



**Commodity Futures Trading Commission**

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# Appendix

Appendix prepared by CFTC Staff for Testimony by Chairman Gensler on April 28, 2010 before the Senate Subcommittee on Financial Services and General Government

<b>Automating Market Surveillance</b>		
Past 2004 – 2008	Present 2009 - 2010	Future
<b>Critical IT systems for the surveillance of positions and trading practices were not robust. They have not been upgraded to reflect the vast increase in volume and complexity of the markets.</b>	<b>Development of new staff skill sets with access data query, analysis, algorithmic models and reporting tools that alert staff to the conditions for potential abusive trading or misconduct.</b>	<b>Robust, linked and fully integrated IT surveillance systems that produce the surveillance reports needed to meet the analytical needs of our professional staff and the transparency needs of the public.</b>

## Improving Market Transparency

Past 2004 - 2008	Present 2009 - 2010	Future
<p>Lack of market transparency stemming from lack of reliable data about the size or effect of influential investor groups and potential harm posed by a commodity asset bubble.</p>	<p>New staff with new skill sets have improved data collection and reporting on the size of positions held by large traders.</p> <p>New public reports include:</p> <ul style="list-style-type: none"><li>• Disaggregated Commitment of Trader Reports</li><li>• Supplemental Report on Commodity Index Traders</li><li>• Swap Dealer Reports</li></ul>	<p>Collect and report data from swaps dealers and index investors. Release data on commodity index investment on a monthly basis rather than quarterly.</p>

<b>Enforcement</b>		
Past 2004 – 2008	Present 2009 - 2010	Future
<p>The Commission's enforcement program reached an all-time low of 109 as recently as in FY 2008. The financial crisis revealed fraudulent schemes that could only stay afloat during periods of rising asset values. The downturn exposed more leads than the Commission can thoroughly and effectively investigate. This is true both as it relates to fraud and Ponzi schemes as well as staff-intensive manipulation investigations.</p>	<p>Appropriations increases have permitted the Commission to enhance Enforcement staffing and resources committed.</p> <ul style="list-style-type: none"> <li>• Staffing increased by more than 50 percent in two years.</li> <li>• Leads and investigations increased by more than 100% over two years.</li> <li>• New investigations will exceed 250, which is the highest level in 10 years.</li> <li>• The Enforcement division filed 31 civil actions involving Ponzi type schemes in FY 2009, which was more than twice the amount in FY 2008.</li> <li>• New tools and competencies are being developed to address and identify trends, analyze data and explore resources previously unavailable to the Commission.</li> </ul>	<p><b>Future initiatives include:</b></p> <ul style="list-style-type: none"> <li>• Pursuing potential fraud cases reported to the Commission;</li> <li>• Keeping pace with the proliferation in trading and the emergence of new electronic trading facilities. Effective enforcement requires looking beyond the exchanges to multi-level platforms and bilateral trading, which is very resource intensive;</li> <li>• Enhancing the Commission's ability to respond efficiently to major market movement or major collapse of an entity without adversely affecting other on-going investigations and litigation; and</li> <li>• Rebuilding bench strength and succession planning.</li> </ul>

## Increased Audit Oversight

Past 2004 – 2008	Present 2009 - 2010	Future
<p>The Commission does not conduct:</p> <ul style="list-style-type: none"> <li>• annual compliance audits of every designated contract market (DCM). Audits occur every three years, on average;</li> <li>• annual compliance audits of every derivatives clearing organization (DCO). Periodic reviews on selected core principles occur every three years; or</li> <li>• routine examinations of CPOs, CTAs, &amp; FCMs, which are currently performed by self regulatory organizations.</li> </ul>	<p>The Commission currently assesses or conducts:</p> <ul style="list-style-type: none"> <li>• financial surveillance programs of SROs;</li> <li>• certain regulatory functions performed by the NFA;</li> <li>• other self-regulatory organizations such as DCM SRO functions; and</li> <li>• examinations of FCMs for compliance with the CEA and Commission regulations.</li> </ul>	<p>Future initiatives include:</p> <ul style="list-style-type: none"> <li>• annual reviews of DCOs, which is critical as the volume of positions cleared by DCOs and the complexity of positions grow;</li> <li>• annual compliance reviews of DCMs</li> <li>• examination of the books and records of additional FCMs on a “for-cause” basis and expand the reviews of certain compliance areas, such as sales practices and foreign currency trading; and</li> <li>• Additional examinations of CPOs and other registrants to ensure a better understanding of firms’ operations, trading strategies, back office procedures and other factors integral to firms’ compliance.</li> </ul>