its search engine and publishing Dodd-Frank Act timeline information.

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 2012:

Highlights	2012	2011
Condensed Balance Sheet Data		
Fund Balance with Treasury	$ 82,557,690	$ 81,785,717
Investments	77,135,901	–
Accounts Receivable	20,976	1,109,626
Prepayments	1,803,497	2,574,173
Custodial Receivables, Net	4,140,347	2,574,173
General Property, Plant, and Equipment, Net	53,410,435	42,346,895
Deferred Costs	1,234,223	6,254,873
TOTAL ASSETS	**$ 220,303,069**	**$ 134,130,510**
FECA Liabilities	$ 764,243	$ 528,512
Accounts Payable	7,217,772	7,092,349
Accrued Funded Payroll and Annual Leave	16,477,676	15,464,338
Custodial Liabilities	4,140,347	2,574,173
Depost Fund Liabilities	77,098	57,127
Deferred Lease Liabilities	24,808,042	21,974,782
Other	19,050	19,649
TOTAL LIABILITIES	**$ 53,504,228**	**$ 47,710,930**
Cumulative Results of Operations – Earmarked	99,996,749	23,755,000
Cumulative Results of Operations	20,452,619	17,998,424
Unexpended Appropriations	46,349,473	44,666,156
Total Net Position	**166,798,841**	**86,419,580**
TOTAL LIABILITIES AND NET POSITION	**$ 220,303,069**	**$ 134,130,510**
Condensed Statements of Net Cost		
Gross Costs	$ 207,618,265	$ 187,648,360
Earned Revenue	(227,504)	(88,720)
TOTAL NET COST OF OPERATIONS	**$ 207,390,761**	**$ 187,559,640**
Net Cost of Operations by Strategic Goal		
Goal One – Market Integrity	$ 59,198,584	$ 48,390,387
Goal Two – Clearing Integrity	54,647,465	43,701,396
Goal Three – Protect Market Users and Public	60,972,883	61,144,442
Goal Four – Cross-Border Cooperation	6,947,591	8,440,184
Goal Five – Organizational and Management Excellence	25,654,238	25,883,231
	$ 207,390,761	**$ 187,559,640**

Financial Discussion and Analysis

The CFTC prepares annual financial statements in accordance with U.S. generally accepted accounting principles (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 the preceding page highlights changes in financial position between September 30, 2012 and September 30, 2011. 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 OMB Circular A-136, *Financial Reporting Requirements*, which is revised annually by the Office of Management and Budget (OMB) in coordination with the U.S. Chief Financial Officers Council. The 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.

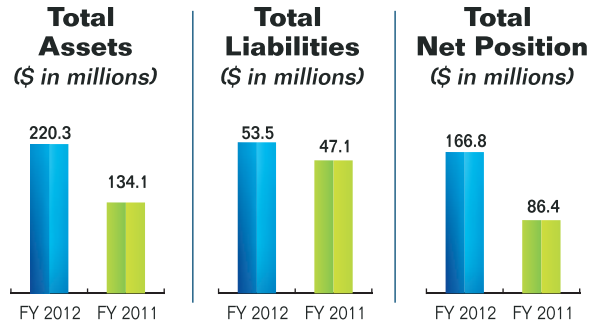
For the year ended September 30, 2012, the Balance Sheet reflects total assets of $220.3 million. This is a 64.25 percent increase from FY 2011. The increase is primarily due to large increases in Customer Protection Fund collections and in the Plant, Property, and Equipment balance.

The CFTC litigates against defendants for alleged violations of the CEA and Commission regulations. Violators may be subject to a variety of sanctions including civil monetary penalties, injunctive orders, trading and registration bars and suspensions, and orders to pay disgorgement and restitution to customers. Section 748 of the Dodd-Frank Act amended the CEA by adding Section 23, entitled "Commodity Whistleblower Incentives and Protection." Among other things, Section 23 establishes a whistleblower program that requires the Commission to pay an award, under regulations prescribed by the Commission and subject to certain limitations, to eligible whistleblowers who voluntarily provide the Commission with original information about a violation of the CEA that leads to the successful enforcement of a covered judicial or administrative action, or a related action. The Commission's whistleblower awards are to equal, in the aggregate amount, at least 10 but not more than 30 percent of the monetary sanctions actually collected in the Commission's action or a related action. To provide funding for the Commission's whistleblower award program, the Dodd-Frank Act established the Commodity Futures Trading Commission Customer Protection Fund. In addition, the Fund can be used to finance customer education initiatives. As of September 30, 2012, the Fund had a balance of $100 million. In FY 2012, the Commission, for the second time, received a two-year appropriation to ensure fiscal certainty in the implementation of the Dodd-Frank Act. The Commission carried over $5.9 million of its FY 2012/2013 appropriation and is using these funds to continue operations during the first quarter of FY 2013.

The Commission's General Property, Plant and Equipment balance was $11.1 million more in FY 2012 than it was at the end of FY 2011. The increase was attributable to technology modernization and space renovations made in New York and Washington, D.C.

The Commission enters into commercial leases for its headquarters and regional offices. In FY 2012, the agency extended and expanded its lease in New York, NY. These leasing

arrangements allowed for monthly rent payments to be deferred until future years as well as provided for landlord contributions to space renovations. These amounts are reflected as a Deferred Lease Liability on the Balance Sheet. Additionally, as should be expected from a small regulatory agency; payroll, benefits, accounts payable and annual leave make up the majority of the remaining CFTC liabilities.



Statement of Net Cost

This statement is designed to present the components of the Commission's net cost of operations. Net cost is the gross cost incurred less any revenues earned from Commission activities. The Statement of Net Cost is categorized by the Commission's five strategic goals which were revised in FY 2011 to add a new goal: Enhance the integrity of U.S. Markets by engaging in cross-border cooperation to promote strong international regulatory standards. Moreover, for clarity, management realigned most DCIO work into strategic Goal Two and most DOE work into Goal Three.

The Commission experienced a 10.6 percent increase in the total net cost of operations during FY 2012.

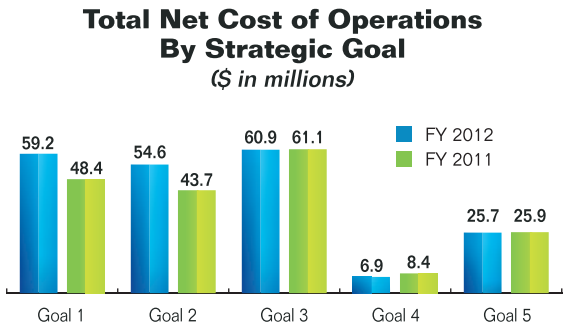
Strategic Goal One, which tracks activities related to market oversight, continues to require a significant share of Commission resources at 29 percent of net cost of operations in FY 2012. The $59.2 million reflects a continuation of management's effort to address market volatility.

Strategic Goal Two is representative of efforts to protect market users and the public. In FY 2012, the net cost of operations for this goal was $54.6 million or 26 percent. The funding for this goal is primarily to support DOE with new and ongoing investigations in response to market activity. Investigations into crude oil and related derivative contracts, and suspected Ponzi schemes have been extremely resource intensive.

Strategic Goal Three is representative of efforts to ensure market integrity. In FY 2012, the net cost of operations for this goal was $61 million or 29 percent, an increase of eight percent from FY 2011. The increase is reflective of the emphasis necessary to develop concrete measures that will bring transparency, openness and competition to the swaps markets while lowering the risk they pose to the American public.

Strategic Goal Four is representative of efforts to increase cross-border cooperation to promote strong international regulatory standards. The net cost of this work, in prior years was subsumed within Goal Five. In FY 2011, the net cost of operations for this goal was $6.9 million or three percent. CFTC is dramatically expanding its cross-border presence through cooperative agreements and active participation on international standards setting organization committees.

Strategic Goal Five is representative of efforts to achieve organizational excellence and accountability. Included in this goal are the efforts of the Chairman, Commissioners, and related staff to ensure more transparency in the commodity markets, and lay the groundwork for the future. Additionally, these costs are reflective of the planning and execution of human capital, financial management, and technology initiatives. In FY 2012, the net cost of operations for this goal was $25.7 million or 12 percent.

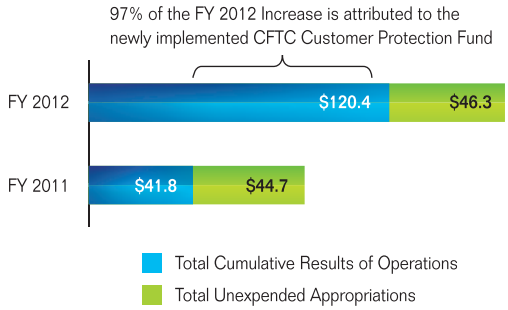


Statement of Changes in Net Position

The Statement of Changes in Net Position presents the agency's cumulative net results of operation and unexpended appropriations for the Fiscal Year. CFTC's Net Position increased by $80.3 million, or 90.3 percent, in FY 2012. The dramatic increase is primarily attributed to cumulative net results of operations which rose by $78.7 million (the earmarked funds of Consumer Protection Fund accounted for $76.2 million of that increase) and Total Unexpended Appro-

priations which reflects a yearly increase of $14.2 million in the cumulative amount of Unexpended Appropriations as of September 30, 2012. This is not unexpected as the earmarked funds for the Customer Protection Fund were not deposited until late September. The Commission had also been operating under a continuing resolution for about seven months and obligated most of its non-compensation and benefit budget in the fourth quarter of the fiscal year.

Changes in Net Position
($ in millions)



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 2012*.

The $205.3 million appropriation received in FY 2012 represented no increase for the Commission. This permitted the Commission to continue to fund benefits and compensation, lease expenses, printing, services to support systems users, telecommunications, operations, and maintenance of IT equipment. In FY 2012, gross outlays were in line with the gross costs of operations due to increased hiring, space renovations, and technology spending.

Statement of Custodial Activity

This statement provides information about the sources and disposition of collections. With the inception of the CFTC Customer Protection Fund, CFTC transfers earmarked funds to it and Non-exchange revenue to the Treasury general fund. Collections are primarily represented by fines, penalties, and forfeitures assessed and levied against businesses and individuals for violations of the CEA or Commission regulations. They also include non-exchange revenues include registration, filing, appeal fees, and general receipts. The Statement of Custodial Activity reflects total cash collections in the amount of $261.5 million. Of which $184.8 million was transferred to U.S. Department of Treasury and $76.7 was transferred into the Customer Protection Fund. This amount represents an increase of $70.9 million from FY 2011, when the Commission collected $5.7 million.

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 deemed otherwise. An allowance for uncollectible accounts has been established and included in the accounts receivable on the Balance Sheet. The allowance is based on past experience in the collection of accounts receivables and an analysis of outstanding balances. Accounts are re-estimated quarterly based on account reviews and a determination that changes to the net realizable value are needed.

Total Cash Collections
($ in millions)

Registration and Filing Fees	$ 1.8
Fines, Penalties, and Forfeitures	$ 259.7
General Proprietary Receipts	$ 0.3
	$ 261.5

Total Disbursements of Collections
($ in millions)

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.

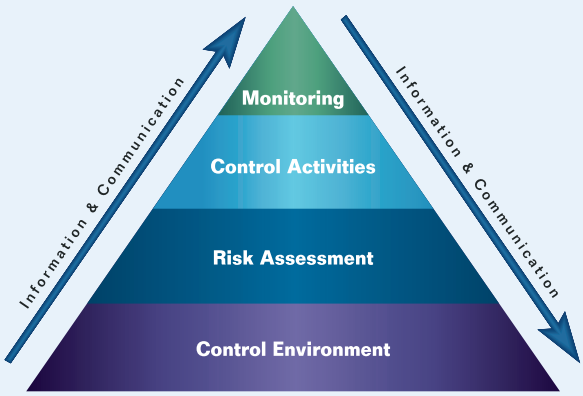
Risk Assessment is the identification and analysis of risks associated with business processes, financial reporting, technology systems, and controls and legal compliance in the pursuit of agency goals and objectives.

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 ensure the agency's control environment, risks, control activities, and performance results are communicated throughout the agency.

Internal Control Process



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

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

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, 2012 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 governing the use of budget authority and other laws and regulations that could have a material effect on the financial statements, 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, 2012 was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

The CFTC also conducts reviews of its financial management systems in accordance with OMB Circular A-127, Financial Management Systems. Based on the results of these reviews, the CFTC can provide reasonable assurance that its financial management systems are in compliance with applicable provisions of the Federal Financial Management Improvement Act of 1996 as of September 30, 2012."

Gary Gensler
Chairman
November 15, 2012

During FY 2012, in accordance with 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 to financial and statistical reports, and to maintain accountability over assets; and
- All programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

The efficiency of the Commission's operations is evaluated using information obtained from reviews conducted by Government Accountability Office (GAO) and the Office of the 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. The items presented below are illustrative of the work performed during FY 2012:

- Pay and benefits assessment based on the authority of Section 10702 of the Public Law 107-171, Farm Security and Rural Investment Act of 2002 (FSRIA);
- Remediation of management letter matters identified in the FY 2011 audit of the agency's financial statements and related internal controls;
- Management control reviews conducted with the express purpose of assessing internal controls;
- Management control reviews conducted with the express purpose of assessing compliance with applicable laws, regulations, government-wide policies, and laws identified by OMB in Memorandum M-09-33 Technical Amendments to OMB Bulletin No. 07-04 Audit Requirements for Federal Financial Statements;
- Information security as required by the Federal Information Security Management Act (FISMA); and
- Implementation of the CFTC's Property Inventory Management System to maintain an inventory and monitor the agency's accountable assets.

FMFIA Section 2, Management Control

The Commission has no declared material weakness under FMFIA for FY 2012 and FY 2011 in the area of financial reporting that hinders preparation of timely and accurate financial statements.

FMFIA Section 4, Financial Management Systems

The Commission declared no systems nonconformance under FMFIA during FY 2012 and FY 2011. The independent auditors' reports for FY 2012 and FY 2011 disclosed no instances of noncompliance or other matters that were required to be reported under *Generally Accepted Government Auditing Standards* (GAGAS) and OMB Bulletin 07-04, *Audit Standards for Federal Financial Statements*.

Forward Looking – Future Business Trends and Events

CFTC Implements the Dodd-Frank Act

In September 2008, our economy fell into a downward spiral when one large financial institution after another teetered on the brink of failure, threatening our financial system and the well-being of the American public.

While the crisis had many causes, it is evident that unregulated derivatives, called swaps, heightened risk on Wall Street and played a central role in the financial crisis. Developed in the 1980s, swaps, along with the regulated futures market, help producers, merchants, and other companies to lower their risk by locking in the price of a commodity or an interest rate, currency or other financial index. The public buys gasoline and groceries from companies that rely upon futures and swaps to hedge their commodity price risks. The public keeps their savings with banks and pension funds that use swaps to manage their interest rate risks. Our nation's economy relies on a well-functioning derivatives market—an essential piece of a healthy American financial system.

The swaps market since its inception has remained unregulated. The swaps market has grown in size and complexity that far outstrips the futures market, and is over six times the size of the futures market. Swaps added leverage to the financial system—with more risk backed by less capital.

Swaps contributed significantly to the interconnectedness between banks, investment banks, and hedge funds, among other financial entities. Large financial institutions, were regarded not only as too big to fail, but also too interconnected to fail. When AIG, Bear Stearns and others collapsed, taxpayers were made to pick up the bill to prevent the economy from diving deeper into a depression. The financial system failed. Moreover, the limited regulatory system that was put in place to protect the public failed as well.

In 2010, Congress and the President came together and passed an historic law: the Dodd-Frank Act. For the first time, the CFTC and SEC will have oversight of the swaps and security-based swaps markets.

The Dodd-Frank Act includes many important provisions, but includes two overarching goals of reform: bringing transparency to the swaps market and lowering the risks of this market to the overall economy. Both of these reforms will better protect taxpayers from again bearing the brunt of a financial crisis and will cut costs for businesses and their customers.

The first overarching goal of reform brings critical transparency to the derivatives marketplace. The more transparent a marketplace is the more liquid it is and the more competi-

tive it is. In short, when markets are open and transparent, costs are lower for companies and the people who buy their products. They are safer and more sound.

The Dodd-Frank Act promotes both pre-trade and post-trade transparency. It moves certain standardized swaps transactions to exchanges or swap execution facilities. This will allow buyers and sellers to meet in an open marketplace where prices are publicly available, rather than in the shadows of the financial system. The Dodd-Frank Act also requires the real-time reporting of the price and volume of transactions. Furthermore, it requires that once a swap transaction is arranged, its valuation must be shared on a daily basis with the counterparty. These measures of transparency and openness reduce some of the information advantages that dealers currently have over Main Street.

The second overarching goal of reform is equally as important. The law lowers risk to the overall economy by directly regulating dealers for their swaps activities as well as moving standardized swaps into central clearing. Clearinghouses mitigate the risks that arise from the interconnectedness in the financial system by standing between counterparties and guaranteeing the obligations of the parties in case of default. They have lowered risk for the public in the futures markets since the late-19th Century—through world wars, the Great Depression, and financial crises. It's time to modernize the swaps market and provide the same protections for taxpayers.

As of October 12, the new era of swaps market reform began. For the first time, regulators and the public are beginning to benefit from market transparency. Swap dealers will come under comprehensive oversight, and central clearing will soon lower risk and help level the playing. Three principal areas of reform include the clearing requirement, transparency initiatives and swap dealer registration.

Central clearing equalizes access to the market and democratizes it by eliminating the need for market participants to individually determine counterparty credit risk, as now the clearinghouse stands between buyers and sellers. In July 2012 the Commission embarked on the last step toward clearing of standardized swaps when we sought public input on the first set of swaps that will be required to be cleared. They begin with standard interest rate swaps in U.S. dollars, euros, British pounds and Japanese yen, as well as a number of CDS indices, including North American and European corporate names.

As of October 2012, transparency was brought to the swaps market when cleared interest rate and CDS transactions began to be reported to swap data repositories. By 2013, the public will benefit from real time reporting for these transactions, as well as for uncleared swap transactions entered into by swap dealers. Further transparency will result from the use of swap execution facilities

Comprehensive oversight of swap dealers will promote transparency and lower their risk to the rest of the economy. The process of registration has begun, and the Commission anticipates that many dealers will do so by January 1, 2013.

The development of swaps regulations marks new era for the commission, one that will challenge the Commission to provide effective oversight for the futures and swaps markets.

However, regulation in the United States alone will not be sufficient to protect the financial system. The swaps market is conducted on a global basis. As a result, during a default or crisis, risk knows no geographic border. If a run starts on one part of a modern financial institution, almost regardless of where it is around the globe, it invariably means a funding and liquidity crisis rapidly spreads to the entire consolidated entity. This was illustrated by the activities of the overseas affiliates of AIG, Lehman Brothers, Citigroup and Bear Stearns.

When financial institutions or others operating outside the United States transmit risks directly into the United States through swap activities with U.S. persons, Dodd-Frank Act and Commission regulations provide for the regulation of such activities in the same manner as swap activities within the United States. In the summer of 2012, the Commission proposed guidance interpreting the cross-border application of the Dodd-Frank Act and an approach to phased compliance for foreign swap dealers. In the interim, the CFTC issued time-limited relief to certain foreign legal entities regarding the counting of swaps toward the *de minimis* swap-dealing threshold.

Given the new era of swaps market reform, it's the natural order of things that market participants have sought further guidance. This regularly occurs as the Commission moves to market implementation from Congressional legislation and agency rulemaking.

Other Challenges

Benchmark Interest Rates

Benchmark interest rates, such as LIBOR, are a key component of our financial markets, and they must work for the rest of the economy. To do so, they must be honest and reliable and based on sufficient numbers of transactions. The Commission's settlement with Barclay's Bank reflects that better standards are needed with respect to benchmarks, many of which are referenced in futures and swaps contracts. The Commission is co-chairing an IOSCO Task Force on benchmarks with the U.K. FSA. This project will include a public roundtable and culminate in a report and recommendations in the spring. The IOSCO Task force will be seeking public input on possible mechanisms and protocols that would best ensure for a smooth transition when needed.

Cross-Border Issues

As noted above, futures and swaps regulation in the United States alone will not be sufficient to protect the financial system. The Commission's Global Markets Advisory Committee will continue to meet to obtain the views of international regulators, futures and swaps industry professionals and market participants on cross-border issues related to OTC derivatives reform.

Systemic Risks

The financial crisis prompted multilateral organizations, such as IOSCO, to emphasize the identification of systemic risks as a new principle for its member regulatory agencies. The 2010 financial legislation similarly stressed the need for a more comprehensive approach to the identification of systemic risk through the creation of a new risk council composed of the U.S. financial regulators. The Commission will need to develop internal mechanisms and acquire new competencies and approaches to risk identification to address this new policy objective. Addressing systemic risks will also involve greater international cooperation and the development of new global mechanisms for the ongoing evaluation of, and sharing of concerns regarding, emerging global financial risks. The challenge will be to develop internal, domestic and global mechanisms that can understand, identify and address novel, emerging forms of risk.

Impact of Technology on Market Structure

The May 2010 "flash crash" has focused attention on the activities of high frequency, algorithmic-driven traders. High frequency trading challenges regulators to understand how this form of trading has transformed markets and poses new questions concerning what constitutes abusive trading practices. These issues will continue to be addressed within the Commission's Technology Advisory Committee. In addition, , the Commission will continue its participation with the SEC in the Joint Advisory Committee on Emerging Regulatory Issues. Because trading takes place globally, the CFTC expects to cooperate with other international authorities that are examining these issues as well. The Commission also will continue to conduct its own research in this area.

Impact of Technology on Regulatory Oversight

To effectively accomplish its mission, the CFTC must adapt to frequent and innovative changes in the derivatives markets, increasing use of technology and growing market complexity. The Commission will extend its data ingestion and analysis framework to manage market data as it evolves with the industry and to make greater use of pre-trade and non-regulatory data. The framework will continue to be leveraged and built upon to provide services that multiply the effectiveness of staff, accomplishing integration between futures and swaps data and increased integration of CFTC systems and processes for monitoring registered entities, market and financial risk, market integrity, trade practice, enforcement, and economic analysis. CFTC will also extend the framework to complement direct access portals being deployed by SDRs in order to integrate swaps and futures data in Commission systems. The CFTC will establish common minimum data standards among the SDRs to ensure data interchange and interoperability. The CFTC will also establish and maintain a unified set of master data and reference data using legal entity identifiers as a linchpin. The Commission will also increase the use of industry and government system-based data services in order to reduce as much as practical the latency between market events and staff ability to analyze correlated data from diverse sources.

Energy and Agricultural Futures Markets

The continued concerns that have been expressed with respect to contract specifications in several agricultural futures contracts raise issues that go to the core of the commodity markets and their continued viability for hedging. The Commission will remain engaged in these critical issues, both through the Commission's Agricultural Advisory Committee and the deployment of staff to analyze these problems on a priority basis.

Global shortages, increasing consumer demands and a variety of fundamental factors that affect and possibly distort supply and demand make it likely that there will be continued periods of price volatility in strategically important energy and agricultural commodities. Most recently these concerns have been expressed by the G20 Group of Financial Ministers, and the Commission expects that these concerns will continue to be expressed in the years ahead.

The Commission has contributed to the U.S. response to these G20 concerns through its co-chairing of an IOSCO Committee on Commodity Futures Markets. Work within that Committee led to the development of reports articulating principles for the regulation and oversight of commodity futures markets and principles for oil price reporting agencies. The Commission expects to share its expertise concerning techniques used to: identify and make public, through its Commitments of Traders (COT) reports, large concentrations of positions, the use of position limits as a means to address what the CEA terms excessive speculation, and the application of aggressive enforcement programs that target conduct that may involve futures, OTC and cash markets. The continued "linkage" of U.S. and European markets through dually-regulated intermediaries, exchanges, clearing-houses and soon-to-be registered trade repositories will undoubtedly require closer cooperation and coordination with European authorities.

FINANCIAL SECTION

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A Message from the Chief Financial Officer

The public accounting firm, KPMG LLP, on behalf of the Inspector General, reported that the Commission's financial statements were presented fairly, in all material respects, and were in conformity with U.S. generally accepted accounting principles. For the sixth consecutive year the Commission had no material weaknesses, and was compliant with laws and regulations.

The CFTC leverages a financial management systems platform operated by the U.S. Department of Transportation's (DOT) Enterprise Service Center, an Office of Management and Budget (OMB) designated financial management service provider. As a consequence, the CFTC is able 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 system is in substantial compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996 (although CFTC is not required to comply with FFMIA, it has elected to do so).

Mark Carney
Chief Financial Officer
November 15, 2012

Limitations of Financial Statements

Management has prepared the accompanying financial statements to report the financial position and operational results for the CFTC for FY 2012 and FY 2011 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.

Principal Financial Statements

Commodity Futures Trading Commission

Balance Sheets

As of September 30, 2012 and 2011

	2012	2011
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 82,557,690	$ 81,785,717
Investments (Note 3)	77,135,901	–
Prepayments (Note 1J)	185,766	90,107
Total Intragovernmental	159,879,357	81,875,824
Custodial Receivables, Net (Note 4)	4,140,347	2,574,173
Accounts Receivable (Note 4)	20,976	59,226
General Property, Plant and Equipment, Net (Note 5)	53,410,435	42,346,895
Deferred Costs (Note 6)	1,234,223	6,254,873
Prepayments (Note 1J)	1,617,731	1,019,519
TOTAL ASSETS	**$ 220,303,069**	**$ 134,130,510**
LIABILITIES		
Intragovernmental:		
FECA Liabilities	$ 127,661	$ 91,175
Accounts Payable	523,356	693,987
Total Intragovernmental	651,017	785,162
Accounts Payable	6,694,416	6,398,362
Accrued Funded Payroll	7,837,836	7,346,675
Annual Leave	8,639,840	8,117,663
Actuarial FECA Liabilities (Note 9)	636,582	437,337
Custodial Liabilities	4,140,347	2,574,173
Deposit Fund Liabilities	77,098	57,127
Deferred Lease Liabilities (Note 10)	24,808,042	21,974,782
Other	19,050	19,649
Contingent Liabilities (Note 11)	–	–
Total Liabilities	**$ 53,504,228**	**$ 47,710,930**
NET POSITION		
Cumulative Results of Operations – Earmarked	$ 99,996,749	$ 23,755,000
Cumulative Results of Operations – Other	20,452,619	17,998,424
Unexpended Appropriations	46,349,473	44,666,156
Total Net Position	**166,798,841**	**86,419,580**
TOTAL LIABILITIES AND NET POSITION	**$ 220,303,069**	**$ 134,130,510**

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

Commodity Futures Trading Commission

Statements of Net Cost

For the Years Ended September 30, 2012 and 2011

	2012	2011
NET COST BY GOAL (NOTE 15)		
GOAL 1: PROTECT THE PUBLIC AND MARKET PARTICIPANTS BY ENSURING MARKET INTEGRITY; PROMOTING TRANSPARENCY, COMPETITION, AND FAIRNESS; AND LOWERING RISK IN THE SYSTEM.		
Gross Costs	$ 59,233,491	$ 48,413,277
Less: Earned Revenue	(64,907)	(22,890)
NET COST OF OPERATIONS – GOAL ONE	**$ 59,168,584**	**$ 48,390,387**
GOAL 2: PROTECT THE PUBLIC AND MARKET PARTICIPANTS BY ENSURING THE FINANCIAL INTEGRITY OF DERIVATIVES TRANSACTIONS, MITIGATION OF SYSTEMIC RISK, AND THE FITNESS AND SOUNDNESS OF INTERMEDIARIES AND OTHER REGISTRANTS.		
Gross Costs	$ 54,707,413	$ 43,722,068
Less: Earned Revenue	(59,948)	(20,672)
NET COST OF OPERATIONS – GOAL TWO	**$ 54,647,465**	**$ 43,701,396**
GOAL 3: PROTECT THE PUBLIC AND MARKET PARTICIPANTS THROUGH A ROBUST ENFORCEMENT PROGRAM.		
Gross Costs	$ 61,039,770	$ 61,173,365
Less: Earned Revenue	(66,887)	(28,923)
NET COST OF OPERATIONS – GOAL THREE	**$ 60,972,883**	**$ 61,144,442**
GOAL 4: ENHANCE INTEGRITY OF U.S. MARKETS BY ENGAGING IN CROSS-BORDER COOPERATION, PROMOTING STRONG INTERNATIONAL REGULATORY STANDARDS, AND ENCOURAGING ONGOING CONVERGENCE OF LAWS AND REGULATION WORLDWIDE.		
Gross Costs	$ 6,955,212	$ 8,444,176
Less: Earned Revenue	(7,621)	(3,992)
NET COST OF OPERATIONS – GOAL FOUR	**$ 6,947,591**	**$ 8,440,184**
GOAL 5: PROMOTE COMMISSION EXCELLENCE THROUGH EXECUTIVE DIRECTION AND LEADERSHIP, ORGANIZATIONAL AND INDIVIDUAL PERFORMANCE MANAGEMENT, AND EFFECTIVE MANAGEMENT OF RESOURCES.		
Gross Costs	$ 25,682,379	$ 25,895,474
Less: Earned Revenue	(28,141)	(12,243)
NET COST OF OPERATIONS – GOAL FIVE	**$ 25,654,238**	**$ 25,883,231**
GRAND TOTAL		
Gross Costs	$ 207,618,265	$ 187,648,360
Less: Earned Revenue	(227,504)	(88,720)
TOTAL NET COST OF OPERATIONS	**$ 207,390,761**	**$ 187,559,640**

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

Statements of Changes in Net Position
For the Years Ended September 30, 2012 and 2011

2012			
CUMULATIVE RESULTS OF OPERATIONS	EARMARKED FUNDS	ALL OTHER FUNDS	CONSOLIDATED TOTAL
Beginning Balances, October 1	**$ 23,755,000**	**$ 17,998,424**	**$ 41,753,424**
Appropriations Used	–	202,899,168	202,899,168
Other Financing Sources:			
Transfers - In Without Reimbursement (Note 17)	76,708,620	–	76,708,620
Imputed Financing Sources	–	6,478,917	6,478,917
Total Financing Sources	76,708,620	6,478,917	83,187,537
Net Cost of Operations	**(466,871)**	**(206,923,890)**	**(207,390,761)**
Net Change	**76,241,749**	**2,454,195**	**78,695,944**
TOTAL CUMULATIVE RESULTS OF OPERATIONS, SEPTEMBER 30	**$ 99,996,749**	**$ 20,452,619**	**$120,449,368**
UNEXPENDED APPROPRIATIONS			
Beginning Balances, October 1	**$ –**	**$ 44,666,156**	**$ 44,666,156**
Budgetary Financing Sources:			
Appropriations Received	–	205,294,000	205,294,000
Less: Other Adjustments (Recissions, etc.)	–	(711,515)	(711,515)
Appropriations Used	–	(202,899,168)	(202,899,168)
Total Budgetary Financing Sources	–	1,683,317	1,683,317
Total Unexpended Appropriations, September 30	**$ –**	**46,349,473**	**46,349,473**
NET POSITION	**$ 99,996,749**	**$ 66,802,092**	**$166,798,841**

2011			
CUMULATIVE RESULTS OF OPERATIONS	EARMARKED FUNDS	ALL OTHER FUNDS	CONSOLIDATED TOTAL
Beginning Balances, October 1	**$ –**	**$ 11,455,579**	**$ 11,455,579**
Appropriations Used	–	187,513,010	187,513,010
Other Financing Sources:			
Transfers - In/Out Without Reimbursement (+/-)	23,755,000	–	23,755,000
Imputed Financing Sources	–	6,589,475	6,589,475
Total Financing Sources	23,755,000	6,589,475	30,344,475
Net Cost of Operations	**–**	**(187,559,640)**	**(187,559,640)**
Net Change	**23,755,000**	**6,542,845**	**30,297,845**
TOTAL CUMULATIVE RESULTS OF OPERATIONS, SEPTEMBER 30	**$ 23,755,000**	**$ 17,998,424**	**$ 41,753,424**
UNEXPENDED APPROPRIATIONS			
Beginning Balances, October 1	**$ –**	**$ 30,449,492**	**$ 30,449,492**
Budgetary Financing Sources:			
Appropriations Received	–	202,675,000	202,675,000
Less: Other Adjustments (Rescissions, etc.)	–	(945,326)	(945,326)
Appropriations Used	–	(187,513,010)	(187,513,010)
Total Budgetary Financing Sources	–	14,216,664	14,216,664
Total Unexpended Appropriations, September 30	**$ –**	**$ 44,666,156**	**$ 44,666,156**
NET POSITION	**$ 23,755,000**	**$ 62,664,580**	**$ 86,419,580**

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

Commodity Futures Trading Commission

Statements of Budgetary Resources
For the Years Ended September 30, 2012 and 2011

	2012	2011
BUDGETARY RESOURCES		
Unobligated Balance, October 1	$ 37,356,190	$ 2,944,832
Recoveries of Prior Year Unpaid Obligations	6,327,442	1,448,576
Other Changes in Unobligated Balance	(711,515)	(539,976)
Unobligated Balance from Prior Year Authority	42,972,117	3,853,432
Appropriations	205,294,000	202,269,650
Spending Authority from Offsetting Collections	76,925,590	24,083,639
TOTAL BUDGETARY RESOURCES	**$ 325,191,707**	**$ 230,206,721**
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred (Note 13)	$ 215,023,293	$ 192,850,531
Unobligated Balance, End of Period		
Apportioned	18,982,888	9,880,055
Unapportioned	91,185,526	27,476,135
Total Unobligated Balance, End of Period	110,168,414	37,356,190
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 325,191,707**	**$ 230,206,721**
CHANGE IN OBLIGATED BALANCES		
Unpaid Obligations, October 1 (Gross)	$ 44,462,925	$ 41,365,242
Uncollected Customer Payments from Federal Sources, October 1	(50,021)	(10,403)
Obligated Balance, October 1 (Net)	44,412,904	41,354,839
Obligations Incurred	215,023,293	192,850,530
Outlays (Gross)	(203,702,085)	(188,304,270)
Change in Uncollected Customer Payments from Federal Sources	41,408	(39,619)
Recoveries of Prior Year Unpaid Obligations	(6,327,442)	(1,448,576)
Obligated Balance, September 30		
Unpaid Obligations, End of Year (gross)	49,456,691	44,462,925
Uncollected Customer Payments from Federal Sources, End of Year	(8,613)	(50,021)
NET OBLIGATED BALANCE, SEPTEMBER 30	**$ 49,448,078**	**$ 44,412,904**
NET BUDGET AUTHORITY AND OUTLAYS		
Budget Authority, Gross	$ 282,219,590	$ 226,353,289
Acutual Ofsetting Collections	(76,966,998)	(24,044,020)
Change in Uncollected Customer Payments from Federal Sources	41,408	(39,619)
BUDGET AUTHORITY, NET	**$ 205,294,000**	**$ 202,269,650**
Outlays (Gross)	$ 203,702,085	$ 188,304,270
Actual Offsetting Collections	(76,966,998)	(24,044,020)
Distributed Offsetting Receipts	(3,210)	(2,219)
NET OUTLAYS	**$ 126,731,877**	**$ 164,258,031**

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

Statements of Custodial Activity

For the Years Ended September 30, 2012 and 2011

	2012	2011
REVENUE ACTIVITY		
Sources of Cash Collections:		
Registration and Filing Fees	$ 1,780,883	$ 2,059,411
Fines, Penalties, and Forfeitures	259,687,332	11,433,774
General Proprietary Receipts	3,210	2,219
Total Cash Collections	**261,471,425**	**13,495,404**
Change in Custodial Receivables	**1,566,174**	**254,239**
TOTAL CUSTODIAL REVENUE	**$ 263,037,599**	**$ 13,749,643**
DISPOSITION OF COLLECTIONS		
Amounts Transferred to:		
Department of the Treasury	(184,762,805)	(7,740,404)
Customer Protection Fund	(76,708,620)	(5,755,000)
Change in Custodial Liabilities	(1,566,174)	(254,239)
NET CUSTODIAL ACTIVITY	$ –	$ –

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, 2012 and 2011

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; under the CFTC Reauthorization Act of 1995; under the Commodity Futures Modernization Act of 2000; and under the Dodd-Frank Act of 2010. Congress passed the Food, Conservation, and Energy Act of 2008 (Farm Bill), which reauthorized the Commission through FY 2013. 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.

On July 21, 2010, the "Dodd-Frank Wall Street Reform and Consumer Protection Act" (the Dodd-Frank Act, or the Act) was signed into law, significantly expanding the powers and responsibilities of the CFTC. According to Section 748 of the Act, there is established in the Treasury of the United States a revolving fund known as the "Commodity Futures Trading Commission Customer Protection Fund" (the Fund). The Fund shall be available to the Commission, without further appropriation or fiscal year limitation, for a) the payment of awards to whistleblowers; and b) the funding of customer education initiatives designed to help customers protect themselves against fraud or other violations of this Act or the rules and regulations thereunder.

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," as amended.

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 follow 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 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 2012 consist of:

- Unobligated balances of resources brought forward from the prior year,
- Recoveries of obligations made 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, interest, penalties, and administrative fees receivable.

E. Fund Balance with Treasury

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

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.

F. Investments

The CFTC has the authority to invest amounts deposited in the Customer Protection Fund in short-term market-based Treasury securities. Market-based Treasury securities are debt securities that the U.S. Treasury issues to Federal entities without statutorily determined interest rates. Although the securities are not marketable, the terms (prices and interest rates) mirror the terms of marketable Treasury securities.

Interest earned on the investments is a component of the Fund and is available to be used for expenses of the Customer Protection Fund. Additional details regarding Customer Protection Fund investments are provided in Note 3.

G. 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.

H. General Property, Plant and Equipment, Net

Furniture, fixtures, equipment, information technology hardware and software, and leasehold improvements 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 the purchase is a value of $25,000 or more. Property, plant and equipment that do not meet the capitalization criteria are expensed when acquired. Depreciation for equipment and amortization for software is computed on a straight-line basis using a 5-year life. Leasehold improvements are amortized over the remaining life of the lease. The Commission's assets are valued net of accumulated depreciation or amortization.

I. Deferred Costs

The Commission has received lease incentives, Tenant Improvement Allowances (TIA), from the landlords on its operating leases. These allowances can be used for construction, asset purchases, or rent expense, and are classified as deferred costs on the balance sheets. These costs are reallocated either to leasehold improvements, equipment, or if used for rent, expensed. The TIA is also amortized with the deferred lease liability over the life of the lease.

J. Prepayments

Payments to federal and non-federal sources 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. Intragovernmental prepayments reported on the Balance Sheet were made primarily to the Department of Transportation (DOT) for transit subsidy services. Prepayments to the public were primarily for software maintenance and subscription services.

K. 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. The CFTC liabilities not covered by budgetary resources include:

- Intragovernmental Federal Employees Compensation Act (FECA) liabilities,
- Annual leave benefits which will be funded by annual appropriations as leave is taken,
- Actuarial FECA liabilities,
- Custodial liabilities for custodial revenue transferred to Treasury at fiscal yearend,
- Contingent liabilities,
- Deposit funds,
- Deferred lease liabilities, and
- Advances received for reimbursable services yet to be provided.

L. Accounts Payable

Accounts payable consists primarily of contracts for goods or services, such as operating leases, leasehold improvements, software development, information technology, telecommunications, and consulting and support services.

M. 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 reporting period. The annual leave liability is the amount owed employees for unused annual leave as of the end of the reporting period. 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 of their gross earnings to the plan up to IRS limits; however, CSRS employees receive no matching agency contribution.

N. Leases

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

O. 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 collect and later distribute collections of monetary awards to the appropriate victims as restitution. The cash collections recorded in this fund are offset by a Deposit Fund liability. Activities in this fund are not fiduciary in nature because they are not legally enforceable against the government.

P. 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.

Cumulative results of operations represent the excess of budgetary or other 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.

Q. 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.

R. 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 Commission implemented a new strategic plan in FY 2011. (Note 15)

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 five strategic goals, each focusing on a vital area of regulatory responsibility:

- Protect the public and market participants by ensuring market integrity; promoting transparency, competition, and fairness; and lowering risk in the system,
- Protect the public and market participants by ensuring the financial integrity of derivatives transactions, mitigation

of systemic risk, and the fitness and soundness of intermediaries and other registrants,

- Protect the public and market participants through a robust enforcement program,
- Enhance integrity of U.S. markets by engaging in cross-border cooperation, promoting strong international regulatory standards, and encouraging ongoing convergence of laws and regulation worldwide, and
- Promote Commission excellence through executive direction and leadership, organizational and individual performance management, and effective management of resources.

S. 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 by 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:

- Registration and filing fees,
- Fines, penalties and forfeitures, and
- General proprietary receipts.

At fiscal year-end, custodial collections made by the CFTC are either returned to Treasury or when determined eligible, transferred to the Customer Protection Fund. The CFTC does not retain any amount for custodial activities including reimbursement of the cost of collection.

T. 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.

U. Reconciliation of Net Obligations and Net Cost of Operations

In accordance with OMB Circular No. A-136, the Commission reconciles its change in budgetary obligations with its net cost of operations.

V. Earmarked Funds

The Commission's Customer Protection Fund (CPF) is earmarked to operate a whistleblower program and support customer education initiatives. See Note 1.A. for a description of the purpose of the CPF and its authority to use revenues and other financing sources. Deposits into the CPF are credited from monetary sanctions collected by the Commission in a covered judicial or administrative action where the full judgment is in excess of $1,000,000 and the collection is not otherwise distributed to victims of a violation of the Dodd-Frank Act or the underlying rules and regulations, unless the balance of the CPF at the time the monetary judgment is collected, exceeds $100 million. No new legislation was enacted as of September 30, 2012 that significantly changed the purpose of the earmarked fund or redirected a material portion of the accumulated balance.

W. Reclassifications

In FY 2012, the presentation of the Statements of Budgetary Resources was changed in accordance with OMB Circular A-136. As such, activity and balances reported on the FY 2011 Statement of Budgetary Resources have been reclassified to conform to the presentation in the current year. Certain other prior year amounts have also been reclassified to conform to the current year presentation.

Note 2. Fund Balance with Treasury

A. Reconciliation to Treasury

There are no differences between the fund balances reflected in the CFTC Balance Sheets and the balances in the Treasury accounts.

B. Fund Balance with Treasury

Fund Balance with Treasury consists of entity assets such as appropriations, reimbursements for services rendered, and collections of fines and penalties. 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. Collections of fines and penalties are distributed to harmed investors, returned to Treasury, or when eligible, transferred to the Customer Protection Fund.

Fund Balance with Treasury at September 30, 2012 and 2011 consisted of the following:

	2012	2011
Appropriated Funds	$ 59,576,063	$ 58,014,096
Customer Protection Fund	22,904,529	23,755,000
Deposit Fund	77,098	16,621
TOTAL FUND BALANCE WITH TREASURY	**$ 82,557,690**	**$ 81,785,717**

C. Status of Fund Balance with Treasury

Status of Fund Balance with Treasury at September 30, 2012 and 2011 consisted of the following:

	2012	2011
APPROPRIATED FUNDS		
Unobligated Fund Balance		
Available	$ 6,423,446	$ 9,880,057
Unavailable	3,739,607	3,671,114
Obligated Balance Not Yet Disbursed	49,413,010	44,462,925
Total Appropriated Funds	**59,576,063**	**58,014,096**
CUSTOMER PROTECTION FUND		
Unobligated Fund Balance		
Available	$ 12,558,748	$ –
Unavailable	10,302,100	23,755,000
Obligated Balance Not Yet Disbursed	43,681	–
Total Customer Protection Fund	**22,904,529**	**23,755,000**
Deposit Fund	**77,098**	**16,621**
TOTAL FUND BALANCE WITH TREASURY	**$ 82,557,690**	**$ 81,785,717**

Note 3. Investments, Net

In fiscal year 2012, the CFTC began investing amounts deposited in the Customer Protection Funds in overnight short-term Treasury securities. Treasury overnight certificates of indebtedness are issued with a stated rate of interest to be applied to their par amount, mature on the business day immediately following their issue date, are redeemed at their par amount at maturity, and have interest payable at maturity.

The Commission may invest in other short-term or long-term Treasury securities at management's discretion.

The overnight certificates are Treasury securities whose interest rates or prices are determined based on the interest rates or prices of Treasury-related financial instruments issued or trading in the market, rather than on the interest rates or prices of outstanding marketable Treasury securities.

On September 30, 2012, the Commission's investments totaled $77,135,901 with interest earned of $12,918.

Note 4. Accounts Receivable

Accounts receivable consist of amounts owed the CFTC by other Federal agencies and the public. Accounts receivable are valued at their net collectable values. 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 that 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 or individuals for violations of the Commodity Exchange Act (CEA) or Commission regulations. 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 Commission considers all custodial receivables to be 100% uncollectible unless deemed otherwise. 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, 2012 and 2011, consisted of the following:

	2012	2011
Custodial Receivables, Net:		
Civil Monetary Penalty Interest	$ 700,973	$ 776,139
Civil Monetary Penalties, Fines, and Administrative Fees	557,751,289	463,508,290
Less: Allowance for Loss on Interest	(700,957)	(776,121)
Less: Allowance for Loss on Penalties, Fines, and Administrative Fees	(555,301,289)	(462,710,547)
Registration and Filing Fees	1,690,331	1,776,412
NET CUSTODIAL RECEIVABLES	**$ 4,140,347**	**$ 2,574,173**
OTHER ACCOUNTS RECEIVABLE	**20,976**	**59,226**
TOTAL ACCOUNTS RECEIVABLE, NET	**$ 4,161,323**	**$ 2,633,399**

Note 5. General Property, Plant and Equipment

Equipment and information technology (IT) 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 for equipment and software is computed on a straight-line basis using a 5-year life. Leasehold improvements are amortized over the remaining life of the lease. Property, Plant and Equipment as of September 30, 2012 and 2011 consisted of the following:

2012 Major Class	Service Life and Method	Cost	Accumulated Amortization/ Depreciation	Net Book Value
Equipment	5 Years/Straight Line	$ 29,120,043	$ (12,815,168)	$ 16,304,875
IT Software	5 Years/Straight Line	16,485,238	(6,938,168)	9,547,070
Software in Development	Not Applicable	2,493,610	–	2,493,610
Leasehold Improvements	Remaining Life of Lease/Straight Line	23,641,222	(2,639,648)	21,001,574
Construction In Progress	Not Applicable	4,063,306	–	4,063,306
		$ 75,803,419	**$ (22,392,984)**	**$ 53,410,435**

2011 Major Class	Service Life and Method	Cost	Accumulated Amortization/ Depreciation	Net Book Value
Equipment	5 Years/Straight Line	$ 23,845,759	$ (7,582,852)	$ 16,262,907
IT Software	5 Years/Straight Line	10,061,707	(4,942,862)	5,118,845
Software in Development	Not Applicable	3,513,454	–	3,513,454
Leasehold Improvements	Remaining Life of Lease/Straight Line	15,345,533	(1,427,205)	13,918,328
Construction In Progress	Not Applicable	3,533,361	–	3,533,361
		$ 56,299,814	**$ (13,952,919)**	**$ 42,346,895**

Note 6. Deferred Costs

The Commission receives Tenant Improvement Allowance (TIA) from its landlords. These allowances are used to cover the costs of building renovations, asset purchases, or rent expenses. The TIA is initially recorded as deferred costs on the balance sheet and is amortized with the deferred lease liability over the life of the lease

The Commission received approximately $16.2 million in TIA over the last three fiscal years, of which approximately $13.3 million was used to fund leasehold improvements, and $1.7 million was used to cover rental payments. The remaining, unused balance of $1.2 million is reflected as deferred costs on the balance sheet.

Deferred Costs (TIA)	2012	2011
Beginning Balance	$ 6,254,873	$ 6,303,367
TIA received	2,868,320	6,701,194
TIA used	(7,888,970)	(6,749,688)
BALANCE AS OF SEPTEMBER 30	**$ 1,234,223**	**$ 6,254,873**

Note 7. Liabilities Not Covered by Budgetary Resources

As of September 30, 2012 and 2011, the following liabilities were not covered by budgetary resources:

	2012	2011
Intragovernmental – FECA Liabilities	$ 127,661	$ 91,175
Annual Leave	8,639,840	8,117,663
Actuarial FECA Liabilities	636,582	437,337
Custodial Liabilities	4,140,347	2,574,173
Deposit Fund Liabilities	77,098	57,127
Deferred Lease Liabilities	24,808,042	21,974,782
Other	19,050	19,649
TOTAL LIABILITIES NOT COVERED BY BUDGETARY RESOURCES	**$ 38,448,620**	**$ 33,271,906**

Note 8. Retirement Plans and Other Employee Benefits

The CFTC imputes costs and the related financing sources for its share of retirement benefits 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 Benefits (ORB) for current employees as required by Statement of Federal Financial Accounting Standards (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 $6,478,917 for the period ended September 30, 2012 and $6,589,475 for the period ended September 30, 2011. 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 9. 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, 2012 and September 30, 2011 were $127,661 and $91,175, 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 the 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, 2012 and September 30, 2011 were $636,582 and $437,337, respectively.

Note 10. 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, 2012, future estimated minimum lease payments through FY 2025 are as follows:

Fiscal Year	Dollars
2013	$ 17,781,576
2014	18,110,766
2015	18,254,669
2016	19,017,114
2017	19,411,711
2018 and thereafter	155,776,015
Total Future Minimum Lease Payments	$ 248,351,850
Add: Amount representing estimated executory costs (taxes, maintenance, and insurance)	37,355,082
TOTAL MINIMUM LEASE PAYMENTS, INCLUDING ESTIMATED EXECUTORY COSTS	**$ 285,706,932**

Lease expense is recognized on a straight-line basis because lease payment amounts vary, and in some cases, CFTC receives periods of up-front free rent, or incentive contributions (TIA) paid by the landlord. As of September 30, 2012, the Commission had received $16,199,394 in incentive awards for the renovation of space in Washington D.C., Chicago, New York and Kansas City. A deferred lease liability representing expense amounts in excess of payments to date has been recorded. The deferred lease liabilities at September 30, 2012 and September 30, 2011 were $24,808,042 and $21,974,782 respectively.

Note 11. Contingent Liabilities

The CFTC records contingent liabilities for legal cases in which payment has been deemed probable and for which the amount of potential liability has been estimated, including judgments that have been issued against the agency and which have been appealed. In FY 2012, the Commission is involved in one civil matter which it believes the chance of an unfavorable outcome to be probable. The potential loss in this matter is estimated to be $150,000. Additionally, the Commission discloses legal matters in which an unfavorable outcome is reasonably possible. In FY 2012, the Commission was involved in three civil matters which it believes the chance of an unfavorable outcome to be reasonably possible. The potential loss in these cases is estimated to be $473,648.70.

Note 12. Undelivered Orders

The amount of budgetary resources obligated for undelivered orders as of September 30, 2012 and 2011 consisted of the following:

	2012	2011
Undelivered Orders	$ 36,204,581	$ 31,133,527

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 13. Apportionment Categories of Obligations Incurred

Obligations incurred and reported in the Statements of Budgetary Resources in FY 2012 and FY 2011 were Category A and consisted of the following:

	2012	2011
Direct Obligations	$ 214,808,706	$ 192,773,375
Reimbursable Obligations	214,587	77,156
TOTAL OBLIGATIONS INCURRED	**$ 215,023,293**	**$ 192,850,531**

Note 14. 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 2011. The Budget of the U.S. Government with actual numbers for FY 2012 has not yet been published. The expected publish date is February 2013. A copy of the Budget can be obtained from OMB's Internet site at *http://www.whitehouse.gov/omb/*.

Note 15. 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 2011 – 2015 CFTC Strategic Plan.

1. Protect the public and market participants by ensuring market integrity; promoting transparency, competition, and fairness; and lowering risk in the system
2. Protect the public and market participants by ensuring the financial integrity of derivatives transactions, mitigation of systemic risk, and the fitness and soundness of intermediaries and other registrants
3. Protect the public and market participants through a robust enforcement program
4. Enhance integrity of US markets by engaging in cross-border cooperation, promoting strong international regulatory standards, and encouraging ongoing convergence of laws and regulation worldwide
5. Promote Commission excellence through executive direction and leadership, organizational and individual performance management, and effective management of resources

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:

	2012	2011
GOAL 1: PROTECT THE PUBLIC AND MARKET PARTICIPANTS BY ENSURING MARKET INTEGRITY; PROMOTING TRANSPARENCY, COMPETITION, AND FAIRNESS; AND LOWERING RISK IN THE SYSTEM		
Intragovernmental Gross Costs	$ 10,083,898	$ 8,543,266
Less: Earned Revenue	(47,728)	(18,783)
Intragovernmental Net Cost of Operations	**$ 10,036,170**	**$ 8,524,482**
Gross Costs with the Public	$ 49,149,593	$ 39,870,011
Less: Earned Revenue	(17,179)	(4,106)
Net Cost of Operations with the Public	**$ 49,132,414**	**$ 39,865,905**
TOTAL NET COST OF OPERATIONS – GOAL ONE	**$ 59,168,584**	**$ 48,390,387**
GOAL 2: PROTECT THE PUBLIC AND MARKET PARTICIPANTS BY ENSURING THE FINANCIAL INTEGRITY OF DERIVATIVES TRANSACTIONS, MITIGATION OF SYSTEMIC RISK, AND THE FITNESS AND SOUNDNESS OF INTERMEDIARIES AND OTHER REGISTRANTS		
Intragovernmental Gross Costs	$ 9,313,379	$ 7,715,430
Less: Earned Revenue	(44,081)	(16,963)
Intragovernmental Net Cost of Operations	**$ 9,269,298**	**$ 7,698,467**
Gross Costs with the Public	$ 45,394,034	$ 36,006,638
Less: Earned Revenue	(15,867)	(3,709)
Net Cost of Operations with the Public	**$ 45,378,167**	**$ 36,002,929**
TOTAL NET COST OF OPERATIONS – GOAL TWO	**$ 54,647,465**	**$ 43,701,396**
GOAL 3: PROTECT THE PUBLIC AND MARKET PARTICIPANTS THROUGH A ROBUST ENFORCEMENT PROGRAM		
Intragovernmental Gross Costs	$ 10,391,398	$ 10,794,979
Less: Earned Revenue	(49,183)	(23,734)
Intragovernmental Net Cost of Operations	**$ 10,342,215**	**$ 10,771,245**
Gross Costs with the Public	$ 50,648,372	$ 50,378,386
Less: Earned Revenue	(17,704)	(5,189)
Net Cost of Operations with the Public	**$ 50,630,668**	**$ 50,373,197**
TOTAL NET COST OF OPERATIONS – GOAL THREE	**$ 60,972,883**	**$ 61,144,442**

continued on next page

(continued)	2012	2011
GOAL 4: ENHANCE INTEGRITY OF US MARKETS BY ENGAGING IN CROSS-BORDER COOPERATION, PROMOTING STRONG INTERNATIONAL REGULATORY STANDARDS, AND ENCOURAGING ONGOING CONVERGENCE OF LAWS AND REGULATION WORLDWIDE		
Intragovernmental Gross Costs	$ 1,184,054	$ 1,490,105
Less: Earned Revenue	(5,604)	(3,276)
Intragovernmental Net Cost of Operations	**$ 1,178,450**	**$ 1,486,828**
Gross Costs with the Public	$ 5,771,158	$ 6,954,071
Less: Earned Revenue	(2,017)	(716)
Net Cost of Operations with the Public	**$ 5,769,141**	**$ 6,953,356**
TOTAL NET COST OF OPERATIONS – GOAL FOUR	**$ 6,947,591**	**$ 8,440,184**
GOAL 5: PROMOTE COMMISSION EXCELLENCE THROUGH EXECUTIVE DIRECTION AND LEADERSHIP, ORGANIZATIONAL AND INDIVIDUAL PERFORMANCE MANAGEMENT, AND EFFECTIVE MANAGEMENT OF RESOURCES		
Intragovernmental Gross Costs	$ 4,372,163	$ 4,569,654
Less: Earned Revenue	(20,694)	(10,047)
Intragovernmental Net Cost of Operations	**$ 4,351,469**	**$ 4,559,607**
Gross Costs with the Public	$ 21,310,216	$ 21,325,820
Less: Earned Revenue	(7,447)	(2,196)
Net Cost of Operations with the Public	**$ 21,302,769**	**$ 21,323,624**
TOTAL NET COST OF OPERATIONS – GOAL FIVE	**$ 25,654,238**	**$ 25,883,231**
NET COST OF OPERATIONS	**$ 207,390,761**	**$ 187,559,640**

Note 16. 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.

	2012	2011
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	$215,023,293	$192,850,531
Less: Spending Authority from Offsetting Collections and Recoveries	(83,253,032)	(25,532,215)
Obligations Net of Offsetting Collections and Recoveries	131,770,261	167,318,316
Less: Offsetting Receipts	(3,210)	(2,219)
Net Obligations After Offsetting Receipts	131,767,051	167,316,097
Other Resources		
Transfers In from from Disgorgements, Fines and Penalties	76,708,620	23,755,000
Imputed Financing from Cost Absorbed by Others	6,478,917	6,589,475
Total Resources Used to Finance Activities	**$214,954,588**	**$197,660,572**
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided before Adjustments	$ (5,112,842)	$ (3,560,305)
Offsetting Receipts	3,210	2,219
Resources that Fund the Acquisition of Fixed Assets	(12,963,942)	(16,997,172)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**$ (18,073,574)**	**$ (20,555,258)**
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT YEAR		
Increase in Unfunded Liabilities	757,908	765,005
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	**$ 757,908**	**$ 765,005**
COMPONENTS NOT REQUIRING OR GENERATING RESOURCES		
Depreciation and Amortization	8,588,607	9,542,857
(Gain)/Loss on Disposal	–	160,131
Other	1,163,232	(13,667)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	**$ 9,751,839**	**$ 9,689,321**
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Year	**$ 10,509,747**	**$ 10,454,326**
NET COST OF OPERATIONS	**$207,390,761**	**$187,559,640**

Note 17 Earmarked Funds

Earmarked funds arise from disgorgement and penalty collections and are transferred to the Customer Protection Fund (CPF), established by the Dodd-Frank Act. The collections are transferred from the custodial receipt account if they are found to be eligible before the end of each fiscal year. In cases where the collection has been returned to the Treasury Department, the Commission can recover the funds directly from Treasury. The collections will fund the Commission's whistleblower awards program and customer education initiatives.

The Dodd-Frank Act provides that whistleblower awards shall be paid under regulations prescribed by the Commission. An important prerequisite to implementation of the whistleblower awards program is the issuance of rules and regulations describing its scope and procedures. The Commission issued final rules implementing the Act on August 25, 2011. These rules became effective on October 24, 2011. The Commission established the Whistleblower Office in FY 2012.

During FY 2012, $76.7 million of eligible collections were transferred into the Customer Protection Fund. The Fund's balance or net position at September 30, 2012 and September 30, 2011 were $99.9 million and $23.7 million, respectively.

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Independent Auditors' Report

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, 2012 and 2011, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity (hereinafter referred to as " financial statements" or "basic 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 2012 audit, we also considered the CFTC's internal control over financial reporting and tested the CFTC's compliance with certain provisions of applicable laws, regulations and contracts 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 the CFTC's financial statements as of and for the years ended September 30, 2012 and 2011, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in our Opinion on the Financial Statements, the CFTC changed its presentation for reporting the statements of budgetary resources in fiscal year 2012 based on new reporting requirements under Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements.*

Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined in the Internal Control Over Financial Reporting section of this report.

The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The Government Accountability Office (GAO) is conducting a review on a matter that may represent a potential violation of the *Anti-Deficiency Act*. This matter is currently under review by the GAO. A final determination has not yet been made and therefore the outcome of this matter is not presently known.

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

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Opinion on the Financial Statements

We have audited the accompanying balance sheets of the Commodity Futures Trading Commission as of September 30, 2012 and 2011, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity 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, 2012 and 2011, 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 CFTC's financial statements, the CFTC changed its presentation for reporting the statements of budgetary resources in fiscal year 2012, based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements*. As a result, the CFTC's statement of budgetary resources for fiscal year 2011 has been adjusted to conform to the current year presentation.

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis section be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The information in the Other Accompanying Information section of the CFTC's *Agency Financial Report Fiscal Year 2012* is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Internal Control Over Financial Reporting

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2012 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

The results of our other tests of compliance as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance 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 the CFTC's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

The Government Accountability Office (GAO) is conducting a review on a matter that may represent a potential violation of the *Anti-Deficiency Act*. This matter is currently under review by the GAO. A final determination has not yet been made and therefore the outcome of this matter is not presently known.

* * * * * * *

Responsibilities

Management's Responsibilities. Management is responsible for the financial statements; establishing and maintaining effective internal control over financial reporting; and complying with laws, regulations, and contracts applicable to CFTC.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2012 and 2011 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 2012 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, but not for the purpose of expressing 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. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether CFTC's fiscal year 2012 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 the provisions referred to in Section 803(a) of 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.

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, 2012

OTHER ACCOMPANYING INFORMATION

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Office of the
Inspector General

MEMORANDUM

TO: Gary Gensler
Chairman

FROM: A. Roy Lavik
Inspector General

DATE: November 14, 2012

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 meaningful and useful format for Congress, the President, and the public. 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. 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 relied on data contained in the CFTC financial statement audit and Annual Financial Report, representations by agency management, and 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. For the second year in a row, we identified the most serious management challenges as:

- Efficient Deployment of Information Technology Resources
- Expanding Delivery of Customer Protection Resources and Consumer Education.

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. The results of the Fiscal Year 2012 financial statement audit will be discussed in the Annual Financial Report, and the financial statement audit is expected to result in an unqualified audit opinion.

CFTC's Progress on Last Year's Challenges

Last year, we identified two of the most serious management challenges:

- Efficient Deployment of Information Technology Resources; and,
- Expanding Delivery of Customer Protection Resources and Consumer Education.

CFTC made progress on both challenges, but these challenges remain significant due to ongoing implementation of the Dodd-Frank Act.

Most Serious Management Challenges for the coming year

The two issues that we identified last year will continue to challenge CFTC management in the coming year:

Efficient Deployment of Information Technology Resources

Last year we stated that over eighty percent of futures and options trading on the Chicago Mercantile Exchange are transacted electronically. Since then electronic trading continued its inexorable march and now over eighty-five percent of futures and options occurs electronically.

Last year we also expressed a concern that the agency's additional regulatory responsibilities mandated by the Dodd-Frank Act would challenge management's ability to adequately regulate the sizeable volume of swaps transactions--currently estimated to exceed $600 trillion in notional value worldwide. On October 12, 2012 CFTC regulations required reporting on certain cleared interest rate and credit default swaps transactions to Swap Data Repositories (SDR); the agency has access to the data received by the SDRs. In order to properly analyze the data and scan for trade anomalies the agency is in the process of specifying a standard data structure for swap information submitted to SDRs and it is our understanding that the industry and the CFTC are working though this new Dodd-Frank Act regulatory mandate. In January 2013 the CFTC will receive real time swap transaction data, placing additional regulatory demand on the agency. These challenges--electronic trading vs. declining on-exchange floor trading, and expanded jurisdiction over the swaps market--remain on the horizon. Both require the efficient deployment of effective information technology resources.

2

In fiscal year 2012, Congress appropriated $55 million dollars in multi-year funds for information technology to address the structural shift in derivatives trading regulated by the agency. Under a period of government-wide fiscal austerity, we anticipate that the agency will be challenged during the coming year to adequately conduct surveillance over these complex markets, and equally challenged to sift through voluminous transaction data to thwart wrongdoing. Reliance on technological solutions may be the agency's best tool to regulate the formerly unregulated swaps markets, and time will reveal the agency's success in meeting this challenge. We will monitor the agency's use of appropriated funds for information technology in light of these challenges.

Expanding Delivery of Customer Protection Resources and Consumer Education

Section of 748(g) of the Dodd-Frank Act added section 23(g) to the Commodity Exchange Act to establish within the Treasury of the United States a revolving fund that will be available to the Agency for the payment of whistleblower awards and education initiatives. The new Customer Protection Fund is funded by civil monetary penalties collected through the Commission's enforcement program that are not otherwise distributed to victims. At the end of FY2012 the Customer Protection Fund held over $100 million dollars, a significant increase from the $23 million dollar balance held last fiscal year. On October 25, 2012 the Office of the Inspector General issued the financial statement audit of the Customer Protection Fund, which for the second year in a row resulted in an unqualified opinion on the financial statements.

Increasingly, the Customer Protection Fund's expanding resources and commitments will demand significant management attention. We are encouraged that the agency has staffed the fund with new management, refined its policy for issuing awards to whistleblowers, and initiated Consumer Education outreach programs. However the recent financial scandals at MF Global, Inc., and Peregrine Financial, Inc., both generating reports of misappropriated customer funds, underscore the need to strengthen consumer protections in the financial system through consumer education. The increased commitment to whistleblower protection and customer education will challenge the agency to effectively manage decisions regarding additions to and awards from the Customer Protection Fund, to develop its organizational structure, and to prudently manage significant additional resources.

Summary of Audit and Management Assurances

Summary of FY 2012 Financial Statement Audit

Audit Opinion:	Unqualified				
Restatement:	No				
MATERIAL WEAKNESS	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	ENDING BALANCE
	0	0			0

Summary of Management Assurances

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA § 2)						
Statement of Assurance:	Unqualified					
MATERIAL WEAKNESS	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
	0	0				0
EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA § 2)						
Statement of Assurance:	Unqualified					
MATERIAL WEAKNESS	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
	0	0				0
CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FMFIA § 4)						
Statement of Assurance:	Systems conform to financial management system requirements					
NON-CONFORMANCE	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
	0	0				0

COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)		
	AGENCY	AUDITOR
Overall Substantial Compliance	Yes	Yes
1. System Requirements	Yes	
2. Accounting Standards	Yes	
3. USSGL at Transaction Level	Yes	

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APPENDIX

88 Glossary of Abbreviations and Acronyms

Glossary of Abbreviations and Acronyms

The CFTC Glossary

A Guide to the Language of the Futures Industry

http://www.cftc.gov/ConsumerProtection/EducationCenter/CFTCGlossary/index.htm

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 Public Affairs compiled a glossary to assist members of the public.

This glossary is not all-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

U.S. Federal Law

CEA ..... Commodity Exchange Act of 1936
Dodd Frank Act..... Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
FARM BILL ..... Food, Conservation, and Energy Act of 2008
FECA..... Federal Employees Compensation Act
FFMIA..... Federal Financial Management Improvement Act
FISMA..... Federal Information Security Management Act
FMFIA..... Federal Managers' Financial Integrity Act
FSRIA..... Farm Security and Rural Investment Act of 2002
GPRA..... Government Performance and Results Act

CFTC Divisions and Offices

DCR ..... Division of Clearing and Risk
DMO ..... Division of Market Oversight
DOE ..... Division of Enforcement
DSIO ..... Division of Swap Dealer and Intermediary Oversight
OCE ..... Office of the Chief Economist
ODT ..... Office of Data and Technology
OED ..... Office of the Executive Director
OGC ..... Office of the General Counsel
OIA ..... Office of International Affairs
OIG ..... Office of the Inspector General
WBO ..... Whistleblower Office

U.S. Federal Departments and Agencies

CFTC ..... U.S. Commodity Futures Trading Commission
DOL ..... U.S. Department of Labor
DOT ..... U.S. Department of Transportation
GAO ..... Government Accountability Office
IRS ..... Internal Revenue Service
OMB ..... Office of Management and Budget
OPM ..... Office of Personnel Management
SEC ..... U.S. Securities and Exchange Commission

Other Abbreviations

AP ..... Associated Person
APR ..... Annual Performance Report
CDS ..... Credit Default Swaps
CME ..... Chicago Mercantile Exchange
COT ..... Commitments of Traders
CPF ..... CFTC Customer Protection Fund
CPO ..... Commodity Pool Operator
CSRS ..... Civil Service Retirement System
CTA ..... Commodity Trading Advisor
DCM ..... Designated Contract Market
DCO ..... Derivatives Clearing Organization
DSRO ..... Designated Self-regulatory Organizations
EEMAC ..... Energy and Environmental Markets Advisory Committee
FASAB ..... Federal Accounting Standards Advisory Board
FSB ..... Financial Stability Board
FB ..... Floor Broker
FCM ..... Futures Commission Merchants
FBOT ..... Foreign Board of Trade

FERS	Federal Employees' Retirement System
FOREX	Foreign Exchange Currency
FSA	U.K. Financial Services Authority
FSOC	Financial Stability Oversight Council
FT	Floor Trader
FTE	Full-time Equivalent
FWC	Future Workers Compensation
FY	Fiscal Year
GAAP	U.S. Generally Accepted Accounting Principles
GAAS	Generally Accepted Accounting Standards
GAGAS	Generally Accepted Government Auditing Standards
IB	Introducing Broker
IOSCO	International Organization of Securities Commissions
IT	Information Technology
LIBOR	London Interbank Offered Rate
LSOC	Legal Segregation with Operational Commingling
MD&A	Management's Discussion and Analysis
MSP	Major Swap Participants
NFA	National Futures Association
ORB	Other Retirement Benefits
OTC	Over-the-Counter
RFED	Retail Foreign Exchange Dealer
SAAS	Software-as-a-Service
SD	Swap Dealer
SDR	Swap Data Repository
SEF	Swap Execution Facility
SES	Senior Executive Service
SIDCO	Systemically Important DCO
SIFMA	Securities Industry and Financial Markets Association
SRO	Self-Regulatory Organization
SFFAS	Statement of Federal Financial Accounting Standards
TAC	Technology Advisory Committee
TIA	Tenant Improvement Allowances
UK	United Kingdom
US	United States

This report is made by the Commodity Futures Trading Commission (CFTC or Commission). Information in this agency financial report is provided as of November 14, 2012 and covers the period October 1, 2011 to September 30, 2012, unless otherwise indicated.

Additional material on the CFTC's Strategic Plan and the FY 2012 Summary of Financial and Performance Information Report are available on the web at: *http://www.cftc.gov/About/CFTCReports/index.htm.*

Additional copies of the Commodity Futures Trading Commission *FY 2012 Agency Financial Report* are available by contacting the Office of Financial Management:

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