

COMMODITY FUTURES TRADING COMMISSION
SUMMARY OF PERFORMANCE AND FINANCIAL INFORMATION

Fiscal Year 2016



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FISCAL YEAR 2016

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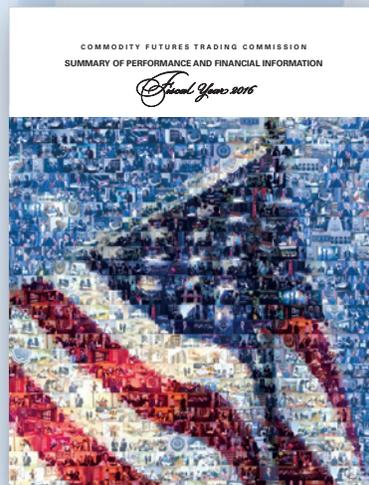
This report is a high-level summary of the CFTC FY 2016 Agency Financial Report. Information in this report covers the period of October 1, 2015, to September 30, 2016, unless otherwise indicated. The FY 2016 Summary of Performance and Financial Information and the FY 2016 Agency Financial Report are available in PDF and HTML formats on: <http://www.cftc.gov/About/CFTCReports/index.htm>.

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ABOUT THE COVER

The cover is a photo mosaic that represents the work of Commission staff over the years ensuring market integrity and protecting market users in the commodity futures, options, and swaps markets.





CFTC MISSION

TO FOSTER OPEN, TRANSPARENT, COMPETITIVE, AND FINANCIALLY SOUND MARKETS TO AVOID SYSTEMIC RISK; AND TO PROTECT MARKET USERS AND THEIR FUNDS, CONSUMERS, AND THE PUBLIC FROM FRAUD, MANIPULATION, ABUSIVE PRACTICES RELATED TO DERIVATIVES AND OTHER PRODUCTS THAT ARE SUBJECT TO THE COMMODITY EXCHANGE ACT.



A MESSAGE FROM THE CHAIRMAN

I am pleased to present the Fiscal Year (FY) 2016 Agency Financial Report for the U.S. Commodity Futures Trading Commission (CFTC or Commission). The pages that follow will detail the agency's performance, accomplishments, and audited financial statements for this period.

The CFTC oversees the U.S. derivatives markets, which include commodity futures, options, and swaps. Although most Americans do not participate in these markets directly, their impact on our economy cannot be understated. They shape the prices we pay for food, energy, and a host of other goods and services. And these markets play a key role in the economic success of many farmers, ranchers, and commercial businesses in the United States, who rely on them for price discovery and to manage routine commercial risk.

Our mission is to ensure these markets function properly. We focus on fostering transparent, open, competitive, and financially sound markets. We work to safeguard customer funds and to protect market participants from fraud, manipulation, and abusive practices. We also seek to protect the public from the buildup of excessive risk, a buildup that contributed to making the 2008 financial crisis the worst since the Great Depression.

This year, the hardworking men and women of the CFTC continued making progress on behalf of the American people. We have continued our work to improve the safety and soundness of our financial system following the devastation of the financial crisis. But we're not just looking back to the crises of the past; we are equally focused on looking ahead, to the new opportunities and challenges facing our markets.

Financial markets are constantly evolving. Technological transformations are shaping much of that evolution, as are other forces. We must make sure our regulatory framework is adapting.

For example, this year we adopted measures to address the risks posed by cyber-attack and other technological failures in our markets. Cyber threats are probably the single greatest risk to financial stability today. Our rules focus on making sure that the critical market infrastructure that we oversee—the clearinghouses, exchanges, trading platforms and data repositories—are adequately protecting themselves against the threat of cyber-attack.

We are also working to address the challenges posed by automated trading, which has become the dominant form of trading in our markets. Automation has led to significant increases in speed and complexity. And while this technology has brought benefits, there is also a greater likelihood of disruption and other operational problems. As a result, we have issued a proposal that seeks to minimize the risk of that disruption by requiring adequate risk controls, testing and monitoring of algorithms, and other measures. We hope to finalize this soon.

We have also put a strong focus on issues related to the regulation and resilience of clearinghouses. Futures have been cleared in the United States since at least 1891, and clearinghouses are one of the critical factors that propelled the growth of our markets. Since the financial crisis, clearinghouses have taken on even greater importance, due to the decision by the G20 leaders to require the clearing of over-the-counter (OTC) swaps. As a result, we have increased our efforts to ensure clearinghouses are strong and resilient.

First, we reached a landmark accord that resolves our differences with European regulators regarding their recognition of clearinghouses in the United States. This agreement is an important step in achieving cross-border harmonization of derivatives rules, bringing the United States and European regimes closer together and reducing the risk of regulatory arbitrage. And it will ensure that our global derivatives markets remain robust, while keeping our financial system as strong and resilient as possible.

We are also working on supervisory stress tests for the largest clearinghouses in our jurisdiction. These tests assess the impact of stressful market scenarios across multiple clearinghouses and clearing members on the same date. We are making sure



our major clearinghouses have adequate recovery plans, and we are working with the Federal Deposit Insurance Corporation (FDIC) on resolution planning. Our work on these issues takes place internationally as well, and we are helping to lead important efforts among regulators from around the world on clearinghouse resilience, recovery and resolution.

Over the last year, CFTC has also continued implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), which directed us to bring transparency and oversight to the OTC swaps market. Today, a new framework for the regulation of the swaps market is in place. Clearing is mandated for most interest rate and credit default swaps, and this year the Commission expanded that requirement to interest rate swaps in several additional currencies. Registration and regulation of swap dealers is required. Trading on regulated platforms is a reality—and the volume is growing. Data repositories are collecting and publically reporting swap data, which gives us much more information regarding the marketplace. And we are making sure that these requirements focus on the areas of the greatest risk, and do not improperly burden commercial end-users who rely on these markets as part of their business activity.

To this end, we finalized strong, sensible rules setting margin requirements for uncleared swaps this past year. This is one of the most important reforms required by the Dodd-Frank Act, because it is the first line of defense in the event of a

default, and protects against the buildup of excessive risk to the financial system. We worked with regulators in Europe, Japan and other countries to harmonize the substance of the rules, so that there is a strong global framework in place. This, as well as the approach we adopted for cross-border transactions, helps protect against the possibility that risks created outside of our borders will flow back into the United States.

The Commission has also worked to improve trading of swaps on regulated platforms. We have approved the registrations of 23 swap execution facilities (SEFs), and we have improved SEF trading through a number of actions. Our goal is to create a regulatory framework that not only brings this market out of the shadows, but which attracts participation and build liquidity. We are also working to harmonize our rules with those coming on-line globally. And we have taken several actions to improve swap data reporting.

This past year, we continued to focus on an aggressive enforcement program that protects customers and prevents fraud and manipulation. Enforcement is a core component to safeguarding the integrity of our markets, deterring bad behavior, and maintaining public confidence. The CFTC's enforcement responsibilities are more important than ever, due to its expanded mission, market complexity, and the advent of new, complicated forms of illegal behavior, such as spoofing. At the same time, the Commission is investigating more cases involving manipulation, false reporting of market information, and disruptive trading practices. And we are prosecuting wrongdoers for a wide range of fraudulent schemes, including Ponzi schemes that prey upon the retail public, precious metals frauds, and deceptive practices related to commodity pools. In FY 2016, the Commission filed 68 new enforcement actions and imposed nearly \$1.3 billion in total monetary sanctions. This work will remain a vital element of our operations in the future.

Throughout this and all our work, we have also taken steps to ensure commercial end-users can continue to use the derivatives markets efficiently and effectively. These commercial businesses have traditionally relied on these markets to hedge routine commercial risk, and they did not cause the global financial crisis. Therefore, we are always looking to ensure that our rules do not create undue burdens on these businesses, and we have taken several actions over the past year to this effect. We will continue to make being responsive to the concerns of end-users a priority.

Our progress is a credit to the CFTC's hardworking and dedicated professional staff. Their significant contributions this year are highlighted in the pages that follow.

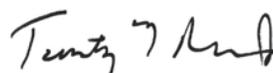
While our achievements this year are significant, there is much more to do. The CFTC's responsibilities were greatly expanded by the Dodd-Frank Act. The swaps market we are now tasked with overseeing is vast, global, and dramatically larger than the futures and options markets we also supervise. Moreover, all the markets we regulate are continuously evolving, driven by innovative new technologies, competition, and an interconnected marketplace. As a result, the Commission's work is constantly changing, increasingly complex, and always forward-looking.

Unfortunately, our budget has not kept pace with this complexity—or the expansion of our responsibilities. As a result, we cannot supervise our markets, protect our market participants, and achieve transparency and efficiency as fully as we believe the American people deserve.

The CFTC places a strong emphasis on being an effective steward of its operating funds. The Chief Financial Officer's message includes the results of the independent audit of our FY 2016 Financial Statements. I am pleased to report that the Commission has received an unmodified opinion on its financial statements.

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 the Office of Management and Budget (OMB) guidance. You can read about the operation of our internal controls in the Management's Discussion and Analysis Section of this report, which also highlights key management assurances.

During FY 2016, the CFTC and its talented staff accomplished a great deal on behalf of the American public. As a result, the markets we oversee are stronger, more transparent, and more competitive. We look forward to continuing this progress in the months and years to come.



Timothy G. Massad

Chairman

November 14, 2016

FISCAL YEAR 2016 COMMISSIONERS

Timothy G. Massad, Chairman



Timothy Massad was sworn-in as Chairman of the CFTC on June 5, 2014, after being confirmed by the U.S. Senate as Chairman and as a Commissioner of the CFTC.

Previously, Mr. Massad was nominated by President Obama and confirmed by the U.S. Senate as the Assistant Secretary for Financial Stability at the U.S. Department of the Treasury (Treasury). In that capacity, Mr. Massad oversaw the Troubled Asset Relief Program (TARP), the principal U.S. governmental response to the 2008 financial crisis designed to help stabilize the economy and provide help to homeowners. Under TARP, Treasury's investments in financial institutions, the credit markets and the auto industry prevented the economy from falling into a depression. Mr. Massad was responsible for the day-to-day management and recovery of TARP funds, and during his

tenure, Treasury recovered more on all the crisis investments than was disbursed. Mr. Massad also served as Chief Counsel for the program prior to becoming Assistant Secretary.

Prior to joining Treasury, Mr. Massad served as a legal advisor to the Congressional Oversight Panel for TARP, under the leadership of (now Senator) Elizabeth Warren. Mr. Massad assisted the panel in its first report evaluating the investments made by Treasury under TARP.

Prior to his government service, Mr. Massad was a partner in the law firm of Cravath, Swaine & Moore, LLP. Mr. Massad had a broad corporate practice with a focus on corporate finance and financial markets. He helped to draft the original standardized agreements for swaps and helped many businesses negotiate and execute transactions to hedge exposures in the derivatives markets.

Mr. Massad earned his bachelor's and law degrees at Harvard. Mr. Massad was born in New Orleans, Louisiana, and also lived in Texas, Oklahoma and Connecticut as a child. He and his wife, Charlotte Hart, live in Washington with their two children.

Sharon Y. Bowen, Commissioner



Sharon Y. Bowen was sworn in as a Commissioner of the CFTC on June 9, 2014 for a five-year term.

Ms. Bowen was previously confirmed by the U.S. Senate and appointed by President Obama on February 12, 2010 to serve as Vice Chair of the Securities Investor Protection Corporation (SIPC). She assumed the role of Acting Chair in March 2012. Prior to her appointment to

the CFTC, Ms. Bowen was a partner in the New York office of Latham & Watkins LLP. Ms. Bowen's broad and diverse corporate and transactional practice of almost 32 years began in 1982 when she started her career as an associate at Davis Polk & Wardwell. She joined Latham as a senior corporate associate in the summer of 1988 and became a partner January 1991.

Ms. Bowen's practice has included corporate, finance, and securities transactions for large global corporations and financial institutions, including mergers and acquisitions, private equity, securities offerings, strategic alliances, corporate restructurings, leveraged finance, securitizations, distressed debt and asset acquisitions, and venture capital financings.

Ms. Bowen served in several leadership positions in her firm, including co-chair of the Diversity Committee, co-chair of the Diversity Hiring Subcommittee and co-founder and head of Latham's Women Enriching Business (WEB) Task Force, whose mission is to create broader networks and productive business development relationships for women.

Ms. Bowen has been involved in numerous pro bono, educational, diversity and civic matters throughout her career and has received many awards in recognition of her contributions. She has served as a member of the Board (formerly Executive Committee and Chair) and Emeritus Board of New York Lawyers for the Public Interest, Inc., the Boards of New York City Economic Development Corporation (formerly Executive Committee), Northwestern University Law

School (formerly Executive Member and Chair), and Public Education Needs Civil Involvement in Learning (PENCIL) (formerly Executive Committee).

Ms. Bowen is one of America's "Top Black Lawyers" according to Black Enterprise Magazine. She is a recipient of the 2011 Diversity Trailblazer Award of the New York State Bar Association, and was selected as the New York City Bar Association 2007 Diversity Champion and the Metropolitan Black Bar Association 2006 Lawyer of the Year.

Ms. Bowen was born in Chesapeake, Virginia. She received her B.A. in Economics from the University of Virginia, MBA from the Kellogg School of Management and J.D. from Northwestern University School of Law.

J. Christopher Giancarlo, Commissioner



J. Christopher "Chris" Giancarlo was nominated by President Obama on August 1, 2013, and confirmed by unanimous consent of the U.S. Senate on June 3, 2014. On June 16, 2014, Mr. Giancarlo was sworn in as a CFTC Commissioner for a term expiring in April 2019.

Before entering public service, Mr. Giancarlo served as the Executive Vice President of GFI Group Inc., a financial services firm. Prior to joining GFI, Mr. Giancarlo was Executive Vice President and U.S. Legal Counsel of Fenics Software and was a corporate partner in the New York law firm of Brown Raysman Millstein Felder & Steiner. Mr. Giancarlo joined Brown Raysman from Giancarlo & Gleiberman, a law practice founded by Mr. Giancarlo in 1992 following his return from

several years in London with the international law firm of Curtis, Mallet-Prevost, Colt & Mosle.

Mr. Giancarlo was also a founding Co-Editor-in-Chief of eSecurities, Trading and Regulation on the Internet (Leader Publications). In addition, Mr. Giancarlo has testified three times before Congress regarding the implementation of the Dodd-Frank Act, and has written and spoken extensively on public policy, legal and other matters involving technology and the financial markets.

Mr. Giancarlo was born in Jersey City, New Jersey. He attended Skidmore College in Saratoga Springs, New York where he graduated Phi Beta Kappa with Government Department Honors. Mr. Giancarlo received his law degree from the Vanderbilt University School of Law where he was an associate research editor at the Vanderbilt Journal of Transnational Law and President of the Law School's International Law Society. Mr. Giancarlo has been a member of the Bar of the State of New York since 1985.

THE COMMISSION IN BRIEF

ORGANIZATION AND LOCATION

The Commission consists of five Commissioners, with two positions currently vacant. 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 Commodity Exchange Act (CEA) and the regulations, policies, and guidance thereunder.

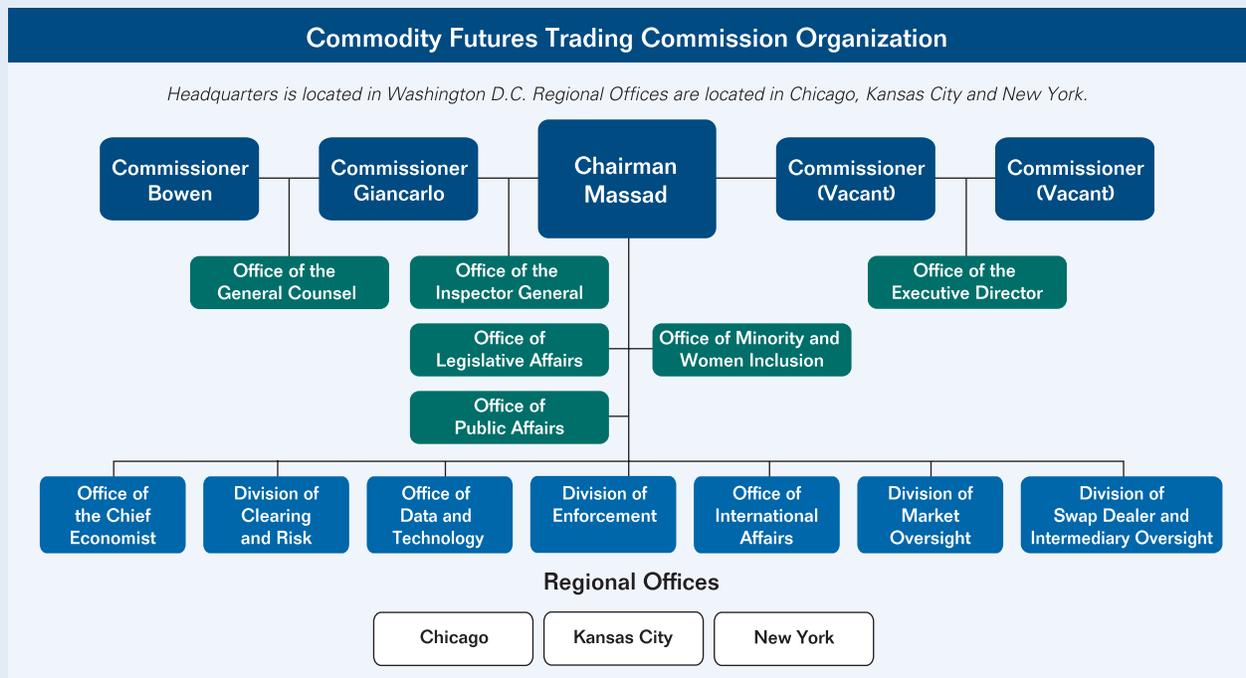
The Commission is organized largely along programmatic and functional lines. The four programmatic divisions—the Division

of Clearing and Risk, Division of Enforcement, Division of Market Oversight, and the Division of Swap Dealer and Intermediary Oversight—are partnered with, and supported by, a number of offices, including the Office of the Chief Economist, Office of Data and Technology, Office of the Executive Director, Office of the General Counsel, and the Office of International Affairs. The Office of the Inspector General is an independent office of the Commission.

The Dodd-Frank Act established the CFTC Customer Protection Fund for the payment of awards to whistleblowers, through the whistleblower program, and the funding of customer education initiatives designed to help customers protect themselves against fraud or other violations of the CEA or the rules or regulations thereunder.

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. The CFTC organization chart is also located on the Commission’s website at <http://www.cftc.gov/About/CFTCOrganization/index.htm>.



CFTC REGULATORY LANDSCAPE

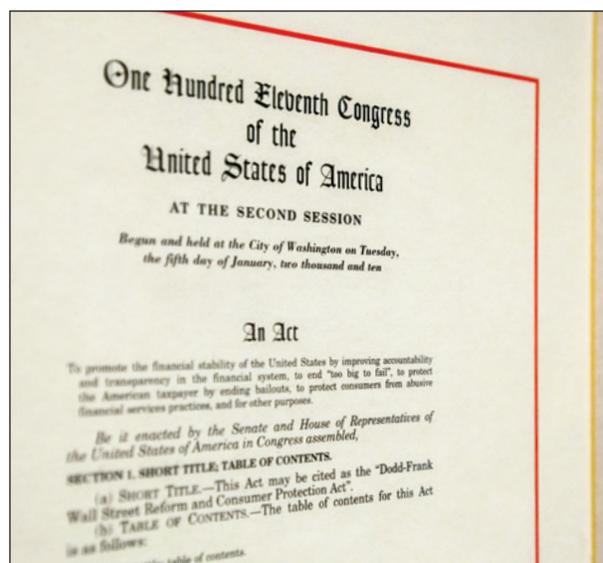
The Commission administers the CEA, 7 U.S.C. section 1, et seq. The 1974 Act brought under Federal regulation futures trading in all goods, articles, services, rights and interests; commodity options trading; leverage trading in gold and silver bullion and coins; and otherwise strengthened the regulation of the commodity futures trading industry. The Commission's mandate has been renewed and expanded several times since then, most recently by the 2010 Dodd-Frank Act.

In carrying out this mission and to promote market integrity, the Commission polices the derivatives markets for various abuses and works to ensure the protection of customer funds. Further, the agency seeks to lower the risk of the futures and swaps markets to the economy and the public.

Derivatives first began trading in the United States before the Civil War, when grain merchants came together and created this new marketplace. When the Commission was founded in 1974, the 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.

The Commission construes the definition of a futures contract broadly. Essentially, it is an agreement to purchase or sell a commodity for delivery in the future: 1) at a price that is determined at initiation of the contract; 2) that obligates each party to the contract to fulfill the contract at the specified price; 3) that is used to assume or shift price risk; and 4) that may be satisfied by delivery or offset. The CEA generally requires futures contracts to be traded on regulated exchanges, with futures trades cleared and settled through clearinghouses, referred to as derivatives clearing organizations (DCOs). To that end, futures contracts are standardized to facilitate exchange trading and clearing.

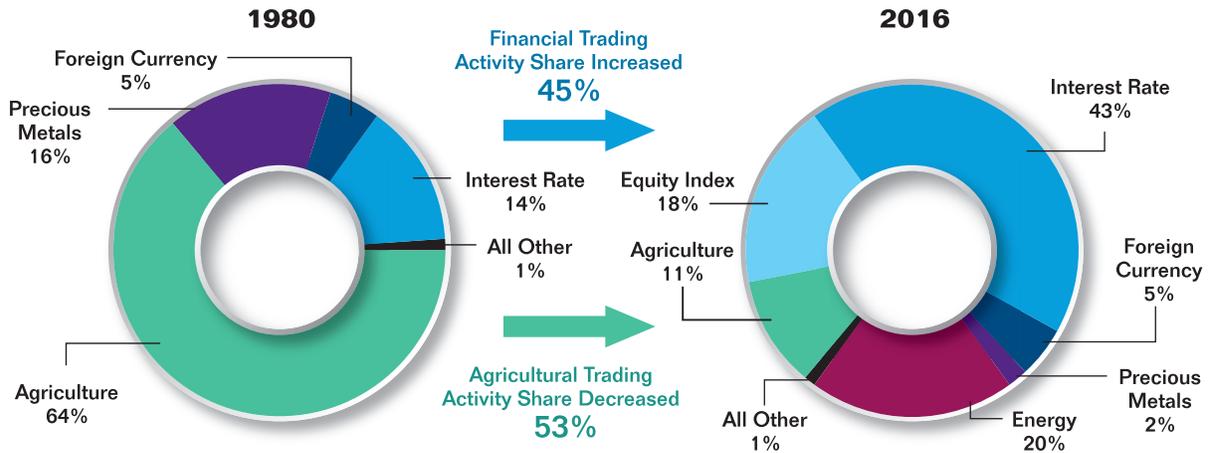
Although a futures contract agreement is set today, the person selling (for example, a farmer marketing bushels of wheat) will not receive payment and the buyer (in this case a bakery) will not receive goods purchased until the predetermined delivery date agreed to in the contract, which is November 1 in the following example. The farmer benefits from this agreement because he is certain as to the amount of money he will earn



from the farming operation, even if the price of wheat changes between today and November 1. Similarly, the bakery buying the wheat also benefits by knowing how much the wheat will cost on November 1 and it will be better positioned to estimate its baking costs and set prices for its products. Finally, even though the actual price of wheat on November 1 (when the contract is fulfilled) may be greater or less than the pricing in the November 1 contract, the price is fixed and both the farmer and the bakery are bound by the price agreed to when they entered into the agreement. Most futures contracts are not settled with the actual physical delivery of the commodity, but by the purchase of opposite (offsetting) futures contracts, which serve to close out the original positions, with profits or losses dependent on the direction in which the price of the contracts have moved relative to those positions.

Speculators may also buy or sell such futures contracts. The speculator buying a futures contract for November wheat believes the value of the wheat in November will be higher than the price he is paying for the contract today. As time passes, and November draws closer, people may try to estimate whether the cost of November wheat will rise or fall, and may cause the value of that futures contract to fluctuate. For example, if people expect an especially bad harvest in November, then the price of November wheat will rise, and the speculator may sell that futures contract for November wheat for even more (or less) than he or she paid.

Share of Futures and Options Trading Activity by Sector



Source: Futures Industry Association

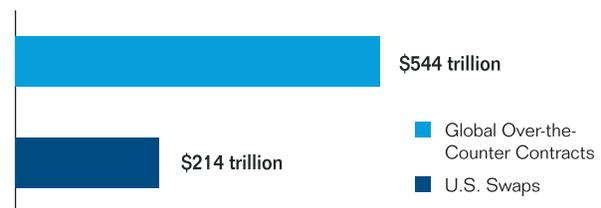
Since 1980, the share of on-exchange commodity futures and option trading activity in the agricultural sector decreased from approximately two-thirds of trading activity to just over 10 percent of activity. The share of the financial futures and option contract activity increased from less than 20 percent of trading activity to approximately two-thirds of the trading activity. Among the other contracts, trading in energy contracts increased to approximately 20 percent of activity, from zero in 1980.

Over the years, the futures industry has become increasingly diversified. Futures based on other physicals, such as metals and energy products, were developed. Highly complex financial contracts based on interest rates, foreign currencies, Treasury bonds, security indexes, and other products have far outgrown the agricultural contracts in trading volume. (See chart above)

Electronic integration of cross-border markets and firms, as well as cross-border alliances, mergers and other business activities have transformed the futures markets and firms into a global industry. With the passage of the Dodd-Frank Act, the Commission was tasked with bringing regulatory reform to the swaps marketplace. Swaps, which had not previously been regulated in the United States, formed a collective global trading market valued in the hundreds of trillions of dollars when measured by notional amount.

Generally speaking, a swap is an exchange of one asset or liability for a similar asset or liability for the purpose of, *inter alia*, shifting risks, where the value of those payments is determined in the future based on some previously agreed measure. With a swap, counterparties agree to exchange future cash flows at regular intervals, with each cash flow calculated on a different (previously agreed-upon) basis. Before the Dodd-Frank Act, swaps were, for the most part, traded OTC

Notional Values of FY 2016 Swaps Market



Sources: Bank of International Settlements, Global OTC Contracts, CFTC Weekly Swaps Report, U.S. Swaps

Data for the OTC contracts reflect global OTC data reported by the Bank of International Settlements, which compiles reports from 13 countries on different categories of OTC contracts. U.S. Swaps market data currently includes data from four swap data repositories (SDRs) and reflect data relating to interest rates and credit default swaps. The Commission expects to include additional SDRs and asset classes in the future.

(also called bilaterally), which means that swaps were not traded on regulated derivatives exchanges and many were not cleared through DCOs. Swaps are tools for hedging risks associated with, among other things, interest rates, currency fluctuations, and the cost of energy products, such as oil and natural gas. The value of a swap is derived from the value of the underlying asset or rate that serves as the basis for each (or both) legs of the exchange.

For example, two people may agree to swap the cost of a fixed interest rate on a \$100,000 mortgage for a variable interest rate on a \$100,000 mortgage. Person A agrees to pay a fixed interest rate of five percent to Person B, every month for a year. In exchange, Person B agrees to pay Person A variable interest rate based on the prime rate (currently 3.25 percent) plus 1.75 percent. Because these two interest rates equal each other at the time the swap is agreed, neither person owes anything to the other. If, however, the prime rate rises, then Person B will owe more money to Person A. Thus, at the time the swap is agreed, Person A is assuming interest rates will rise, whereas Person B is hoping interest rates will fall.

In normal times, these markets create substantial, but largely unseen, benefits for American families. During the 2008 financial crisis, however, their effect was just the opposite. It was during the financial crisis that many Americans first heard the term “derivatives”. That was because OTC swaps accelerated and intensified the crisis. The government was then required to take actions that today still stagger the imagination: for example, largely because of excessive swap risk, the government committed \$182 billion to prevent the collapse of a single company—AIG—because its failure at that time, in those circumstances, could have caused our economy to fall into another Great Depression.

It is hard for most Americans to fathom how this could have happened. While derivatives were just one of many factors that caused or contributed to the crisis, the structure of some of these products created significant risk in an economic downturn. In addition, the extensive, bilateral transactions between the largest banks and other institutions meant that trouble at one institution could cascade quickly through the financial system. The opaque nature of this market meant that regulators did not know the level of exposure that any one institution or the financial system faced.

REGISTERED PROFESSIONALS AS OF SEPTEMBER 30, 2016

Type of Registered Professional	Number
Associated Persons (AP) (Sales People)	53,431
Commodity Pool Operators (CPOs)	1,710
Commodity Trading Advisors (CTAs)	2,298
Floor Brokers (FBs)	3,816
Floor Traders (FTs)	694
Futures Commission Merchants (FCMs) ¹	68
Introducing Brokers (IBs)	1,275
Major Swap Participant (MSP)	0
Retail Foreign Exchange Dealer (RFEDs)	3
Swap Dealer (SDs)	102
TOTAL	63,397

Source: National Futures Association

Companies and individuals who handle customer funds, solicit or accept orders, or give trained advice must apply for CFTC registration through the National Futures Association, a self-regulatory organization with delegated oversight authority from the Commission. The Commission regulates the activities of over 63,000 registrants.

DODD-FRANK ACT: ENHANCED REGULATORY ENVIRONMENT

On July 21, 2010, the Dodd-Frank Act was enacted and the CEA was significantly amended to establish a comprehensive new regulatory framework to include swaps, as well as enhanced authority over historically regulated entities.

The purpose of the derivatives provisions of the Dodd-Frank Act was to implement the commitments made by the United States at the G20 summit in Pittsburgh in 2009. The members of the G20 made four commitments:

- Require **regulatory oversight** of the major market players;
- Require **clearing** of standardized transactions through regulated DCOs;
- Require more **transparent trading** of standardized transactions; and
- Require regular **data reporting** so that regulators and market participants would have an accurate picture of what is going on in the market.

¹ Includes futures commission merchants that are also registered as retail foreign exchange dealers.

Regulatory Oversight

Six years ago, swap dealers faced no specific oversight with regard to their swap dealing activity. The first of the major directives Congress gave to the CFTC was to create a framework for the registration and regulation of swap dealers and major swap participants. The Commission completed this requirement. As of September 30, 2016, 102 swap dealers are provisionally registered with the CFTC.

The Commission has continued to adopt rules requiring strong risk management. In FY 2016, the CFTC strengthened the Dodd-Frank framework by releasing final rules for initial and variation margin requirements for uncleared swaps. These rules setting collateral requirements serve as the first line of defense in the event of a default, and are critically important to minimizing risk that can come from OTC swaps. There will always be a large part of the swaps market that is not cleared, as many are not suitable for central clearing because of limited liquidity or other characteristics. Moreover, DCOs will be stronger if greater care is exercised in what is required to be cleared. These rules protect against such activity posing excessive risk to the system.

The margin rules supplement the CFTC’s existing framework for OTC derivatives. This framework requires registered swap dealers and major swap participants to comply with various business conduct requirements, which include strong standards for documentation and confirmation of transactions, as well as dispute resolution processes. The regulations also include requirements to reduce risk of multiple transactions through what is known as portfolio reconciliation and portfolio compression. Further, they ensure that all counterparties are eligible to enter into swaps, and make appropriate disclosures to those counterparties of risks and conflicts of interest.

A dedicated swaps examination program is taking shape as well. Over the past two years, the CFTC has delegated additional responsibilities to and enhanced coordination efforts with the National Futures Association (NFA), an industry funded, self-regulatory organization, to design and implement a direct examination process for swap dealers. By virtue of this, the Commission is now leveraging the significant resources of the NFA to meet cyclical exam workload demands for swap dealer registrants while preserving and focusing finite CFTC resources on NFA oversight, strategic horizontal and direct reviews, industry monitoring/surveillance and, when necessary, critical incident response.

As directed by Congress, the Commission has worked with the U.S. Securities and Exchange Commission (SEC), other U.S. regulators, and our international counterparts to establish this framework. The Commission will continue this coordination to achieve as much regulatory consistency as possible in ways that best meet mutual goals and objectives.

Clearing

A second directive of the Dodd-Frank Act requires clearing of swaps that the Commission has determined under a five-part statutory framework should be cleared at DCOs. DCOs reduce the risk that one market participant’s failure could adversely impact other market participants or the public. DCOs accomplish this by standing in between the two original counterparties to a transaction—as the buyer to every seller and the seller to every buyer—and maintaining financial resources to cover potential defaults. DCOs value positions daily and require parties to post adequate margin on a regular basis. “Margin” is the collateral that holders of financial instruments have to deposit with DCOs to cover some or all of the risk of their positions. Collateral must be in the form of cash or highly liquid securities.



Source: Part 39 data filings provided daily by DCOs

Total cleared margin (futures and swaps combined) increased \$77 billion, or 34 percent from FY 2014 to FY 2016. Clearing of swaps has been growing more rapidly than futures due primarily to the 2013 swaps clearing mandates. Total margin for cleared swaps alone increased by 45 percent from FY 2014 to FY 2016. DCOs only accept trades from their members. If a market participant is not a member of the DCO, it must clear through a member as its customer. Customer swap clearing has been growing very rapidly, nearly doubling between FY 2014 and FY 2016.

The use of DCOs in financial markets is commonplace and has existed for over 100 years. The idea is simple: if many participants trade standardized products on a regular basis, the tangled, hidden web created by thousands of private two-way trades can be replaced with a more transparent and orderly structure, like the spokes of a wheel, with the DCO at the center interacting with market participants. In addition to facilitating trades, DCOs are required to monitor the overall risk and positions of each participant.



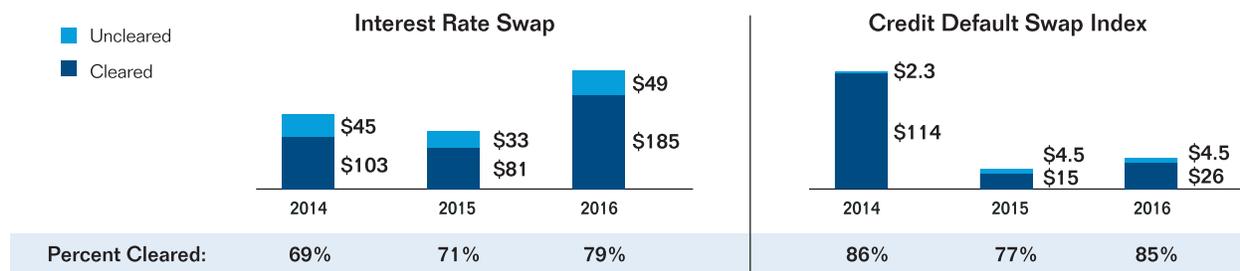
The CFTC was the first of the G-20 nations' regulators to implement a regime for mandatory clearing of swaps. In 2013, the Commission required clearing for certain types of interest rate swaps denominated in U.S. dollars, Euros, Pounds and Yen, as well as credit default swaps on certain North American and European indices. In FY 2016, the CFTC expanded the interest rate swap clearing requirement to include those denominated in the Australian dollar, Canadian dollar, Hong Kong dollar, Singapore dollar, Mexican peso, Norwegian krone, Polish zloty, Swedish krona, and Swiss franc. These currencies have, or are expected soon, to mandate central clearing for these products, and these requirements will be phased-in based on when the corresponding clearing requirements have taken effect in non-U.S. jurisdictions.

Based on data reported to SDRs, as of June 2016, 83 percent of all new interest rate swap transactions were cleared, as measured by notional value. This is compared to estimates by the International Swaps and Derivatives Association (ISDA) that only 16 percent by notional value, of outstanding interest rate swaps were cleared in December 2007. With regard to index credit default swaps, most new transactions are being cleared—81 percent of notional value, as of June 2016. (See chart below)

The Dodd-Frank Act's approach to encouraging the use of central clearing for swaps and the accompanying CFTC rules for clearing swaps were patterned after the successful regulatory framework used for many years in the futures market. The Commission requires that clearing occurs through CFTC-registered DCOs that meet certain standards—a comprehensive set of core principles and regulations that ensures each DCO is appropriately managing the risk of its members, and monitoring them for compliance with important rules. Non-U.S. DCOs can receive exemptions, when they are subject to comparable, comprehensive supervision and regulation by the appropriate government authorities in their respective home country.

Of course, central clearing by itself is not a panacea. DCOs do not eliminate the risks inherent in the swaps market. The Commission must therefore be vigilant. It must do all it can to ensure that DCOs have financial resources, vigorous risk management tools, systems that minimize operational risk, and all the necessary standards and safeguards consistent with the core principles to operate in a fair, transparent and efficient

Swap Volume, Cleared vs. Uncleared Notional Amount (\$ in trillions)



Source: CFTC Weekly Swaps Report, <http://www.cftc.gov/MarketReports/SwapsReports/index.htm>

Based on data reported to SDRs, as of January 2017, 83 percent of all new interest rate swap transactions were cleared, as measured by notional value. This is compared to estimates by the International Swaps and Derivatives Association (ISDA) that only 16 percent by notional value, of outstanding interest rate swaps were cleared in December 2007. With regard to index credit default swaps, most new transactions are being cleared—82 percent of notional value, as of January 2017.

manner. DCOs must also have tools in place to address a wide range of situations that may arise if a clearing member defaults, and they must develop plans to deal with losses to the DCO in non-default situations. In addition, the Commission must make sure that DCO contingency planning to deal with operational events, such as cyber-attacks, is sufficient.

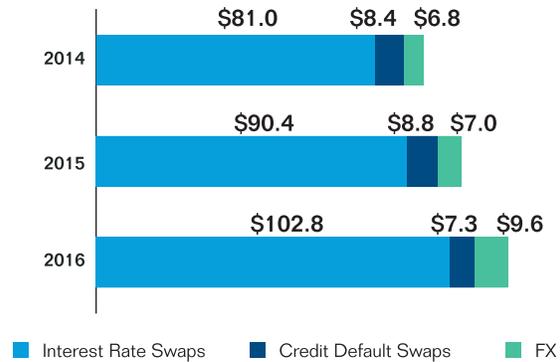
To that end, throughout FY 2016, the Commission was intently focused on the resiliency of DCOs, as well as planning for recovery and resolution. These remain high priorities for the CFTC, and there is significant work taking place domestically and internationally. Domestically, the CFTC’s examination and risk surveillance programs focus on DCO resiliency on an ongoing basis. Commission staff is applying regulatory or supervisory stress tests for the largest DCOs, which assess the impact of stressful market scenarios across multiple DCOs and clearing members on the same date. Staff is also working with the major clearinghouses to make sure they have well-developed recovery plans in place. And staff has been actively engaged in working with the FDIC on resolution planning.

In addition, the CFTC has played a leadership role with regulators from around the world on issues related to the resilience, recovery, and resolution of clearinghouses. During FY 2016, CFTC staff continued its work with international regulators on a four-part international work plan on these issues. Indeed, all aspects of this plan, some of which are being led by CFTC staff, have contributed to the important progress made to create an international regulatory framework to ensure the strength and stability of these institutions.

Transparent Trading

The third area for reform under Dodd-Frank requires more transparent trading of standardized derivatives products. In the Dodd-Frank Act, Congress provided that certain swaps must be traded on a SEF or an exchange that is registered as a designated contract market (DCM). The Dodd-Frank Act defined a SEF as “a trading system or platform in which multiple participants have the ability to execute or trade swaps by accepting bids and offers made by multiple participants.” The trading requirement was designed to facilitate a more open, transparent and competitive marketplace, benefiting, among others, commercial end-users seeking to lock in a price or hedge risk.

Annual Volume of Swaps Traded on U.S. Swap Execution Facilities
(\$ in trillions)



Source: Futures Industry Association

In 2014, the Futures Industry Association began collecting volume data from SEFs, a new type of CFTC-regulated platform for trading swaps that began operating on October 2, 2013. The Futures Industry Association publishes data on volume and market share trends for interest rate, credit and foreign exchange (FX) products traded on SEFs. Visit SEF Tracker In-Depth at <https://www.fia.org> for more details on market trends.

The CFTC finalized its rules for SEFs in June 2013. Twenty-three SEFs have been registered with the CFTC, and one application is pending. These



SEFs are diverse, but each is required to operate in accordance with the same core principles. These core principles provide a framework that includes obligations to establish and enforce rules, as well as policies and procedures that enable transparent and efficient trading. SEFs must make trading information publicly available, put into place system safeguards, and maintain financial, operational and managerial resources to discharge their responsibilities.

Trading on SEFs began in October 2013. As of February 2014, specified interest rate swaps and credit default swaps were required to be traded on a SEF or other regulated exchange. For the 2016 year-to-date, as of August 26, 2016, 56 percent of trading by notional volume in rates and credit was executed on SEFs. During this same period, notional value executed on SEFs generally has been in excess of \$8 trillion monthly. It is important to remember that trading of swaps on SEFs

is still new. SEFs are still developing best practices under the new regulatory regime. The new technologies that SEF trading requires are likewise being refined. Additionally, other jurisdictions have not yet implemented trading mandates, which has slowed the development of cross-border platforms. There will be issues as SEF trading continues to mature. The Commission will need to work through these to fully achieve the goals of efficiency and transparency SEFs are meant to provide.

Data Reporting

The fourth G20 reform commitment implemented by the Dodd-Frank Act was to require ongoing reporting of swap activity. Having rules that require oversight, clearing, and transparent trading is not enough. The Commission must have an accurate, ongoing picture of what is going on in the marketplace to achieve greater transparency and to address potential systemic risk. Title VII of the Dodd-Frank Act assigns the responsibility for collecting and maintaining swap data to SDRs, a new type of entity necessitated by these reforms. All swaps, whether cleared or uncleared, must be reported to SDRs. There are currently four SDRs that are provisionally registered with the CFTC.

The collection and public dissemination of swap data by SDRs helps regulators and the public. It provides regulators with information that can facilitate informed oversight and surveillance of the market and implementation of our statutory responsibilities. Dissemination, especially in real-time, also provides the public with information that can contribute to price discovery and market efficiency. While the Commission has accomplished a great deal in this area, much work remains. The task of collecting and analyzing data concerning this marketplace requires intensely collaborative and technical work by industry and the agency's staff. Going forward, it must continue to be one of the CFTC's chief priorities.

There are three general areas of activity, and the Commission has made progress in all of them. First, the CFTC is making sure its data reporting rules and standards are



specific and clear, and harmonized as much as possible across jurisdictions. In FY 2016, the Commission adopted a rule to create a simple, consistent process for reporting cleared swaps. The rule streamlines the reporting so there are not duplicate records of a swap, which can lead to double counting that can distort the data. It makes sure that accurate valuations of swaps are provided on an ongoing basis. And it eliminates a number of needless reporting requirements for swap dealers and major swap participants.

CFTC staff has also made progress in standardizing reporting to SDRs. During the fiscal year, staff published draft technical specifications for the reporting of 120 priority data elements. These describe the form, manner and the allowable values that each data element can have. The CFTC also is leading the international effort in this area, both in the global harmonization of data standards and in building internationally accepted governance structures to maintain those data standards. The Commission will abstain from finalizing domestic standards until this international work is complete, to ensure harmonization—and to achieve consistency in reporting across-borders.

The Commission must also make sure the SDRs collect, maintain, and publicly disseminate data in the manner that supports effective market oversight and transparency. The SDRs must have the ability to make sure the data they receive is complete and conforms to required standards.

Finally, market participants must live up to their reporting obligations. Ultimately, the market participants bear the responsibility to make sure that the data is accurate and reported promptly. The primary goal is to bring firms into compliance. But where firms fail repeatedly to take these obligations seriously or invest sufficient resources to meet them, the Commission has taken, and will continue to take, enforcement action.

FORWARD LOOKING – FUTURE BUSINESS TRENDS AND EVENTS

There are some core principles that motivate the Commission's work in implementing the Dodd-Frank Act. The first is that the CFTC must never forget the cost of the financial crisis to American families, and it must do all it can to address the causes of that crisis in a responsible way. The second is that the United States has the best financial markets in the world. They are the strongest, most dynamic, most innovative, most competitive and transparent. They have been a significant engine of U.S. economic growth and prosperity. The Commission's work should strengthen U.S. markets and enhance those qualities in a way that does not place unnecessary burdens on the dynamic and innovative capacity of the industry.

It has now been eight years since the global financial crisis, and the Commission has taken a number of steps to improve the safety and soundness of our financial system. However, the work of the Commission does not just involve looking to the causes of past crises. An equally important part of the CFTC's work is looking ahead, to the new opportunities and challenges facing these markets.

The financial markets are evolving and innovating at the speed of light. Transformations in technology are playing a large role in those changes, and from them come new opportunities as well as challenges. In turn, market participants are altering their activities—and strategies—in response. As the industry continues to evolve, the CFTC must also take steps—to ensure our regulatory framework is able to respond to the challenges ahead.

This understanding is critical to the Commission's ability to appropriately regulate the industry of today and tomorrow. What follows is a brief discussion of what the Commission expects in the years to come.

Instances of Cyber-Attack Warrant Increased Vigilance

There is heightened attention, both domestically and internationally, on cybersecurity and the risk of cyber-attacks. Indeed, this may be the most significant risk to financial

stability we face today. The CFTC is very focused on this issue, especially with respect to the core infrastructure in the markets it regulates—the clearinghouses, exchanges, trading platforms and data repositories. The CFTC already conducts regular examinations of registered entities to monitor compliance with system safeguards core principles and CFTC regulations. And in FY 2016, the Commission finalized new rules to address the risk posed by cyber-attack or other technological failures. These rules require the private companies that operate the core market infrastructure to regularly evaluate cyber risks and test their cybersecurity and operational risk defenses. They add greater definition to the Commission's existing efforts—by setting principles-based standards and requiring specific types of testing, all rooted in industry best practices.

Recent cyber-attacks both inside and outside of the financial sector make clear the need for continued vigilance on this front. Through its participation in the Financial and Banking Information Infrastructure Committee, CFTC coordinates and cooperates with other financial regulators, the intelligence community, and Federal law enforcement agencies to ensure that Commission oversight is informed by current cyber threat information and trends. And the CFTC also continues to increase its own cybersecurity protections over the data collected from market participants for surveillance and enforcement.

The Opportunities and Challenges Posed by the Increased Use of Automated Trading

The Commission is also focused on the increased use of automated trading, which has become the dominant form of trading in the derivative markets. In recent years, there has been a fundamental change in this regard—approximately 70 percent of trading in the futures market is now automated. While there are positives that come from this technology, there is also a greater likelihood of disruption and other operational problems. The CFTC is taking steps to address these challenges. In FY 2016, the Commission issued a proposal that seeks to minimize the risk of that disruption caused by automated trading. The proposal relies on a principles-based approach that codifies many industry best

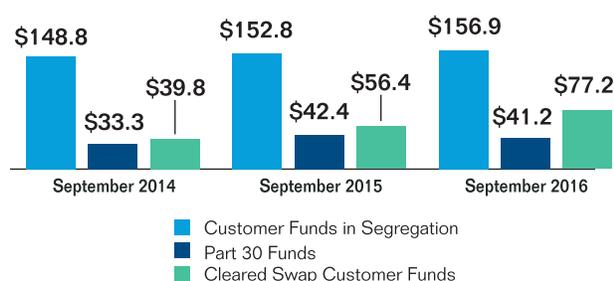
practices. It requires pre-trade risk controls, such as message throttles and maximum order size limits. It requires other measures such as “kill switches,” which facilitate emergency intervention in the case of a malfunctioning algorithm. But it does not prescribe the parameters or limits of such controls; it leaves those specifics to market participants.

Growth in Clearing Means Increased Focus on Clearinghouse Resilience and Additional Requirements for Uncleared Swaps

Central clearing of standardized transactions, as required by Dodd-Frank, reduces credit risk between counterparties. Following the 2013 implementation of the Commission’s rules requiring that certain interest rate swaps and credit default swaps be cleared, a significant portion of the swaps market moved into central clearing. This shift in market behavior has significant risk mitigation benefits.

The segregation of customer funds from a futures commission merchant’s own proprietary funds for use is one of the **core foundations of customer protection** in the cleared swaps markets.

Amount of Customer Funds in Futures Commission Merchants Accounts (\$ in billions)



Source: CFTC Monthly Futures Commission Merchants Financial Reporting

As a key component of the Commission’s regulatory framework, all customer funds held by an futures commission merchant for trading on DCMs (exchanges) and SEFs must be segregated from the futures commission merchant’s own funds—this includes cash deposits and any securities or other property deposited by such customers to margin or guarantees their futures and cleared swaps trading. In addition, Part 30 of the CFTC’s regulations also requires futures commission merchants to hold apart from their own funds a “secured amount” for customers trading futures contracts on foreign boards of trade through futures commission merchants.

Swap customers and other market participants are required to post initial margin to cover the potential future exposure of their positions in the event of default. In addition, swap customers and other market participants are required to pay variation margin through futures commission merchants to avoid the accumulation of large gain and/or loss obligations. In FY 2016, the CFTC adopted margin requirements for uncleared swaps entered into by swap dealers and major swap participants subject to the CFTC’s jurisdiction (i.e., non-bank swap dealers and major swap participants). The Commission also adopted a cross-border approach for the implementation of this rule—which helps protect against the possibility that risks created outside our borders will flow back into the United States. In addition to posting margin, the Commission is working to propose rules that will require non-bank swap dealers and major swap participants to hold minimum levels of capital. Completion of the rulemaking process is a top agency objective. Together, capital and margin requirements are intended to reduce swaps-related systemic risk in the global financial system and to encourage clearing. As DCOs offer new swaps for clearing, the CFTC will assess the ability of the DCO to properly manage the risk of clearing those swaps.

The movement of swaps to a cleared environment has mitigated systemic risk in the market but has also shifted significant new levels of counterparty risk to DCOs. As more swap activity migrates to clearing, DCOs are holding substantially more collateral that has been deposited by market participants. There is a need to perform examinations of DCOs to evaluate their resources and capabilities to monitor and control their financial and operational risks. There is a need for the CFTC to apply additional staffing resources to perform these large and complex examinations. And the CFTC is focused on doing so in the months and years ahead.

The Commission will continue its work on supervisory stress tests for the largest clearinghouses in our jurisdiction. These examinations assess the impact of stressful market scenarios across multiple DCOs and clearing members on the same date. The Commission will also continue to make sure the major DCOs have adequate recovery plans, and will continue its collaboration with the Federal Deposit Insurance Corporation on resolution planning.

Further, the CFTC has taken a leadership role on an international work plan related to clearinghouse strength and stability. This ongoing work has four major elements, and

staff are involved in all of them. First, the CFTC is co-chairing a working group looking at clearinghouse resilience and recovery issues, including whether the international regulatory standards, known as the Principles for Financial Market Infrastructures (PFMIs), have sufficient granularity. A second working group has assessed the implementation of the PFMIs at ten representative clearinghouses. Third, a separate group is working on resolution planning for clearinghouses, including international coordination. A final group is examining the interdependencies among global clearinghouses and major clearing members.

Resilient clearinghouses also depend on having a robust clearing member industry. There are many factors that affect the health of clearing members. This is a key focus for CFTC staff in the years ahead, and the Commission is already engaging with a wide array of market participants on this issue.

Continuing to look at the Threshold for Registration as a Swap Dealer

The Commission recently acted to extend the phase-in of the de minimis threshold for swap dealing by one year. This threshold determines when an entity's swap dealing activity requires registration with the CFTC. In 2012, the CFTC set the threshold initially at \$8 billion in notional amount of swap dealing activity over the course of a year, and provided that it would fall to \$3 billion at the end of 2017. This would have meant that firms would have been required to start determining whether their activity exceeds that lower threshold in January 2017.

The Commission took this step for several reasons. First, the delay provides more time to study the issue. CFTC staff recently completed a study required by the rule on the threshold. The study estimated that lowering the threshold would not increase significantly the percentage of interest rate swaps and credit default swaps covered by swap dealer regulation, but would require many additional firms to register, including some smaller banks whose swap activity is related to their commercial lending business. However, the study also notes that the data has certain shortcomings, particularly when it comes to nonfinancial commodity swaps, a market that is very different than the interest rate swaps and credit default swaps markets. The delay will allow the Commission to consider these issues further. In addition, the Commission has made clear its intention to adopt a rule setting capital requirements for swap dealers before addressing the threshold. This rule, required by Dodd Frank, is one of the most important in

our regulation of swap dealers. The Commission will be looking closely at this issue, as well as the data that informs it, in the year ahead.

Clearing Firms and Customers Trade the Same Asset Class at Multiple DCOs

Firms and customers often clear the same asset classes at multiple DCOs. Each DCO's view is limited to the position it clears, while the Commission has the unique perspective of being able to analyze positions and the risks that they pose across DCOs. The Commission has to ensure it has the data and tools necessary to evaluate the risk of these positions. The Commission should be able to ascertain if the positions at the multiple DCOs increase or offset risk. The Commission must further be able to determine if the firm or customer has the resources to cover the potential losses at each DCO and not require the gains at one DCO to pay the losses at the others.

Aggregating Cleared Swaps and Futures Risk

Many large swap accounts (firms and customers) also clear large futures positions. In many cases, the swaps and futures are cleared at the same firm. The Commission has to ensure it has the procedures in place to first identify these accounts. Secondly, the Commission has to ensure it has the software and information necessary to determine if the different asset classes increase or decrease risk. DCOs now and increasing in the future are offering cross-margin programs between asset classes. The Commission has to ensure it receives all position and account information for accounts in these programs. The Commission then has to have the software and expertise necessary to review and understand the risk and margin offsets present in the program.

New Regulatory Environment Driving Innovations in Derivatives Markets

The Commission will also continue to oversee the activities of existing SEFs and DCMs to ensure compliance with Commission regulations and the CEA.

The industry is responding quickly to the competitive opportunities engendered by the shifting regulatory landscape—the introduction of futures contracts by DCMs that are economically



equivalent to standardized swaps is one such example. Innovation in the industry, which is likely to increase in pace with the addition of SEFs, will continue to add complexity in ways currently unanticipated. For example, the Commission is seeing new methods for executing transactions that were not proposed in previous years. While these changes will impact all of the CFTC mission activities, the near-term impact will fall most heavily on the mission activities of registration, product review, examinations, enforcement, and economic analysis.

Exponential Growth in Data Must be Acquired, Validated, Warehoused, and Analyzed to Fulfill the Commission's Regulatory Responsibilities

The Commission continues to enhance its software and automated tools to accommodate its enhanced surveillance responsibilities and access to data, including that generated by the swap data reporting rules, enhanced customer protection rules, other regulatory changes, increasing number of participants, and increasing number and complexity of data sources relevant to surveillance. The technology (data and processes) required for surveillance of swaps markets differs from that

required for futures and options markets, and differs across asset classes. In addition, the ability to view risk across asset classes and in combination with futures is an overarching requirement that must also be automated and the Commission must continue to work closely with the SDRs, self-regulatory organizations and other Federal and international regulators (as appropriate) to harmonize how this data is recorded, organized, and stored. In response to the influx of new types of data from new and existing registrants, the CFTC must build its own information infrastructure and analytical capabilities to support its responsibilities as the primary regulator for the derivatives markets.

The CFTC is required to perform a comprehensive function that cannot be done by any single self-regulatory organization and needs to see data from all industry participants in the swaps and futures markets. In response to the influx of new types of data from new and existing registrants, the CFTC must continue to enhance and adjust its information infrastructure and analytical capabilities to support its responsibilities as a first line regulator. Only by providing advanced tools and enriched data for staff to connect, analyze, and aggregate data can the Commission apply its unique view of the derivatives market toward effective market and risk surveillance. With each additional set of data collected there are data, technology, and usage requirements:

Growth in Number of Types of Data² Loaded into CFTC Systems



Source: Office of Data and Technology, CFTC

The CFTC receives data from many new entities, such as clearing members, swap dealers, DCO's, large banks and traders in futures and options markets, SDRs and SEFs, some of which did not provide data prior to the Dodd-Frank Act. The amount of data received and loaded onto CFTC systems over six years have more than quadrupled. CFTC currently has plans to receive automated data from up to 6,000 new reporting entities in the coming years. The 6,000 entities represent market participants that will be required to submit Form 40³ reports electronically once the Ownership and Control Reporting (OCR) rule is fully implemented.

- Defining data standards, such as financial information exchange markup language (FIXML) and financial products markup language (FpML), to collect data;
- Designing data repositories to facilitate data loading and integration;
- Developing software to load new data;
- Developing data validation mechanisms to report errors and metrics to submitters;
- Providing operations support to facilitate timely submission of data;

² Swaps data include Part 20 and Part 39 interim records reporting files, additional by-rule development, Part 45 swaps data reporting, OCR-ownership and control reporting, and Volcker data.

³ CFTC Form 40, Statement of Reporting Trader, is a reporting requirement for every person that holds a reportable position in accordance with Section 1804 of the CEA. The information requested is used generally in the Commission's market surveillance activities to provide information concerning the size and composition of the commodity futures or option markets, and to permit the Commission to monitor and enforce the speculative position limits that have been established. The complete listing of routine uses, in accordance with the Privacy Act, 5 U.S.C. §522a, and the Commission's rules thereunder, 17 Code of Federal Regulations (CFR) Part 146, of the information contained in these records is found in the Commission's annual notice of its system of records.

- Developing data profiles on data submissions, submitters, markets, etc. (not currently done); and
- Analyzing data in a wide variety of ways to support mission functions.

The Commission will continue to adapt its data architecture and data management practices to manage the exponential growth in the size and complexity of mission data and facilitate continuous improvements in data quality and the ability to isolate anomalous market activity and complex financial and systemic risk. It will also continue to bolster its own safeguards to protect this data from cyber-attack.

Growth and Complexity of the Markets the Commission Oversees

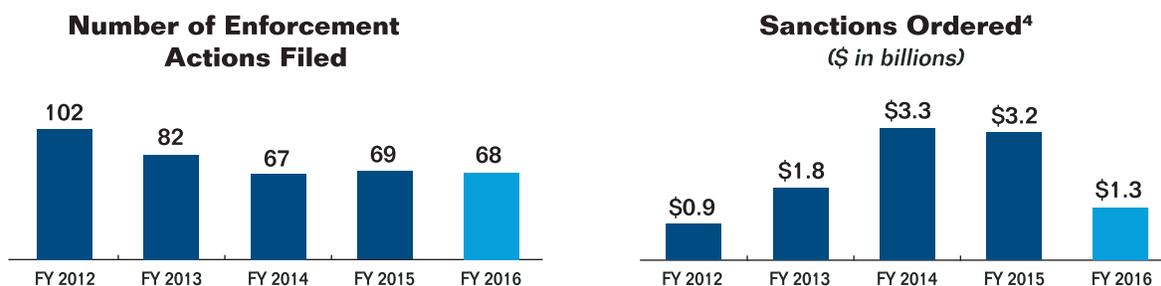
Enforcement remains critically important to maintain the integrity of our markets, deter bad behavior, and reinforce public confidence. The CFTC’s expanded mission coupled with the increased complexity of the markets and new, complicated forms of illegal behavior make the Commission’s enforcement responsibilities more important than ever. The CFTC’s enforcement capabilities must keep pace with the challenges that go along with the growth and sophistication of financial markets and instruments. These include identifying and meeting the challenges arising from proliferation of sophisticated instruments trading in multiple venues and the increased prevalence of algorithmic and high-frequency trading. The Commission will also need to commit enforcement resources to understanding and investigating potential unlawful conduct within the Commission’s jurisdiction, including in evolving markets for derivatives and commodities, such as Bitcoin

and other crypto-currencies or block chain technology. The Commission also foresees a continued increase in multi-jurisdictional and multi-national investigations given the global nature of the swaps marketplace and the challenges associated with substituted compliance. The Commission is also experiencing an increase in international enforcement investigations in its traditional markets. These cases are inherently more resource-intensive due to their cross-border nature and coordination with foreign authorities.

Specifically, the Commission is investigating more matters involving manipulation, false reporting of market information and disruptive trading practices, including spoofing. Often, these matters involve misconduct spanning many years and multiple markets and products, and require forensic economic analysis of trading data. In order to investigate and litigate market-wide violations, as well as those less complex but equally important retail fraud cases, the Commission has an increased need for specialized experts to work on enforcement cases. One example is the Commission’s work addressing fraud in the precious metals space, where we use our anti-fraud enforcement authority. Others include the Commission’s work prosecuting wrongdoers for fraudulent schemes like Ponzi schemes, deceptive practices related to commodity pools, and other efforts against those who try to perpetrate frauds against seniors and other retail investors.

Maintaining Integrity of Benchmarks

The integrity of benchmarks used in the derivatives market, such as the London Interbank Offered Rate (LIBOR), FX, and International Swaps and Derivatives Association Fix (ISDAFIX) remains a priority for the Commission. Over the last five



Source: Division of Enforcement, CFTC

The CFTC utilizes every tool at its disposal to detect and deter illegitimate market forces. Through enforcement action the Commission preserves market integrity and protects market participants.

⁴ The sanctions ordered represent civil monetary penalties, disgorgement, and restitution.

years, the CFTC has imposed over \$5.08 billion in penalties in 17 actions against banks and brokers to address ISDAFIX, FX, and LIBOR benchmark abuses to ensure the integrity of global financial benchmarks. Of this, over \$1.8 billion in penalties has been imposed on 6 banks for misconduct relating to FX benchmarks, while over \$3.21 billion has been imposed on 21 banks, as well as brokers, for misconduct relating to ISDAFIX, LIBOR, Euro Interbank Offered Rate (Euribor), and other interest rate benchmarks. These benchmarks are an essential valuation tool for thousands upon thousands of derivatives across financial markets, including: options on interest rate swaps, or swaptions; cross-currency swaps; foreign exchange swaps; spot transactions; forwards; options; and futures. These investigations require a significant allocation of enforcement resources due to the fact that they are global in nature and mandate intensive reconstruction of communications and trades requiring substantial documents, emails, and chat room reviews; analysis of trading data and books; outside experts; and reconstructing timelines.

In addition to the various enforcement actions, since 2013, as a member of the Official Sector Steering Group established by the Financial Stability Board, CFTC has been working with regulators and central banks from around the world to review standards and principles for sound benchmarks. This includes an assessment of the major interest rate benchmarks against the internationally agreed and endorsed IOSCO Principles for Financial Benchmarks. This effort included a report laying out plans for reform of major reference rates such as the LIBOR, Euribor, and the Tokyo Interbank Offered Rate.

A key component of the reform plans includes the development of alternative, nearly risk-free reference rates. CFTC staff has been working with the market participant-led Alternative Reference Rate Committee convened by the Federal Reserve to develop alternatives to the U.S. Dollar LIBOR as well as a transition strategy.

Protecting Customers from Fraud

Anti-fraud enforcement remains a core commitment of the CFTC's enforcement program. During the past year, the Commission prosecuted wrongdoers for a wide range of fraudulent schemes, including Ponzi schemes that preyed upon the retail public's hopes to participate in forex trading, precious metals speculation, and commodity pools. The Commission's experience with fraudsters is that they gravitate towards, and

flourish in, financial markets that are perceived to be subject to limited oversight. Therefore, the Commission must continue to devote significant resources to assure the integrity of the financial markets within its jurisdiction and to protect the retail public that wants to participate in them.

Ensuring that Markets, Firms and Participants Meet their Obligations

In protecting the markets and market participants, the Commission engages in investigations and takes enforcement action, when necessary, to make sure that firms maintain their financial integrity and that markets, firms and significant market participants fulfill their regulatory obligations. For example, the Commission conducts a comprehensive examination program to oversee compliance with the Dodd-Frank Act and Commission regulations. With the Dodd-Frank Act's expansion of the Commission's responsibility, CFTC staff is doing all it can with the available resources to ensure that the markets, firms and significant market participants uphold these essential obligations. The Commission also is making sure its registrants are meeting standards for their capitalization and handling of funds. These are intended to safeguard against market disruption and abuse from imprudent practices or intentional misconduct and to protect customers. Further, the Commission is focused on ensuring market participants are complying with reporting obligations. These requirements are essential to the CFTC's ability to conduct effective surveillance of the futures and derivatives markets that it regulates.

Necessity for Continued Engagement with International Regulators

The 2008 financial crisis demonstrated how risks taken abroad by a large financial institution can result in, or contribute to, substantial losses to U.S. persons and threaten the financial stability of the entire U.S. financial system. These failures and near failures revealed the vulnerability of the U.S. financial system and economy to systemic risk resulting from among other things, poor risk management practices of certain financial firms, the lack of supervisory oversight for certain financial institutions as a whole, and the overall interconnectedness of the global swap business. Given the global nature of the swaps market, international cooperation among regulators has been, and will continue to be, essential to regulate effectively the financial markets.

This past year, the Commission worked closely with regulators across the globe on a number of fronts. For example, CFTC staff worked successfully to ensure rules setting margin for uncleared swaps were as similar as possible among major jurisdictions, including the U.S., Europe and Japan. In addition, a major accomplishment toward harmonizing rules internationally took place in February, when the CFTC and European regulators reached an agreement that ensures European and U.S. clearinghouses can continue to provide clearing services to firms in each other's jurisdiction. The agreement ensures European market participants can carry on clearing derivatives trades on U.S. clearinghouses without incurring higher capital charges. That allows U.S. clearinghouses to remain competitive, and ensures that the global derivatives market can continue to efficiently serve the many businesses that use it. This agreement brought the U.S. and European regimes closer together and reduced the risk of regulatory arbitrage. It also makes sure clearinghouses on both sides of the Atlantic are held to high standards, which will enhance global financial stability and resilience. The Commission is already working to continue this progress, such as in the area of trading requirements, for example. Specifically, CFTC staff is working with their European colleagues on the process of recognizing of each other's trading platforms.

The Commission has taken additional steps to promote international cooperation and harmonization. It has approved the registration of six clearinghouses located outside the United States, and staff has issued exemptive orders to several foreign clearinghouses, which allow them to clear proprietary swap trades for their U.S. members and the members' affiliates without having to register with the CFTC. This includes orders for clearinghouses in Australia, Hong Kong, Japan, Korea, and temporary relief to others, such as in China. In addition, the Commission has formalized a process so foreign exchanges seeking to provide direct electronic access to U.S. citizens officially register as a foreign board of trade (FBOT). The CFTC has approved the registration of 14 exchanges as FBOTs and is currently reviewing additional applications.

The Commission will continue to be actively engaged with international regulators in IOSCO, where the CFTC is a member of the IOSCO Board and serves in leadership positions on various IOSCO committees. In addition, the Commission will continue its work with the Financial Stability Board, where it participates in several working groups. Similarly, Commission staff will continue to participate in, other international bodies and groups in order to develop international standards

for DCOs, trading platforms, and various market activities. The Commission will continue to develop and maintain strong bilateral relationships with major foreign regulators, especially in emerging markets like China and India and developed markets like Europe, Japan, Singapore and Hong Kong.

Responding to the Needs of Commercial End-Users

In all the work of the Commission, staff is mindful of acting in the interest of commercial end-users, to ensure they can continue to use the derivatives markets efficiently and effectively. These commercial businesses have traditionally relied on these markets to hedge routine commercial risk, and they did not cause the global financial crisis.

Therefore, all the Commission's work is carried out with a focus on ensuring that its rules do not create undue burdens on these businesses, and we have taken several actions over the past year to this effect.

For example, the Commission finalized amendments to its rules on trade options that recognize these are different from the swaps that are the focus of the Dodd-Frank reforms. These changes will reduce the burdens on the commercial businesses that rely on them—and allow these companies to better address commercial risk. The Commission also reduced certain recordkeeping obligations related to end-users' commodity interest and related cash or forward transactions.

In addition, as part of the Commission's work to finalize its position limits rule, it unanimously proposed a supplemental rule that would ensure that commercial end-users can continue to engage in bona fide hedging efficiently for risk management and price discovery. It would permit the exchanges to recognize certain positions as bona fide hedges, subject to CFTC oversight.

This proposal is a critical piece of our effort to complete the position limits rule in the near future, as was the Commission's 2015 proposal to streamline the process for waiving aggregation requirements when one entity does not control another's trading, even if they are under common ownership. The Commission is also working to review exchange estimates of deliverable supply so that spot month limits may be set based on current data.

The Commission will continue to make being responsive to the concerns of end-users a priority in the years to come.

PERFORMANCE HIGHLIGHTS

STRATEGIC AND PERFORMANCE PLANNING FRAMEWORK

The CFTC's strategic and performance planning framework is based on the FY 2014 – FY 2018 Strategic Plan, available at: <http://www.cftc.gov/idc/groups/public/@aboutcftc/documents/file/2018strategicplan.pdf>.

The Strategic Plan outlines the Commission's mission, strategic goals, strategic objectives, and indicators. The CFTC's work is structured around four strategic goals and a set of management objectives. The goals and management objectives are supported by a set of strategic objectives whose achievement reflects progress toward meeting the strategic goals and the management objectives. The goals in CFTC's Strategic Plan are influenced by several environmental factors, including global, complex and constantly evolving securities markets. The Commission is building a robust planning process for the FY 2018 – FY 2022 Strategic Plan.



CFTC FY 2014 – 2018 Strategic Plan Matrix



SUMMARY OF PERFORMANCE RESULTS BY STRATEGIC GOAL

The following table displays historical performance trends for all of the CFTC's performance indicators for the past five years.

		FY 2011-2015 Strategic Plan			FY 2014-2018 Strategic Plan	
		FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Strategic Goal 1 Market Integrity and Transparency	Target Met	4	2	4	3	4
	Target Not Met	8	8	6	1	4
	Data Not Available/Other ⁵	1	2	0	4	0
Strategic Goal 2 Financial Integrity and Avoidance of Systemic Risk	Target Met	4	8	8	6	8
	Target Not Met	11	9	10	6	3
	Data Not Available/Other	3	1	0	2	0
Strategic Goal 3 Comprehensive Enforcement	Target Met	1	1	1	5	2
	Target Not Met	1	1	1	0	2
	Data Not Available/Other	1	1	0	0	0
Strategic Goal 4 Domestic and Inter- national Cooperation and Coordination	Target Met	3	2	2	2	1
	Target Not Met	0	1	1	0	0
	Data Not Available/Other	1	1	0	4	5
Management Objectives	Target Met	10	8	3	4	3
	Target Not Met	5	7	7	3	5
	Data Not Available/Other	0	0	0	4	1
Total Number of Indicators ⁶		53	52	44	44	38 ⁷
Total Number of Indicators with Results		47	47	44	30	32
Percentage of Targets Met		46.8%	44.7%	40.9%	66.7%	56.3%

Results prior to FY 2015 are based on targets contained in the FY 2011-2015 Strategic Plan. The following in chronological order, are the results for the past five years:

- In FY 2016, 18 of 32 performance indicators met their annual targets, 14 did not meet their targets, and 6 indicators did not have data available or the indicators did not have targets. In addition, 6 other indicators were discontinued or were completed as of the end of FY 2016 and are no longer being tracked.
- In FY 2015, 20 performance indicators out of 44 met their annual targets and 10 did not meet their targets. Eight performance indicators established a baseline in FY 2015 and 6 indicators either had no available data or had no set target.
- In FY 2014 reporting was the last year under CFTC's FY 2011-15 Strategic Plan. Of the 44 total indicators in that strategic plan, 18 met their annual targets, while 26 did not meet targets that year.
- In FY 2013, the Commission was not provided with the commensurate increase in budget authority to oversee the markets and market participants. These constraints, which were exacerbated by the FY 2013 budget sequestration, limited the effectiveness of the Commission in carrying out its mission, leading to 21 targets met by year end.
- In FY 2012, results declined from the prior year to 22 targets being met. Progress was hampered in many areas by significant resource deficiencies and reallocations as the Commission focused on writing new rules required under the Dodd-Frank Act.

⁵ This category also includes indicators without results because it was the baseline year for data collection.

⁶ Indicators from CFTC's FY 2011-2015 Strategic Plan included one indicator (Objective 0.1) to, "complete Dodd-Frank Act rule requirements within statutory deadlines," for which results are not included in this report.

⁷ The total of 38 FY 2016 indicators are 6 less than FY 2015's 44 indicators, as 6 indicators were discontinued due to management discretion or the underlying effort was completed.

FINANCIAL HIGHLIGHTS

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER



I am honored to join Chairman Massad in presenting the FY 2016 Agency Financial Report for the CFTC. This report provides financial and high-level performance information to the American taxpayer and the Commission's stakeholders to enable

them to understand and evaluate how the Commission accomplishes its mission. The CFTC takes pride in providing timely, reliable and meaningful information to its many stakeholders. Although we face many challenges, including resource constraints, we are committed to achieving our mission as efficiently and effectively as possible.

I am pleased to report that our independent auditor has issued an unmodified opinion on our financial statements for FY 2016. This means that the Commission's financial statements are presented fairly, in all material respects and are in conformity with U.S. generally accepted accounting principles (GAAP). I am also pleased to report that the Commission has resolved a material weakness in internal controls related to the recording of lease obligations, and had no reportable control issues that would affect the fair presentation of the financial statements.

The Commission is committed to improving and maintaining strong internal controls over operations. We will remain focused on sound financial management techniques, will continue to focus efforts to improve the efficiency and

effectiveness of agency operations and strive to ensure that the Commission will be well-positioned to respond to additional challenges as they arise.

Since FY 2007, the CFTC has leveraged a financial management systems platform operated by the U.S. Department of Transportation's Enterprise Services Center, an Office of Management and Budget designated financial management service provider. As a result, the CFTC is able to accumulate, analyze, and present reliable financial information, and provide reliable, timely information for managing current operations and timely reporting of financial information to central agencies. The Commission's financial management systems strategy for FY 2017 includes continued monitoring and oversight of the financial management system operated by its shared service provider and preparation for the implementation of an end to end procurement management system in FY 2018.

As always, it is our dedicated staff and their commitment to financial reporting excellence, transparency and accountability that ensures we are good stewards of the funds entrusted to us by the American taxpayer. Without their efforts, CFTC could not have achieved its unmodified opinion or cleared its material weakness this past year.

A handwritten signature in black ink, appearing to read "Mary Jean Buhler". The signature is fluid and cursive.

Mary Jean Buhler
Chief Financial Officer
November 14, 2016

SUMMARY OF AUDIT AND MANAGEMENT ASSURANCES

SUMMARY OF FY 2016 FINANCIAL STATEMENT AUDIT

Audit Opinion:	Unmodified				
Restatement:	Yes				
MATERIAL WEAKNESS	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	ENDING BALANCE
	1		1		0

SUMMARY OF MANAGEMENT ASSURANCES

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA § 2)						
Statement of Assurance:	Unmodified					
MATERIAL WEAKNESS	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
	1		1			0
EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA § 2)						
Statement of Assurance:	Unmodified					
MATERIAL WEAKNESS	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
	0	0				0
CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FMFIA § 4)						
Statement of Assurance:	Federal 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
1. Federal Financial Management System Requirements				Compliance noted		
2. Applicable Federal Accounting Standards				Compliance noted		
3. USSGL at Transaction Level				Compliance noted		

Definition of Terms

Beginning Balance: The beginning balance will agree with the ending balance of material weaknesses from the prior year.

New: The total number of material weaknesses that have been identified during the current year.

Resolved: The total number of material weaknesses that have dropped below the level of materiality in the current year.

Consolidation: The combining of two or more findings.

Reassessed: The removal of any finding not attributable to corrective action (e.g., management has re-evaluated and determined a finding does not meet the criteria for materiality or is redefined as more correctly classified under another heading (e.g., Section 2 to a Section 4 and vice versa).

Ending Balance: The agency's year-end balance of material weaknesses.

5-YEAR FINANCIAL SUMMARY

The table below presents trend information for each major component of the Commission's balance sheets and statements of net cost for FY 2012 through FY 2016. The table is immediately

followed by a discussion and analysis of the Commission's major financial highlights for FY 2016.

HIGHLIGHTS	2016	2015	2014	2013	2012
CONDENSED BALANCE SHEET DATA					
Fund Balance with Treasury	\$ 71,891,891	\$ 67,246,060	\$ 47,070,343	\$ 36,467,970	\$ 82,557,690
Investments	244,000,000	263,000,000	270,000,000	95,000,000	77,135,901
Accounts Receivable	13,120	18,614	11,112	13,252	20,976
Prepayments	2,847,772	2,473,459	1,712,871	1,541,681	1,803,497
Custodial Receivables, Net	15,089,568	4,696,176	4,218,788	69,744,626	4,140,347
General Property, Plant, and Equipment, Net	48,357,120	50,358,266	54,464,549	58,251,172	53,410,435
Deferred Costs	–	28,487	64,201	220,953	1,234,223
TOTAL ASSETS	\$ 382,199,471	\$ 387,821,062	\$ 377,541,864	\$ 261,239,654	\$ 220,303,069
Accounts Payable	\$ 10,589,674	\$ 8,607,890	\$ 5,483,221	\$ 5,092,410	\$ 7,217,772
FECA Liabilities	505,002	498,101	549,734	596,353	764,243
Accrued Payroll and Annual Leave	16,647,297	15,004,112	13,007,491	11,651,586	16,477,676
Custodial Liabilities	15,089,568	4,696,176	4,218,788	69,744,626	4,140,347
Deposit Fund Liabilities	265,828	179,806	134,683	83,997	77,098
Deferred Lease Liabilities	28,293,139	25,673,457	25,961,973	25,241,114	24,808,042
Contingent Liabilities	–	300,000	85,000	–	–
Other	–	22,397	11,699	19,600	19,050
TOTAL LIABILITIES	\$ 71,390,508	\$ 54,981,939	\$ 49,452,589	\$ 112,429,686	\$ 53,504,228
Unexpended Appropriations – All Other Funds	53,836,721	50,997,602	35,420,980	25,006,039	46,349,473
Cumulative Results of Operations – Funds from Dedicated Collections	247,550,496	267,612,410	274,315,312	99,904,291	99,996,749
Cumulative Results of Operations – All Other Funds	9,421,746	14,229,111	18,352,983	23,899,638	20,452,619
Total Net Position	310,808,963	332,839,123	328,089,275	148,809,968	166,798,841
TOTAL LIABILITIES AND NET POSITION	\$ 382,199,471	\$ 387,821,062	\$ 377,541,864	\$ 261,239,654	\$ 220,303,069
CONDENSED STATEMENTS OF NET COST					
Gross Costs	\$ 278,141,094	\$ 249,861,126	\$ 217,450,008	\$ 218,155,538	\$ 207,618,265
Earned Revenue	(55,123)	(53,074)	(31,375)	(49,483)	(227,504)
TOTAL NET COST OF OPERATIONS	\$ 278,085,971	\$ 249,808,052	\$ 217,418,633	\$ 218,106,055	\$ 207,390,761
NET COST OF OPERATIONS BY STRATEGIC GOAL⁸					
Goal One – Market Integrity and Transparency	\$ 72,413,587	\$ 68,322,502	N/A	N/A	N/A
Goal Two – Financial Integrity and Avoidance of Systemic Risk	85,650,480	73,918,203	N/A	N/A	N/A
Goal Three – Comprehensive Enforcement	106,506,926	95,501,618	N/A	N/A	N/A
Goal Four – Domestic and International Cooperation and Coordination	13,514,978	12,065,729	N/A	N/A	N/A
Goal One – Market Integrity	N/A	N/A	\$ 56,746,263	\$ 62,225,658	\$ 59,168,584
Goal Two – Clearing Integrity	N/A	N/A	51,963,054	57,470,946	54,647,465
Goal Three – Robust Enforcement	N/A	N/A	71,530,730	64,123,179	60,972,883
Goal Four – Cross-Border Cooperation	N/A	N/A	11,740,606	7,306,553	6,947,591
Goal Five – Organizational and Management Excellence	N/A	N/A	25,437,980	26,979,719	25,654,238
TOTAL NET COST OF OPERATIONS BY STRATEGIC GOAL	\$ 278,085,971	\$ 249,808,052	\$ 217,418,633	\$ 218,106,055	\$ 207,390,761

⁸ In 2015, the CFTC issued its FY 2014-2018 Strategic Plan. With this plan, the Commission changed Strategic Goal 5, Organizational and Management Excellence, into Management Objectives

FINANCIAL DISCUSSION AND ANALYSIS

The CFTC prepares annual financial statements in accordance with GAAP for Federal government entities and subjects the statements to an independent audit.

Management recognizes the need for performance and accountability reporting, and regularly assesses risk factors that could have an impact on the Commission’s ability to effectively report. Improved reporting enables managers to be accountable and supports the concepts of the Government Performance and Results Act, 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.

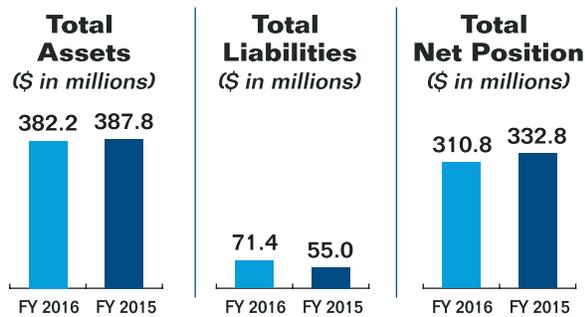
UNDERSTANDING THE FINANCIAL STATEMENTS

The CFTC presents financial statements and notes in accordance with accounting principles generally accepted in the United States of America and in the form and content requirements of OMB Circular A-136, *Financial Reporting Requirements*, which is revised annually by 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.

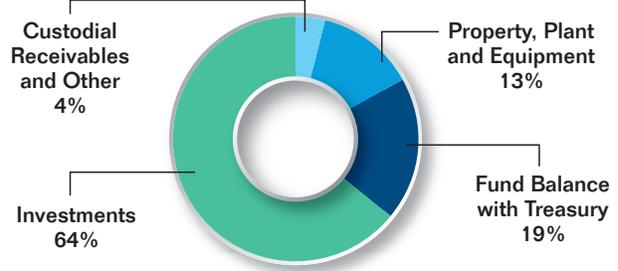
The chart below presents changes in key financial statement line items, as of and for, the fiscal year ended September 30, 2016, compared to September 30, 2015.

KEY FINANCIAL STATEMENT LINE ITEMS	2016	2015, as Restated	\$ Change	% Change
Total Assets	\$ 382,199,471	\$ 387,821,062	\$ (5,621,591)	(1.45%)
Total Liabilities	\$ 71,390,508	\$ 54,981,939	\$ 16,408,569	29.84%
Total Net Position	\$ 310,808,963	\$ 332,839,123	\$ (22,030,160)	(6.62%)
Total Net Cost of Operations	\$ 278,085,971	\$ 249,808,052	\$ 28,277,919	11.32%
Total Budgetary Resources	\$ 315,215,866	\$ 298,325,883	\$ 16,889,983	5.66%
Apportioned	\$ 246,556,853	\$ 270,359,908	\$ (23,803,055)	(8.8%)
Unapportioned	\$ (194,232,932)	\$ (209,897,098)	\$ 15,664,166	7.46%
Total Remaining Unfunded Lease Obligations	\$ 194,378,658	\$ 210,042,824	\$ (15,664,166)	(7.46%)
New Obligations and Upward Adjustments	\$ 270,891,918	\$ 258,702,003	\$ 12,189,915	4.71%
Gross Outlays	\$ 265,476,500	\$ 234,914,187	\$ 30,562,313	13.01%
Custodial Receivables/Liabilities	\$ 15,089,568	\$ 4,696,176	\$ 10,393,392	221.32%

Balance Sheet



FY 2016 Total Assets (Composition)



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

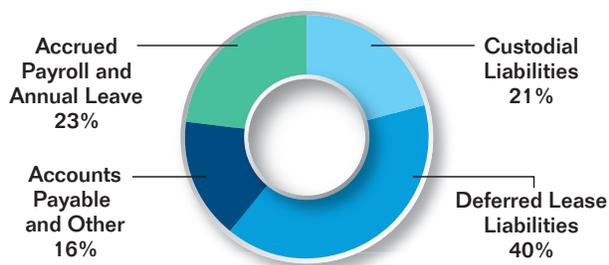
Total Assets: For the year ended September 30, 2016, the Balance Sheet reflects total assets of \$382.2 million. This is a decrease of \$5.6 million, or 1.5 percent, over FY 2015. The decrease is primarily due to a \$19 million decrease in investments, offset by increases of \$10.4 million in custodial receivables and \$4.6 million in Fund Balance with Treasury.

The \$19 million, or 7.2 percent, decrease in Investments was due to the redemption of investments to pay eligible expenses of the CFTC Customer Protection Fund (CPF) during the fiscal year, including \$11.6 million in whistleblower awards.

The \$10.4 million, or 221.3 percent, increase in Custodial Receivables is due to an increase in the number and amount of receivables for civil monetary sanctions that are estimated to be collectible as of September 30, 2016. The number and amount of civil monetary sanctions are driven by enforcement actions in any given fiscal year.

The \$4.6 million, or 6.9 percent, increase in Fund Balance with Treasury was primarily due to appropriations of \$250 million in excess of outlays from appropriated funds of \$245.8 million due to the timing of cash payments.

FY 2016 Total Liabilities (Composition)



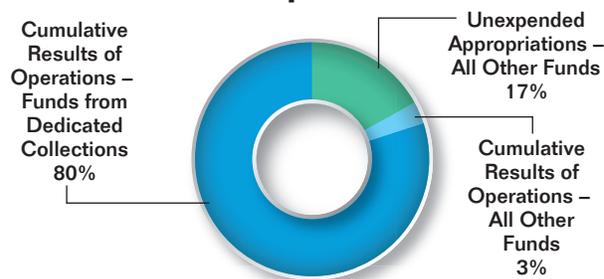
Total Liabilities: For the year ended September 30, 2016, the Balance Sheet reflects total liabilities of \$71.4 million. This is an increase of \$16.4 million, or 29.8 percent, over FY 2015. The increase is primarily due to increases in Custodial Liabilities, Deferred Lease Liabilities, and Accounts Payable of \$10.4 million, \$2.6 million, and \$2.0 million, respectively.

The \$10.4 million, or 221.3 percent, increase in Custodial Liabilities is directly related to the increase in Custodial Receivables discussed above. As custodial receivables are established, an offsetting custodial liability is also created to recognize the Commission's custodial responsibility for these receivables that are assets to be used by the Federal government, rather than the Commission.

The \$2.6 million, or 10.2 percent, increase in Deferred Lease Liabilities is primarily the result of credits for rent taken in FY 2016 that were spread over the life of the lease.

Accounts payable, which represents the amount owed to Federal and non-Federal vendors for goods and services received but not yet paid for at the end of the reporting period, increased by \$2.0 million, or 23 percent, primarily due to unbilled costs for paralegal, advisory, and other services received through September 30, 2016.

FY 2016 Total Net Position (Composition)



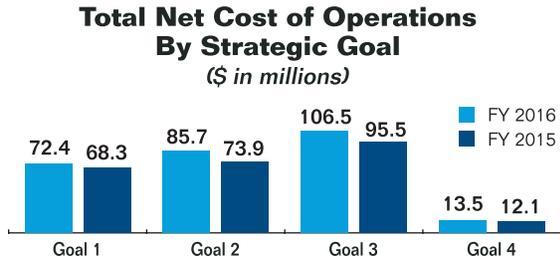
Total Net Position: For the year ended September 30, 2016, the Balance Sheet reflects a total net position of \$310.8 million. This is a decrease of \$22.0 million, or 6.6 percent, over FY 2015. The combined decrease in Total Net Position is the result of decreases of \$20.1 million in Cumulative Results of Operations—Funds from Dedicated Collections and \$4.8 million in Cumulative Results of Operations—All Other Funds, offset by an increase in Unexpended Appropriations—All Other Funds of \$2.8 million.

The \$20.1 million, or 7.5 percent, decrease in Cumulative Results of Operations—Funds from Dedicated Collections is due to CPF expenses of \$20.6 million offset by interest revenue of \$490 thousand.

The \$4.8 million, or 33.8 percent, decrease in Cumulative Results of Operations—All Other Funds is primarily due to an increase in unfunded liabilities of \$189 thousand (e.g., accruals for annual leave and Federal Employees' Compensation Act (FECA) expenses and contingent liabilities), net loss on disposal of fixed assets of \$552 thousand, and accumulated depreciation and amortization of fixed assets of \$15.4 million in excess of fixed asset purchases of \$11.3 million.

The \$2.8 million, or 5.6 percent, increase in Unexpended Appropriations—All Other Funds is primarily due to FY 2016 appropriations received of \$250 million in excess of appropriations used of \$247.2 million due to the timing of actual cash payments.

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 Commission experienced a \$28.3 million, or 11.3 percent, increase in the total net cost of operations during FY 2016.

This overall increase is made up of increases of \$12.0 million in payroll, \$11.2 million in Whistleblower awards, \$7.9 million in technology and non-Federal service contracts, and \$2.8 million in depreciation, offset by decreases of \$5.0 million in leases and \$684 thousand in travel. \$3.3 million, or 11 percent, of the total increase in gross costs was intragovernmental, primarily for employee benefit payments.

The \$12.0 million increase in total payroll costs is primarily the result of a two percent across-the-board increase and up to three percent merit increase that was implemented in the third quarter of FY 2015. These fourth quarter FY 2015 salary increases resulted in increased payroll costs for all of FY 2016, for salary and any benefit costs affected by salary increases, despite an approximate decrease in the number of employees by 11, or 1.5 percent.

The \$16.3 million increase in non-payroll expenses is reasonable considering the \$13.8 million increase in Whistleblower awards and CPF operating expenses, and that FY 2015 year-end undelivered orders were \$15.6 million, or 47 percent, higher than FY 2014. This increase in undelivered orders in FY 2015 was primarily due to a 16 percent increase in appropriations received in FY 2015 over FY 2014, which resulted in increased FY 2016 outlays due to contract periods of performance extending beyond the end of the prior fiscal year and the timing of cash payments.

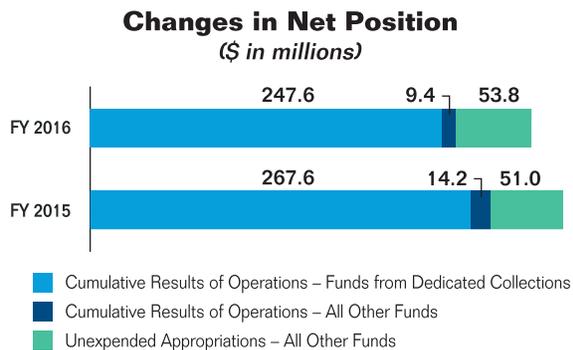
The Statement of Net Cost is categorized by the following four strategic goals:

- The focus of **Strategic Goal One, Market Integrity and Transparency**, is to recognize that derivatives markets provide

a means for market users to offset price risks inherent in their businesses and to serve as a public price discovery mechanism. In FY 2016, the net cost of operations for this goal was \$72.4 million or 26.0 percent of total net cost of operations.

- The focus of **Strategic Goal Two, Financial Integrity and Avoidance of Systemic Risk**, is to strive to ensure that Commission-registered DCOs, swap dealers, MSPs, and FCMs have the financial resources, risk management systems and procedures, internal controls, customer protection systems, and other controls necessary to meet their obligations so as to minimize the risk that the financial difficulty of any of these registrants, or any of their customers has systemic implications. In FY 2016, the net cost of operations for this goal was \$85.7 million or 30.8 percent of total net cost of operations.
- Through **Strategic Goal Three, Comprehensive Enforcement**, the CFTC enforces the CEA and Commission regulations, and works to promote awareness of and compliance with these laws. In FY 2016, the net cost of operations for this goal was \$106.5 million or 38.3 percent of total net cost of operations.
- The focus of **Strategic Goal Four, Domestic and International Cooperation and Coordination**, is on how the Commission interacts with domestic and international regulatory authorities, market participants, and others affected by the Commission’s regulatory policies and practices. In FY 2016, the net cost of operations for this goal was \$13.5 million or 4.9 percent of total net cost of operations.

Statement of Changes in Net Position



The Statement of Changes in Net Position presents the Commission's cumulative net results of operations and unexpended appropriations for the fiscal year. The CFTC's Net Position decreased by \$22.0 million, or 6.6 percent in FY 2016. As explained in the Total Net Position discussion in the Balance Sheet section above, this combined decrease in Total Net Position is the result of decreases of \$20.1 million in Cumulative Results of Operations—Funds from Dedicated Collections and \$4.8 million in Cumulative Results of Operations—All Other Funds, offset by an increase in Unexpended Appropriations—All Other Funds of \$2.8 million.

The \$20.1 million, or 7.5 percent, decrease in Cumulative Results of Operations—Funds from Dedicated Collections is due to CPF expenses of \$20.6 million offset by interest revenue of \$490 thousand.

The \$4.8 million, or 33.8 percent, decrease in Cumulative Results of Operations – All Other Funds is primarily due to an increase in unfunded liabilities of \$189 thousand (e.g., accruals for annual leave and FECA expenses and contingent liabilities), net loss on disposal of fixed assets of \$552 thousand, and accumulated depreciation and amortization of fixed assets of \$15.4 million in excess of fixed asset purchases of \$11.3 million.

The \$2.8 million, or 5.6 percent, increase in Unexpended Appropriations—All Other Funds is primarily due to FY 2016 appropriations received of \$250 million in excess of appropriations used of \$247.2 million due to the timing of actual cash payments.

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 2016.

\$250.0 MILLION
FY 2016 Appropriation

\$265.5 MILLION
FY 2016 Gross Outlays

In order to fairly present the Commission's budgetary resources and the status of those resources, CFTC has restated its FY 2015 Statement of Budgetary Resources to record Unfunded Lease Obligations for the full amount of obligations remaining on CFTC's active leases for building space. These Unfunded Lease

Obligations have resulted from the Commission's budgetary accounting for its active leases for building space. The CFTC was granted independent leasing authority in 1974, and received authority to expend appropriated funds on multiple-year leases in FY 1981. The CFTC's historical practice has been to obligate only the annual portion of lease payments due each fiscal year. On February 4, 2016, GAO issued Comptroller General Decision B-327242, *Commodity Futures Trading Commission—Recording of Obligations for Multiple-Year Leases* ("Decision"). This Decision concluded that CFTC's historical practice of recording multiple-year lease obligations on an annual basis violated the recording statute, 31 U.S.C. § 1501(a)(1). The Decision further indicated that the Commission needs to determine whether "the failure to properly record these obligations has resulted in the obligation of funds in excess of appropriations in violation of the Antideficiency Act."

After considering GAO's decision, the Commission concluded that it should report a budgetary obligation for the full amount of the lease agreements in its statements of budgetary resources retrospectively. This error has been corrected in the financial statements with an increase in obligations as of September 30, 2016, and 2015, of \$194,378,658 and \$210,042,824, which represents the full amount of obligations remaining on CFTC's active leases at the end of FY 2016 and 2015, respectively. The recording of these previously unrecorded obligations resulted in negative unapportioned balances for both FY 2016 and 2015 because budgetary resources have not been made available to the Commission to fund these multi-year leases. This correcting entry reduced the beginning unobligated balance by the amount of the unfunded lease obligations that remained unliquidated at the beginning of FY 2016 and FY 2015 of \$210,042,824 and 230,177,054, respectively. The change (decrease) in unfunded lease obligations during FY 2016 and FY 2015 was \$15,664,166 and \$20,134,230, respectively. This decrease reflects the amount of lease payments paid through current year appropriations each year and the Unfunded Lease Obligations balance will be fully liquidated once all active leases for building space have ended on September 30, 2025.

The Commission's Total Budgetary Resources prior to recording its Unfunded Lease Obligations were \$525.3 million and \$528.5 million, as of September 30, 2016, and 2015, respectively. After recording the Commission's full Unfunded Lease Obligations and restating the FY 2015 Statement of Budgetary Resources, the Commission's Total Budgetary

Resources decreased by \$194,378,658 and \$210,042,824, as of September 30, 2016, and 2015, respectively. The adjusted change in Total Budgetary Resources reflects an increase of \$16.9 million, or 5.7 percent, from \$298.3 million to \$315.2 million primarily due to the \$20.1 million reduction in Unfunded Lease Obligations discussed above, offset by a \$5.8 million reduction in CPF available authority.

Gross Outlays increased by \$30.6 million, or 13.0 percent, due to more funds expended in FY 2016 than in FY 2015, primarily due to the increase in FY 2015 year-end undelivered orders discussed above, which affects FY 2016 outlays due to contract periods of performance extending beyond the end of the prior fiscal year and the timing of cash payments. Gross Outlays are not affected by the Unfunded Lease Obligations correcting entry discussed above.

Statement of Custodial Activity

Total Cash Collections		
(\$ in millions)		
Registration and Filing Fees	\$	1.4
Fines, Penalties, and Forfeitures	\$	479.9
General Proprietary Receipts	\$	-*
	\$	481.3

* Total cash collections include \$2.4 thousand, or < \$0.1 million, in general proprietary receipts.



This statement provides information about the sources and disposition of collections. CFTC transfers eligible funds from dedicated collections to the Customer Protection Fund when the balance falls below \$100 million and other non-exchange revenue to the Treasury general fund. Collections primarily consist of 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 such as registration, filing, appeal fees, and general receipts. The Statement of Custodial Activity reflects total cash collections for FY 2016 in the amount of \$481.3 million, a decrease of \$2.4 billion, or 83.1 percent, over FY 2015. This decrease in collections was expected due to nine large collections in FY 2015 ranging in amounts from \$35 million to \$800 million that resulted from the Commission’s enforcement cases related to attempted manipulation of global foreign exchange and LIBOR benchmark rates. Of the \$481.3 million in FY 2016 cash collections, all \$481.3 million was transferred to the Treasury because the CPF fund balance exceeded \$100 million so no collections were eligible to be transferred to it.

An allowance for uncollectible accounts has been established and included in the accounts receivable on the Balance Sheet. Although historical experience has indicated that a high percentage of custodial receivables prove uncollectible, the Commission determines the collectability of each individual judgment based on knowledge of the financial profile of the debtor obtained through the course of the investigation and litigation of each case, including efforts to identify and freeze assets at the beginning of cases, when any remaining assets are most likely to be recoverable. Accounts are re-estimated quarterly based on account reviews and the agency’s determination that changes to the net realizable value are needed.



COMMODITY FUTURES TRADING COMMISSION

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IMAGE CREDITS

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