



COMMODITY FUTURES TRADING COMMISSION  
PRESIDENT'S BUDGET AND PERFORMANCE PLAN



*Prepared for the Committee on Appropriations, April 2013*





**U.S. Commodity Futures Trading Commission**  
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## Chairman's Transmittal Letter

April 10, 2013

The Honorable Barbara Mikulski  
Chairwoman  
Committee on Appropriations  
U.S. Senate  
Washington, D. C. 20510

The Honorable Harold Rogers  
Chairman  
Committee on Appropriations  
U.S. House of Representatives  
Washington, D. C. 20515

The Honorable Richard Shelby  
Ranking Member  
Committee on Appropriations  
U.S. Senate  
Washington, D. C. 20510

The Honorable Nita Lowey  
Ranking Member  
Committee on Appropriations  
U.S. House of Representatives  
Washington, D. C. 20515

Dear Chairwoman Mikulski, Senator Shelby, Chairman Rogers and Representative Lowey:

As swaps market reforms are now becoming a reality, the Commodity Futures Trading Commission (CFTC) needs the resources to match the responsibilities Congress charged the agency with in overseeing this vast marketplace.

The CFTC has a significantly expanded mission and scope. The CFTC's hardworking staff is just 7 percent more than we were 20 years ago though the futures market, which the agency has traditionally overseen, has grown fivefold. In addition, the CFTC now directly oversees the swaps market—eight times bigger and far more complex than the futures markets.

Simply put, the CFTC is not the right size for the new and expanded mission Congress has directed it to perform.

Market implementation of swaps reforms means additional resources for the CFTC are all the more essential. Investments in both technology and people are needed for effective oversight of these markets—like having more cops on the beat.

For the first time, swap transaction data has started to be reported to the public and to regulators. We need the staff and technology to access, review and analyze this critical market data. For the first time, 75 entities have registered as swap dealers and two as major swap participants (MSPs). We need people to answer their questions and work with the National Futures Association on the necessary oversight of these swap dealers and MSPs to ensure market integrity. For the first time, the public will benefit from the risk reduction and greater access to the swaps market that comes from centralized clearing. As a significant portion of the interest rate and credit default swap market has been moved into central clearing, we need people to regularly examine clearinghouses.

Furthermore, as market participants expand their technological sophistication, CFTC technology upgrades are critical for market surveillance and to enhance customer fund protection programs.

Without sufficient funding for the CFTC, the nation cannot be assured this agency can closely monitor for the protection of customer funds in the futures and swaps markets. Without sufficient funding, we will not be able to implement more regular and more in-depth examinations of clearinghouses, trading platforms, and major market intermediaries the CFTC oversees. Without sufficient funding, we cannot be sufficiently responsive to the hundreds of incoming questions and requests regarding implementation of reform. Without sufficient funding, we cannot utilize our enforcement arm to its fullest potential to go after bad actors in the markets. And without sufficient funding for the CFTC, the nation cannot be assured that this agency can effectively enforce essential rules that promote transparency and lower risk to the economy.

Therefore, I am pleased to transmit the CFTC's Budget and Performance Estimate for FY 2014. It estimates the need for an appropriation of \$315,000,000 and 1,015 staff-years for the agency. This amount is a \$7,000,000 increase in funding and no increase in FTEs over the President's FY 2013 Budget of \$308,000,000.

In addition, I am pleased to present the CFTC's Annual Performance Report (APR) for FY 2012, which provides a detailed analysis of the CFTC's execution of its mission. As described in the report, the agency's performance is affected by the challenges of limited resources. The Commission has validated the accuracy, completeness, and reliability of the performance data contained in this report.

I am available to discuss this budget request and to answer any questions you may have.

Sincerely,

A handwritten signature in dark ink, appearing to read "G. Gensler", with a horizontal line drawn underneath the name.

Gary Gensler  
Chairman

cc:

The Honorable Frank Lautenberg  
Chairman  
Subcommittee on Financial Services  
and General Government  
Committee on Appropriations  
U.S. Senate  
Washington, D. C. 20510

The Honorable Robert Aderholt  
Chairman  
Subcommittee on Agriculture, Rural  
Development, Food and Drug  
Administration, and Related Agencies  
Committee on Appropriations  
U.S. House of Representatives  
Washington, D. C. 20515

The Honorable Mike Johanns  
Ranking Member  
Subcommittee on Financial Services  
and General Government  
Committee on Appropriations  
U.S. Senate  
Washington, D. C. 20510

The Honorable Sam Farr  
Ranking Member  
Subcommittee on Agriculture, Rural  
Development, Food and Drug  
Administration, and Related Agencies  
Committee on Appropriations  
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## Executive Summary

By any measure, the markets under CFTC's regulatory purview are large and economically significant. The CFTC regulates a futures and options market of an estimated \$29 trillion notional value in the United States; this market is, in turn, impacted by the \$60 trillion notional value globally. With the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the CFTC is tasked with regulating the swaps markets with an estimated notional value of over \$222 trillion in the US and \$600 trillion globally.

The Commission has based its FY 2014 request on continuing its planned level of effort set forth in the President's 2013 Budget (\$308 million and 1,015 FTE). The 2013 Budget provides the resources for:

- Promptly registering market participants;
- Improving oversight of registered entities;
- Increasing surveillance of markets and market participants;
- Enhancing the examinations of self-regulatory organizations (SROs) and other significant entities;
- Aggressively pursuing investigations and enforcement actions of expanded scope and complexity; and
- Acquiring and analyzing large quantities of data for swaps market transparency.

The Commission continually responds to the challenges presented by operating in a fluid environment. Input from industry groups, other Federal and international regulators, and others impact the timing and details of forthcoming rules, which in turn impacts the timing and nature of the CFTC's resource needs. New information from the markets sheds light on risks in the Commission's pre-Dodd-Frank Act scope that need to be examined and/or addressed, most notably in the past year on the protection of customer funds and the potential for market disruptions from algorithmic trading. The 2013 Budget was driven by the assumption that the bulk of the initial Dodd-Frank activities would be largely completed in FY 2012, including the registration of new entities, reviews of new products, and provision of guidance to industry on the new regulatory framework. It represented the Commission's best judgment at that time on the scope of final regulation, the span of regulated entities, and the resources required to fulfill the Commission's statutory and regulatory mandates for FY 2013.

The Commission's FY 2013 plan has been realigned to meet the new realities. FY 2013 is a pivotal year for CFTC, as it transitions from developing the regulatory framework for its new authorities under Dodd-Frank to operationalizing its new and significant responsibilities. October 12, 2012 marked the beginning of a new era in swaps market reform. The Commission has requested public input on the first set of swaps subject to mandatory clearing. Cleared interest rate and credit default swap transactions are being reported to swap data repositories (SDRs). By the new year, these transactions will be subject to real-time reporting; uncleared swap transactions entered into by swap dealers will also be subject to real-time reporting. And, swap dealers will begin registering in the next months.

It is anticipated that in FY 2013:

- The Commission will expend just over 29 percent of its staffing resources in four major activities:
  - Registering new entities and ensuring that currently registered entities comply with new core principle requirements;
  - Review new contracts, making mandatory clearing determinations, and other product review activities;
  - Providing legal guidance and interpretations on the new regulatory framework; and

- Coordinating with international regulators to ensure cross-border harmonization of these global markets.
- Approximately 32 percent of the Commission's staffing resources will be focused on surveillance (including data standards, acquisition and analytics) and examinations of systemically important derivatives clearing organizations (SIDCOs) as required by Title VIII of the Dodd-Frank Act, and examinations of other significant registered entities;
- Another 21 percent of the Commission's staffing resources will be engaged in enforcement activities; and
- The remaining 18 percent of the Commission's staff will be responsible for supporting the Commission's information technology infrastructure and agency direction, management, and administrative support.

The majority of the Commission's investment in information technology will be focused on building the infrastructure and services necessary to manage market data as it evolves across multiple industry sources and multiple markets. Areas of focus will include investment in standards and systems that support swaps data management, position and transaction surveillance, risk management and market and data analytics, among others. In addition, the Commission will begin implementation of high-performance computing capabilities, to increase the speed and capability of CFTC analytic activities.

In FY 2014, the Commission is requesting a total of \$315 million to support the level of effort proposed in the FY 2013 President's Budget, with a modest increase of 2.3 percent for changes in compensation-related costs and information technology costs. The allocation of the 1,015 FTE resources, however, will be adjusted among the mission activities, to reflect the transition from Dodd-Frank "start-up" activities to more sustaining activities in 2014:

- The Commission will modestly shift its resource allocation to support and maintain direct examinations.
- This shift will come from a reassignment of staff from registration, product review, economic and legal analysis, and management and administrative mission activities.
- Staff resources for enforcement and information technology infrastructure will be essentially unchanged.

IT investments, however, will grow slightly in FY 2014 to maintain purchasing power. The Commission is requesting an additional \$3 million in FY 2014 for its information technology services. The bulk of the additional investment will support the Commission's surveillance programs, including continued integration of SDRs and derivatives clearing organization (DCO) data, integration of tools used by the SRO's, reduced latency for processing market data and increasing the number of entities providing order message data.

In realigning its resource priorities, the Commission will be well positioned to build its operational capabilities, evaluate changes in the industry as it responds to the new Dodd-Frank regulatory framework, and address any unanticipated issues that will naturally arise in implementing the sweeping reforms called for under the Dodd-Frank Act. The Commission will continue to monitor its resource requirements for implementing the Dodd-Frank Act, and may seek additional staffing and/or information technology resources in FY 2015.

## Purpose Statement

The mission of the CFTC is to protect market users, consumers and the public at large from fraud, manipulation, and other abusive practices, and systemic risk, related derivatives that are subject to the Commodity Exchange Act (CEA or the Act) and to foster open, transparent, competitive, and financially sound markets. Congress established the CFTC as an independent agency in 1974. The CFTC administers the CEA, 7 U.S.C. Section 1, *et. seq.* The CEA established a comprehensive regulatory structure to oversee the volatile futures trading complex, including futures trading in all goods, articles, services, rights and interests; commodity options trading; and leverage trading in gold and silver bullion and coins.

To meet changing market conditions, CFTC's mandate has been renewed and expanded several times since its inception. Most recently, and in response to the 2008 financial crisis, the scope of CFTC's mission grew dramatically in 2010 by the enactment of the Dodd-Frank Act, which expanded CFTC's mission to include oversight of the previously unregulated over-the-counter (OTC) swaps marketplace.

The Dodd-Frank Act amended the CEA to establish a comprehensive new regulatory framework for swaps, as well as enhanced authorities over historically regulated entities. Title VII of the Dodd-Frank Act, which relates to swaps, was enacted to reduce systemic risk, increase transparency and promote market integrity within the financial system by:

- Providing for the registration and regulation of swap dealers and major swap participants;
- Imposing clearing and trade execution requirements on standardized derivatives products;
- Creating robust recordkeeping and real-time reporting regimes; and
- Enhancing the Commission's rulemaking and enforcement authorities to include all registered entities and intermediaries subject to the Commission's oversight.

The U.S. derivatives markets play a critical role in empowering legitimate, prudential, and non-speculative hedging strategies through transference of price risk. It is therefore essential to protect the financial stability of these markets by ensuring they are transparent, open and competitive. To this end, CFTC has consulted closely and acted in conjunction with other regulators on Dodd-Frank implementation, including the Securities and Exchange Commission (SEC), the Federal Reserve, the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and international regulatory counterparts in Europe and Asia. CFTC has made significant progress in the area of Dodd-Frank Act rule writing, having finalized 40 rules and eight final orders to date<sup>1</sup>, including most of the foundational requirements for substantive swaps market reform including:

- The Commission has adopted final rules establishing registration and regulatory requirements for SDRs, which will gather data on all swaps transactions, including for credit default swap (CDS) indices.
- The CFTC has made significant progress on central clearing for the swaps market. Numerous rules establishing new DCO operational and risk management requirements have been completed.
- The CFTC has completed key rules on transparency that, for the first time, provide a detailed and up-to-date view of the physical commodity swaps markets. As a result, regulators can police for fraud, manipulation and other abuses.
- The CFTC completed rules, guidance and acceptable practices for designated contract markets (DCMs). DCMs will be able to list and trade swaps, helping to bring the benefit of pre-trade transparency to the swaps marketplace.

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<sup>1</sup> October 19, 2012

The remaining rules will be largely completed in FY 2013, including:

- The initial clearing requirement determination,
- Transparency rules for minimum block sizes and swap execution facilities (SEFs),
- An international approach to margin requirements for uncleared swaps, and
- How legal and regulatory regimes around the globe should interface in swaps market reform.

### **Dodd–Frank Act Rules with Significant Resource Requirements**

The Dodd-Frank Act amended the CEA to establish a comprehensive new regulatory framework for swaps, as well as enhanced authorities over historically regulated entities. The Commission has undertaken an ambitious schedule for finalizing the rules necessary to expand its scope, bringing protection to market users and the public from fraud, manipulation, abusive practices and systemic risk related to swaps and fostering open, competitive, and financially sound markets.

While the Commission established a significant set of rules in response to the new authorities granted under the Dodd-Frank Act, only a subset have impact on the Commission's workload and hence resources. The following summarizes the major Dodd-Frank Act rules and indicates which mission activities are impacted by the new regulatory requirements.



**Impact of major rules related to core principles and other registration requirements  
by Mission Activity**

Title	Reference	REG	PR	SVL	EXM	ENF	E&L	INT'L	DATA
<b>Core Principles and Other Requirements for DCMs</b>	17 CFR Parts 1, 16, and 38	✓	✓	✓	✓	✓	✓	✓	✓
<b>Derivative Clearing Organization General Provisions and Core Principles</b>	17 CFR Parts 1, 21, 39, 140	✓	✓	✓	✓	✓	✓	✓	✓
<b>Swap Data Repositories: Registration Standards, Duties and Core Principles</b>	17 CFR Part 49	✓	✓	✓	✓	✓	✓	✓	✓
<b>Registration of Swap Dealers and Major Swap Participants</b>	17 CFR Parts 3, 23, and 170	✓		✓	✓	✓	✓	✓	✓
<b>(Proposed) Core Principles and Other Requirements for Swap Execution Facilities</b>	76 FR 1214	✓	✓	✓	✓	✓	✓	✓	✓
<b>Business Conduct Standards for Intermediaries</b>	Multiple			✓	✓	✓	✓		

### Table Key

**Acronym      Mission Activity<sup>2</sup>**

REG	Registration and Registration Compliance
PR	Product Reviews
SVL	Surveillance, including Data Acquisition and Analytics
EXM	Examinations
ENF	Enforcement
E&L	Economic and Legal Analysis
INT'L	International Policy Coordination
DATA	Data Infrastructure and Technology Support

<sup>2</sup> Agency Direction, Management and Administrative Support is not included, as rules have little to no direct impact on workload in this mission activity.

**Impact of major rules related to swap products by Mission Activity**

Title	Reference	REG	PR	SVL	EXM	ENF	E&L	INT'L	DATA
<b>Definition of Swaps, Swap Dealer, Major Swap Participants</b>	Multiple	✓	✓	✓	✓	✓	✓	✓	✓
<b>Swap Data Recordkeeping and Reporting Requirements</b>	17 CFR Part 45			✓	✓	✓	✓	✓	✓
<b>Reviews of Swaps for Clearing Requirement Determination</b>	Multiple		✓	✓	✓	✓	✓		
<b>Real-Time Public Reporting of Swaps Transaction Data</b>	17 CFR Part 45			✓			✓		✓
<b>Large Trader Reporting for Physical Commodity Swaps</b>	17 CFR Parts 15 and 20			✓		✓			✓
<b>Block Sizes (Proposed)</b>	Multiple			✓		✓	✓		

**Table Key**
**Acronym      Mission Activity<sup>3</sup>**

REG	Registration and Registration Compliance
PR	Product Reviews
SVL	Surveillance, including Data Acquisition and Analytics
EXM	Examinations
ENF	Enforcement
E&L	Economic and Legal Analysis
INT'L	International Policy Coordination
DATA	Data Infrastructure and Technology Support

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<sup>3</sup> Agency Direction, Management and Administrative Support is not included, as rules have little to no direct impact on workload in this mission activity.

## Strategic Response

The Commission's current Strategic Plan was published in February 2011. It integrated the expanded responsibilities under the Dodd-Frank Act. As a set of guiding principles for implementing new regulatory and mission activities, this plan provides direction during a time of uncertainty. These strategic goals were constructed in a focused way, lending credence to unifying goals found within CEA, as amended by the Dodd-Frank Act. Using this strategic plan, Commission activities will be aligned through 2015.

The Commission's strategic goals are:

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

These goals are as relevant today as when the Plan was formulated. The Commission continually seeks to balance its regulatory mission requirements with its stewardship responsibilities to the American public.

The CFTC consists of five Commissioners. The President appoints and the Senate confirms the CFTC Commissioners to serve staggered five-year terms. No more than three sitting Commissioners may be from the same political party. With the advice and consent of the Senate, the President designates one of the Commissioners to serve as Chairman. The Commission is headquartered in Washington D.C. with regional offices in Chicago, Kansas City and New York. At the end of FY 2012, the Commission employed 703 people and had a level of effort over the year of 687 FTE.

# Overview of the FY 2014 Budget & Performance Plan

## Summary of FY 2014 Budget Request by Mission Activity

	FY 2012 EOY	FY 2012 Actual		FY 2013 Continuing Resolution		FY 2013 Budget		FY 2014 Request	
	Employment	FTE	\$ (ooo)	FTE	\$ (ooo)	FTE	\$ (ooo)	FTE	\$ (ooo)
Registration and Registration Compliance	34	32	10,130	35	10,750	123	31,830	107	28,370
Product Reviews	20	19	5,257	20	5,550	49	12,500	40	10,510
Surveillance, including Data Acquisition & Analytics	122	118	42,275	121	43,460	197	63,450	174	61,750
Examinations	79	76	17,316	81	18,690	129	30,470	185	44,310
Enforcement	163	165	38,001	162	39,650	214	57,320	213	57,760
Economic and Legal Analysis	114	108	25,426	117	28,150	102	25,410	97	24,550
International Policy Coordination	14	14	3,038	15	3,430	21	4,950	23	5,490
Data Infrastructure & Technology Support	39	38	30,827	39	28,620	54	50,920	55	51,400
Agency Direction, Management and Administrative Support	118	117	26,789	117	28,250	126	31,150	121	30,860
<b>Total</b>	<b>703</b>	<b>687</b>	<b>\$199,059</b>	<b>707</b>	<b>\$206,550</b>	<b>1,015</b>	<b>\$308,000</b>	<b>1,015</b>	<b>\$315,000</b>

Table 1: Summary of FY 2012 to 2014 by Mission Activity

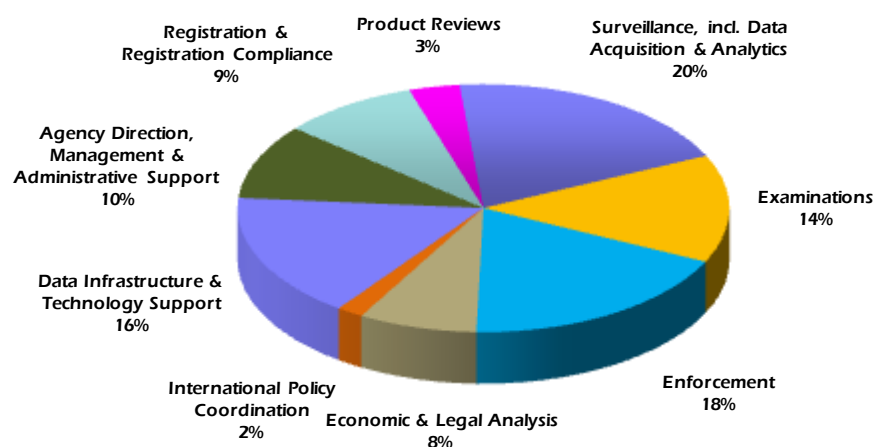


Figure 1: \$315 Million Budget Request by Mission Activity

## Summary of FY 2014 Budget Request by Division

	FY 2012 EOY	FY 2012 Actual		FY 2013 Continuing Resolution		FY 2013 Budget		FY 2014 Request	
	Employment	FTE	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE	\$ (000)
Agency Direction	34	34	\$7,378	34	\$7,780	34	\$8,010	29	\$6,930
Administrative Management & Support	79	79	17,142	78	17,810	86	20,220	86	20,500
Chief Economist	17	13	3,689	18	4,100	29	6,820	25	5,960
Clearing & Risk	61	56	13,237	60	13,720	103	24,200	115	27,420
Data & Technology	85	83	64,958	85	64,420	122	98,670	122	102,080
Enforcement	166	168	36,020	165	37,710	214	50,240	215	51,260
General Counsel	53	52	11,501	55	12,560	69	15,750	69	16,450
International Affairs	10	10	2,170	10	2,280	16	3,760	17	4,050
Inspector General	5	4	1,085	5	1,140	6	1,410	6	1,430
Market Oversight	119	117	25,822	119	27,200	206	48,390	177	42,190
Swap Dealer & Intermediary Oversight	74	71	16,057	78	17,830	130	30,530	154	36,720
<b>Total</b>	<b>703</b>	<b>687</b>	<b>\$199,059</b>	<b>707</b>	<b>\$206,550</b>	<b>1,015</b>	<b>\$308,000</b>	<b>1,015</b>	<b>\$315,000</b>

Table 2: Summary of FY 2012 to 2014 by Division



Figure 2: \$315 Million Budget Request by Division



## Summary of FY 2014 Budget Request by Object Class

	<b>FY 2012 Actual</b>	<b>FY 2013 Continuing Resolution</b>	<b>FY 2013 Budget</b>	<b>FY 2014 Request</b>
	<u>(\$000)</u>	<u>(\$000)</u>	<u>(\$000)</u>	<u>(\$000)</u>
11.1-11.5 Personnel Compensation	\$98,338	\$102,930	\$147,300	\$151,340
12.1 Personnel Benefits: Civilian	28,491	28,920	42,400	43,560
13.0 Benefits for Former Personnel	103	0	0	0
21.0 Travel & Transportation of Persons	1,926	1,650	2,200	2,700
22.0 Transportation of Things	79	200	100	100
23.2 Rental Payments to Others	14,855	19,480	20,000	21,000
23.3 Comm., Utilities & Miscellaneous	4,205	5,000	6,700	8,000
24.0 Printing and Reproduction	327	200	1,200	1,200
25.0 Other Services	40,723	40,470	73,899	73,599
26.0 Supplies and Materials	1,567	400	1,200	1,300
31.0 Equipment	7,442	7,300	13,000	12,200
32.0 Building/Fixed Equipment	1	0	1	1
42.0 Claims/Indemnities	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>99.0 Subtotal, Direct Obligations</b>	<b>199,059</b>	<b>206,550</b>	<b>308,000</b>	<b>315,000</b>
99.0 Reimbursable	<u>147</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>99.0 Total Obligations</b>	<b>\$199,206</b>	<b>\$206,550</b>	<b>\$308,000</b>	<b>\$315,000</b>

Table 3: Summary of FY 2012 to 2014 by Object Class

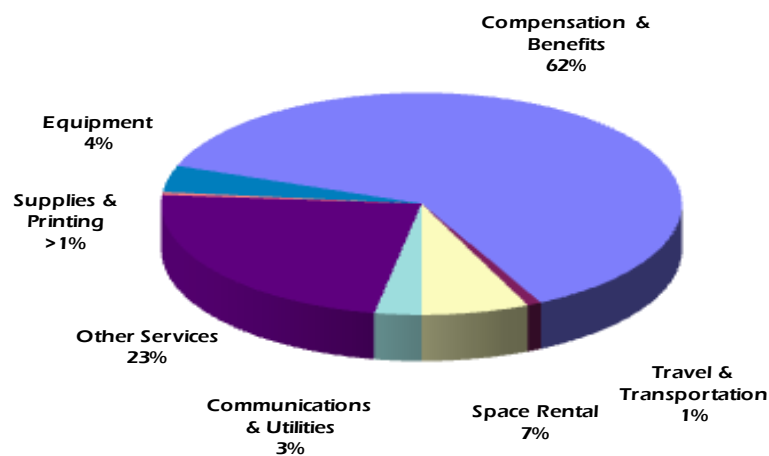


Figure 3: \$315 Million Budget Request by Object Class

## Crosswalk from FY 2013 Budget to FY 2014 Request

	<b>FY 2013 Budget</b>	<b>FY 2014 Request</b>	<b>Change</b>
Budget Authority (\$000)	\$308,000	\$315,000	\$7,000
Full-Time Equivalents (FTEs)	1,015	1,015	0
<hr/>			
<b><u>Explanation of Change</u></b>		<b><u>FTE</u></b>	<b><u>Dollars (\$000)</u></b>
<b>Current Services Increases:</b> (Adjustments to FY 2013 Base)			
To provide for changes in personnel compensation <sup>1</sup> :			5,200
To provide for the following changes in non-personnel costs:			1,800
--Travel/Transportation (\$500)			
--Space Rental/Communications/Utilities (\$2,300)			
--Supplies/Printing (\$100)			
--All Services (-\$300)			
--Building/Fixed Equipment (-\$800)			
<b>Program Increase:</b> (Adjustments to FY 2014 Current Services)			
--No Program Increases		0	0
<hr/>			
<b>Total Increases</b>		<b>+0</b>	<b>\$7,000</b>
<hr/>			

Table 4: Crosswalk from FY 2013 Budget to FY 2014 Request

<sup>1</sup> Increases in personnel costs are due to annualization, and a 2.7 percent increase for salaries and benefits.

## Crosswalk from FY 2013 Continuing Resolution to FY 2014 Request

	<b>FY 2013 CR</b>	<b>FY 2014 Request</b>	<b>Change</b>
Budget Authority (\$000)	\$206,550	\$315,000	\$108,450
Full-Time Equivalents (FTE)	707	1,015	308

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<b><u>Explanation of Change</u></b>	<b><u>FTE</u></b>	<b><u>Dollars (\$000)</u></b>
<b>Current Services Increases:</b> (Adjustments to FY 2013 Base)		
To provide for changes in personnel compensation <sup>5</sup> .		3,560
To provide for the following changes in non-personnel costs:		45,400
--Travel/Transportation (\$950)		
--Space Rental/Communications/Utilities (\$4,520)		
--Supplies/Printing (\$1,900)		
--All Services (\$33,129)		
--Equipment (\$4,900)		
--Building/Fixed Equipment (\$1)		
<b>Program Increase:</b> (Adjustments to FY 2014 Current Services)		
--To provide salaries and benefits to 308 additional FTE.	308	59,490
<b>Total Increases</b>	<b>+308</b>	<b>\$108,450</b>

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Table 5: Crosswalk from FY 2013 CR to FY 2014 Request

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<sup>5</sup> Increases in personnel costs are due to annualization, and a 2.7 percent increase for salaries and benefits.

Statement of Availability on Basis of Obligations

	<b>FY 2012 Estimate</b>	<b>FY 2013 Continuing Resolution</b>	<b>FY 2013 Budget</b>	<b>FY 2014 Request</b>
	<u>\$ (000)</u>	<u>\$ (000)</u>	<u>\$ (000)</u>	<u>\$ (000)</u>
New Appropriations	\$205,294	\$206,550	\$308,000	\$315,000
Carryover from Prior Year	9,809	5,912	6,609	0
Recoveries of Prior Year Obligations	5,580	0	2,000	3,000
<b>Total Available</b>	<b>220,683</b>	<b>212,462</b>	<b>316,609</b>	<b>318,000</b>
Obligations	213,709	212,462	316,609	318,000
<b>Balance Available</b>	<b>6,974</b>	<b>0</b>	<b>0</b>	<b>0</b>
Lapsing Appropriations	365	0	0	0
<b>Total Available or Estimate</b>	<b>\$6,609</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Table 6: Summary of FY 2012 to 2014 Statement of Availability on Basis of Obligations

**Statement of Availability on Basis of Appropriation by Program**

	<b>FY 2012 Estimate</b>	<b>FY 2013 Continuing Resolution</b>	<b>FY 2013 Budget</b>	<b>FY 2014 Request</b>
	<u>\$ (000)</u>	<u>\$ (000)</u>	<u>\$ (000)</u>	<u>\$ (000)</u>
<b>Program <sup>6</sup></b>				
Salaries and Expenses	\$150,294	\$206,550	\$308,000	\$315,000
Information Technology	55,000	55,000	0	0
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Appropriation or Budget</b>	<b>\$205,294</b>	<b>\$206,550</b>	<b>\$308,000</b>	<b>\$315,000</b>

Table 7: Summary of FY 2012 to 2014 Statement of Availability on Appropriation by Program

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<sup>6</sup> Salaries and Expenses: The Salaries and Expenses appropriation provides funding for all CEA-related activities. This includes funding for all federal staff salaries and benefits, leasing of facilities, travel, training, and general operations of the Commission. It also includes funding for information technology (as described below) in FY 2013 and 2014.

Information Technology: The Information Technology appropriation provides funding for information technology investments. This includes hardware, software, contractor support, and other related information technology requirements.



## Mission Activities

### Registration and Registration Compliance

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

- In developing the FY 2013 President's Budget, the Commission anticipated that the rules relating to the registration requirements for entities would be completed in FY 2012, and that much of the increase in registration and product review activities would begin in 2012 and be essentially complete in the first quarter of FY 2013.
- In addition to performing direct registration of new entities, the CFTC staff will perform reviews to ensure compliance with the CEA's (as amended) core principles. Likewise, registered entities must submit changes to their rules of operation to the CFTC on an on-going basis.
- Current projections for FY 2013 and 2014 indicate that registration related activities will increase significantly over last year's projections, with an estimated 12 percent of CFTC staff devoted to registration related activities in FY 2013. This level of efforts declines to approximately 107 staff years, or eleven percent of all CFTC staff efforts, in FY 2014. These activities include direct registration and rules of operations reviews of DCMs, SEFs, SDRs, and DCOs, as well as oversight of the National Futures Association's (NFA) registration of swap dealers, major swap participants, futures commission merchants (FCM), and other market participants. While the registration of new entities essentially will be complete in FY 2013, the 2014 level of effort is driven by expected increases in workload due to the cross-border scope of the Dodd-Frank Act and rule filings as the increased number of entities continue to implement and refine their rules of operation under the new regulatory framework.

## FY 2014 President's Budget & Performance Plan

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### Summary

Organizationally, the Commission's registration and registration compliance related resources will support the requirements of five Divisions:

Table 8: Registration and Registration Compliance by Division

	FTE	Salaries and Expenses (\$000)	IT (\$000)	Total (\$000)
Clearing and Risk	13	\$3,100	\$0	\$3,100
Data & Technology	0	0	2,850	2,850
General Counsel	19	4,530	0	4,530
Market Oversight	31	7,390	0	7,390
Swap Dealer and Intermediary Oversight	44	10,490	0	10,490
<b>TOTAL</b>	<b>107</b>	<b>\$25,510</b>	<b>\$2,850</b>	<b>\$28,360</b>

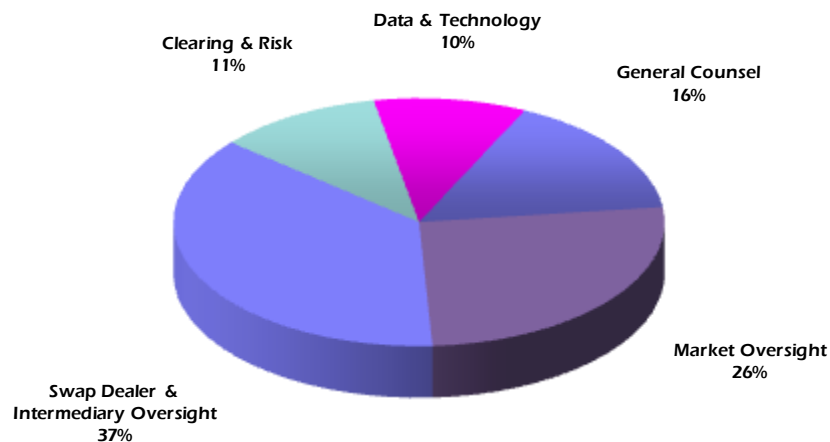


Figure 4: Registration and Registration Compliance Request by Division

## **Product Reviews**

The Commission reviews new product filings as well as issues no-action letters. The CFTC's traditional scope of work includes reviewing new futures and options contract filings, reviewing contract rule submissions, and developing new rules and policies to accommodate innovations in the industry. Currently, the Commission conducts due diligence reviews of new contract filings to ensure that the contracts are not readily susceptible to manipulation or price distortion, and that the contracts are subject to appropriate position limits or position accountability. The Commission also analyzes amendments to contract terms and conditions to ensure that the amendments do not render the contracts readily susceptible to manipulation and do not otherwise affect the value of existing positions. In order to prioritize work with its constrained staffing, the Commission implemented a procedure that assigns greater review priority to contracts that have achieved certain thresholds of trading volume and open interest.

The Commission also has responsibility for reviews of aggregate position limits for physical commodity derivatives. Because it has the authority to gather data and impose regulations across trading venues, the Commission is uniquely situated to establish uniform position limits and related requirements for all economically-equivalent derivatives.

In addition, the Commission has several new product-review responsibilities under the Dodd-Frank Act. The Commission will need to evaluate transaction and pricing data collected by SDRs. This data will be used by the Commission to determine appropriate block trade threshold levels that registered SEFs, DCMs, and market participants may use to delay public reporting of swap transaction data. The Commission must also evaluate market data and contract characteristics to determine whether a swap contract that is listed on a DCM or SEF has been "made available to trade." The Commission also will be performing mandatory clearing determinations, and assessing swaps presented to DCOs to determine their acceptability for clearing.

- The majority of rules associated with the product review of swaps were published in the last quarter of FY 2012. Much of the foundational work for swaps contract reviews will be performed in FY 2013, but the Commission anticipates on-going product reviews during FY 2014 and beyond as new contracts are created to meet market needs.
- In addition, the Commission anticipates that it will begin to analyze, by asset class, the percentage and volume of previously non-transparent swaps now cleared, the level of risk transfer, the potential relative movement of institutions to new financial products, and the implied overall credit and market risk in FY 2014 to ensure that the Commission's regulations reflect an appropriate understanding of the market segments most prone to market failure. The Commission anticipates reallocating resources directed toward product review activities between 2013 and 2014, commensurate with a surge of new activity in 2013, and a return to more of a steady-state requirement in 2014.

## FY 2014 President's Budget & Performance Plan

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### Summary

Organizationally, the Commission's activities related to products reviews and assessment of product-related rules will support the requirements of five Divisions:

Table 9: Breakout of Product Reviews by Division

	FTE	Salaries and Expenses (\$000)	IT (\$000)	Total (\$000)
Chief Economist	1	\$240	\$0	\$240
Clearing and Risk	15	3,580	0	3,580
Data and Technology	0	0	950	950
General Counsel	4	950	0	950
Market Oversight	20	4,770	0	4,770
<b>TOTAL</b>	<b>40</b>	<b>\$9,540</b>	<b>\$950</b>	<b>\$10,490</b>

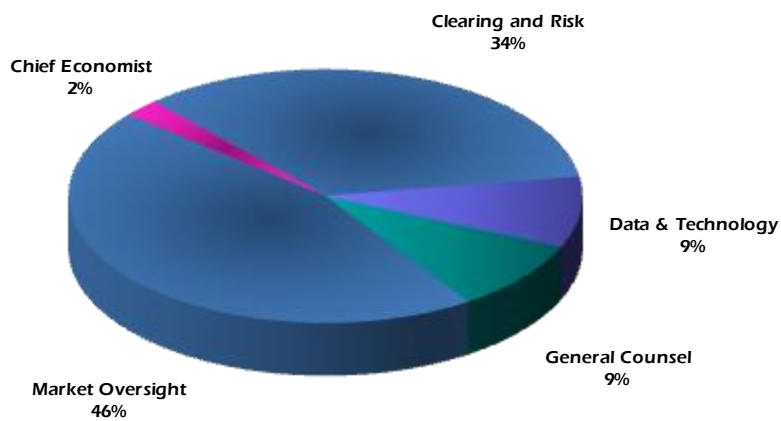


Figure 5: Product Reviews Request by Division

## **Surveillance, including Data Acquisition and Analytics**

The Commission performs three broad types of surveillance: market, financial and risk, and business analytics.

### **Market surveillance**

The Commission monitors trading and positions of market participants on an on-going basis. Commission staff screen for potential market manipulations and disruptive trading practices, as well as trade practice violations. Staff also monitors changing market conditions and developments, such as shifting patterns of commercial or speculative trading or the introduction of new trading activities, to assess possible market impacts on internal review techniques and/or evaluate the impact such changes may have on exchange trading rules and contracts.

Market oversight and surveillance activities are dependent on the ability to acquire large volumes of data and the development of sophisticated analytics to identify trends and/or outlying events that warrant further investigation. To the extent possible, the CFTC is seeking to leverage applications and analysis across the organization through the use of standardized data sets. It is anticipated that through the collection of standardized data sets, the Commission will have the unique and essential ability to aggregate data received by all market participants. This aggregation will give the Commission a more encompassing view of futures, options and swaps transactions, which will, in turn, allow the Commission to conduct market-level surveillance and perform financial risk analyses of market participants. This capability is particularly important with the expansion of the Commission's mandate in the disaggregated swaps markets, as market participants may have swaps data residing in multiple SDRs, multiple DCMs, and multiple SEFs. The Commission's ability to view aggregated data across the industry landscape is essential. Investment in information technology (IT) is mandatory for this aggregation and also supports all facets of Commission market, financial, and risk surveillance activities. Furthermore, to address this need the Commission established a Strategic Plan objective to ensure that information technology systems support the Commission's existing and expanded responsibilities to ensure financially sound markets, mitigate systemic risk, and monitor intermediaries.

The analytic tools for surveillance are designed to improve the efficiency and effectiveness of the Commission's activities across dimensions:

- Staff analyses can focus on developing new surveillance approaches that will be subsequently operationalized, and
- Potential violations will be recorded, tracked and referred to other divisions (*e.g.*, enforcement) to ensure appropriate follow-up.

The Commission anticipates building upon the enhanced surveillance capability. Further, as trading across the world's marketplaces has moved almost entirely to electronic systems, the Commission must handle unprecedented volumes of transactions that occur in a matter of milliseconds. In FY 2014, the Commission will leverage its 2013 investments in high performance computing to process specific product and time based message data, which will facilitate analysis and investigations of anomalous activity. The Commission anticipates a reduction in the number of staff years devoted to surveillance, including data acquisition and analytics, and surveillance activities, with a commensurate decrease in funding. These proposed reductions result from actions begun in FY 2012 to cross-utilize and retrain staff to increase their productivity. These actions will allow the redeployment of some positions in FY 2014 to offset increases in other high priority activities.

### **Financial and risk surveillance**

Staff conducts risk and financial surveillance of DCOs, clearing FCMs, and other market participants such as swap dealers, major swap participants, and large traders that may pose a risk to the clearing process.

Financial and risk surveillance technology allows staff to identify large traders whose positions may pose financial risk to the industry or a clearing firm, analyze an owner's holdings and project the



effect of market moves on these holdings, perform "what if" stress testing and risk scenarios to determine the effect of market movement on margin, and evaluate overall portfolio risk under different market conditions. Financial and risk surveillance technology also allows staff to monitor FCMs by storing and analyzing monthly financial statements and annual reports provided to the Commission to report net capital positions and other financial information. The Commission's current financial and risk surveillance technology has been primarily applied to futures and options on futures products. Following the collection of position data on cleared swaps and over-the-counter products, the Commission will update existing and introduce new financial and risk surveillance technology to expand data intake, surveillance, analysis, and reporting.

**Business analytics**

CFTC also maintains a business analytics platform for performing data analysis. The platform allows staff analyzing industry data to keep pace with the continuing growth in industry data volume and complexity. The Commission will improve its ability to conduct surveillance, investigations, and economic analysis by providing additional data partitioning, parallel processing, high-performance indexing, and query optimization. These improvements will allow staff to more quickly gather subsets of enterprise data for analysis, optimize the analytics performance, and reduce extraction, transformation and loading times for very large order message volumes, market reconstructions and simulation, complex swap valuation, and high frequency and algorithmic datasets.

**Summary**

Organizationally, the Commission's increases related to surveillance, including data acquisition and analytics will support the requirements of six Divisions:

## FY 2014 President's Budget & Performance Plan

Table 10: Breakout of Surveillance, including Data Acquisition and Analytics by Division

	FTE	Salaries and Expenses (\$000)	IT (\$000)	Total (\$000)
Chief Economist	2	\$480	\$0	\$480
Clearing and Risk	28	6,680	0	6,680
Data and Technology	60	14,310	20,280	34,590
General Counsel	4	950		950
Market Oversight	71	16,920	0	16,920
Swap Dealer and Intermediary Oversight	9	2,150	0	2,150
<b>TOTAL</b>	<b>174</b>	<b>\$41,490</b>	<b>\$20,280</b>	<b>\$61,770</b>

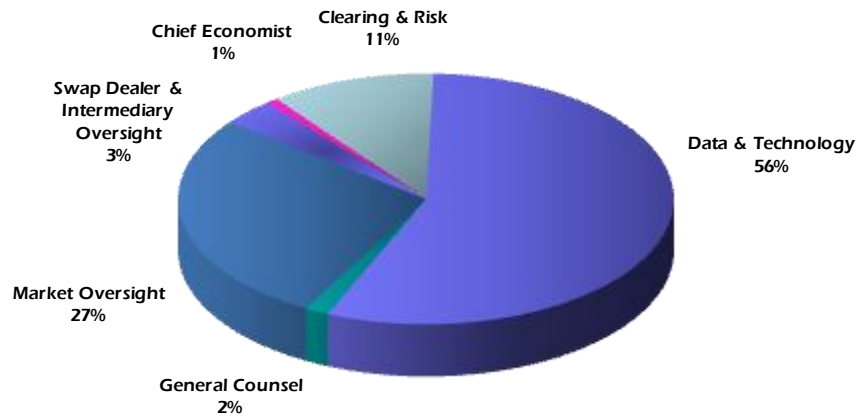


Figure 6: Surveillance, including Data Acquisition and Analytics Request by Division

## Examinations

Examinations are formal, structured assessments of regulated entities' operations or oversight programs to assess on-going compliance with statutory and regulatory mandates. Regular examinations are the most effective method of ensuring that the entities' are complying with the core principles established in the CEA (as amended):

- Reviews of DCMs, SEFs and SDRs focus on the structural sufficiency of their self-regulatory and compliance programs.
- Examinations of DCOs' compliance with core principles, and regulations implementing such core principles, to ensure the soundness of the financial condition of those entities. The Commission is required to examine SIDCOs at least annually.
- Reviews of registered intermediaries ensure compliance with mandated standards regarding the fitness and conduct necessary to ensure the protection of market participants and the financial soundness of the market.
- Examinations of FCMs' and retail foreign exchange dealers' (RFEDs') compliance with applicable capital, segregation, and financial reporting requirements help ensure that markets are protected from systemic risk and that the funds belonging to customers are protected from loss.
- Oversight of the financial surveillance and compliance programs of SROs (the exchanges and registered futures associations (RFAs)) are designed to ensure that the SROs are effectively monitoring the financial integrity of market intermediaries and protecting customer funds.

Examinations are performed by multi-disciplinary teams of attorneys, industry economists, trade practice analysts, risk analysts and accountants depending on the scope. As described in Goal Two of the Strategic Plan, it is the Commission's goal to move to annual reviews of significant entities, to ensure the effectiveness of Commission regulations.

- The Commission anticipates performing routine annual examinations of the largest DCMs, SEFs, SDRs, and DCOs, with reviews of the less risky entities every two to three years as resources are available. The ability to perform the biennial or triennial reviews will depend, in part, on the number of "for cause" examinations the Commission must undertake in a given time.
- The Commission is seeking an increase in FY 2014 for examinations, driven primarily by allocating increased resources to ensure that SEFs, SDRs, MSPs, FCMs, SIDCOs and other entities comply with the applicable core principles set forth in the CEA and Commission regulations, including:
  - Direct compliance examinations of DCMs, SDRs, SEFs, and DCOs;
  - Direct compliance examinations for FCMs and DSROs, and oversight/annual performance assessments of SRO financial surveillance programs;
  - Evaluations of NFA methodologies and processes for monitoring CPO and CTA compliance with CEA and Commission regulations;
  - Daily financial surveillance of market activities and associated reporting;
  - Continuous industry and stakeholder engagement, communications, and relationship building; and
  - Development and promotion of best practices standards including data standards and data quality.
- The Commission anticipates being able to redeploy staff from the 2013 surge in registration and product review related activities, and from the increased efficiency in surveillance to the critically important examinations activity. As indicated above, this increase supports the expanded examinations of entities in the CFTC's traditional markets as well as the inclusion of new entities under the Dodd-Frank Act.

**Summary**

Organizationally, the Commission's examinations-related resources will support the requirements of four Divisions:

Table 11: Breakout of Examinations by Division

	FTE	Salaries and Expenses (\$000)	IT (\$000)	Total (\$000)
Clearing and Risk	50	\$11,920	\$0	\$11,920
Data and Technology	0	0	210	210
Market Oversight	47	11,210	0	11,210
Swap Dealer and Intermediary Oversight	88	20,980	0	20,980
<b>TOTAL</b>	<b>185</b>	<b>\$44,110</b>	<b>\$210</b>	<b>\$44,320</b>



Figure 7: Examinations Request by Division

## **Enforcement**

The Commission protects market participants and other members of the public from fraud, manipulation and other abusive practices in the commodities, futures and swaps markets. Its cases range from quick strike actions against Ponzi enterprises that victimize investors across the country, to sophisticated manipulative and disruptive trading schemes in markets the Commission regulates including oil, gas, precious metals and agricultural goods. The importance of the Commission's enforcement responsibilities are specifically addressed in Strategic Plan Goal Three, which emphasizes cooperative enforcement to increase the Commission's effectiveness in identifying and deterring illegal conduct.

The Commission has the authority to: 1) shut down fraudulent operations and immediately preserve customer assets through asset freeze and receivership orders, 2) terminate manipulative and disruptive schemes, 3) ban defendants from trading and being registered in its markets, and 4) seek restitution, disgorgement and monetary penalties up to the greater of three times the amount of a defendant's gain or a fixed statutory amount.

The Commission continuously opens investigations in response to the approximately 2,000 leads it receives. The scope and level of effort associated with investigations varies widely. Manipulation investigations are generally more time consuming than fraud and other types of investigations.

Enforcement of the Dodd-Frank Act and associated regulations will increase the Commission's enforcement burdens for a number of reasons. For example, the Dodd-Frank Act extends the Commission's anti-fraud jurisdiction to the swaps markets, and clarifies its jurisdiction with respect to certain retail off-exchange transactions, including transactions in precious metals. This expansion is expected to translate into more investigations, and more enforcement actions.

As a result of the Dodd-Frank Act, there will be new types and an increase in the number of CFTC registrants including exchanges, SEFs, SDRs, clearing organizations, intermediaries and dealers that require the Commission to issue concomitant regulations. The Commission's enforcement workload will now include investigations concerning any violations by these new registrants of these new rules.

In addition, the Dodd-Frank Act established anti-manipulation authority over swaps and new broader anti-manipulation authority in the futures markets. While preventing manipulation is critical to the Commission's mission to help protect taxpayers and the markets, as noted above manipulation investigations and litigations are time consuming. The Dodd-Frank Act also includes a prohibition on disruptive trading. The Commission anticipates that disruptive trading investigations and litigation will also be time intensive, particularly when high-frequency and algorithmic trading is involved, due to an inherent complexity comparable to that of market-wide manipulation investigations.

The Commission will continue to aggressively pursue domestic and international cooperative enforcement efforts. The Commission routinely works with domestic and international financial regulatory and criminal counterparts on multi-jurisdictional and multi-national investigations. There has been a significant increase in both the number of outgoing and incoming international requests each year since FY 2008. This change is directly related to the increase in enforcement cases in general, but is likely to be accelerated given the global nature of the swaps marketplace.

The Commission seeks to sustain its investment in its enforcement related activities between 2013 and 2014.

### **CFTC's Enforcement Annual Results**

CFTC filed 102 enforcement cases in FY 2012. During the past two fiscal years, the Commission filed a total of 201 enforcement actions, representing a significant increase from past years. The Commission also opened more than 350 new investigations in FY 2012, among the highest annual count of new investigations in the Commission's history. In addition, the Commission obtained orders imposing more than \$931 million in sanctions, including orders imposing more than \$475 million in civil monetary penalties and directing the payment of more than \$456 million in restitution and disgorgement.

#### **Overview of FY 2012 CFTC Enforcement Actions:**

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

- In a landmark case, CFTC filed charges against Barclays PLC and two affiliates for attempted manipulation and false reporting concerning LIBOR and other global benchmark interest rates. The charges were simultaneously settled pursuant to an Order requiring Barclays to pay \$200 million, the largest fine ever imposed by the CFTC, and requiring Barclays to implement a number of measures to ensure the integrity of the bank's benchmark submissions.
- CFTC settled charges previously filed in federal court against a global proprietary trading company Optiver Holding BV, two of its subsidiaries and three then company officers for manipulating and attempting to manipulate crude oil and other energy futures contracts. The court-approved settlement required the defendants to pay \$14 million and included trading limitations for one of the corporate defendants and the three individual defendants.
- CFTC filed charges against Joseph F. Welsh, a former broker with MF Global, alleging that Welsh attempted to manipulate prices of palladium and platinum futures contracts, and with aiding and abetting the attempted manipulations of Christopher L. Pia, a former portfolio manager of Moore Capital Management, LLC. Both Pia and Moore Capital settled the separate actions against them prior to FY 12. The case against Welsh is pending in federal court in New York.
- The Commission filed charges against Royal Bank of Canada (RBC), alleging a multi-hundred million dollar wash trading scheme involving stock futures contracts. The CFTC's complaint, which is pending in federal court in New York, also alleged that RBC made false statements concerning material aspects of its wash sale scheme to OneChicago, LLC, an electronic futures exchange, and to CME Group, Inc.
- The Commission filed a number of separate actions against traders who exceeded the limits on the quantity of futures contracts they were lawfully permitted to hold, in the cotton, wheat, corn and soybean markets. The penalties imposed in these cases pursuant to settlement orders ranged from \$140,000 to \$600,000, and in one case the sanction included disgorgement of \$1 million in profits made from the excessively large position.

##### **Cases Involving Customer Funds Safeguards and Supervision Obligations**

- The CFTC filed charges against Peregrine Financial Group Inc., a futures commission merchant, and its owner, Russell R. Wasendorf, Sr. alleging misappropriation of customer funds, violations of customer fund segregation laws, and making material false statements to the CFTC. The suit, which is pending in federal court in Chicago, was filed within 24 hours after the fraud came to light.
- The Commission filed charges against JPMorgan Chase Bank for its unlawful handling of Lehman Brothers, Inc.'s customer funds prior to and after Lehman filed for bankruptcy in the midst of the financial crisis of 2008. The charges were simultaneously settled pursuant to an Order requiring JPMorgan to pay \$20 million, the largest CFTC sanction for a segregated fund violation to date.

## **FY 2014 President's Budget & Performance Plan**

- The CFTC filed charges against MBF Clearing Corp. (MBF), a registered futures commission merchant, alleging that MBF violated laws requiring the segregation of customer funds and that the firm failed to adhere to its supervision obligations. The case is pending in federal court in New York.
- CFTC filed charges against Forex Capital Markets LLC (FXCM), a retail foreign exchange dealer, for failing to supervise the handling of more than 57,000 customer accounts that were disadvantaged by FXCM's system that allowed for one-sided "slippage" in forex prices. The charges, which also included a separate violation for FXCM's failure to produce certain records promptly to the Commission, were settled simultaneously pursuant to an Order requiring FXCM to pay more than \$14 million.
- The Commission filed charges against Goldman Sachs Execution & Clearing, L.P. (GSEC), a futures commission merchant, for supervision violations arising from GSEC's failure to investigate signs of questionable conduct by a GSEC client. The charges were simultaneously settled pursuant to an Order requiring GSEC to pay \$7 million.
- The Commission filed charges against Rosenthal Collins Group, LLC (RCG), a futures commission merchant, for failing to supervise an RCG account that an RCG client was using to perpetrate a multi-million dollar commodity futures Ponzi scheme. (The CFTC charged the RCG client, Enrique F. Villalba, and his company for the underlying fraud prior to FY 12.) The charges against RCG were simultaneously settled pursuant to an Order requiring RCG to pay \$2.5 million.

### **Cases Involving Ponzi and other Fraud Schemes, and False Statements to the CFTC**

- The Commission filed charges against Ronnie Wilson and Atlantic Bullion & Coin, Inc. alleging that they operated a \$90 million Ponzi scheme involving fraudulent contracts for purchases and sales of silver. The complaint, which is pending in a federal court in South Carolina, uses the agency's new Dodd-Frank authority prohibiting fraud schemes in connection with a contract of sale of a commodity in interstate commerce.
- The CFTC filed charges against Nikolai S. Battoo and his four companies alleging fraud in connection with commodity pools that allegedly accepted over \$140 million from U.S. investors. The case is pending in federal court in Chicago.
- CFTC filed charges against Steven Pousa of Australia, Joel Friant of the United States and their company Investment Intelligence Corp, alleging they conducted a global fraudulent off-exchange forex scheme, allegedly accepting at least \$53 million from at least 960 clients. The case is pending in a federal court in Texas.
- CFTC filed charges against Donald Newell and his company Quiddity LLC, a registered commodity pool operator and trading advisor, alleging that they fraudulently allocated more profitable trades to themselves and less profitable trades to their customers. The Commission also charged Newell under the agency's new Dodd-Frank authority with making material false statements to the Commission during its investigation of this matter. The case is pending in federal court in Chicago.

### **Cooperation with Law Enforcement Partners**

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

**Summary**

Organizationally, the Commission's enforcement-related resources will support the requirements of four Divisions:

Table 12: Breakout of Enforcement by Division

	FTE	Salaries and Expenses (\$000)	IT (\$000)	Total (\$000)
Chief Economist	2	\$480	\$0	\$480
Data and Technology	7	1,670	6,980	8,650
Enforcement	203	48,390	0	48,390
General Counsel	1	240	0	240
<b>TOTAL</b>	<b>213</b>	<b>\$50,780</b>	<b>\$6,980</b>	<b>\$57,760</b>

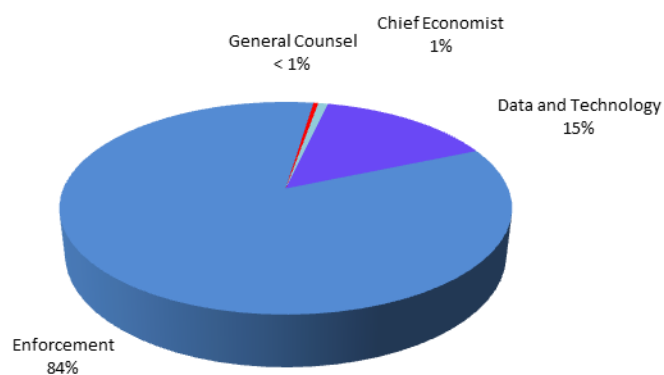


Figure 8: Enforcement Request by Division



## **Economic and Legal Analysis**

### **Commission-wide economic analysis**

As the Commission's statutory and regulatory mandate vastly expands, it is imperative the Commission continues to invest in building robust economic analysis teams.

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

Economic analysis is pervasive in supporting the regulatory activities in:

- Assessing whether newly developed products/contracts have a price discovery function and whether those products/contracts are eligible for trading;
- Determining the requirements for reporting and data rules;
- Developing analytical tools and methods in support of the Commission's automated surveillance initiatives, especially as they pertain to SEFs and the connections between SEFs and DCMs;
- Determining whether certain products/contracts are eligible for clearing and the levels for capital and margin;
- Valuation of complex swaps in support of clearing functions;
- Assessing the impact of position limits on markets; and
- Developing analytical tools and methods in support of the Commission's enforcement activities, including economic and statistical analysis or expert testimony to promote compliance with and deter violations of the CEA.

The Commission is committed to integrating robust economic analysis into its regulatory activities and has established a network of well-renowned researchers and academics in quantitative financial methods, applied mathematics, econometrics, and statistics. Furthermore, the Commission's continued engagement with an extended network of experts across the Federal government has fostered the necessary dialogue to promote a common framework for interagency consensus-building. For example, the Commission's involvement with the Financial Stability Oversight Council (FSOC) ensures financial regulatory agencies communicate perceived financial and economic issues with one another. This dialogue allows for a well-coordinated approach to address these potential issues.

### **Commission-wide legal counsel**

The Commission's legal activities include: 1) regulatory issues; 2) engaging in defensive, appellate, and amicus curiae litigation; 3) providing general legal advice and support; 4) assisting the Commission in the performance of its adjudicatory functions; and 5) providing advice on legislative and other intergovernmental affairs issues.

- *Regulatory Issues.* The Commission's legal analysis teams provide interpretations of Commission statutory and regulatory authority and, where appropriate, provide exemptive, interpretive, and no-action letters to regulatees and potential regulatees of the Commission. This activity also includes drafting Commission regulations as well as providing legal counsel in support of all substantial Commission actions, including registrations, Commission rules and regulations, product reviews and market and clearing issues. Regulatory analyses ensure compliance with laws of government-wide applicability, such as the Administrative Procedure Act, the Regulatory Flexibility Act, and the Paperwork Reduction Act. In FY 2013 and 2014, the Commission expects an increase in the number of requests for written interpretations and no-action letters.

- **Litigation Program.** Through the litigation program, legal teams represent the Commission in appellate litigation, including participation as amicus curiae; certain trial-level cases, including bankruptcy cases involving derivatives industry professionals; and certain kinds of administrative litigation. Following the implementation of Dodd-Frank Act regulations, the Commission anticipates a significant amount of litigation in FY 2013 and FY 2014. The Commission also maintains the capability to manage personnel, labor, contract, and employment law matters, including cases arising under Title VII of the Civil Rights Act of 1964 and other antidiscrimination statutes, and Merit Systems Protection Board cases arising under the Civil Service Reform Act of 1978.
- **General Law.** The Commission manages its Information Governance Program in compliance with applicable laws as part of its General Law responsibilities. This program includes three major activities: Freedom of Information Act (FOIA) compliance, the Privacy Act, and Electronic Discovery (e-Discovery). The Commission maintains a robust capability with respect to all matters related to information requests and implements the processes, policies, and information systems to ensure that the Commission appropriately manages electronically stored information as set forth in the Federal Rules of Civil Procedure and relevant judicial decisions. As the enforcement caseload increases, the program's role in advising and responding to information requests will increase.

The Commission's General Law activities ensure compliance with the Government in the Sunshine and Federal Advisory Committee Acts. The program also advises the Commission on all policies affecting personnel, agency practices and procedures, as well as providing advice and guidance in procurement matters. In addition, the program manages all matters related to the Commission's ethics standards and compliance with its Code of Conduct, as well as with government-wide ethics regulations promulgated by the Office of Government Ethics.

- **Adjudicatory Opinions.** Through its opinions activities, the Commission responds to appeals regarding decisions by an Administrative Law Judge or a Judgment Officer in administrative reparations or enforcement actions.
- **Legislation and Intergovernmental Affairs.** Through its intergovernmental affairs activities, the Commission monitors, reviews, and comments on proposed legislation affecting the Commission or the derivatives industry, and prepares technical assistance regarding draft legislation as requested by members of Congress or their staff. Additionally, the program staff liaisons with other Federal regulators to analyze and resolve jurisdictional issues, as well as address specific matters implicating the jurisdiction of multiple agencies. The Commission anticipates a sustained level of effort in FY 2014 in legal work relating to the FSOC.

## FY 2014 President's Budget & Performance Plan

### Summary

Organizationally, the Commission's resources related to economic analysis and legal counsel mission activity will support the Commission-wide requirements through seven Divisions:

Table 13: Breakout of Economic Analysis and Legal Counsel by Division

	FTE	Salaries and Expenses (\$000)	IT (\$000)	Total (\$000)
Chief Economist	20	\$4,760	\$0	\$4,760
Clearing and Risk	7	1,670	0	1,670
Data and Technology	0	0	1,440	1,440
Enforcement	9	2,150	0	2,150
General Counsel	41	9,780	0	9,780
Market Oversight	8	1,910	0	1,910
Swap Dealer and Intermediary Oversight	12	2,860	0	2,860
<b>TOTAL</b>	<b>97</b>	<b>\$23,130</b>	<b>\$1,440</b>	<b>\$24,570</b>

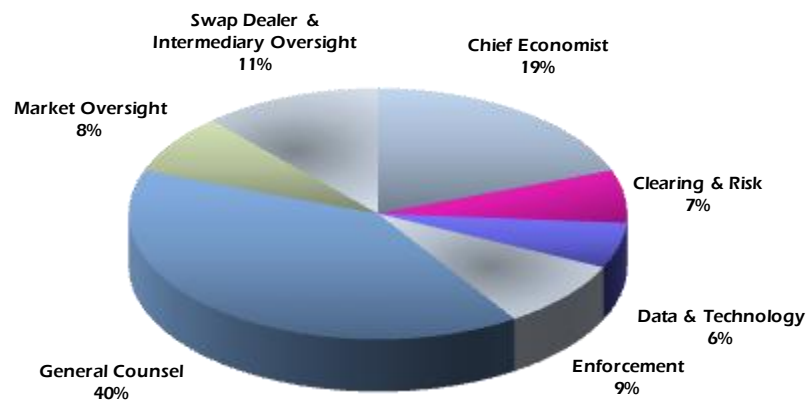


Figure 9: Economic Analysis and Legal Counsel Request by Division

## International Policy Coordination

The global nature of the futures and swaps markets makes it imperative that the United States consult and coordinate with foreign authorities. The Commission is actively communicating internationally to promote robust and consistent standards and avoid conflicting requirements, wherever possible. For example, the Commission has engaged in bilateral discussions and shared many of our pre-decisional memos, term sheets and draft proposals with international regulators, such as the European Commission, the European Central Bank, the United Kingdom Financial Services Authority and the new European Securities and Markets Authority. The Commission participates in numerous international working groups regarding swaps, including the International Organization of Securities Commissions (IOSCO) Task Force on OTC Derivatives, which the CFTC co-chairs. The CFTC, SEC, European Commission and European Securities Market Authority are intensifying discussions through a technical working group. The Commission also is consulting with many other jurisdictions such as Hong Kong, Singapore, Japan, and Canada. Discussions have focused on the details of the Dodd-Frank rules, including mandatory clearing, trading, reporting and regulation of derivatives market intermediaries. The Commission's international outreach efforts directly support global consistency in the oversight of the swaps markets.

In addition, the Commission anticipates a need for on-going international policy coordination related to cross-border implementation of semi-independent regulatory environments for swap markets. The Commission also anticipates a need for ongoing international work and coordination in the development of data and reporting standards under Dodd-Frank rules. This important, evolving aspect of CFTC's mission is specifically addressed in Goal Four of the Strategic Plan.

### Summary

Organizationally, the Commission's international policy coordination mission support related resources will support the Commission-wide requirements of four Divisions:

Table 14: Breakout of International Policy Coordination by Division

	FTE	Salaries and Expenses (\$000)	IT (\$000)	Total (\$000)
Clearing and Risk	2	\$480	\$0	\$480
Enforcement	3	720	0	720
International Affairs	17	4,040	0	4,040
Swap Dealer and Intermediary Oversight	1	240	0	240
<b>TOTAL</b>	<b>23</b>	<b>\$5,480</b>	<b>\$0</b>	<b>\$5,480</b>

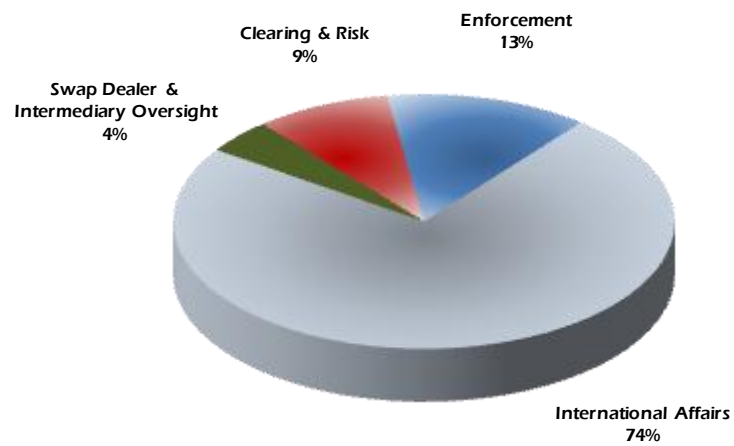


Figure 10: International Policy Coordination Request by Division

## Data Infrastructure and Technology Support

The Commission's over-arching information technology (IT) strategy is to increase the integration of data and technology into the Commission operating model, which is described in Goal Five of the Strategic Plan. This strategy has become increasingly more important and complex as the Commission's regulatory scope has expanded faster than its resources. In order to do this rapidly with the most practical investment, the Commission's approach is to manage data as an enterprise asset, promote and adopt industry data standards, give priority to services that provide the greatest mission benefit, architect services using small components that can be assembled and reassembled with agility, and deliver solutions in short, iterative phases. The first area of focus must be on data understanding and ingestion—particularly because CFTC has a unique imperative to aggregate various types of data from multiple industry sources (*e.g.*, SDRs, SEFs, and DCRs) across multiple markets (*e.g.*, futures, swaps within futures, over-the-counter derivatives based on physical commodities, and swaps based on underlying values that are an order of magnitude more complex than futures and independent of notional value), much of which is new to the Commission staff. Data related to this aggregated market is expanding in size, shape, and complexity and industry adaptation to the Dodd-Frank environment cannot be precisely predicted. Receipt and analysis of the first wave of registrant reporting will give Commission staff insight into the markets, which can be used to firm-up requirements and designs for internal surveillance systems. Likewise, the same business analytics tools used for data understanding and ad hoc mining of mature datasets will also be used to automate transparency reporting.

This approach is supported by several strategic objectives:

- Provide accurate, centralized source and reference data;
- Protect proprietary industry, individual, and sensitive government information;
- Connect industry straight-thru processing to automated internal processes;
- Exploit publicly available and industry-provided information and facilities;
- Leverage data as an enterprise asset, avoid redundant or “siloeed” data collections;
- Develop software components for enterprise use;
- Consider total cost of ownership and use or buy or build to achieve best value with acceptable risk; and
- Provide a secure and stable technology infrastructure to receive, ingest, store, mine, and analyze data, including acquisition of commercial, off-the-shelf products when possible.

From an implementation planning perspective, the Commission examines existing software technology prior to building software solutions. The Commission explores open technology solutions that allow for the integration of software and data between software products and custom-built systems. Similarly, the Commission considers whether systems are suitable for cloud-based hosting. Security, privacy, and integration are strategic considerations of hosted solutions. It is essential that the Commission is able to aggregate data and integrate software to provide support for a wide variety of analytical functions. As a result, the Commission utilizes a combination of commercial, off-the-shelf products, and custom-built software and has adopted cloud-based solutions wherever practical.

The Commission is adopting a service-oriented approach to building technology systems. The objective is to design and build technology components once, but leverage those components throughout the Commission. Similarly, efforts are focused on building a “straight-thru processing” capability as a core requirement of its implementation efforts – collecting information directly from the industry source and automating the ingestion into CFTC internal systems. This approach will reduce the amount of manual data entry required of Commission staff, improve data quality, and increase information availability. For large volumes of data, data will be received and processed based on industry data standards and automatically loaded into CFTC systems. For low volume and forms-based data, CFTC will be creating a web-based portal to enable data collection and “straight-thru processing” into CFTC systems.

As emphasized throughout the Strategic Plan, transparency is a key component of Commission surveillance, enforcement, and policy-making strategy. The Commission uses transparency reporting to involve the public and industry in the market oversight process, significantly increasing the effect of Commission activity. The CFTC.gov website provides that transparency. Hundreds of information content changes are updated to the CFTC.gov website each day. The Commission is committed to providing excellent external communications through its public website and other social network outreach initiatives. The CFTC.gov website communicates the Commission's mission, actions, and activities to all stakeholders, including the Dodd-Frank Act activities, pending industry filings, solicitations of comments on those filings and proposed rules, links to all open comment periods, and highlights on the home page that contains deadlines for comment periods for Federal Register releases. The CFTC.gov website also includes webcasts of all open meetings and archives of previous webcasts, as well as contact information for futures market customer protection; Equal Employment Opportunity; Freedom of Information Act compliance; employment and information quality; fraud, waste, and abuse; procurement opportunities; NFA registration; small businesses; and website accessibility and technical issues. The CFTC.gov website also disseminates market reports to provide information to industry participants and the public about the futures, options, and swaps markets. The Commission promotes communication and transparency through its social media presence on Facebook, Flickr, Twitter, and YouTube.

Data management is integral to all new Division initiatives and integrating swaps oversight into existing initiatives. The Office of Data and Technology (ODT) will implement CFTC enterprise technology solutions that enable the sharing and reuse of data for cross-divisional purposes. Policy, procedures, and resources established in FY 2012 to govern, manage, and access data using a Commission-wide information architecture and framework will allow ODT to coordinate the definition, collection, loading, and availability of data from external parties (*e.g.*, DCMs, SDRs) for use in automated systems and independently by CFTC analysts.

The Commission will continue to improve information technology and management capabilities in the areas of data management to support analytics, statistical processing, and market research. CFTC will provide quality data to empower its staff to perform the complex data analyses needed to regulate the futures market.

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

Maintaining a blended workforce that optimizes the use of contract services through effective management is a key component of the Commission IT strategy. As the size and complexity of the Commission's investment in IT increases, it is essential to maintain a cadre of FTE with industry, technical, and contract oversight expertise who ensure that IT investments are managed effectively and provides reliable business continuity support, ultimately lowering IT ownership costs and reducing the risk inherent in large IT projects.

By implementing new initiatives through a phased approach, the Commission will be able to begin implementing new processes and analytics based on its 2013 investments in high performing

computing in its surveillance mission activities. In addition, infrastructure investments will ensure a robust and highly productive working environment for all CFTC employees.

### Summary

Organizationally, the Commission's data infrastructure mission support activity will support the Commission-wide requirements through one Division:

Table 15: Breakout of Data Infrastructure and Technology Support by Division

	FTE	Salaries and Expenses (\$000)	IT (\$000)	Total (\$000)
Data and Technology	55	\$13,110	\$38,290	\$51,400
<b>TOTAL</b>	<b>55</b>	<b>\$13,110</b>	<b>\$38,290</b>	<b>\$51,400</b>



## Agency Direction, Management and Administrative Support

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

The CFTC is committed to both operationalizing the Commission's expanded regulatory scope and to maintaining its strong presence in its traditional markets. This requires unambiguous and timely direction, and the right quantity and quality of staff, aligned in an optimal operating structure supported by the necessary training, development, tools, resources and working environment.

The overarching principles for this mission activity were established in Goal Five of the CFTC's Strategic Plan:

- Organization is structured, aligned and streamlined to successfully carry out its mission while flexible and adaptable to changes to its mission and available resources;
- Planning Program effectively develops and implements a resource management program to support the optimal operation and maintenance of a growing agency (scope and staff) with the capability and tools to achieve its mission;
- Human Capital Program attracts, retains and continuously develops an exceptionally qualified, diverse, dedicated, capable and productive staff; and
- Financial Management Program judiciously manages and administers the financial resources provided to the Commission while taking measures through integrity and management controls to prevent waste, fraud and abuse.

### Summary

Organizationally, the Commission's agency direction, management and administrative support mission activities support the Commission-wide requirements through four Divisions:

Table 16: Breakout of Agency Direction, Management and Administrative Support by Division

	FTE	Salaries and Expenses (\$000)	IT (\$000)	Total (\$000)
Agency Direction	29	\$6,910.00	\$0	\$6,910
Executive Director	86	20,510	0	20,510
Data and Technology	0	0	2,000	2,000
Inspector General	6	1,430	0	1,430
<b>TOTAL</b>	<b>121</b>	<b>\$28,850</b>	<b>\$2,000</b>	<b>\$30,850</b>

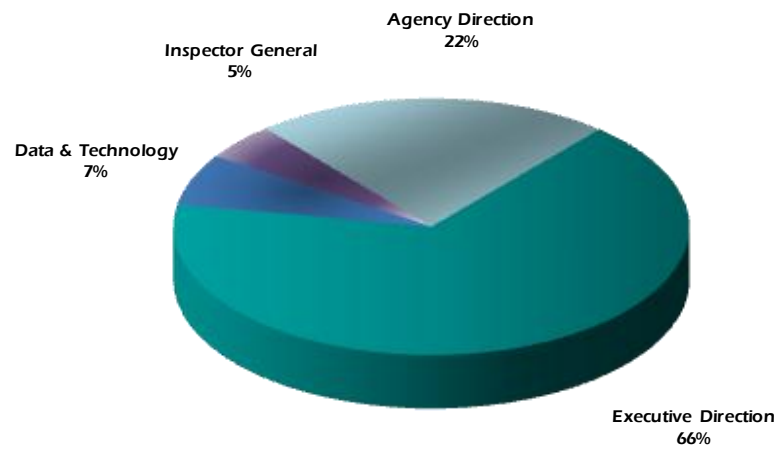


Figure 11: Agency Direction, Management and Administrative Support Request by Division

## Divisions

### Administration Management and Support

The Commission's ability to achieve its mission of protecting the public, derivative market participants, the U.S. economy and the U.S. position in global markets is driven by well-informed and reasoned executive direction, strong and focused management, and an efficiently-resourced, dedicated, and productive workforce. To ensure the Commission's continued success, the Commission's Executive Director directs the effective and efficient allocation of CFTC resources, develops, implements and provides oversight to management and administrative policy and activities, and ensures Commission performance is measured and tracked Commission-wide. Administration Management and Support is administered by the Office of the Executive Director, which includes the following offices: Business Management and Planning, Counsel to the Executive Director, Financial Management, Human Resources, Logistics and Operations, Privacy, Records, Proceedings (reparations), Secretariat and the Library.

#### FY 2014 Budget Overview by Mission Activity

Table 17: Breakout of Administrative Management and Support by Mission Activity

	FTE	Salaries and Expenses (\$000)	IT (\$000)	Total (\$000)
Agency Direction, Management and Administrative Support	86	\$20,500	\$0	\$20,500
<b>TOTAL</b>	<b>86</b>	<b>\$20,500</b>	<b>\$0</b>	<b>\$20,500</b>

#### Top FY 2012 Accomplishments

- CFTC Reorganization:
  - New organizational structure implemented, highlighted by establishment of: Division of Clearing and Risk, Division of Swap Dealer and Intermediary Oversight, and the Office of Data and Technology;
  - Identification and Hiring of Key Leadership Positions;
  - Assignment/Re-assignment of staff to new Divisions and Offices, including drafting of new career ladders and associated position descriptions as required; and
  - Office of the Executive Director augmentation and re-alignment to achieve objectives and efficiencies, including: 1) Establishment of Office of Consumer Outreach and Whistleblower Office, 2) Reorganization of the Office of Proceedings, including the elimination of the Administrative Law Judge positions; 3) Reorganization of the Office of the Secretariat.
- Management Framework:
  - High level priorities and projects tracked and reported through strategic and operational planning process;
  - Budget Project Activity Codes re-engineered; and

- CFTCnet (new intranet) implemented and stabilized.
- Learning & Development:
  - Expanded in-house legal and technical training toward strategic objective of comprehensive regulatory training program; and
  - Began development of leadership and management training curriculum.
- Automation of key business processes, specifically:
  - Implementation of an automated hiring system including deployment for several classifications of employees;
  - Acquisition of enterprise business information system to automate and standardize budget formulation, data utilized for resource management and agency spend plan data; and
  - Increased utilization of agency intranet CFTCnet as a collaborative workspace sharing and communication portal.

#### Top FY 2013 President's Budget & Performance Planned Outcomes

- CFTC-wide annual operating plans developed and in place.
- Implement new Budget Program Activity Codes.
- Implement web-based time and attendance system
- Optimize automated hiring system demonstrating a reduction in FTE dedicated to recruiting and staffing.
- Reduce time to hire by 10 percent over FY 2012.
- Procure and implement enterprise-wide business information system providing standardized, authoritative source data for budget formulation, budget execution, and archival change records.

#### Top FY 2014 President's Budget & Performance Planned Outcomes

- Refine and optimize usage of cost accounting codes with error rate documented at less than one percent in conjunction with optimized web based time and attendance system.
- Improve time to hire by 10 percent over previous year.
- Obtain Top 10 rating in government employee viewpoint survey and incorporate survey information into human capital strategic planning.
- Survey and compile feedback on CFTC's internal mentoring program; develop program improvement plan based on feedback.

## **Chief Economist**

The Office of Chief Economist (OCE) provides economic support and advice to the Commission, conducts research on policy issues facing the Commission, and educates and trains Commission staff. The OCE plays an integral role in the preparation of new financial market regulations by providing economic expertise and analysis of cost-benefit considerations underlying those regulations. As new financial market regulations are implemented, the OCE will assess the impact of these regulations on derivatives markets.

### **Product Review of Products**

Products and Rules Introduced by Designated Contract Markets, Swap Execution Facilities and Swap Data Repositories. The OCE will support the Commission's functions with respect to the review and approval of products to be made available for trading. The OCE will also participate in the evaluation of the real time reporting process, including the determination of block trade threshold levels. The OCE will conduct economic analysis pertaining to exchange traded contracts and block trade levels so that such contracts maintain the market's price discovery function and offer market participants who use these contracts sufficient ability to hedge their risk.

### **Surveillance, Including Data Acquisition and Analytics**

Swap Data Acquisition and Analytics for Oversight and Surveillance. The OCE will help evaluate the reporting requirements applied to swap market participants. The OCE will also conduct economic and statistical analysis of swaps data that would be reported to SDRs.

### **Enforcement**

The OCE will provide significant analytical support to the Commission's enforcement program to police the markets for fraud, manipulation and other abuses. Specifically, the OCE will provide economic expertise for the analysis and evaluation of data pertaining to anti-manipulation and disruptive trading practice violations in both futures and swap markets.

### **Economic Analysis**

The OCE maintains an economic research program focused on the quantitative analysis of the ever-evolving changes in trading technology, trading instruments, and types of market participants. Specifically, the OCE focuses its quantitative research program to analyze the following four broad areas:

- Analysis of the composition of speculative market participants in futures and options markets;
- Analysis of the linkages between futures, option, swap, securities, and cash markets;
- Analysis of the effects of swap markets and swap market participants on market structure; and
- Analysis of high frequency and algorithmic trading.

The analysis of the composition of speculative market participants provides input into the Commission's policy decisions on the potential impact of these traders in markets. Such analyses include identifying certain categories of traders and whether their individual or collective positions or trading activity impact price, volatility, or liquidity in markets.

The analysis of the linkages between various markets helps to assess the transmission mechanisms between derivatives markets and securities and cash markets in order to monitor systemic risk issues. Such analysis includes identifying correlations among various markets and asset classes and determining whether an event in one market may trigger similar events in other markets.

The analysis of the effects of SEFs and swap market participants on the market structure of derivatives markets provides input into the Commission's assessment of new market participants and trading venues. Further, economic analysis will serve as the basis for many studies mandated after the Dodd-Frank Act regulations are in effect.

The analysis of high frequency and algorithmic trading provides tools to help the Commission's surveillance and enforcement divisions to detect disruptive trading patterns and participants who attempt to manipulate markets.

### **FY 2014 Budget Overview by Mission Activity**

Table 18: Breakout of Chief Economist by Mission Activity

	FTE	Salaries and Expenses (\$000)	IT (\$000)	Total (\$000)
Product Reviews	1	\$240	\$0	\$230
Surveillance, including Data Acquisition and Analytics	2	480	0	480
Enforcement	2	480	0	480
Economic and Legal Analysis	20	4,760	0	4,760
<b>TOTAL</b>	<b>25</b>	<b>\$5,960</b>	<b>\$0</b>	<b>\$5,960</b>

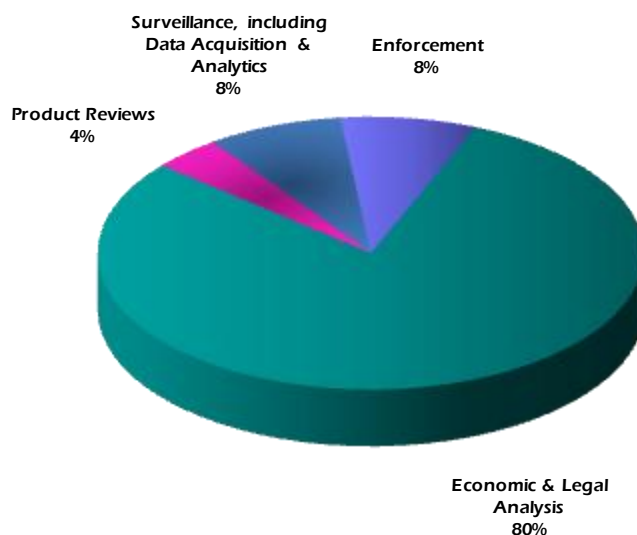


Figure 12: Chief Economist Request by Mission Activity

### **Top FY 2012 Accomplishments**

Participated in the preparation of proposed and all finalized Dodd-Frank rulemakings, especially with respect to the consideration of costs and benefits.

In support of the Commission's transparency objective, developed a new, weekly swaps report for public dissemination. The report provides an aggregated view of the risks and developments in the

## **FY 2014 President's Budget & Performance Plan**

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swaps market utilizing data that were not previously reported to regulators or regulated entities. The Dodd-Frank Act requires the Commission to provide a swaps market report on a semiannual and annual basis (H.R. 4173-322); the weekly reporting frequency will significantly exceed the required frequency. The proposed report also includes an extensive data dictionary and explanatory notes in support of its transparent nature.

Provided economics support to the CFTC Technology Advisory Committee, particularly through leadership of the Subcommittee on Automated and High Frequency Trading.

Provided quantitative and economic analyses for at least eight enforcement investigations.

Organized the 2nd annual CFTC Research Conference to discuss key issues in derivatives markets.

Provided economic and market expertise in evaluating DCM submission reviews.

Provided economic and litigation support.

Provided economic and derivatives market expertise to FSOC subcommittees.

## **Top FY 2013 President's Budget & Performance Planned Outcomes**

Participation in all proposed and finalized Dodd-Frank rulemakings, especially with respect to the consideration of costs and benefits.

Participation in the implementation of Dodd-Frank rules, including entity and product review, review of trading and clearing facilities, valuation of complex swaps, and positions limits.

Provide specialized quantitative and economic analyses for enforcement investigations as necessary.

Host the 3rd annual CFTC Research Conference on key issues in derivatives markets and develop publicly available white papers on Commission-related topics.

Preparation of market simulation and reconstruction model and automated simulated alerts.

Relaunch the Commitment of Traders Report to provide improved transparency and align the report with the newly launched swaps report.

Publication of transparency measures based on transaction level data.

## **Top FY 2014 President's Budget & Performance Planned Outcomes**

Participation in the implementation of Dodd-Frank rules, including entity and product review, review of trading and clearing facilities, valuation of complex swaps, and positions limits.

Participation in data collection and analysis of swaps, futures, and options data.

Provide quantitative analysis of trading strategies of market participants in derivatives markets.

Provide specialized quantitative and economic analyses for enforcement investigations as necessary.

Host the 4th annual CFTC Research Conference on key issues in derivatives markets and develop publicly available working papers on Commission-oriented topics and publications in peer-reviewed journals.

## Clearing & Risk

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

### Registration

Registration of Derivatives Clearing Organizations, Rules Review, Applications for Portfolio Margining. Staff is required to review, evaluate and make recommendations to the Commission on applications for DCO registration and rule filings submitted by registered DCOs. Moreover, pursuant to Section 806(e) of the Dodd-Frank Act, certain rule changes for DCOs that have been designated as systemically important pursuant to Title VIII are subject to enhanced standards of review, which standards require coordination with the Board of Governors of the Federal Reserve. Further, the Dodd-Frank Act amended the CEA to permit, pursuant to an exemption, rule or regulation, futures and options on futures to be held in a portfolio margining account that is carried as a securities account and approved by the Securities and Exchange Commission, and added a reciprocal provision to the Securities Exchange Act of 1934. The Commission will be required to process portfolio margining applications in accordance with these statutory provisions, as well as in response to requests relating to commingling and portfolio margining of swaps and security-based swaps. On average, these applications take about six months to one year to process.

### Product Review

Mandatory Clearing Determination. The Dodd-Frank Act imposed a new requirement on the CFTC to review, evaluate, and make a determination concerning whether a swap or class of swaps should be required to be cleared — i.e., a mandatory clearing determination — as well as evaluate the continuing qualification of a DCO to clear such a swap. Data from the Bank for International Settlements indicates that the total notional amount of over-the-counter derivatives outstanding as of the end of June 2012 was \$494 trillion for interest rates; \$26.9 trillion for credit default swaps and \$3 trillion for commodities. Staff is required by the CEA to continue reviewing swaps that are offered for clearing by DCOs.

### Surveillance, Including Data Acquisition and Analytics

Risk Surveillance of Futures, Options and Cleared Swaps. The CFTC will have to conduct risk surveillance of futures, options and cleared swaps. It is estimated that the notional value of cleared swaps that will require surveillance is about seven times that of futures and options. This responsibility will be discharged through the use of automated surveillance systems and applications and other risk assessment tools to assess, evaluate and report financial and market risk and risk management procedures at DCOs, clearing FCMs, non-futures commission merchant clearing participants, and other market participants that may pose a risk to the clearing process, including swap dealers, major swap participants, and large traders.

The Commission's current financial and risk surveillance applications were designed to address futures and options on futures products. Unlike futures margin setting where each DCO uses the same application to margin positions, each DCO margining swaps positions will be using a unique margin methodology and a unique way to stress test positions. Futures and swaps risk management software will be implemented to enable the CFTC to analyze margin requirements; determine price



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impact on portfolios; conduct margin trend analyses and back testing; and stress test swaps positions—including interest rate swaps, energy swaps and credit default swaps.

### Examinations

The Dodd-Frank Act requires annual examinations of systemically important DCOs. DCOs that are determined to be systemically important under Title VIII of the Dodd-Frank Act must comply with heightened risk management and prudential standards concerning payment, clearing, and settlement supervision. The mandatory annual examinations of systemically important DCOs must review the entities' adherence to these heightened standards. Title VIII also requires ongoing consultation between the CFTC, the SEC, and the Board of Governors of the Federal Reserve System, including the scope and methodology of planning examinations of systemically important entities. The Commission currently anticipates no more than four entities will be determined to be systemically important. As of the writing of this report, the Commission is the Supervisory Agency (primary regulator) for two DCOs that have been determined to be systemically important.

To implement the Dodd-Frank Act, CFTC regulations were amended to impose new requirements on DCOs to provide quarterly financial reporting, annual year-end financial statements, and various other reports. Staff will need to review these submissions and evaluate compliance with the CEA and the implementing regulations for all of these reports.

### Economic and Legal Analysis

*Interpretation and Guidance.* Market participants will have requests for clarification and guidance once the new regulations are adopted and during the implementation period. Based on experience over the years with the implementation of other new registration schemes (*e.g.*, for CPOs and CTAs, for IBs, and for RFEDs), there are bound to be questions arising that need a response. While some of these responses may be informal, by way of email or telephonic discussion, many will need to be formal, by way of a staff-issued interpretative, no-action or exemptive letter or a Commission-issued order or regulation (or amendment thereto). Also, because many of these issues will be questions of first impression, the time taken to provide responses to the issues will be longer than it is today. The Commission also anticipates the need to be actively involved in the preparation of interpretations relating to jurisdictional issues arising under the Dodd-Frank Act amendments to the CEA. Timeliness is key to minimizing disruption to the orderly workings of the marketplace.

### FY 2014 Budget Overview by Mission Activity

Table 19: Breakout of Clearing and Risk by Mission Activity

	FTE	Salaries and Expenses (\$000)	IT (\$000)	Total (\$000)
Registration and Registration Compliance	13	\$3,100	\$0	\$3,100
Product Reviews	15	3,580	0	3,580
Surveillance, including Data Acquisition and Analytics	28	6,680	0	6,680
Examinations	50	11,920	0	11,920
Economic and Legal Analysis	7	1,670	0	1,670
International Policy Coordination	2	480	0	480
<b>TOTAL</b>	<b>115</b>	<b>\$27,430</b>	<b>\$0</b>	<b>\$27,430</b>

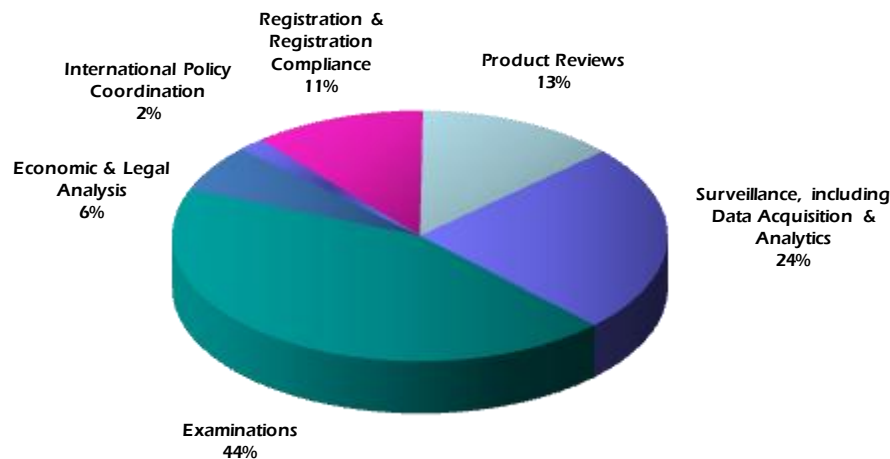


Figure 13: Clearing and Risk Request by Mission Activity

## Top FY 2012 Accomplishments

Led rulemaking initiatives to develop regulations mandated by the Dodd-Frank Act in the following areas: segregation and bankruptcy; DCO core principles; governance and possible limits on ownership and control; systemically important DCO rules authorized under Title VIII; portfolio margining procedures; conforming rules; client clearing documentation; clearing member risk management; and end-user exception to the clearing requirement.

Worked with DCOs to facilitate implementation of new statutory and regulatory requirements, through individual discussions as well as a series of informational memoranda that were distributed to all registered DCOs.

Proposed and finalized clearing requirement rules for four classes of interest rate swaps and two classes of credit default swaps; finalized implementation schedule for mandatory clearing.

Led team drafting proposed exemption, pursuant to Section 722(f) of the Dodd-Frank Act, for Financial Transmission Rights traded through Regional Transmission Organizations and Independent System Operators.

Led efforts of Designations Committee of the Financial Stability Oversight Council staff to designate two DCOs as systemically important pursuant to Title VIII of the Dodd-Frank Act.

Initiated and completed fieldwork for the examination of one systemically important DCO – ICE Clear Credit LLC - and initiated and completed fieldwork for the following examinations of other DCOs - New York Portfolio Clearing LLC, LCH.Clearnet Ltd. and MGE Clearing House – to evaluate their compliance with the CEA and Commission regulations, including applicable Core Principles. Completed examination reports for Chicago Mercantile Exchange Inc. and ICE Clear Credit LLC.

Received, reviewed, and evaluated compliance for the DCO quarterly financial reports. In addition, staff wrote business requirements for systems development regarding these filings.

Developed an application to value collateral on deposit at DCOs.

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Worked in coordination with foreign regulatory authorities to promulgate consistent international standards for central counterparties (such as DCOs) and other financial market infrastructures serving swaps (the CPSS-IOSCO Principles for Financial Market Infrastructures).

Worked with staff of the FDIC to develop coordinated approaches to central counterparty clearing issues in Resolution pursuant to Title II of the Dodd-Frank Act.

Led Commission efforts in addressing impacts of two commodity broker bankruptcies.

Developed a program to review the risk management policies and procedures of clearing firms.

Conducted reviews of largest long equity position holders to understand how money flows between pensions, trustees, money managers and clearing members.

Enhanced interest rate swaps and credit default swaps risk surveillance abilities.

Put a near real time program in place to survey clearing members on an ongoing basis regarding resources available to them to pay record variation amounts.

### **Top FY 2013 President's Budget & Performance Planned Outcomes**

Complete and issue final regulations mandated by Dodd-Frank Act in the following regulatory areas: segregation and bankruptcy; DCO core principles; governance and possible limits on ownership and control; systemically important DCO rules authorized under Title VIII; portfolio margining procedures; conforming rules; client clearing documentation; and clearing member risk management.

As required under the Dodd-Frank Act, consult with the Board of Governors of the Federal Reserve System regarding the scope and methodology prior to each examination of a systematically important DCO for which the CFTC is the supervisory agency. Coordinate document requests and on-site review activities with all regulatory agencies that are participating in the examination.

Initiate and complete fieldwork for examinations of the two systematically important DCOs for which the CFTC is the supervisory agency to evaluate their compliance with the CEA and Commission regulations, including applicable Core Principles. Also evaluate their compliance with heightened risk management, prudential standards concerning payment, clearing and settlement supervision.

Initiate and complete fieldwork for examinations for two other DCOs to evaluate their compliance with the CEA and Commission regulations, including applicable core principles.

Work with ODT on automation of the examination process (requirements stage).

Complete and issue report of findings on examinations of DCOs commenced in FY 2011 and 2012.

Review and evaluate quarterly DCO filings, annual filings, and event specific filings for compliance with the CEA. Develop technology solutions to file the information with the Commission and a tool to aid in the review of the filings.

Complete the review of applications for registration as a DCO from Eurex Clearing AG to clear swaps and from LCH.Clearnet SA to clear credit default swaps and make recommendations to the Commission as to whether registration should be granted.

Implement final clearing requirement rules for four classes of interest rate swaps and two classes of credit default swaps; continue to review, evaluate and make determinations concerning the mandatory clearing of swaps from product categories such as interest rate and currency products, credit and equity products, and commodity products.

Finalize exemption pursuant to CEA §4(c)(6) for Regional Transmission Organizations operating pursuant to Federal Energy Regulatory Commission and Public Utility Commission of Texas Tariffs.

Review DCOs that clear swaps to evaluate and to make determinations concerning the acceptance of a swap for clearing on the DCO as to its eligibility or continuing qualification of the DCO to clear such a swap.

Review, evaluate and make determinations concerning portfolio margining applications, including the review and assessments of margin models, methodologies, and systems used by DCOs for purposes of calculating margin requirements and monitoring and managing risk.

Review, evaluate and make determinations concerning requests to commingle futures and swaps positions pursuant to DCO rules or Commission 4d order and concerning quarterly financial resource reports filed by each DCO.

Respond to public and industry requests for interpretation concerning regulations governing DCO core principles, segregation and bankruptcy, and risk management.

Work, in coordination with foreign regulatory authorities, to develop consistent international standards for resolution of central counterparties and other financial market infrastructures serving swaps markets.

Work, in coordination with foreign regulatory authorities, to develop consistent international standards for capital treatment of bank exposures to central counterparties.

Develop and implement risk assessment and evaluation application tools necessary to evaluate on an ongoing basis the risk of new cleared swap contracts, including the capacity to identify required data to be transmitted by the appropriate market participants, to identify the enhancements that will be required of existing risk surveillance applications, and to identify third party software that may be appropriate for these tasks.

Put in place a program to back test DCO margin adequacy for futures and swaps at the product and portfolio level.

Execute 15 reviews of clearing member risk management policies and procedures.

### **Top FY 2014 President's Budget & Performance Planned Outcomes**

Develop and issue rulemakings, orders, interpretations, and other regulatory work product related to DCOs, clearing, and product review.

Continue to review, evaluate and make determinations concerning the mandatory clearing of swaps from product categories such as interest rate and currency products, credit and equity products, and commodity products.

Review, evaluate and make determinations concerning portfolio margining applications, including the review and assessments of margin models, methodologies, and systems used by DCOs for purposes of calculating margin requirements and monitoring and managing risk.

As required under the Dodd-Frank Act, consult with Board of Governors of the Federal Reserve Bank (FRB) regarding the scope and methodology prior to each examination of systematically important DCOs where the CFTC is the primary regulator. Coordinate document requests and meeting requests with all regulatory agencies that are participating in the examination.

Initiate examinations of DCOs that are determined to be systemically important, *i.e.*, designated clearing entities, to evaluate their compliance with heightened risk management, prudential standards concerning payment, clearing and settlement supervision, and advance notice of changes to their rules, procedures, or operations.

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The Examination Branch will attempt to use its limited resources in the most efficient manner possible and will determine which of the DCOs should be reviewed based on the highest need and greatest risk. Initiate examination of four other DCOs to evaluate their compliance with the CEA and Commission regulations, including applicable Core Principles. Write business requirements for tools that would aid staff in the examination process.

Review and evaluate quarterly DCO filings, annual filings, and event-specific filings for compliance with the CEA and Commission regulations, in particular, Part 39.

Respond to public and industry requests for interpretation concerning regulations governing DCO core principles, segregation and bankruptcy, and risk management.

Work in coordination with foreign regulatory authorities to evaluate compliance with the CPSS-IOSCO Principles for Financial Market Infrastructures.

Review, evaluate and make determinations concerning requests to commingle futures and swaps positions pursuant to DCO rules or Commission 4d Order.

Develop procedures for conducting firm-level stress testing across all registered DCOs.

Review, evaluate and make determinations concerning applications for registration as a DCO.

## Data and Technology

The Office of Data and Technology (ODT) is led by the Chief Information Officer and delivers services to CFTC through three components: Systems and Services, Data Management, and Infrastructure and Operations. Systems and Services focuses on several areas: market and financial oversight and surveillance; enforcement and legal support; document, records, and knowledge management; CFTC-wide enterprise services; and management and administration. Managing data as an enterprise asset and applying a data-centric approach to service delivery, Data Management focuses on data analysis activities that support data acquisition, utilization, management, reuse, transparency reporting, and data operations support. Infrastructure and Operations organizes delivery of services around network infrastructure and operations, telecommunications, and desktop and customer services. These three service delivery components are unified by an enterprise-wide approach that is driven by the Commission's strategic goals and objectives and incorporates information security, enterprise architecture, and project management.

### FY 2014 Budget Overview by Mission Activity

Table 20: Breakout of Data and Technology by Mission Activity

	FTE	Salaries and Expenses (\$000)	IT (\$000)	Total (\$000)
Registration and Registration Compliance	0	\$0	\$2,850	\$2,850
Product Reviews	0	0	950	950
Surveillance, including Data Acquisition and Analytics	60	14,310	20,280	34,590
Examinations	0	0	210	210
Enforcement	7	1,670	6,980	8,650
Economic and Legal Analysis	0	0	1,440	1,440
Data Infrastructure and Technology Support	55	13,110	38,290	51,400
Agency Direction, Management and Administrative Support	0	0	2,000	2,000
<b>TOTAL</b>	<b>122</b>	<b>\$29,090</b>	<b>\$73,000</b>	<b>\$102,090</b>

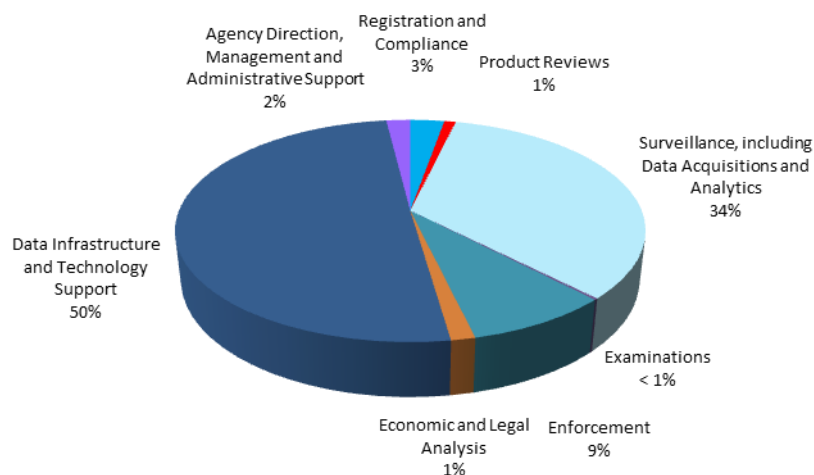


Figure 14: Data and Technology Request by Mission Activity

## Top FY 2012 Accomplishments

Commission staff began using SDR facilities to analyze swaps and worked with industry to implement data standards and improve data quality, focusing on standards for legal entity identifiers, unique swap identifiers, and large trader position and open interest reporting, as well as harmonizing data across SDRs and addressing other Dodd-Frank reporting requirements. The Commission also completed a preliminary assessment of order message data that will enable the routine surveillance of pre-trade activity and provide more transparency into high frequency and algorithmic trading. The Commission continued implementing software to load swaps data into a Commission data warehouse for use by CFTC staff for market surveillance, risk monitoring, enforcement, and economic analysis. In close cooperation with the industry, the Commission developed and released the Unique Swap Identifier (USI) data standard to support Dodd-Frank rules. The Commission was actively engaged with U.S. and international regulatory organizations and industry in shaping the implementation of the global and Legal Entity Identifier (LEI) system. The Commission conducted multiple reviews of SDR registration applications, specifically focused on data management practices and standards.

The Commission updated current systems to support expanded financial and risk surveillance activity. New systems were developed to support IRS and CDS stress testing and margin analysis and to provide tools for valuation and portfolio analysis. Existing systems were updated to support increased financial reporting. At the same time, automated services were implemented for retrieving market data and reference data. The increased functionality of CFTC systems allows staff to spend more time focusing their surveillance on high-risk areas. In addition to enhancing automated surveillance alerts and analysis tools and implementing new market profiling advisories, data cubes to support ad-hoc analysis, and a more robust reporting framework, the Commission increased the use of analytic tools by surveillance staff in order to supplement and increase the effectiveness of automated alerts and profiles. The Commission has planned, identified detailed requirements for, and begun designing a system to support the analysis and monitoring of position limits and hedge exemptions, which will aggregate futures positions with enumerated commodity swap positions. The system will support surveillance processes that combine swaps, futures and options for end-of-day position limits surveillance.

The Commission streamlined its tips, complaints, and referrals reporting function for both whistleblowers and other market participants. Reporting is now supported by an online portal accessible on the Commission's website, which provides direct and immediate processing of

submissions to the eLaw systems used to support enforcement activities. The Commission continued sustaining eLaw technology and implemented new capabilities, such as Financial Investigatory Software, which reduces the time required to ingest, parse, and conduct a preliminary analysis of bank statements and other financial data. The Commission has also increased the use of analysis tools by investigators to provide more insight into potential enforcement actions. The online portal will also be used for reporting by market participants and will streamline the submission of documents and information related to registration and compliance, product review, and enforcement activities. The Commission also continued to improve its public website, <http://www.cftc.gov>, to support increased transparency, improving its search engine and publishing Dodd-Frank timeline information.

To help the effective transition of its workforce to the Dodd-Frank regulatory environment, the Commission leveraged cloud-based, software-as-a-service (SaaS) solutions to improve the hiring, training and learning management, and staff-time-reporting processes. To increase the use and effectiveness of SaaS in supporting management and administration, the Commission also consolidated administrative and staff data into a central database supported by web services. In addition to allowing the Commission to streamline vendor management, staff and contractor, and ethics compliance processes, this central database has allowed for the consolidation of and increased control over sensitive personally identifiable information.

In addition to scaling up storage, processing, and communication bandwidth to support increased activity related to Dodd-Frank, the Commission migrated internet connections to a Department of Homeland Security (DHS)-sanctioned Managed Trusted Internet Protocol Service (MTIPS) and began implementing continuous monitoring of information security controls in order to enhance cyber security. To better support its increasingly mobile and internationally-focused staff, the Commission piloted new mobile device technology. Based on the results of the mobile device pilot and other assessments, the Commission is prepared to begin a prioritized, targeted refresh of desktop and mobile technology in FY 2013 to increase the effectiveness of staff. The Commission also completed several key milestones of the second phase of a three-phase effort to improve business continuity and is prepared to implement the capability to restore mission critical and mission essential systems from its Alternate Computing Facility (ACF) in accordance with recovery time and recovery point objectives in the first half of FY 2013.

### **Top FY 2013 President's Budget & Performance Planned Outcomes**

The Commission will begin aggregating data from multiple SDRs and correlating it with futures market data. To fully leverage this data, the Commission will continue to foster industry and regulatory adoption of new and updated standards, as well as machine-readable formats, enhance analytics platforms used by Commission staff, begin implementing high-performance computing technologies, and further automate data maintenance, collection, and manipulation activities. The Commission will begin efforts to receive entity data, order message data and ownership and control reporting data regularly and use it for aggregation, market surveillance, risk monitoring, enforcement, and economic analysis. The Commission will increase the use of automated feeds for market and reference data and the automated integration of other external data sources, including data maintained by the National Futures Association. The Commission will also increase the maturity and comprehensiveness of data governance and management practices in order to efficiently sustain its data warehouse environment as the volume and variety of data necessary for effective market oversight continues to grow rapidly. The Commission will also conduct reviews on SDR and SEF registration applications, specifically focused on data management practices and standards.

The Commission will enable the rapid prototyping of new surveillance approaches by staff and employ technology to operationalize successful approaches in order to increase the intelligence of automated surveillance models, alerts, and profiles. Data from SDRs, order message data, and ownership control and reporting data will be incorporated into this effort. The Commission will also continue to modify its large trader reporting and financial risk surveillance systems to support new swaps data analysis, internal reporting requirements, and transparency reporting on <http://www.cftc.gov>. This effort includes increasing the automation and functionality of technology and tools for collateral valuation, analysis by asset class, monitoring of volatility and margin calculation, trend analysis, and stress testing and back testing. Requirements will be identified for the integrated monitoring of market



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participants, including swaps dealers and participants, as well as commodity pool operators and commodity trading advisors. The Commission will enhance the unified reporting and data discovery environment to facilitate the use of all data maintained in the data warehouse and CFTC systems.

The Commission will enhance its eLaw evidentiary document management software to improve document and content identification and review processes and increase the number of analytical tools available to investigators and litigators. The Commission will also extend enterprise case management to include market surveillance activities. The Commission will continue to update forensics, eDiscovery, deposition management, trial support, and analytics to support a higher volume of investigations and to more effectively measure program results. The online portal for reporting by market participants will be used for DCO financial statement filings and activities related to registration of organizations, rules, and products. The Commission will also continue automating the receipt of forms from traders, reporting firms, and exchanges to improve data quality and decrease industry and CFTC costs.

The Commission will maintain a stable and secure network, communications, and data infrastructure that supports business continuity. This infrastructure supports systems (*e.g.*, for trade surveillance, position monitoring, or large trader reporting), as well as platforms (*e.g.*, for data analytics or collaboration), that empower staff to fulfill the CFTC mission. The Commission will scale and enhance communication, processing, storage, and platform infrastructure to meet mission requirements and will continue to automate business continuity and security controls to reduce operational risk. The Commission will begin a phased implementation of high-performance computing to improve performance and will begin a technology refresh of staff computing resources to improve productivity.

## **Top FY 2014 President's Budget & Performance Planned Outcomes**

Building on FY 2013 planned outcomes, the Commission will further automate and streamline scheduled data collection activities, including data collected from SDRs and DCOs and will expand high-performance computing capabilities to reduce the latency of processing market data for analysis. The Commission will improve and implement improved standards for managing reference and master data and will implement aggregation mechanisms for swaps data. The Commission will also continue implementation of order message data from the exchanges and SEFs and will implement tools to review and analyze the order message data. The Commission will implement improved processes and methods of auditing SDRs, SEFs, reporting firms and exchanges for compliance with the Commission's data standards and practices.

The Commission will adopt new analytic tools to link hedge-exemption data with end-of-day and intra-day trading data. The Commission will implement surveillance tools used by SROs and integrate capabilities of SROs into operational prototypes. The Commission will develop and implement risk metrics and will implement risk surveillance software to analyze and stress test risks. The Commission will process specific product and time-based message data to facilitate analysis and investigations and will expand the number of facilities providing order messages and the frequency of processing as needed for surveillance requirements. The Commission will also improve ad-hoc reporting and public transparency reporting. The Commission will continue to integrate enforcement case management with surveillance and compliance activities and will update and improve forensics, eDiscovery, deposition management, trial support, and analytics tools and processes.

Examinations, rule enforcement reviews, and legal activities will be supported with improvements to collaboration tools and increased integration between the online portal, automated business processes, analytic tools, and enterprise case management. The online portal for market participants will be connected with additional workflow-based and event-based internal CFTC business processes and will host additional document, form, and market data submissions. The online portal for reporting by market participants will also facilitate a dialogue with industry by allowing the CFTC to provide feedback through the portal to market participants, as well as receive comments directly into relevant systems.

The Commission will enhance communication, processing, storage, and platform infrastructure to more effectively meet mission requirements. The Commission will also continue to implement high-

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performance computing to improve performance and will complete a technology refresh of staff computing resources to improve productivity. The Commission will also continue security control automation and will begin migrating production operations to a secure, private, cloud-based, off-site location to reduce operational risk.

## Enforcement

The Division of Enforcement (DOE) program investigates and prosecutes alleged violations of the CEA and Commission regulations. Possible violations involve improper conduct related to commodity derivatives trading on U.S. exchanges, or the improper marketing and sales of commodity derivatives products to the general public.

In FY 2012, the Commission filed 102 enforcement actions, the highest annual number of filings in program history, and opened more than 350 new investigations. During the same period the Commission obtained orders imposing over \$475 million in civil monetary penalties, and directing the payment of more than \$456 million in restitution and disgorgement, which was a Commission record for the imposition of such sanctions during the fiscal year. At the same time, the FTE resources dedicated to the DOE program are now essentially level with those it had nearly a decade ago to support a much smaller docket (in size and complexity).

The Dodd-Frank Act significantly enhances and expands the Commission's powers and responsibilities and will result in a substantial increase in our workload. Moreover, the size of the docket stemming from pre-Dodd-Frank Act enforcement authorities, particularly with respect to the investigation and prosecution of frauds against retail customers, manipulation, supervision failures, recordkeeping, reporting and trade practice violations, is projected to continue its upward trend.

By FY 2014, the Commission's enforcement workload will increase for a number of reasons including:

- Addition of fraud-based manipulation to the Commission's existing "price-based" anti-manipulation authority;
- New prohibitions targeting disruptive trading practices and conduct on registered entities;
- Establishment of anti-fraud and anti-manipulation authority over swaps;
- New prohibitions against reporting false information;
- Clarified jurisdiction with respect retail foreign currency transactions and new authority over retail commodity transactions such as precious metals;
- Increase in the number and types of registrants, including exchanges, SEFs, SDRs, clearing organizations, intermediaries and dealers;
- New regulations applying to swaps and other intermediaries including those involving business conduct standards, fraud, record-keeping, reporting and trade practice; and
- An increase in international scope of activities.

The enforcement activity generated by this broadened regulatory authority will necessitate the development of specific areas of expertise, and require an increased capacity for proactive identification of violations.

## FY 2014 Budget Overview by Mission Activity

Table 21: Breakout of Enforcement by Mission Activity

	FTE	Salaries and Expenses (\$000)	IT (\$000)	Total (\$000)
Enforcement	203	\$48,390	\$0	\$48,390
Economic and Legal Analysis	9	2,150	0	2,150
International Policy Coordination	3	720	0	720
<b>TOTAL</b>	<b>215</b>	<b>\$51,260</b>	<b>\$0</b>	<b>\$51,260</b>

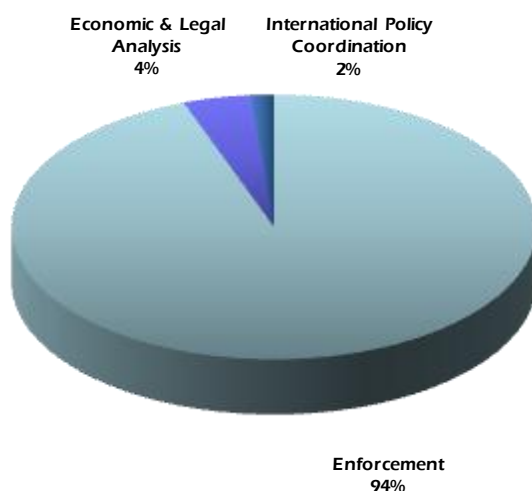


Figure 15: Enforcement Request by Mission Activity

## Top FY 2012 Accomplishments

Filed 102 enforcement actions, the highest yearly tally in the agency's history. The CFTC charged individuals and companies in these cases for manipulating commodity prices, perpetrating Ponzi schemes and other fraud, supervision and accounting failures, trading abuses, registration deficiencies, and committing other violations of the CEA and regulations.

Opened more than 350 investigations.

Obtained orders imposing over \$475 million in civil monetary penalties, and directing the payment of more than \$456 million in restitution and disgorgement, which was a Commission yearly record and more than doubled the prior fiscal year's imposition of such sanctions.<sup>7</sup>

Actively engaged in cooperative enforcement with federal and state criminal and civil law enforcement authorities. During FY 2012, 94 percent of the CFTC's major injunctive fraud cases involved related criminal investigations. During this time, over 50 criminal indictments and judgments were filed that were related to CFTC enforcement matters. The CFTC also engaged in cooperative enforcement efforts with civil regulatory agencies, and approximately 50 percent of the major fraud actions involving related criminal investigations also involved parallel investigations with federal civil authorities.

<sup>7</sup> As of February 11, 2013, the Commission obtained orders imposing over \$1,322 million in civil monetary penalties, which is a Commission yearly record and nearly triples the prior fiscal year's imposition of sanctions.

Engaged in cooperative enforcement with international authorities in a wide range of matters from retail fraud to market manipulation. The Division routinely works with international financial regulatory and criminal counterparts on multi-jurisdictional and multi-national investigations. During FY 2012, the Commission handled 446 international requests and referrals. The Commission also entered into bilateral cooperative enforcement/information sharing arrangements with more than twenty-five (25) foreign authorities.

### **Top FY 2013 President's Budget & Performance Planned Outcomes**

The maintenance of current levels of enforcement activity based upon pre-Dodd Frank authorities, particularly with respect to the investigation and prosecution of frauds against retail customers, manipulation, supervision failures, record-keeping, reporting and trade practice violations.

The continued expansion of enforcement activity involving manipulation, disruptive trading, swaps and retail commodity transactions based upon new Dodd Frank authorities.

Continued evaluation and improvement of effectiveness in investigations and pursuit of violative activity which affects the public, markets and market participants.

The enforcement program in FY 2013 will continue to be guided by new and expanded enforcement authorities provided by the Dodd-Frank Act. These include the addition of fraud-based manipulation to the Commission's existing anti-manipulation authority, prohibitions targeting disruptive trading practices and other misconduct on registered entities, anti-fraud and anti-manipulation authority over swaps, clarified jurisdiction with respect to retail foreign currency transactions, and new authority over cash commodity transactions such as those involving precious metals.

Under the Dodd-Frank Act the Commission anticipates that significant increases in the number of registrants concerning swaps related activity will commence in FY 2013. Increases in the number of registrants and associated trading activity will likely increase the enforcement burden with regard to the investigation and prosecution of regulatory compliance failures (including business conduct standards), fraud, record-keeping, reporting and trade practice violations.

### **Top FY 2014 President's Budget & Performance Planned Outcomes**

Continued growth in enforcement cases filed under the new jurisdiction and enforcement powers provided under Dodd Frank including fraud based manipulation, manipulation authority over OTC trading, and enforcement of new false reporting prohibitions.

The deliberate and specialized growth of swaps enforcement activities and expertise.

Increased automation of investigation, discovery, forensics, evidentiary analysis, and case management. Implementation of new tools for forensics, eDiscovery, tips and referrals, and early case assessment together with enhancement of existing tools for deposition management, case management, searching, and analytics will support both a higher volume of investigations and more effective measurement of program results.

New case filings in FY 2012 and FY 2013 will carry a "delayed" resource burden in FY 2014 as those matters are litigated through the federal courts.

Domestic and international cooperative enforcement efforts will continue to be a force. The Commission has seen a significant increase in both the number of outgoing and incoming international requests over the last several years. This increase is directly related to the increase in enforcement cases in general, thus an escalation in international activity is expected to continue through FY 2014 and beyond.

## General Counsel

The Office of General Counsel (OGC) provides legal services and support to the Commission by engaging in defensive, appellate, and *amicus curiae* litigation; assisting the Commission in the performance of its adjudicatory functions; providing legal advice and support for Commission programs; drafting and assisting other program areas in preparing Commission regulations; interpreting the CEA; and providing advice on legislative and regulatory issues.

### FY 2014 Budget Overview by Mission Activity

Table 22: Breakout of General Counsel by Mission Activity

	FTE	Salaries and Expenses (\$000)	IT (\$000)	Total (\$000)
Registration and Registration Compliance	19	\$4,530	\$0	\$4,530
Product Reviews	4	950	0	950
Surveillance, including Data Acquisition and Analytics	4	950	0	950
Enforcement	1	240	0	240
Economic and Legal Analysis	41	9,780	0	9,780
<b>TOTAL</b>	<b>69</b>	<b>\$16,450</b>	<b>\$0</b>	<b>\$16,450</b>

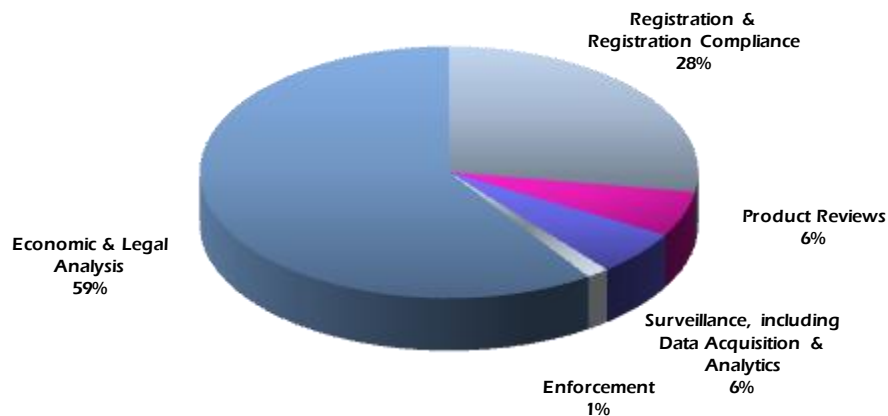


Figure 16: General Counsel Request by Mission Activity

## **FY 2014 President's Budget & Performance Plan**

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### **Top FY 2012 Accomplishments**

Provided legal counsel on all the rulemakings, interpretations, and no-action letters associated with the Dodd-Frank Act, including counsel on the administrative compliance statutes, Regulatory Flexibility Act, Paperwork Reduction Act, Administrative Procedure Act and Small Business Regulatory Enforcement Fairness Act.

Defended two Commission rules against legal challenge; participated in the MF Global and Peregrine bankruptcy proceedings to assist the courts in applying the specialized bankruptcy laws governing commodity broker liquidations, including the Commission's Part 190 regulations; and successfully defended on appeal two judgments obtained by the Division of Enforcement against individuals charged with violating the CEA.

Led several critical rulemaking teams implementing Dodd-Frank (including final product definitions, entity definitions, and SDR rules, as well as proposed cross-border interpretation and exemptive order and proposed Volcker rule).

Adapted organizational structure to better meet legal needs in light of the Commission's restructuring, and to increase efficiency and effectiveness.

Implemented a Commission-wide Information Governance Team aimed at facilitating the development of policies and processes to holistically address various information-use issues and create accountability with respect to the handling of information.

Created a General Law Branch to centralize the analysis of legal issues associated with appropriations, Federal Advisory Committee Act, Freedom of Information Act, personnel, procurement, information governance, Commission policies, and other agency administrative issues and matters.

### **Top FY 2013 President's Budget & Performance Planned Outcomes**

Provide legal counsel on implementation of all Dodd-Frank Act requirements.

Design and implement processes for assuring consistency in interpretations related to the provisions of the Dodd-Frank Act and regulations thereunder.

Defend litigation arising out of rulemaking challenges; continue participation in the MF Global and Peregrine bankruptcy proceedings to assist the courts in applying the specialized bankruptcy laws governing commodity broker liquidations, including the Commission's Part 190 regulations; and defend on appeal judgments obtained by the Division of Enforcement against individuals charged with violating the CEA.

Support other Divisions by analyzing legal issues associated with activities such as registrations, international coordination, product inquiries and rule reviews, exchange trading, exercising new enforcement authorities, and clearing mandates.

Provide technical assistance to Congress and Commission on CEA reauthorization legislation.

Support the agency by analyzing legal issues associated with internal policies and procedures and provide legal counsel on appropriations, Federal Advisory Committee Act, Freedom of Information Act, personnel, procurement, information governance, and other agency administrative issues and matters.

### **Top FY 2014 President's Budget & Performance Planned Outcomes**

Enhance the Commission's ethics program by implementing further ethics training and enhancing responsiveness to ethics inquiries.

Defend litigation arising out rulemaking challenges and appeals in enforcement actions.

Support other Divisions by analyzing legal issues associated with activities such as registrations, international coordination, product inquiries and rule reviews, exchange trading, exercising new enforcement authorities, and clearing mandates.

Support the agency by analyzing legal issues associated with internal policies and procedures and provide legal counsel on appropriations, Federal Advisory Committee Act, Freedom of Information Act, personnel, procurement, information governance, and other agency administrative issues and matters.



## International Affairs

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

The implementation of comprehensive regulations under the Dodd-Frank legislation marks a new era in the swaps marketplace by mandating, among other things, the regulation of swap dealers, clearing of swaps and transparency with respect to those transactions. However, regulation in the United States alone will not be sufficient to protect the financial system. Because the swaps market is conducted on a global basis, it is possible for swaps executed offshore by U.S. financial institutions to transmit the risk of those transactions back to the United States. Recognizing this risk, the United States joined with other G20 leaders in 2009 to require that all major market jurisdictions bring swaps under regulation. Since that date, the Commission has been engaged in an unprecedented outreach to major market jurisdictions and expanded involvement in numerous international working groups to encourage the adoption of robust swaps regulation.

Once the new swaps regulations are fully in effect, international staff will be required to develop supervisory coordination arrangements with foreign authorities in major jurisdictions where regulated entities will reside, such as the European Union, Canada, and Japan. Focusing solely on the EU, the Commission contemplates the need to engage not only the European Commission, but also the European Securities and Markets Authority and relevant national regulators, such as the U.K. FSA, French AMF and German BAFIN, to negotiate coordinating supervisory arrangements for entities that likely will be subject to regulation in both the EU and the United States. Likewise, the Commission anticipates that similar arrangement will be needed in major market jurisdictions such as Australia, Canada and Japan.

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

In this regard, the aftermath of the 2008 financial crisis continues to prompt the formation of numerous initiatives in IOSCO as well as other forums, to focus on areas such as: cooperation and coordination in the areas of swaps regulation, central counterparty clearing standards, the monitoring and control of systemic risk, the protection of customer funds, and mechanisms to share systemically important information internationally, and volatility in commodity futures markets. The Commission's leadership was recognized by its appointment as co-chair of two important IOSCO work-groups – a permanent committee on commodity derivatives markets, which produced a report on principles for price reporting agencies in oil, and an IOSCO Board level Task Force on benchmarks.

Participation in these work-streams is critical because the work-product is often transformed into international standards of best practice, which are then subject to compliance assessment by the International Monetary Fund in its Financial Sector Assessment program. The Commission's participation historically has focused on incorporating the Commission's (and hence, the U.S.'s) regulatory approach into these international standards, encouraging international harmonization.

The Commission's international agenda also includes responding to requests by the U.S. Treasury to participate in international dialogues (*e.g.*, U.S.– China dialogue), participating in National Security Council organized discussions to coordinate U.S. Government commodity policy, providing technical assistance to developing market jurisdictions, and engaging in bilateral negotiations with foreign regulators to resolve cross-border issues that affect the competitiveness of the U.S. futures industry.

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

## FY 2014 Budget Overview by Mission Activity

Table 23: Breakout of International Affairs by Mission Activity

	FTE	Salaries and Expenses (\$000)	IT (\$000)	Total (\$000)
International Policy Coordination	17	\$4,050	0	\$4,050
<b>TOTAL</b>	<b>17</b>	<b>\$4,050</b>	<b>\$0</b>	<b>\$4,050</b>

## Top FY 2012 Accomplishments

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

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

*Participated in Internal Dodd-Frank Policy Development.* The Commission's international staff participated in Dodd-Frank rulemakings in order to provide input on the cross-border implications of those rulemakings, continued to coordinate a review of cross-border arrangements that will be needed under Dodd-Frank with major market jurisdictions such as the EU, and developed draft Memoranda of Understanding (MOU) on the supervision of dually-regulated cross-border clearinghouses. The Commission led a joint CFTC-SEC study on swap and clearing regulation in the U.S., Asia and Europe

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

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

The commission also co-chairs, with the UK FSA, an IOSCO Board special Task Force on benchmarks, which will examine the need for better regulation of benchmarks used in financial markets.

*Represented the Commission in U.S. Treasury-led Dialogues.* The Commission participated in several bilateral meeting with European Financial regulators led by the US Treasury to discuss, among other things, the EU Data protection Directive, crisis management, Basel II and III, the Volcker rule and OTC derivatives, a China Strategic and Economic dialogues with China and India, dialogues under NAFTA, and Treasury-led dialogues with the European Commission. Participated in a G-20 study groups on commodities and on fossil fuel volatility.

*Provided Technical Assistance.* The Commission met its performance target of training at least 60 non-U.S. regulators in FY 2012 primarily through the annual symposium for foreign regulators organized by the Commission. Additionally, Commission staff provided technical assistance training to authorities in Brazil and Jamaica. The Commission also coordinated the annual international regulatory conference at Boca Raton, Florida.

## **Top FY 2013 President's Budget & Performance Planned Outcomes**

*Outreach to Harmonize International OTC Policies.* OIA will work with leaders of authorities with responsibility for the regulation of the OTC derivatives markets in major market jurisdictions to support the adoption and enforcement of robust and consistent standards in and across jurisdictions and to develop concrete and practical solutions to conflicting application of rules, identify inconsistent or duplicative requirements and attempt to reduce the regulatory burdens associated with such requirements and identify gaps and recue the potential for regulatory arbitrage.

OIA also will continue to work with staff at the European Commission, in order to encourage harmonization of European Union law to the level of the Commission's Dodd-Frank rulemakings, to resolve policy differences, and avoid gaps that could lead to regulatory arbitrage. OIA will continue to coordinate meetings between the Chairman and European Commission and European Union authorities. OIA will engage with other foreign regulators (*e.g.*, Canada, Japan, and Singapore) for similar purposes.

*Coordinate Supervision of Global Entities with Foreign Authorities.* Work with foreign authorities, including the European Commission, European Securities Market Authority, and other foreign regulators to coordinate policies and to develop memorandum of understanding and other cooperative arrangements that will be needed to implement final Commission Dodd-Frank rules (*e.g.*, with regard to SDRs).

*Develop Internal Policy on the International Application of the Dodd-Frank Act.* Work with an internal team to determine when and how to apply the Dodd-Frank Act to "activities that have a direct and significant effect" on U.S. Commerce pursuant to Section 722(d) of the Dodd-Frank Act.

*IOSCO Representation.* Continue to participate in IOSCO's Board, co-chair the permanent committee on commodity futures markets and the Board Task Force on benchmarks. OIA will continue to participate in IOSCO standing committee 2 on secondary markets, 3 on intermediaries, the Assessment Committee and over-the-counter derivatives task force. All of these activities relate collectively to the development of standards of best practices and guidance in securities and derivatives regulation.

*Respond to Global Concerns in Energy and Agricultural Futures Markets.* Participate in U.S. Treasury and NSC coordinating groups, various G20 energy and commodity experts groups and co-chair the IOSCO committee on commodity futures markets, to address matters of concern in energy and agricultural commodity futures markets and develop supervisory standards for commodity futures markets.

*U.S. Treasury and other Initiatives.* Coordinate CFTC participation in U.S. Treasury financial dialogues, financial stability Board projects and other multilateral initiatives (e.g., within the North American Free Trade Agreement and the International Monetary Fund).

*Technical Assistance.* OIA will continue to plan and coordinate: The Commission's annual trading seminar for foreign market authorities; the Commission's annual hosting of an international conference for foreign regulators in Boca Raton, Florida; visits to the Commission requested by foreign regulators to the Commission; and on-site technical assistance to foreign market authorities, on a staff-available basis.

### Top FY 2014 President's Budget & Performance Planned Outcomes

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*Respond to Global Concerns in Energy and Agricultural Futures Markets.* Participate in U.S. Treasury and NSC coordinating groups, various G20 energy and commodity experts groups and co-chair the IOSCO committee on commodity futures markets, to address matters of concern in energy and agricultural commodity futures markets and develop supervisory standards for commodity futures markets.

*U.S. Treasury and Other Initiatives.* Coordinate CFTC participation in U.S. Treasury financial dialogues, financial stability Board projects and other multilateral initiatives, such as the North American Free Trade Agreement and International Monetary Fund.

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Technical Assistance. OIA will continue to plan and coordinate: The Commission's annual trading seminar for foreign market authorities; the Commission's annual hosting of an international conference for foreign regulators in Boca Raton, Florida; visits to the Commission requested by foreign regulators to the Commission; and on-site technical assistance to foreign market authorities, on a staff-available basis.

## Market Oversight

The Division of Market Oversight (DMO) program fosters markets that accurately reflect the forces of supply and demand for the underlying commodities and are free of disruptive activity. To achieve this goal, program staff perform market surveillance; review new exchange applications and examine existing exchanges to ensure their compliance with the applicable core principles; evaluate new products to ensure they are not susceptible to manipulation; review exchange rules and actions to ensure compliance with the CEA and CFTC regulations; and carry out the mandates of the Dodd-Frank Act related to oversight of swaps trading.

### FY 2014 Budget Overview by Mission Activity

Table 24: Breakout of Market Oversight by Mission Activity

	FTE	Salaries and Expenses (\$000)	IT (\$000)	Total (\$000)
Registration and Registration Compliance	31	\$7,390	\$0	\$7,390
Product Reviews	20	4,770	0	4,770
Surveillance, including Data Acquisition and Analytics	71	16,920	0	16,920
Examinations	47	11,210	0	11,210
Economic and Legal Analysis	8	1,910	0	1,910
<b>TOTAL</b>	<b>177</b>	<b>\$42,200</b>	<b>\$0</b>	<b>\$42,200</b>

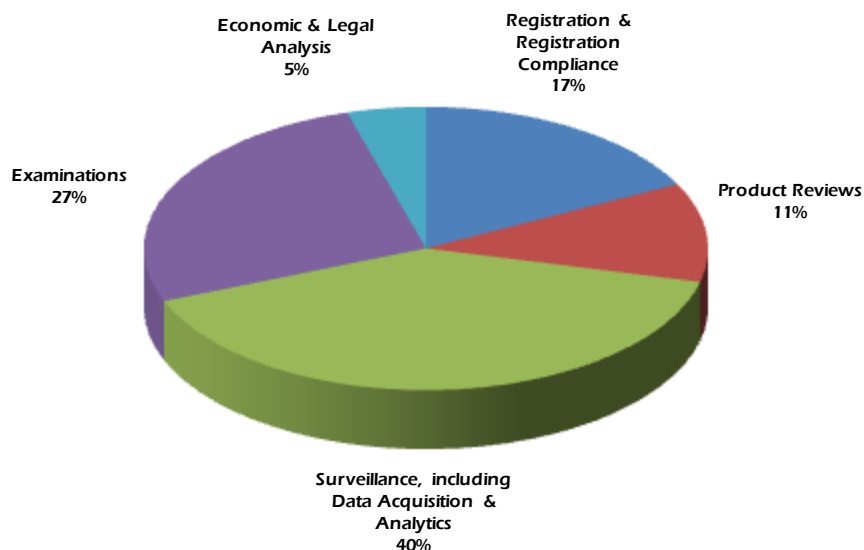


Figure 17: Market Oversight Request by Mission Activity

## Top FY 2012 Accomplishments

Completed final rulemakings related to the Dodd-Frank Act:

- Position Limits for Futures and Swaps – published November 18, 2011 and became effective January 17, 2012<sup>8</sup>;
- Registration of Foreign Boards of Trade (Part 48) – published December 23, 2011 and became effective February 21, 2012;
- Real Time Public Reporting of Swap Transaction Data (Part 43) - published January 9, 2012 and became effective March 9, 2012;
- Swap Data Recordkeeping and Reporting (Part 45) - published January 13, 2012 and became effective March 13, 2012;
- Swap Data Recordkeeping and Reporting Requirements: Pre-Enactment and Transition Swaps – published June 12, 2012 and became effective August 13, 2012;
- Update to Core Principles and Other Requirements for Designated Contract Markets (Part 38) – published June 19, 2012 and became effective August 20, 2012; and
- Commodity Options – published April 27, 2012 and became effective June 26, 2012.

Implemented the Large-Trader Reporting for Physical Commodity Swaps regulation.

Provided no action relief to facilitate smooth transition to the new swap reporting regime

Completed reviews of 229 new product certifications, 34 product-related certifications, 490 rule filings and 21 foreign stock index certifications.

Market surveillance built working prototypes of new tools aimed at bringing disparate data together and visualizing it, thus reducing the amount of time needed to understand a market event. Multiple new engines were created to detect potential trading violations.

Redesigned CFTC Form 40 (Statement of Reporting Trader), CFTC Form 102 (Identification of Special Accounts), and developed new CFTC Form 71 (Identification of Omnibus Accounts and Sub-Accounts) as part of a proposed rulemaking on OCR and electronic forms.

## Top FY 2013 President's Budget & Performance Planned Outcomes

Completion of remaining Dodd-Frank rulemakings:

- Finalize SEF Rulemaking (Part 37);
- Finalize rulemaking establishing a framework for determining whether a swap that is subject to mandatory clearing has been “made available for trading”;
- Finalize Core Principle 9 Update to Designated Contract Market Requirements Rulemaking (Part 38); and
- Finalize block trades for swaps rulemaking.

Continue review of new SDR registration applications.

Implement swap data reporting to SDRs.

Begin review of new SEF registration applications.

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<sup>8</sup> On September 28, 2012, the Positions Limits Rule was vacated and remanded to the Commission for further proceedings.

Begin review of foreign board of trade (FBOT) applications.

Implement swap block trade provisions for real-time reporting.

Adopt standards for blocks in futures markets.

Re-propose a rulemaking establishing position limits for futures and swaps.

#### **Top FY 2014 President's Budget & Performance Planned Outcomes**

Continued registration of new applicants: SDRs, SEFs, FBOTs, and DCMs.

Integrate swaps data into surveillance program.

Implement Federal speculative limits for physical commodities.

Start examinations of SEFs and SDRs.

Determinations as to which swaps are subject to mandatory clearing are “made available for trading.”



## **Swap Dealer and Intermediary Oversight**

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

### **Registration and Registration Compliance**

DSIO is responsible for appropriate oversight of the NFA's registration of swap dealers, major swap participants, FCMs, and other market participants. While the surge of registrations of new entities will be essentially complete in FY 2013, the 2014 level of effort is driven by expected increases in workload due to the cross-border scope of the Dodd-Frank Act and rule filings as the increased number of entities continue to implement and refine their rules of operation under the new regulatory framework.

### **Examinations**

DSIO is responsible for ensuring that swap dealers, MSPs, FCMs and other intermediaries meet the applicable financial and customer protection requirements set forth in the CEA and Commission regulations. DSIO examinations are performed by highly specialized auditors that perform a broad spectrum of critical duties to include:

- Direct compliance examinations for FCMs and oversight/annual performance assessments of SRO financial surveillance programs;
- Evaluations of NFA methodologies and processes for monitoring CPO and CTA compliance with CEA and Commission regulations;
- Daily financial surveillance of market activities and associated reporting;
- Continuous industry and stakeholder engagement, communications, and relationship building; and;
- Development and promotion of best practices standards.

As indicated above, this increase supports the expanded examinations of entities in the CFTC's traditional markets as well as the inclusion of new entities under the Dodd-Frank Act.

## FY 2014 Budget Overview by Mission Activity

Table 25: Breakout of Swap Dealer and Intermediary Oversight by Mission Activity

	FTE	Salaries and Expenses (\$000)	IT (\$000)	Total (\$000)
Registration and Registration Compliance	44	\$10,490	\$0	\$10,490
Surveillance, including Data Acquisition and Analytics	9	2,150	0	2,150
Examinations	88	20,980	0	20,980
Economic and Legal Analysis	12	2,860	0	2,860
International Policy Coordination	1	240	0	240
<b>TOTAL</b>	<b>154</b>	<b>\$36,720</b>	<b>\$0</b>	<b>\$36,720</b>

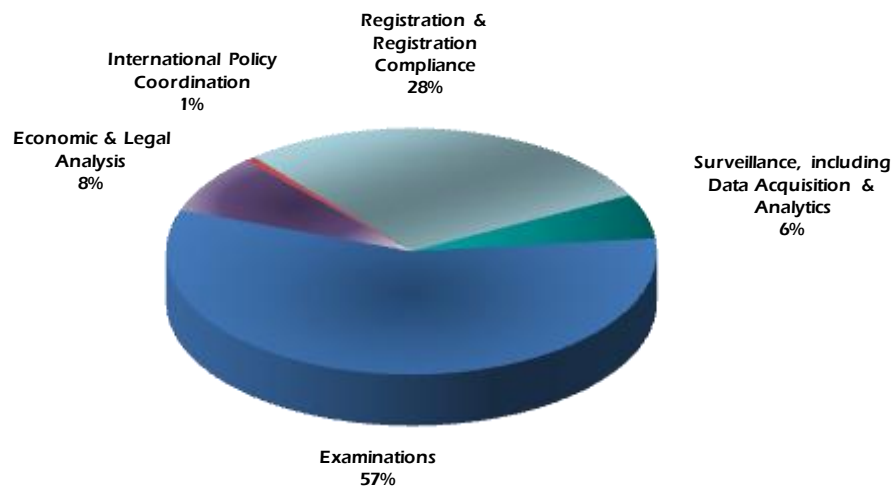


Figure 18: Swap Dealer and Intermediary Oversight Request by Mission Activity

## Top FY 2012 Accomplishments

DSIO was the lead division in the Commission's efforts to adopt regulations concerning the registration process for swap dealers and MSPs and the following key final rules and regulations required by the Dodd-Frank legislation:

- establishing conflicts of interest requirements for swap dealers, MSPs, FCMs, and introducing brokers (IBs); and
- establishing for the designation, qualifications, and duties of the chief compliance officers (CCOs) of FCMs, swap dealers, and MSPs
- establishing business conduct standards rules for swap dealers and major swap participants governing their dealings with counterparties generally, and additional requirements when they deal with "Special Entities".

In the wake of their collapse, DSIO, in coordination with staff members in the Division of Clearing and Risk and the Office of General Counsel, worked closely with the trustees of both MF Global and Peregrine to facilitate the orderly transfer of customers and the positions and margin collateral to other FCMs.

DSIO completed drafting proposed amendments to existing regulations to enhance protections for customers and to strengthen the safeguards surrounding the holding of money, securities and other property deposited by customers with FCMs and with DCOs. The proposals are the result of the Commission's efforts to coordinate and consult with the futures industry on enhancing customer protections, including two public roundtables that were hosted by Commission staff. The proposals also expand upon previous Commission actions to enhance customer protections including the rolling back of certain exemptions from the investment standards for customer funds under Regulation 1.25 and the adoption of the legal segregation with operational commingling (LSOC model) for cleared swap transactions.

The proposal would enhance the protection of customers and customer funds by:

- Amending Part 30 of the regulations to require FCMs to hold sufficient funds in secured accounts to meet their total obligations to both U.S.-domiciled and foreign-domiciled customers trading on foreign contract markets, computed under the net liquidating equity method;
- Prohibiting FCMs from holding any positions in a Part 30 secured account other than customers' foreign futures and option positions and associated margin collateral;
- Requiring FCMs to hold sufficient proprietary funds in segregated accounts and Part 30 secured accounts to reasonably ensure that the firms are properly segregated and secured at all times, and to cover margin deficiencies in customers' trading accounts;
- Requiring FCMs to maintain written policies and procedures governing the maintenance of excess funds in customer segregated and Part 30 secured accounts, and requiring FCMs to obtain the pre-approval of management prior to the withdrawal of 25 percent or more of the excess funds held in segregated or secured accounts if the withdrawals were not for the benefit of the FCMs' customers;
- Requiring FCMs to provide the Commission and their respective designated self-regulatory organizations (DSROs) with daily reporting of the segregation and Part 30 secured amount computations, and semi-monthly reporting of the location of customer funds and how such funds are invested under Regulation 1.25;
- Requiring FCMs and DCOs to provide the Commission and DSROs, as applicable, with read-only direct electronic access to bank and custodial accounts holding customer funds;
- Requiring FCMs to adopt policies and procedures on supervision and risk management of customer funds;
- Requiring FCMs to provide potential customers with additional disclosures addressing firm specific risks; and
- Enhancing the standards for the SROs' examinations of member FCMs.

The proposals were published for public comment in the Federal Register in November 2012.

DSIO evaluated and enhanced its regulatory oversight processes model for oversight of DSROs to include a more robust approach that incorporates governance, risk assessment processes and control reviews.

DSIO redefined the role of its Examinations function to adjust to the changing environment by providing more clarity on financial review procedures, more targeted examinations and closer coordination with the SEC and the DSROs.

**Top FY 2013 President's Budget & Performance Planned Outcomes**

DSIO will initiate registration of swap dealers and MSPs to begin implementation of regulatory oversight operations of the swaps industry. In doing so, DSIO will continue to respond to requests for interpretation or other requests for relief or information resulting from the Dodd-Frank rulemakings and support integration of swap dealer's and MSPs into the CFTC's regulatory structure for existing futures market registrants. In this regard, DSIO anticipates numerous requests from industry participants and other members of the public regarding clarification or relief from the swap dealer and major swap participant registration requirements. Staff further anticipates requests for interpretation of other rulemakings including business conduct regulations. DSIO further anticipates completing additional Dodd-Frank rulemakings that would impose capital requirements on swap dealers and MSPs, and coordinating with DCR to complete a rulemaking establishing margin requirements for uncleared swap transactions.

In conjunction with other CFTC components, DSIO will support efforts to best incorporate foreign-domiciled entities that would otherwise be required to register as swap dealers or MSPs as those terms are defined under the CEA and Commission regulations. This effort could include an assessment of the comparability of developing swap regulations in foreign jurisdictions in a manner consistent with the Commission's current Part 30 program.

DSIO will continue to support Commission-wide efforts to collaborate with the SEC, NFA and other relevant stakeholders to harmonize registrant reporting requirements to avoid or mitigate potential duplication or unnecessary delays in the regulatory and compliance process.

DSIO will work closely with NFA on the development of a comprehensive program for the oversight and assessment of swap dealer and MSP compliance with the new business conduct standards established by the Commission under the Dodd-Frank Act. The program will be administered by the NFA, in consultation with DSIO staff. In addition to NFA conducting direct examinations, DSIO staff also will conduct direct examinations of swap dealers and major swap participants to assess their compliance with business conduct standards. DSIO direct examinations may be conducted jointly with NFA or on a separate basis.

DSIO will develop a program for staff to follow, assess and validate the NFA's oversight of swap dealers' and major swap participants' compliance with the Dodd-Frank requirements, including business conduct, capital, margin, and segregation requirements.

DSIO will perform a review of the financial surveillance programs of the major SROs, the NFA and the CME Group. The reviews will include an assessment of the SRO's oversight of member compliance with minimum financial and related reporting requirements, as well as certain non-financial requirements including sales practices and disciplinary programs. The results of this review will be used to identify areas of weakness and develop solutions for improvement.

DSIO will take on the additional responsibilities imposed by the Dodd-Frank Act and the Commission's swap dealer and MSP rulemakings, while also continuing to address issues arising from the futures market and futures market participants. DSIO will respond to formal and informal requests for interpretation of existing regulations impacting futures markets and futures market participants.

DSIO staff also will review rule submissions by futures markets SROs as required by the Dodd-Frank Act and Commission regulations.

**Top FY 2014 President's Budget & Performance Planned Outcomes**

Develop and issue rulemakings, orders, interpretations, and other regulatory work product related to SCs, MSPs, FCMs, IBs, commodity pool operators, commodity trading advisors, and associated persons.

**FY 2014 President's Budget & Performance Plan**

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Conduct annual reviews of SRO oversight programs, including NFA's program for the oversight of swap dealers and major swap participants.

Conduct direct reviews of Commission registrants, including FCMs, swap dealers, and major swap participants to assess their compliance with applicable regulations governing financial requirements and business conduct standards.

Review commodity pool financial data submitted by commodity pool operators for the purpose of assessing whether the financial positions of a commodity pool may pose systemic risk issues.

Review, evaluate and make determinations concerning applications submitted by FCMs, swap dealers, and MSPs to use proprietary models to compute regulatory capital and margin for uncleared swap transactions.

## Exhibit 1. Information Technology

### Introduction

The Commission's over-arching information technology (IT) strategy is to increase the integration of IT into the Commission operating model. The first area of focus continues to be on data ingestion and analysis—particularly because CFTC has a unique imperative to aggregate various types of data from multiple industry sources across multiple markets. The Commission has implemented a data ingestion framework that enables the sharing and reuse of data for cross-divisional purposes and for use in automated systems as well as independently by CFTC analysts. The Commission will extend its data ingestion and analysis framework to manage market data as it evolves with the industry and to make greater use of order message data. The framework will continue to be leveraged and built upon to provide services that multiply the effectiveness of staff, accomplishing integration between futures and swaps data and increased integration of CFTC systems and processes for monitoring registered entities, market and financial risk, market integrity, trade practice; and conducting enforcement, and economic analysis.

In addition to leveraging the data framework, the Commission must also:

- Develop and implement data standards for regulatory and industry benefit,
- Increase data analytics capability,
- Extend business continuity,
- Consistently deliver technology improvements, and
- Provide ongoing maintenance of new IT services.

The Commission has organized its IT portfolio into the five major investments described below:

- **Surveillance.** Supports market, trade practice, and financial and risk oversight. Success in this area is highly dependent on the ability to acquire large volumes of data and the development of standards and analytics to support data segregation, as well as identify trends and/or outlying events that warrant further investigation.
- **Enforcement.** Provides a variety of critical automated litigation and investigation support services to facilitate the overall management of documents and data. Enforcement technology also provides the ability to rapidly query and retrieve information about investigations and litigation and perform analytics.
- **Other Mission Support.** Provides services that are vital to CFTC's regulatory mission activities including: Registration and Compliance, Product Review and Assessment, Examinations, Legal and Economic Analysis, and International Policy Coordination.
- **Data Infrastructure.** Supports all mission areas by providing the underlying infrastructure for IT services including: messaging, communications, network security, database administration, business continuity, and data storage management. The data infrastructure effort also provides transparency through the CFTC.gov website, staff collaboration and knowledge management, as well as document and records management.
- **Management and Administrative Support.** Includes IT service to commission-wide general support activities that do not require specialized or dedicated IT service components, for example, financial management, payroll and personnel services, training, hiring and logistics support.

## Management of the IT Portfolio in FY 2013

The Commission requests \$70 million for services and \$21.3 million for FTE, supporting the following priorities:

- Surveillance:
  - Swaps Data Management
    - Continue implementing software to load swaps data into a data warehouse for use in market surveillance, risk monitoring, enforcement, and economic analysis.
    - Continue working with domestic and international regulators, as well as industry to define data standards and develop data loading software to support Commission systems.
    - Integrate National Futures Association (NFA) systems and data with CFTC systems and data.
    - Continue integrating futures, swaps, and master and reference data in an enterprise data environment.
  - Position and Transaction Surveillance
    - Enhance surveillance systems to collect and incorporate data into analyses.
    - Modify large trader reporting systems to support new swaps data analysis, internal reporting requirements, and transparency reporting.
    - Enhance existing surveillance systems with more precise and comprehensive account ownership and control information.
  - OTC Risk Management
    - Continue modifying current financial and risk surveillance systems to monitor volatility, variation margin, and increased financial reporting.
    - Modify financial risk surveillance systems to support new swaps data analysis, internal reporting requirements, and transparency reporting.
    - Modify financial and risk surveillance systems to monitor Commodity Pool Operators and Commodity Trading Advisors.
    - Implement futures and swaps risk management software to analyze margin requirements; determine price impact; conduct margin trend analyses and back testing; and stress testing of swaps positions.
    - Implement a risk matrix database to maintain DCO risk variables.
  - Market and Data Analytics
    - Support prototyping of new surveillance approaches. Automate data maintenance, collection, and manipulation activities.
    - Use improved account ownership and control information for ad-hoc market and economic analysis activities.
  - Unified Reporting and Data Discovery
    - Continue implementation of a Unified Reporting environment that facilitates reporting of all data maintained in the data warehouse and CFTC systems.
    - Increase the functionality of reports available to staff.
    - Deploy a Swaps Open Interest Report.
    - Begin the planning and acquisition of data discovery tools that will allow staff to more easily detect market anomalies.

- **Enforcement:**
  - Continue to enhance support for enforcement tips, referrals and early case assessments.
  - Expand case management component to support enterprise-wide case management and integrate surveillance referrals into the process for enforcement cases.
  - Update Forensics, deposition management, trial support, and analytics to support both a higher volume of investigations and more effective measurement of program results.
- **Other Mission Support:**
  - Registration and Compliance, Product Review and Assessment.
    - OPERA (Organizations, Products, Events, Rules and Actions) and PARIS (Participant Information Suite). Continue the development of a rule-based workflow engine to allow for the direct registration of entities, registration of foreign boards of trade (FBOTs), submission of rules and products, and requests for Commission actions or interpretations and to flow information directly into CFTC IT systems.
    - CFTC.gov Online Participant Portal. Continue the implementation of an online private-cloud based submission and communication portal to and provide industry users with an account-specific view of their submissions to improve transparency of processes and procedures, providing automated notifications to external accounts regarding required actions.
    - Continue registration and examination activities related to registrants, including data management and standards reviews and data audits.
    - Continue automating the receipt of forms from traders, reporting firms, and exchanges to improve data quality and decrease industry and CFTC costs.
    - Update eDiscovery.
- **Data Infrastructure:**
  - Scale communication, processing, and storage infrastructure to meet demand.
  - Continue business continuity and security control automation implementation to reduce operational risk.
  - Begin a phased implementation of High Performance Computing.
  - Begin a technology refreshment of staff computing resources.
  - Implement Enterprise Search and automate electronic records management processes to improve productivity.
- **Management and Administrative Support:**
  - Support Integrated Strategic, Budget, Operating Plan Processes and Budget Program Activity Codes (BPAC) Modernization initiatives to improve resource prioritization and utilization.
  - Implement electronic, paperless automation of time and attendance reporting, integrating it with revised budget and activity planning reporting.
  - Implement a Commission-wide Budget Information System, automating budget formulation and integration with operating plans and accountability reports.



## Management of the IT Portfolio in FY 2014

The Commission requests \$73 million for services and \$21.8 million for FTE in support of the following priorities;

- Surveillance:
  - Data Standards
    - Continue working with domestic and international regulators, as well as industry to define data standards and improve data quality.
  - Swaps Data Management
    - Enhance the CFTC data warehouse to facilitate rapid access to large volumes of raw market data to fuel detection engines.
    - Automate and streamline special call data collection activities to surveillance latency and initiate enforcement actions more quickly.
    - Continue automation of SDR and DCO data collection.
  - Position and Transaction Surveillance
    - Adopt new analytic tools to link hedge exemption data with end of day and intraday trading data.
    - Implement surveillance tools used by SROs and integrate capabilities of SROs into operational prototypes.
  - OTC Risk Management
    - Develop and implement risk metrics.
    - Implement risk surveillance software to analyze and stress test risks.
  - Market and Data Analytics
    - Reduce the latency of processing market data for analysis.
    - Support additional public transparency reporting.
  - Order Message Data Management
    - Process specific product and time-based message data to facilitate analysis and investigations.
    - Expand number of facilities providing order messages and the frequency of processing as required for market and financial surveillance, economic analysis, and enforcement requirements.
  - Unified Reporting and Data Discovery
    - Complete phased implementation of a Unified Reporting environment, improving reporting on data using a unified framework and frame of reference. Improve ad-hoc reporting capabilities. Decommission legacy reporting systems.
    - Implement data discovery tools that will allow staff to more easily detect market anomalies.
- Other Mission Support:
  - Registration and Compliance, Product Review and Assessment.
    - Continue and improve registration and examination activities related to registrants, including data management and standards reviews and data audits.
    - OPERA (Organizations, Products, Events, Rules and Actions) and PARIS (Participant Information Suite). Continue the phased development of a rule-based workflow engine to allow for the direct registration of entities, registration of FBOTs, submission of rules and products, and requests for Commission actions or interpretations and flow information directly into internal Commission systems. Implement workflow-based and event-based data provision to external participants. Implement new functionalities identified during phased development and deployment in FY 2013.

- CFTC.gov Online Participant Portal. Continue the implementation of an online submission and communication portal to provide industry users with an account-specific view of their submissions. Provide feedback to industry with two-way communications. Implement new functionalities identified during phased development and deployment in FY 2013.
  - eForms. Continue automating the receipt of forms from traders, reporting firms, and exchanges to improve data quality and decrease industry and CFTC costs.
  - Implement analytic software for product reviews and assessments.
  - Implement monitoring of swaps mandated for clearing.
  - Examinations
    - Support effective use of OPERA and PARIS, the CFTC.gov Online Participant Portal, and SharePoint collaboration sites for examinations and rule enforcement reviews.
  - Legal and Economic Analysis
    - Increase use of SharePoint collaboration sites for legal support activities.
- Enforcement:
  - Complete expansion of case management component to support enterprise-wide case management and integrate surveillance referrals into the enforcement process.
- Data Infrastructure:
  - Begin migrating production operations to a secure private cloud-based off-site location.
  - Continue the phased implementation of High Performance Computing (HPC). This initiative uses parallel processing to run CFTCs advanced application programs efficiently, reliably and quickly. HPC will enable the commission to run advanced analytics in its surveillance and enforcement areas.
  - Continue the technology refreshment of staff computing resources and the deployment of a virtual desktop environment for improved business continuity.
- Management and Administrative Support:
  - Implement Lexis integration with office automation tools.
  - Streamline records, document management and correspondence tracking processes.

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Table 26: Information Technology Budget

<b>Total IT Budget (\$000s)</b>				
	FY 2012 Actual	FY 2013 CR	FY 2013 Estimate	FY 2014 Estimate
<b>Surveillance</b>	<b>23.74</b>	<b>17.43</b>	<b>27.43</b>	<b>30.27</b>
DME	11.56	5.87	10.30	12.20
Services	11.29	5.60	9.91	11.80
FTE	.27	0.27	0.39	.40
O&M	12.18	11.56	17.13	18.07
Services	5.71	5.10	7.75	8.48
FTE	6.46	6.46	9.38	9.59
<b>Enforcement</b>	<b>3.78</b>	<b>5.16</b>	<b>8.30</b>	<b>8.23</b>
DME	0.94	1.13	1.21	1.04
Services	0.90	1.10	1.16	0.99
FTE	0.03	0.03	0.05	0.05
O&M	2.84	4.03	7.08	7.19
Services	2.01	3.20	5.91	5.99
FTE	0.83	0.83	1.17	1.20
<b>Other Mission Support</b>	<b>4.53</b>	<b>2.30</b>	<b>5.86</b>	<b>5.80</b>
DME	3.67	1.30	3.91	3.81
Services	3.67	1.30	3.90	3.80
FTE	0.00	0.00	0.01	0.01
O&M	0.86	1.00	1.94	1.99
Services	0.86	1.00	1.61	1.65
FTE	0.00	0.00	0.33	0.34
<b>Management and Administrative Support</b>	<b>3.27</b>	<b>1.81</b>	<b>2.74</b>	<b>3.25</b>
DME	0.77	0.05	0.05	0.05
Services	0.73	0.00	0.00	0.00
FTE	0.05	0.05	0.05	0.05
O&M	2.50	1.76	2.69	3.20
Services	1.34	0.60	1.52	2.00
FTE	1.16	1.16	1.17	1.20
<b>Data Infrastructure and Technology Support</b>	<b>30.82</b>	<b>33.42</b>	<b>46.96</b>	<b>47.21</b>
DME	6.59	1.35	5.79	5.12
Services	6.34	1.10	5.44	4.77
FTE	0.25	0.25	0.35	0.36
O&M	24.23	32.07	41.17	42.09
Services	18.26	26.10	32.80	33.53
FTE	5.97	5.97	8.37	8.56
<b>Total IT Budget Authority</b>	<b>66.14</b>	<b>60.12</b>	<b>91.28</b>	<b>94.77</b>
FTE	15.02	15.02	21.28	21.77
IT	51.11	45.10	70.00	73.00

DME – Costs related to the development, modernization, and enhancement of technology.

O&M – Costs related to the operations and maintenance of technology.

FTE – Costs of government personnel for salary and benefits only. Does not include operational costs.

IT – Hardware, software, and contracted data and technology services and labor.

## Exhibit 2. Customer Protection Fund

### Introduction

Section 748 of the Dodd-Frank Act amended the CEA by adding Section 23, entitled “Commodity Whistleblower Incentives and Protections.” Among other things, Section 23 establishes a whistleblower program that requires the Commission to pay awards, under regulations prescribed by the Commission and subject to certain limitations to eligible whistleblowers, who voluntarily provide the Commission with original information about violations of the CEA that lead to the successful enforcement of a covered judicial or administrative action, or a related action. The Commission’s whistleblower awards are equal, in the aggregate amount, to at least 10 percent but not more than 30 percent of the monetary sanctions actually collected in the Commission’s action or a related action.

Section 748 of the Dodd-Frank Act also established the CFTC Customer Protection Fund (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. The Commission undertakes and maintains customer education initiatives through an Office of Consumer Outreach.

### Management of the Whistleblower Office

The Whistleblower Office (WBO) has three essential functions:

- Process Whistleblower Submissions—WBO receives, track, and handles whistleblower submissions and inquiries.
- Coordinate with Commission Divisions and Outside Agencies—WBO answers questions from Commission staff and others regarding the whistleblower program, and guides the handling of whistleblower matters as needed during examination, investigation and litigation. WBO also approves referrals of whistleblower-identifying information to outside agencies.
- Administer Claims Process—WBO receives and tracks whistleblower award claims, gathers and prepares the adjudicatory records for the Whistleblower Award Determination Panel (Panel), advises the Panel as needed on the whistleblower provisions and rules, and memorializes the Panel’s decisions.

### Management of the Office of Consumer Outreach

The Office of Consumer Outreach administers the CFTC’s customer and public education initiatives. The Commission currently conducts outreach efforts towards consumers largely through its Web site. This Web site is general in nature in regards to information about the commodity trading markets and ways to avoid fraud. The Commission is also actively involved with ongoing Federal financial literacy efforts, including participating as a member of the Financial Literacy and Education Commission. In addition, the Office of Consumer Outreach is finding areas of collaboration with entities such as state banking, insurance, securities and consumer protection regulators, as well as financial markets SROs, nonprofits and academia.

Due to the unprecedented number of Ponzi scams affecting the American public, as evidenced by the record number of cases brought in past years, the Commission is developing a long-term targeted outreach campaign to help consumers take the necessary steps to protect themselves against this fraudulent activity. In the near-term, the Commission is undertaking initiatives, including but not limited to, creating educational publications that address scams and list red flags of fraud, and an investors’ checklist for consumers to utilize prior to trading. The Commission has made preventative efforts, based upon audience segmentation and social marketing principles, a top priority.

## Operation of Fund in FY 2013

CFTC deposited \$76.7 million into the Fund in FY 2012.

In FY 2013, the CFTC estimates that it will use \$11.6 million of these funds:

- Approximately \$1 million will be used for the Office of Consumer Outreach to fund customer education initiatives, administrative expenses, and two full-time equivalents.
- Whistleblower awards are estimated at \$10 million<sup>9</sup>.
- Approximately \$500 thousand will be used for the Whistleblower Office to fund administrative expenses and three FTE.

## Operation of Fund in FY 2014

- The Commission anticipates an increase of one staff-year for the Office Consumer Outreach in FY 2014.
- The Commission estimates that it will receive approximately 100 whistleblower tips per year, and that, out of those 100 tips, approximately nine will result in whistleblower claim applications. Whistleblower awards are estimated at \$10 million in FY 2014.
- The Commission does not anticipate an increase in staff for the Whistleblower Office in FY 2014. The Commission will evaluate the level of effort necessary to support the whistleblower program in FY 2013, based on actual number of tips received, investigation time, and time incurred in handling and adjudicating award claims.

Table 27: Customer Protection Fund

	<b>FY 2012 Actual (\$000)</b>	<b>FY 2013 Estimate (\$000)</b>	<b>FY 2014 Estimate (\$000)</b>
Budget Authority – Prior Year	\$ 23,755	\$ 99,996	\$ 88,450
Budget Authority – New Year	76,721	4	11,550
<b>Total Budget Authority</b>	<b>100,476</b>	<b>100,000</b>	<b>100,000</b>
Whistleblower Program	288	500	500
Whistleblower Awards	0	10,000	10,000
Customer Education Program	192	1,050	1,020
<b>Total Planned Expenditures</b>	<b>480</b>	<b>11,550</b>	<b>11,520</b>
<b>Unobligated Balance</b>	<b>\$ 99,996</b>	<b>\$ 88,450</b>	<b>\$ 88,480</b>

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<sup>9</sup> Because no historical data exists to substantiate the estimated amount of whistleblower awards, and because the whistleblower process depends upon many factors which cannot be estimated reliably—including the likelihood that a whistleblower will provide actionable information, the likelihood that the Commission will bring a successful enforcement action based on such information, the time it takes to investigate, litigate, and obtain and collect a judgment for which a whistleblower award can be paid, and the likelihood that a whistleblower award claimant will meet the Commission's eligibility and award criteria—the \$10 million amount above is simply a conservative placeholder amount to account for the possibility of large judgments in the period that may be associated with information provided by whistleblowers.

## APPENDIX 1

### The Commissioners

#### **Gary Gensler**, Chairman

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

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

Prior to joining Treasury, Chairman Gensler worked for 18 years at Goldman Sachs, where he was selected as a partner; in his last role he was Co-head of Finance.

Chairman Gensler is the co-author of a book, *The Great Mutual Fund Trap*, which presents common sense investment advice for middle income Americans.

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

#### **Jill Sommers**, Commissioner

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

Commissioner Sommers serves as Chairman and Designated Federal Official of the Commission's Global Markets Advisory Committee, which meets periodically to discuss issues of concern to exchanges, firms, market users and the Commission regarding the regulatory challenges of a global marketplace. She also has the opportunity to frequently attend the Technical Committee meetings of the International Organization of Securities Commissions, the global cooperative body which is recognized as the international standard setter for securities and derivatives markets.

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Commissioner Sommers has worked in the commodity futures and options industry in a variety of capacities throughout her career. In 2005 she was the Policy Director and Head of Government Affairs for the International Swaps and Derivatives Association, where she worked on a number of over-the-counter derivatives issues. Prior to that, Ms. Sommers worked in the Government Affairs Office of the Chicago Mercantile Exchange (CME), where she was instrumental in overseeing regulatory and legislative affairs for the exchange. During her tenure with the CME, she had the opportunity to work closely with congressional staff drafting the Commodity Futures Modernization Act of 2000.

Commissioner Sommers started her career in Washington in 1991 as an intern for Senator Robert J. Dole (R-KS), working in various capacities until 1995. She later worked as a legislative aide for two consulting firms specializing in agricultural issues, Clark & Muldoon, P.C. and Taggart and Associates.

A native of Fort Scott, Kansas, Ms. Sommers holds a Bachelor of Arts degree from the University of Kansas. She and her husband, Mike, currently reside in the Washington, DC area and have three children ages 10, 9, and 8.

**Bart Chilton, Commissioner**

Bart Chilton was nominated by President Bush and confirmed by the U.S. Senate in 2007. In 2009, he was nominated by President Obama and reconfirmed by the U.S. Senate. His career spans 25 years in government service—working on Capitol Hill in the House of Representatives and in the Senate, and serving the Executive Branch during the Clinton, Bush, and Obama Administrations.

Prior to joining the CFTC, Mr. Chilton was the Chief of Staff and Vice President for Government Relations at the National Farmers Union where he represented average family farmers. In 2005, Mr. Chilton was a Schedule C political appointee of President Bush at the U.S. Farm Credit Administration where he served as an Executive Assistant to the Board. From 2001 to 2005, Mr. Chilton was a Senior Advisor to Senator Tom Daschle, the Democrat Leader of the United States Senate, where he worked on myriad issues including, but not limited to, agriculture and transportation policy.

From 1995 to 2001, Mr. Chilton was a Schedule C political appointee of President Clinton where he rose to Deputy Chief of Staff to the U.S. Secretary of Agriculture Dan Glickman. In this role, Mr. Chilton became a member of the Senior Executive Service (SES)—government executives selected for their leadership qualifications to serve in the key positions just below the most senior Presidential appointees. As an SES member, Mr. Chilton served as a liaison between Secretary Glickman and the Federal work force at USDA.

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

Mr. Chilton previously served on the Boards of Directors of Bion Environmental Technologies and the Association of Family Farms.

Mr. Chilton was born in Delaware and spent his youth in Indiana, where he attended Purdue University (1979–1982). He studied political science and communications and was a collegiate leader of several organizations.

**Scott O'Malia**, Commissioner

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

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

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

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

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

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

**Mark Wetjen**, Commissioner

Mark P. Wetjen was sworn in as a Commissioner of the U.S. Commodity Futures Trading Commission on October 25, 2011. Commissioner Wetjen worked for seven years in the U.S. Senate as a senior leadership staffer advising on all financial-services-related matters, including the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Before his service in the U.S. Senate, Commissioner Wetjen was a lawyer in private practice and represented clients in a variety of litigation, transactional and regulatory matters.



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

## APPENDIX 2

### Inspector General

In accordance with the Inspector General Act, as amended:

The following amounts are included in the FY 2014 OMB Budget and Performance Estimate:

FY 2013	Total Budget <sup>10</sup>	Training Budget Estimate	FTE
	\$1,410,000	\$8,000	6

FY 2014	Total Budget	Training Budget Estimate	FTE
	\$1,430,000	\$8,000	6

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<sup>10</sup> Total Budget includes estimated direct salary and benefit costs of six (6) FTE and a proportional share of all estimated indirect costs, such as, travel, training, lease of space, utilities, communications, printing, supplies, equipment and all other services; including an estimated contribution of \$3,830 and \$4,180 in FY 2013 and FY 2014 respectively to support the Council of the Inspectors General on Integrity and Efficiency.

## **APPENDIX 3**

### **The Commission and the Industry We Regulate**

Fundamental changes in the technology, products and platforms of U.S. futures trading have increased the Commission's need for sophisticated technology, specialized skills and additional resources to keep pace.

In the futures industry, exchanges, in particular, have undergone a decade-long transition from geographically-defined trading pits to electronic platforms with global reach. From 2000 to 2010, electronic trading grew from approximately nine percent of volume to 78 percent on all U.S. DCMs. Over the same time period, the number of actively-traded futures and options contracts listed on U.S. exchanges increased more than nine-fold, from approximately 266 contracts in 2000 to approximately 2,466 contracts in 2010. Total DCM futures and options trading volume rose from approximately 580 million contracts in 2000 to approximately 3.11 billion in 2010, an increase of more than 436 percent.

### **Regulated Entities by Mission Activity**

The Commission's regulatory scope encompasses trading entities, clearing entities, and data repositories and the sole registered futures association, NFA. For the overwhelming number of market participants, the Commission's role is as a second-line regulator, where the agency relies on the DSROs to perform critical regulatory responsibilities. The Commission's direct regulatory activities in registration, product reviews, and examinations are primarily focused on the DCMs, DCOs, SDRs, NFA, and soon, SEFs. The Commission also conducts direct examinations of intermediary trading entities on a "for cause" basis and periodic routine direct examinations as resources are available. While the DSRO's are obligated to conduct surveillance and enforcement activities for entities under their purview, the Commission conducts surveillance and enforcement activities across all market participants.

A cross-walk of regulated entities and registrants and CFTC's mission activities follows. Activities and entities for which CFTC is the first-line regulator are identified as "CFTC". Activities and major entities for which the agency is the second-line regulator are identified as "SRO/CFTC", "DSRO/CFTC" or "NFA/CFTC", where DSRO is the acronym for Designated SRO. Activities and entities for which the CFTC has delegated responsibility to the NFA are identified as "NFA".

Entity	Acronym	CFTC Mission–Activity					
		Registration & Registration Compliance	Product Reviews	Surveillance	Examinations	Enforcement	Economic and Legal Analysis
Trading Entities							
Designated Contract Market	DCM	CFTC	CFTC	CFTC	CFTC	CFTC	CFTC
Swap Execution Facility	SEF	CFTC	CFTC	CFTC	CFTC	CFTC	CFTC
Foreign Board of Trade	FBOT	CFTC	CFTC	N/A	N/A	CFTC	CFTC
Clearing Entities							
Derivatives Clearing Organization	DCO	CFTC	CFTC	CFTC	CFTC	CFTC	CFTC
Systemically Important Derivatives Clearing Organization	SIDCO	CFTC	CFTC	CFTC	CFTC/ Federal Reserve	CFTC	CFTC
Data Repositories							
Swap Data Repository	SDR	CFTC	N/A	N/A	CFTC	CFTC	CFTC
Registered Futures Association							
National Futures Association	NFA	CFTC	N/A	N/A	CFTC	CFTC	CFTC
Intermediaries							
Futures Commission Merchant	FCM	NFA	N/A	DSRO/CFTC C	DSRO/CFTC	DSRO/CFTC	CFTC
Swap Dealer	SD	NFA	CFTC	NFA/CFTC	NFA/CFTC	NFA/CFTC	CFTC
Major Swap Participant	MSP	NFA	CFTC	NFA/CFTC	NFA/CFTC	NFA/CFTC	CFTC
Retail Foreign Exchange Dealer	RFED	NFA	N/A	NFA/CFTC	NFA/CFTC	NFA/CFTC	CFTC
Managed Funds							
Commodity Trading Advisor	CTA	NFA	N/A	NFA/CFTC	NFA	NFA/CFTC	CFTC
Commodity Pool Operator	CPO	NFA	N/A	NFA/CFTC	NFA	NFA/CFTC	CFTC
Other Registrants							
Introducing Broker	IB	NFA	N/A	NFA/CFTC	NFA	NFA/CFTC	CFTC
Floor Broker	FB	NFA	N/A	CFTC	N/A	SRO/CFTC	CFTC
Floor Trader	FT	NFA	N/A	CFTC	N/A	SRO/CFTC	CFTC
Associated Person (Sales)	AP	NFA	N/A	CFTC	N/A	SRO/CFTC	CFTC

Figure 19: Matrix of U.S. Registered Entities and Registrants by CFTC Mission Activity

**Assumptions on the Number of Regulated Entities**

Entity	Acronym	Number of Registered Entities/Registrants		
		FY 2012 Actuals	FY 2013 Assumptions	FY 2014 Assumptions
Trading Entities				
Designated Contract Market	DCM	16	23–26	23–26
Swap Execution Facility	SEF	0	15	15
Foreign Board of Trade	FBOT	21	21	21
Clearing Entities				
Derivatives Clearing Organization	DCO	17	18	20
Clearing Member		191	200	210
Systemically Important DCO	SIDCO	2	No more than 4	No more than 4
Data Repositories				
Swap Data Repository 1/	SDR	3	5–7	5–7
Intermediaries				
Futures Commission Merchant 2/	FCM	128	115	115
Swap Dealer	SD	0	120	120
Major Swap Participant	MSP	0	0–6	0–6
Retail Foreign Exchange Dealer	RFED	14	12	12
Managed Funds				
Commodity Trading Advisor	CTA	2,470	2,600	2,600
Commodity Pool Operator	CPO	1,172	1,800	1,800
Other Registrants				
Introducing Broker	IB	1,354	1,500	1,500
Floor Broker	FB	5,650	5,600	5,600
Floor Trader	FT	1,102	1,100	1,100
Associated Person	AP	51,068	54,000	54,000

1/ Number of SDR registrants in 2012 are for those entities with *provisional* registration status

2/ Excludes FCMs registered as RFEDs

Figure 20: Number of Market Participants by Fiscal Year

## **Industry Growth in Volume, Globalization and Complexity**

In a marketplace driven by change, it may be helpful to look back at industry and CFTC trends over the past few years. The charts that follow reflect many of those changes affecting the CFTC:

- Industry growth versus staff growth;
- Estimated annual swap volume;
- Growth in actively traded futures and option contracts;
- Notional value of futures/option open contracts;
- Notional value of exchange-traded and OTC contracts;
- Amount of customer funds held at futures commission merchants;
- Aggregate sum of house origin margin on deposit;
- Number of registrants;
- Contract markets designated by the CFTC;
- Number of derivatives clearing organizations registered with the CFTC;
- Exempt commercial markets; and
- Exempt boards of trade.

## Growth in Volume of Futures & Option Contracts Traded

Trading volume had increased steadily through 2008 and had recovered all its losses due to the 2008 financial crises by 2011. The latest year 2012 saw a slight decrease in trading although it remains well above the 2009 level.

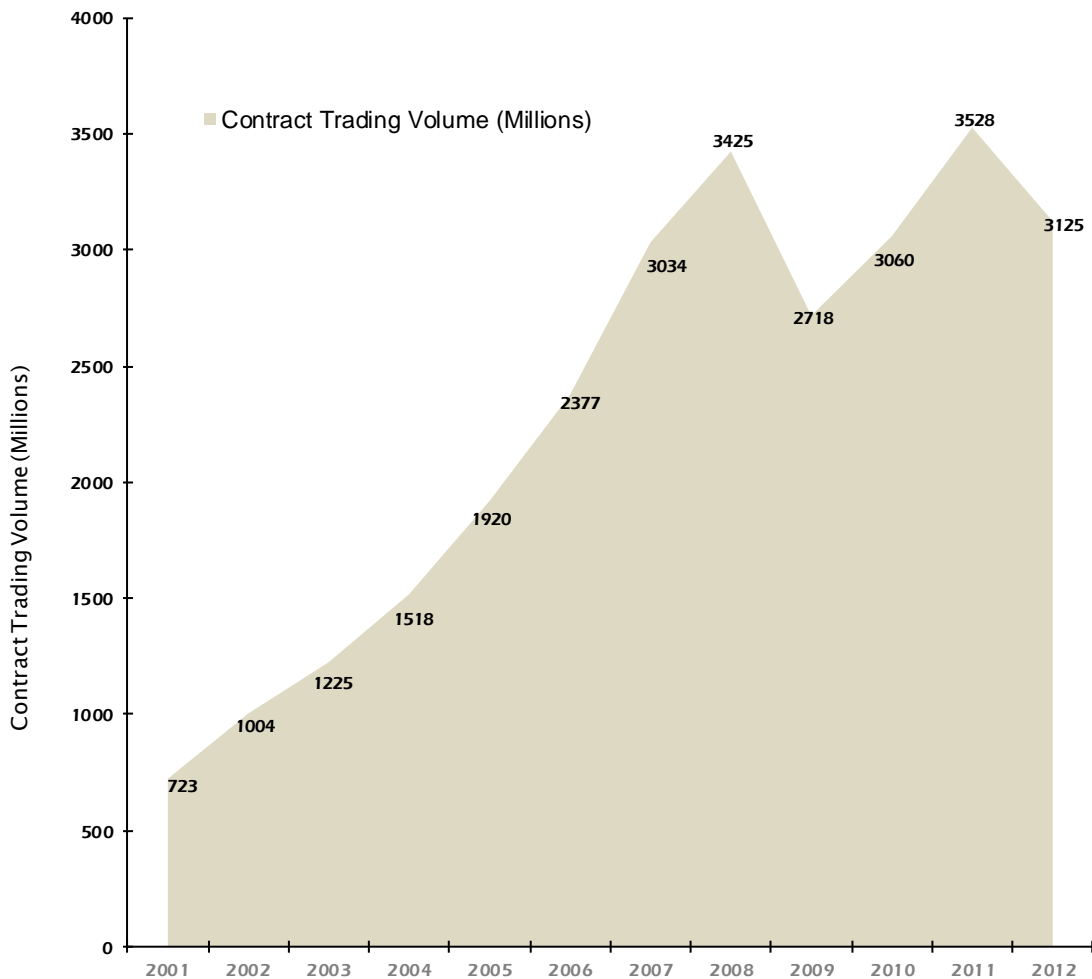


Figure 21: Growth of Volume of Contracts Traded

## Estimated Annual Swap Event Volume

Events<sup>11</sup> include new trades, innovations and terminations, but exclude intro-company trades and tear-ups. Products include: interest rate derivatives, credit derivatives, equity derivatives, currency options and commodity derivatives.<sup>12</sup>

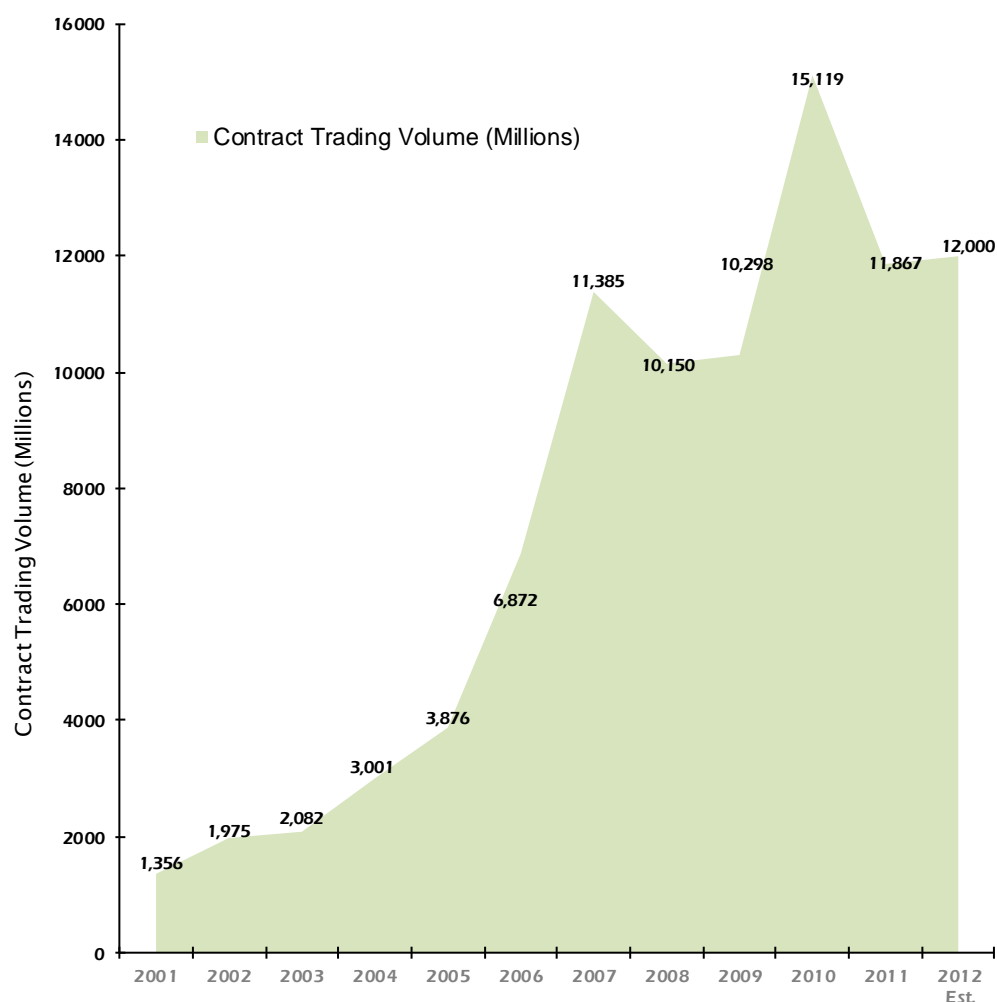


Figure 22: Estimated Swap Event Volume

<sup>11</sup> Swap event volume data actuals for FY 2012 will be available in April 2013.

<sup>12</sup> Reported participant monthly average multiplied by 12 months per year, multiplied by the number of participants in the relevant survey year, and divided by two to account for potential double counting for swap transactions between survey participants.



## Actively Traded Futures & Option Contracts

The number of actively traded contracts on U.S. exchanges has increased almost tenfold in the last twelve years, last year saw a slight drop.

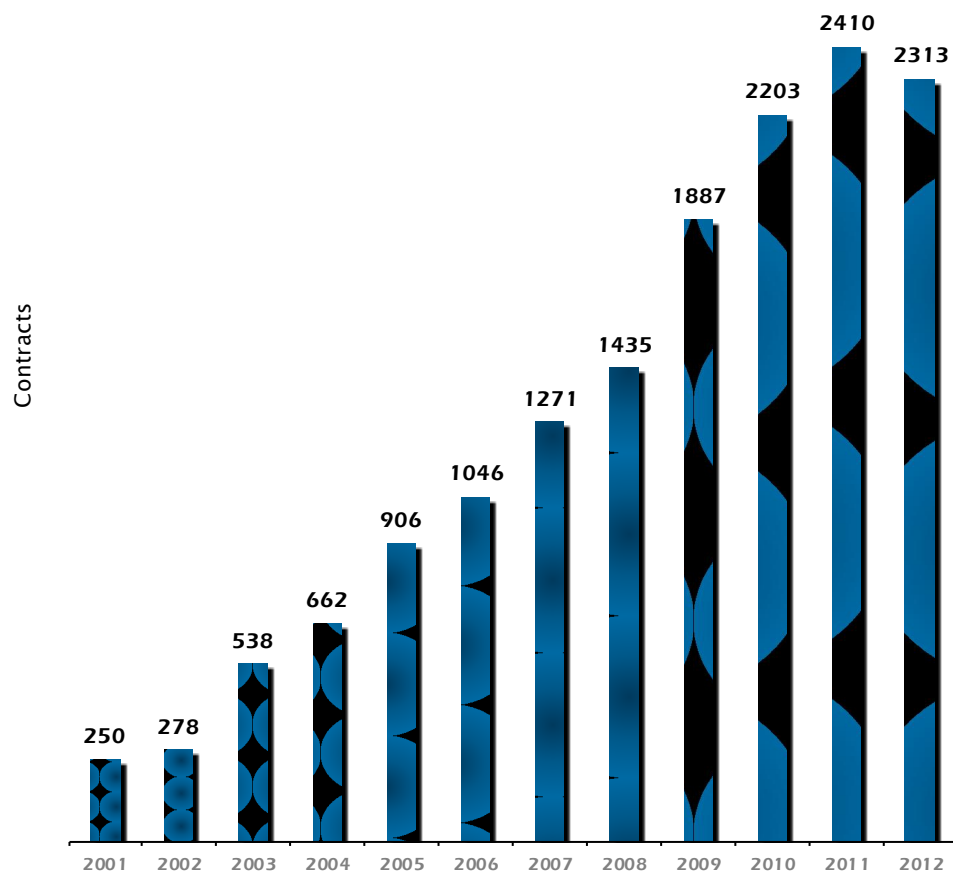


Figure 23: Actively Traded Futures and Option Contracts

## Notional Value of Futures/ Option Open Contracts

For 2011 to 2012, the notional value of open physical commodities contracts decreased by \$0.9 trillion, and the notional value of financial commodities decreased by \$7.6 trillion.

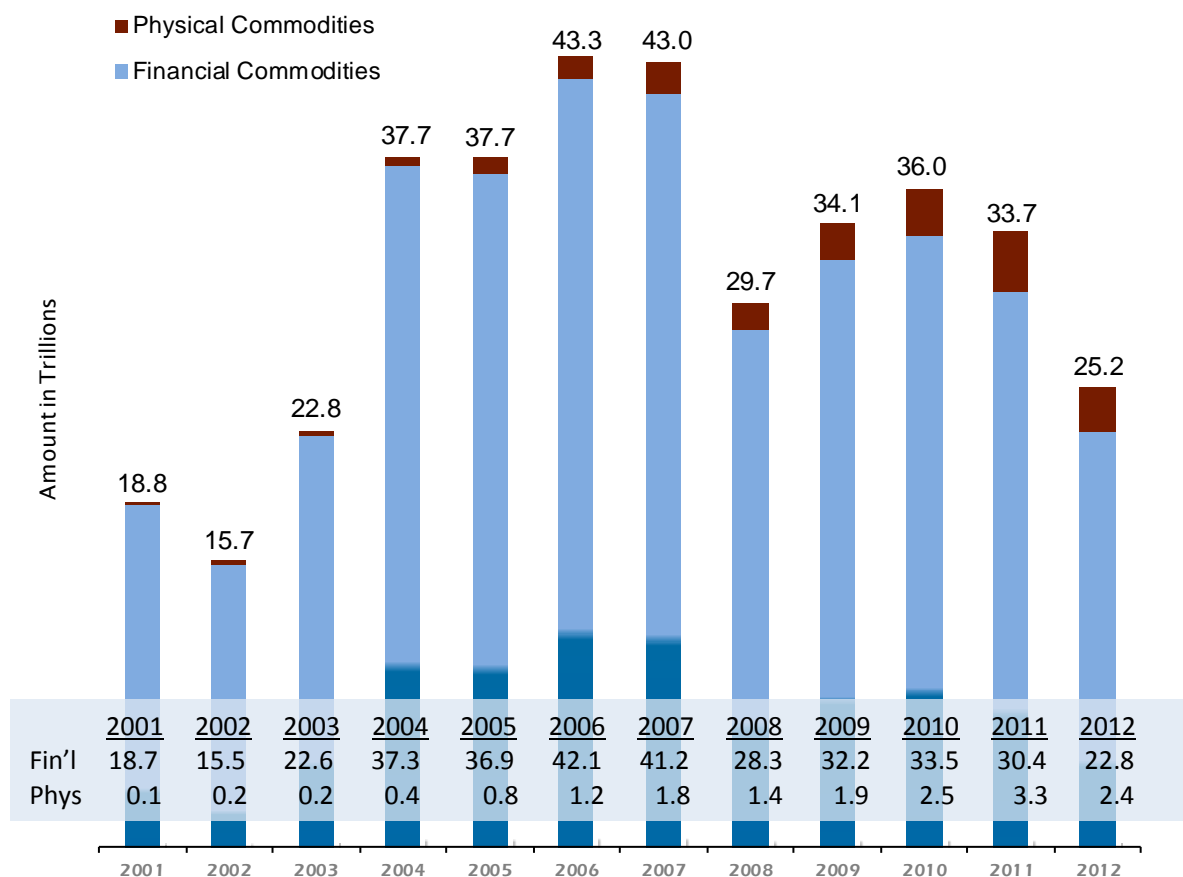


Figure 24: Notional Value of Futures and Option Open Contracts

## Notional Value of Exchange-Traded and OTC Contracts

The commodity swaps market, which has an outstanding notional value of \$2,993 billion at the first half of 2012, according to the Bank for International Settlements (BIS), is the smallest sector of the overall swaps market comprising only 0.5 percent of the \$639 trillion total notional value.

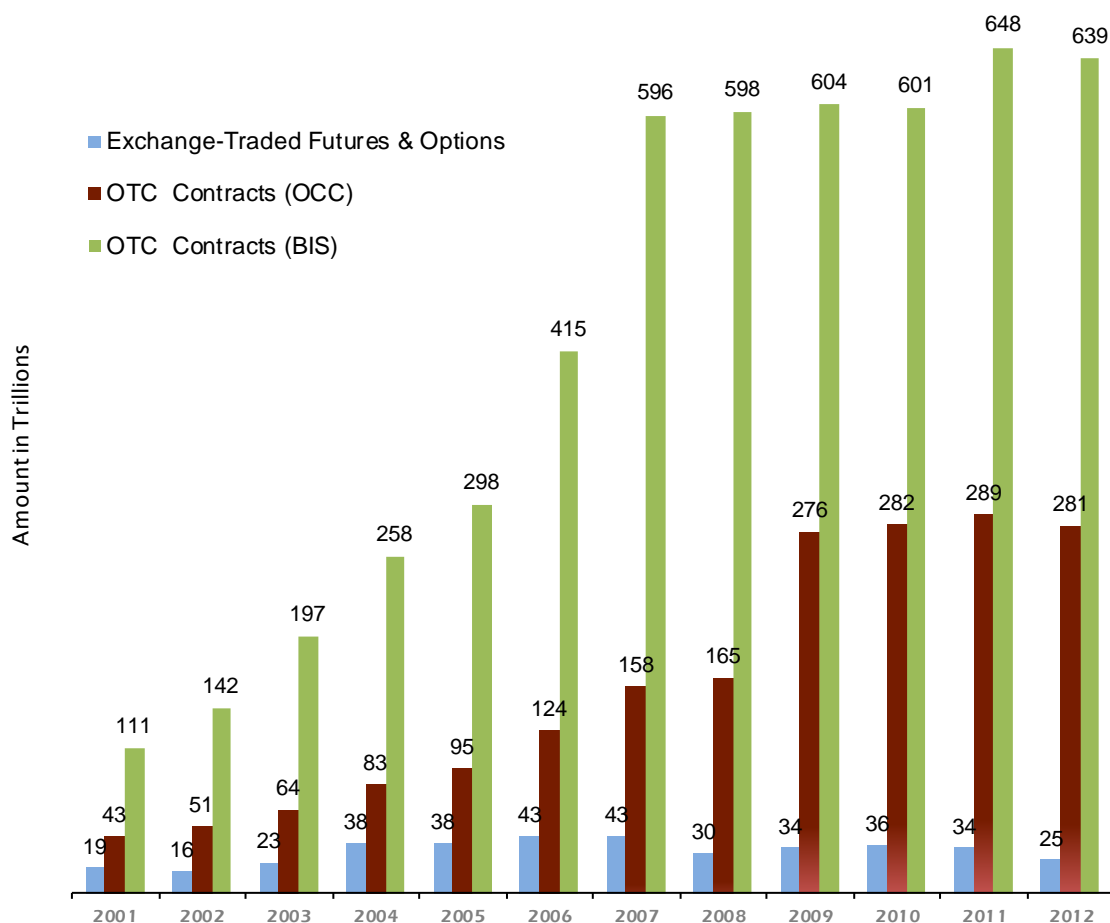


Figure 25: Notional Value of Exchange-Traded and OTC Contracts

<sup>13</sup> Exchange-Traded Futures/Options are those traded on CFTC Designated Contract Markets.

<sup>14</sup> Office of the Comptroller of the Currency (OCC) data is for the top 25 bank holding companies with the most derivative contracts and "OTC" includes: Forwards, Swaps, Options, and Credit Derivatives. The value for 2012 is as of end-September.

<sup>15</sup> Bank of International Settlements (BIS) OCT data includes "Foreign Exchange", "Interest Rates", "Equity-linked", "Commodity", "Credit Default Swaps", and "Unallocated" contracts. The value for 2012 is as of end-June.

## Customer Funds in Futures Commission Merchants Accounts

The amount of customer funds held at FCMs has almost tripled in the last decade.

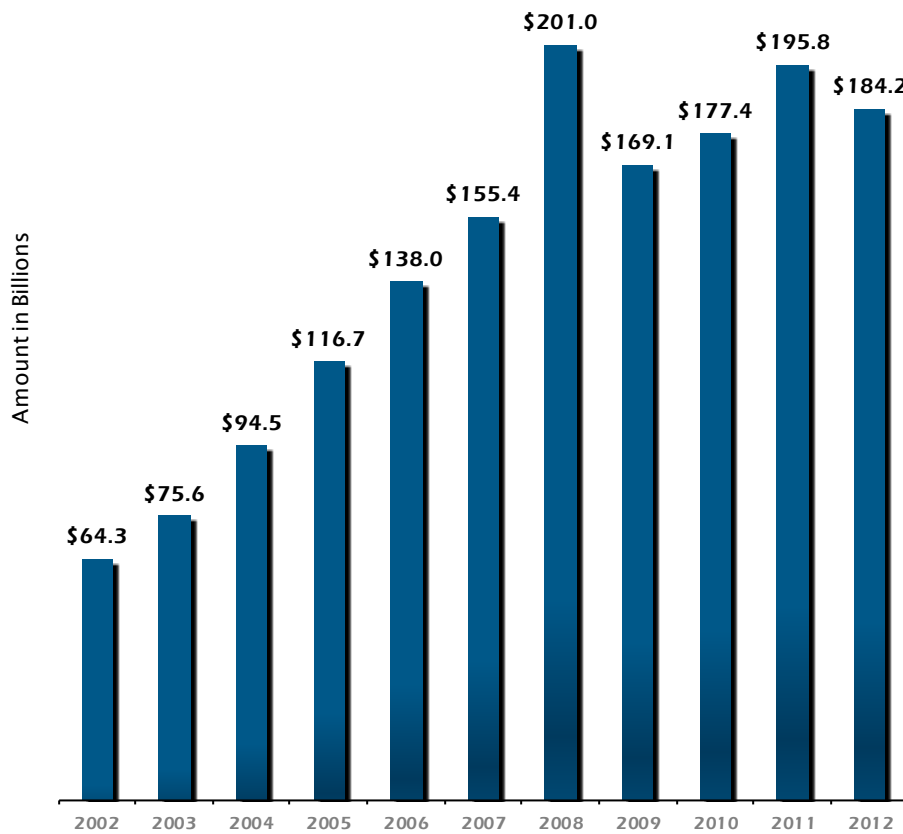


Figure 26: Customer Funds in FCM Accounts

### Aggregate Sum of House Origin Margin on Deposit

Origin Margin (also referred to as Original or Initial Margin) is the initial deposit of margin money each clearing member firm is required to make according to clearing organization rules based upon positions carried, determined separately for customer and proprietary positions.<sup>16</sup>

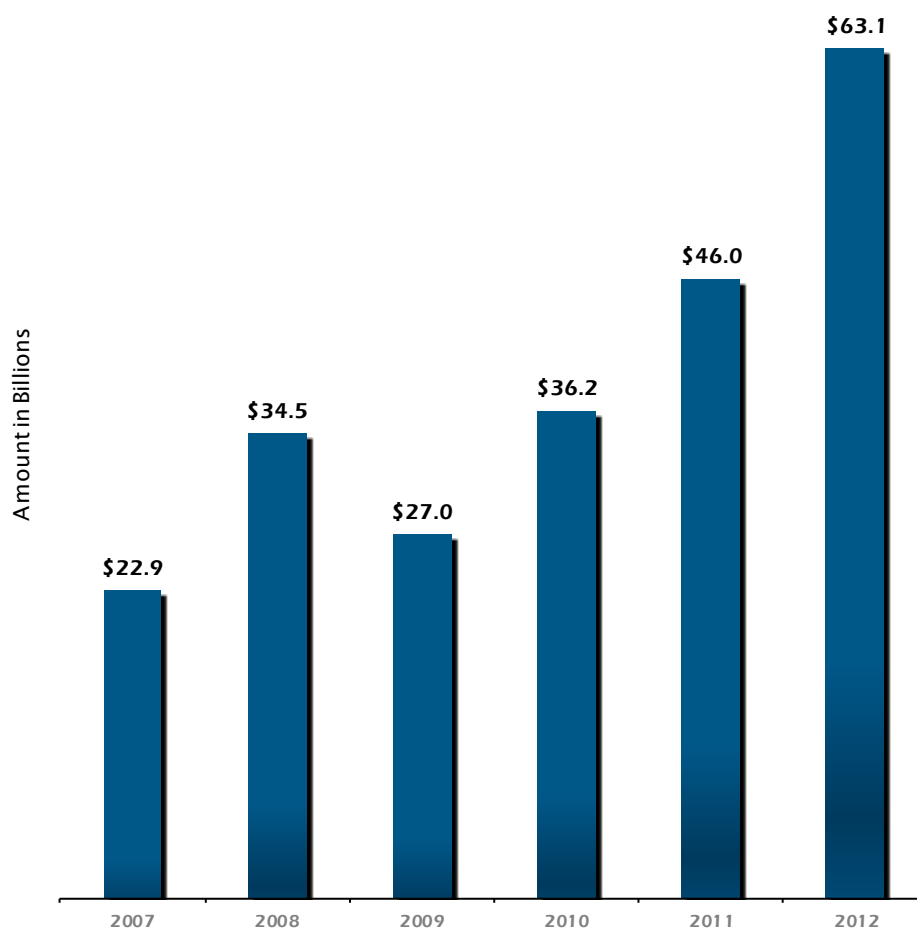


Figure 27: Aggregate Sum of House Origin Margin on Deposit

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<sup>16</sup> Source: Margin on Deposit amounts obtained at month-end from DCOs.

## Number of Registrants

Companies and individuals who handle customer funds, solicit or accept orders, or give trading advice must apply for CFTC registration through the NFA, a registered futures association and an SRO with delegated authority from the Commission.

The Commission regulates the activities of 62,958 registrants.

<b><u>Registration Category</u></b> <sup>17</sup>	<b><u>Number as of September 30, 2012</u></b>
Associated Persons (APs) (Salespersons)	51,068
Commodity Pool Operators (CPOs)	1,172
Commodity Trading Advisors (CTAs)	2,470
Floor Brokers (FBs)	5,650
Floor Traders (FTs)	1,102
Futures Commission Merchants (FCMs)	128
Retail Foreign Exchange Dealers (RFEDs)	14
Introducing Brokers (IBs)	1,354
Swap Dealers (SDs) <sup>18</sup>	0
Major Swap Participants (MSPs) <sup>19</sup>	0
<b>TOTAL</b>	<b><u>62,958</u></b>

Table 28: Number of Registrants

<sup>17</sup> A person who is registered in more than one registration category is counted in each category.

<sup>18</sup> New registration category proposed by the Commission for certain entities engaged in swap transactions at 75 Fed. Reg. 71379 (November 23, 2010).

<sup>19</sup> New registration category proposed by the Commission for certain entities engaged in swap transactions at 75 Fed. Reg. 71379 (November 23, 2010).

## Contract Markets Designated by the CFTC

The following DCMs are boards of trade or exchanges that meet the criteria and core principles for trading futures or options by both institutional and retail participants. Currently, 16 DCM participants meet criteria and core principles for trading futures, options and swaps.

Designated Contract Market		2007	2008	2009	2010	2011	2012
Cantor Futures Exchange, L.P.	CX				✓	✓	✓
Board of Trade of the City of Chicago	CBOT	✓	✓	✓	✓	✓	✓
Chicago Climate Futures Exchange, LLC	CCFE	✓	✓	✓	✓	✓	✓
CBOE Futures Exchange, Inc.	CFE	✓	✓	✓	✓	✓	✓
Chicago Mercantile Exchange, L.P.	CME	✓	✓	✓	✓	✓	✓
ELX Futures, L.P.	ELX			✓	✓	✓	✓
Green Exchange, LLC	GREENEX				✓	✓	✓*
ICE Futures US, Inc. <sup>20</sup>	ICE US	✓	✓	✓	✓	✓	✓
Kansas City Board of Trade	KCBT	✓	✓	✓	✓	✓	✓
Minneapolis Grain Exchange, Inc.	MGE	✓	✓	✓	✓	✓	✓
North American Derivatives Exchange, Inc. <sup>21</sup>	NADEX	✓	✓	✓	✓	✓	✓
NASDAQ OMX Futures Exchange, Inc. <sup>22</sup>	NFX	✓	✓	✓	✓	✓	✓
New York Mercantile Exchange, Inc. /Commodity Exchange, Inc.	NYMEX/ COMEX	✓	✓	✓	✓	✓	✓
NYSE Liffe US, LLC	NYSE LIFFE		✓	✓	✓	✓	✓
OneChicago LLC Futures Exchange	OCX	✓	✓	✓	✓	✓	✓
The Trend Exchange	TRENDEX				✓	✓	✓
trueEx LLC	TRUEEX						✓
US Futures Exchange, LLC	USFE	✓	✓	✓			
<b>TOTAL</b>		<b>12</b>	<b>13</b>	<b>14</b>	<b>16</b>	<b>16</b>	<b>16</b>

Table 29: Contract Markets Designated by the CFTC

\* Designation vacated in July 2012.

<sup>20</sup> Formerly, New York Board of Trade

<sup>21</sup> Formerly, HedgeStreet, Inc.

<sup>22</sup> Formerly, Philadelphia Board of Trade

## Number of DCOs Registered with the CFTC

A clearinghouse that seeks to provide clearing services with respect to futures contracts, options on futures contracts, or swaps must register with the CFTC as a DCO. In FY 2012, 17 DCOs were registered with the CFTC.

Derivatives Clearing Organizations		2007	2008	2009	2010	2011	2012
The Actuarials Exchange, LLC	AE Clearinghouse	✓					
Cantor Clearinghouse L.P.	Cantor Clearinghouse				✓	✓	✓
Chicago Board of Trade	CBOT	✓	✓	✓	✓	✓	✓
Clearing Corporation	CCorp	✓	✓	✓	✓	✓	✓
Chicago Mercantile Exchange, Inc.	CME Clearing House	✓	✓	✓	✓	✓	✓
Chicago Mercantile Exchange Europe Limited	CME Clearing Europe					✓	✓
ICE Clear Credit LLC	ICE Clear Credit					✓	✓
ICE Clear Europe Ltd	ICE Clear Europe				✓	✓	✓
ICE Clear US, Inc. <sup>23</sup>	ICE Clear US	✓	✓	✓	✓	✓	✓
LCH.Clearnet LLC. <sup>24</sup>	LCH LLC			✓	✓	✓	✓
Kansas City Board of Trade Clearing Corp	KCBT	✓	✓	✓	✓	✓	✓
LCH.Clearnet Ltd	LCH Ltd	✓	✓	✓	✓	✓	✓
Minneapolis Grain Exchange Inc.	MGE	✓	✓	✓	✓	✓	✓
Natural Gas Exchange Inc.	NGX			✓	✓	✓	✓
New York Portfolio Clearing, LLC	NYPC					✓	✓
North American Derivatives Exchange, Inc. <sup>25</sup>	NADEX	✓	✓	✓	✓	✓	✓
NYMEX Clearing House	NYMEX	✓	✓	✓	✓	✓	✓
Options Clearing Corporation	OCC	✓	✓	✓	✓	✓	✓
<b>TOTAL</b>		<b>11</b>	<b>10</b>	<b>12</b>	<b>14</b>	<b>17</b>	<b>17</b>

Table 30: Derivatives Clearing Organizations Registered with the CFTC

<sup>23</sup> Formerly, HedgeStreet, Inc.

<sup>24</sup> Formerly, International Derivatives Clearinghouse LLC.

<sup>25</sup> Formerly, New York Clearing Cooperation.



## Exempt Markets

Exempt markets were exempted from most requirements of the CEA and most CFTC regulatory oversight prior to the Dodd-Frank Act. Exempt markets are not registered with, or designated, recognized, licensed or approved by the CFTC, and they are prohibited from representing that they are registered, designated, or recognized by the CFTC in any way.

Although the Dodd-Frank Act repealed the provision of the CEA, under which exempt markets operate, EBOTs and ECMs may continue to operate pursuant to the no-action relief granted in CFTC No-Action Letter 12-48 (December 11, 2012).

Exempt Markets	2007	2008	2009	2010	2011	2012
Exempt Boards of Trade (EBOTs)	10	11	10	14	21	<b>34</b>
Exempt Commercial Markets (ECMs)	19	20	27	23	20	<b>27</b>

Table 31: Exempt Markets

## APPENDIX 4

### Industry Trends and CFTC Resource Requirements

The market participants (the industry) under CFTC jurisdiction are changing how they conduct business in order to comply with new regulatory responsibilities and to exploit opportunities created by the new regulatory environment. Industry is also shifting its operating model due to other environmental influences, such as global prudential regulatory, macro-economic and technology trends. As industry continues to evolve, the CFTC must have the ability to make accompanying changes across all components of its operations. The CFTC has taken steps in this FY 2014 budget cycle to present these evolving industry trends and their implications for CFTC now and in the near future. This understanding is critical for the Commission's ability to appropriately regulate industry of today and tomorrow.

To begin building the bridge between industry trends and CFTC's resource requirements, the Commission has identified five post-Dodd-Frank Act trends for discussion:

1. Swaps markets are increasingly operating under the Dodd-Frank regulatory framework;
2. Increased number of market participants is driving innovation in derivatives trading;
3. Intermediaries are investing in new business practices and technology;
4. Heightened risk management practices seek to lower institutional risk at clearinghouses; and
5. Market participants need to manage large volumes of data in order to adapt to evolving derivatives environment.

These five trends and their impact on CFTC resource requirements are discussed in the following pages.

**Industry Trend 1: Swap Markets are Increasingly Operating Under the Dodd-Frank Regulatory Framework.**

By FY 2014, participants in the swaps market under CFTC jurisdiction will, by and large, be operating under the framework established by the Dodd-Frank Act. The low-tech, high-touch bilateral voice transactions era for swaps trading will be subsumed by trading on regulated platforms, central clearing and real-time trade reporting. The regulatory uncertainty for these market participants will have been lifted and, while some phasing and fine-tuning will likely be ongoing, the market place will be trading, settling, and reporting swaps, and reaping the benefits of risk-mitigated hedging strategies. CFTC's resource needs will have shifted from its rule-writing focus, through a period of intense interpretative guidance development, to daily oversight of this large and complex market. This evolution is predictable and affects all of the CFTC's mission activities, but cannot be accomplished without adequate funding

- In FY 2014, the allocation of the 1,015 staff and \$315 million (including \$73 million for IT), will be adjusted among the mission activities to reflect the evolution for the rule-writing and interpretive guidance Dodd-Frank “start-up” activities to sustaining activities. At this level, the Commission will be positioned to build its operational capabilities, evaluate changes in the industry as it responds to the new Dodd-Frank regulatory framework, and address any unanticipated issues that will naturally arise in implementing the Dodd-Frank Act regulatory reforms.
- The Commission will spend just over one-third (34 percent) of the Commission's resources on surveillance (including data acquisition and analytics) and examinations of systemically important derivatives clearing organizations as required by Title VIII of the Dodd-Frank Act, and examinations of other significant registered entities;
- Another 22 percent of its resources will be focused on registering new entities and ensuring that currently registered entities comply with new core principle requirements; reviewing new contracts, making mandatory clearing determinations, and other product review activities; providing economic analyses and legal guidance and interpretations on the new regulatory framework; and coordinating with international regulators to ensure cross-border harmonization of these global markets.
- Approximately 18 percent of the Commission's resources will be dedicated to enforcement activities.
- The remaining 26 percent of the Commission's resources will be responsible for supporting the Commission's data infrastructure (16 percent) and agency direction, management, and administrative support (10 percent).

## Industry Trend 2: Increased Number of Market Participants is Driving Innovation in Derivatives Trading.

More entities, more markets and more products (including more complex products) are subject to CFTC regulation than ever before. 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 new entrants (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 impacts will fall most heavily on the registration, product review, examinations and enforcement mission activities

### Registration

- The Commission performs a thorough review of the registration applications of all entities seeking to be registered as DCMs and (soon) SEFs. Multi-disciplinary review teams of attorneys, industry economists, trade practice analysts, data analysts, and risk analysts are needed to ensure that the Commission undertakes a thorough analysis of such applications to ensure compliance with the applicable statutory core principles and Commission regulations.
- While CFTC anticipates that the “surge” in new trading registrants resulting from Dodd-Frank reforms will be substantively complete by FY 2014, continued innovation will require continued evaluation of registrants (and the rules they implement) for compliance with the statutorily-mandated core principles. The Commission must ensure it has subject matter experts who can respond to rapid changes in the marketplace.

### Product Review

- The Commission conducts due diligence reviews of new contract filings to ensure that the contracts are not readily susceptible to manipulation or price distortion, and that the contracts are subject to appropriate position limits or position accountability. The Commission also analyzes amendments to contract terms and conditions to ensure that the amendments do not render the contracts readily susceptible to manipulation and do not otherwise affect the value of existing positions. Proliferation of products by industry and the inherently greater complexity of swaps contracts will demand new subject matter experts to keep pace with industry's innovations.
- In addition to reviewing contracts prior to trade, the Commission will need expanded resources to:
  - Evaluate transaction and pricing data collected by SDRs to determine appropriate block trade threshold levels that registered SEFs, DCMs, and market participants may use to delay public reporting of swap transaction data.
  - Perform mandatory clearing determinations, and assessing swaps presented to DCOs to determine their acceptability for clearing.

**Examinations**

- Examinations are formal, structured assessments of regulated entities' operations or oversight programs to assess on-going compliance with statutory and regulatory mandates. Regular examinations are the most effective method of ensuring that the entities' are complying with the core principles established in the CEA (as amended). Reviews of DCMs and SEFs (and SDRs) focus on the structural sufficiency of their self-regulatory and compliance programs.
- Examinations are performed by multi-disciplinary teams of attorneys, industry economists, trade practice analysts, risk analysts, data analysts, and accountants depending on the scope. The Commission anticipates performing routine annual examinations of the largest DCMs and SEFs, with reviews of the less risky entities every two to three years as resources are available. The ability to perform the biennial or triennial reviews will depend, in part, on the number of "for cause" examinations the Commission must undertake in a given time.
- Based upon its current understanding, the Commission projects that the number of DCMs and SEFs will grow from 18 at the end of FY 2012 to approximately 30 during FY 2014. Adequate coverage for routine and "for cause" examinations of the trading entities is essential to protect market participants.

**Enforcement**

- The Commission has the authority to: 1) Shut down fraudulent operations and immediately preserve customer assets through asset freeze and receivership orders, 2) Terminate manipulative and disruptive schemes, 3) Bar defendants from trading and being registered in its markets, and 4) Seek restitution, disgorgement and monetary penalties up to the greater of three times the amount of a defendant's gain or a fixed statutory amount. Commensurate with the Commission's experience with the RFEDs, registration-related enforcement actions are likely to be the "first wave" as new entities fail to comply with the new regulations for swap dealers and major swap participants. Given the large number of new entities (swap dealers, MSPs, and soon SEFs), additional resources will be needed to effectively police the new regulatory space.
- Innovative products and practices within the industry, coupled with new anti-manipulation authority in the swaps and futures markets and the statutory prohibition on disruptive trading, the Commission anticipates more time-intensive and inherently complex investigations. In order to investigate and litigate market-wide violations and those less complex but equally important retail fraud cases, the number of specialized enforcement experts must increase.
- The Commission also foresees an increase in multi-jurisdictional and multi-national investigations given the global nature of the swaps marketplace and the challenges associated with substitute compliance. The Commission is also experiencing an increase in international enforcement investigations in its traditional markets (the most significant being the international benchmark rate rigging cases). These cases are inherently more resource intensive due to increased costs for travel, translations, and coordination.

### Industry Trend 3: Intermediaries are Investing in New Business Processes and Technology.

The application of CEA core principles related to business conduct standards, reporting, and recordkeeping standards and requirements to swap dealers, major swap participants, and end-users requires varying degrees of business process and technological changes. Large financial institutions have a high level of sophistication under prudential regulation, but may have a high-level of fragmentation in internal order, trade, and settlement information systems. Smaller entities, including some end-users, might have little to no experience under regulation (outside of accounting and auditing standards) but have such a low transaction volume that only a single information management system is in place. The Dodd-Frank business conduct standards attempt to move all the players to best practices of customer interaction, corporate governance, and recordkeeping. Likewise, Dodd-Frank reporting requirements may lead to changes to operations, infrastructure, and internal processes in order to move end-of-day transaction entry, confirmation, and reporting systems to an efficient real-time activity. Critical to ensuring registrants' compliance with CEA core principles and CFTC's regulations is the examinations mission activity.

#### **Examinations**

- Examinations are formal, structured assessments of regulated entities' operations or oversight programs to assess on-going compliance with statutory and regulatory mandates. Regular examinations are the most effective method of ensuring that the entities' are complying with the core principles established in the CEA (as amended). Reviews of registered intermediaries ensure compliance with mandated standards regarding the fitness and conduct necessary to ensure the protection of market participants and the financial soundness of the market. Examinations are performed by multi-disciplinary teams of attorneys, risk analysts and accountants depending on the scope and entity.
- Examinations of FCMs' and RFEDs' compliance with applicable capital, segregation, and financial reporting requirements help ensure that markets are protected from systemic risk and that the funds belonging to customers are protected from loss.
- The Commission will evaluate NFA methodologies and processes for monitoring CPO and CTA compliance with CEA and Commission regulations.
- Oversight of the financial surveillance and compliance programs of DSROs are designed to ensure that the DSROs are effectively monitoring the financial integrity of market intermediaries and protecting customer funds.
- The Commission will require resources to work closely with NFA, in its role as first-line regulator, on the development of a comprehensive program for the oversight and assessment of SD and MSP compliance. The program will be administered by the NFA. In addition, the CFTC will need additional subject matter experts to conduct direct examinations of swap dealers and major swap participants, either jointly with NFA or independently.
- Limited scope direct examinations of key intermediaries, including FCMs, swap dealers, and MSPs, CPOs, and CTAs will become increasingly resource intensive to the Commission to ensure compliance with new rules related to customer protection. In addition, the Commission anticipates an increase in the number of registered intermediaries, including foreign institutions registering as swap dealers and MSPs, that will be sizable enough to warrant direct examinations.

**FY 2014 President's Budget & Performance Plan**

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- The Commission will likewise perform direct reviews of the DSRO examinations programs. The reviews will include an assessment of the DSRO's oversight of member compliance with minimum financial and related reporting requirements, as well as certain non-financial requirements including disciplinary programs. The results of these reviews will be used to identify areas of weakness and develop solutions for improvement.
- The Commission's examinations expertise will need to be expanded to examine SDRs' electronic systems accessibility by reporting counterparties, including swap dealers, MSPs, and other market participants. In addition, CFTC examinations will address SDR compliance with their responsibilities to notify the Commission in instances of untimely reporting of swap transaction data, including off-facility transactions, from reporting counterparties.

## Industry Trend 4: Heightened Risk Management Practices Seek to Lower Institutional Risk at Clearinghouses.

Fundamental to the Dodd-Frank Act was heightened risk management requirements for swap counterparties. Market participants have moved to central clearing of standardized swaps prior to CFTC mandatory clearing determinations (the first of which go into effect imminently), reducing transaction risk to counterparties. Under Dodd-Frank Act, cleared swaps customers are required to post initial and variation margin (collateral) through their FCM (or Clearing Member) to avoid the accumulation of large gain and/or loss obligations. Complementary margin requirements are under consideration for uncleared swaps. In addition to posting collateral, non-bank swap dealers and MSPs are also required to hold minimum levels of capital under Section 731 of the Dodd-Frank Act. These capital and margin requirements (along with those regulators) are intended to reduce swaps-related systemic risk in the global financial system. CFTC has new responsibilities in this new environment, primarily in risk and financial surveillance and examinations.

### Surveillance (Risk and Financial)

- The CFTC faces a number of challenges with its new jurisdiction related to swaps. Foremost, the notional value of cleared swaps is estimated to be on the order of a factor of seven times that of futures and options. This fact alone demonstrates the need to apply significant resources to financial and risk surveillance of swaps market participants, in addition to maintaining (if not increasing) surveillance of futures and options market participants.
- In addition, unlike futures margin setting, where each CFTC-registered DCO uses the same methodology to margin positions, each DCO margining swaps positions will be using a unique margin methodology and a unique way to stress test positions. The Commission will need to develop expertise and automated tools to analyze margin requirements; determine price impact on portfolios; conduct margin trend analyses and back testing; and stress test swaps positions—including interest rate, energy and credit default swaps. Evaluating DCO models in a quantitative and systematic manner is critical based upon the value of the cleared swaps themselves and the commensurately higher risk now transferred to the clearing houses. The CFTC has had limited requirement for such capabilities and will be in competition for the requisite talent with its regulated entities.
- Ensuring that swap dealers and MSPs have sufficient capital to appropriately meet credit risk and market risk requirements will require similar capabilities within the CFTC to make informed decisions on the internal models used by swap dealers and MSPs to compute credit risk and market risk capital requirements.
- The Commission is also seeking to enhance its software and automated tools to accommodate its enhanced surveillance responsibilities.
- The technology (data and processes) required for surveillance of swaps markets differ from those required for futures and options markets, and differ 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.



**Examinations**

- DCOs that are determined to be systemically important under Title VIII of the Dodd-Frank Act must comply with heightened risk management and prudential standards concerning payment, clearing, and settlement supervision. Title VII requires mandatory annual examinations of systemically important DCOs to review the entities' adherence to these heightened standards. Title VIII also requires ongoing consultation between the CFTC, the SEC, and the Board of Governors of the Federal Reserve System, including the scope and methodology of planning examinations of systemically important entities. The Commission is the Supervisory Agency (primary regulator) for two DCOs that have been determined to be systemically important<sup>26</sup>. The Commission currently does not have adequate resources to perform this responsibility and maintain adequate oversight of the other significant entities within its jurisdiction.
- Direct examinations of swap dealers and MSPs to assess their compliance with financial requirements will also require additional resources and expertise.

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<sup>26</sup> As of 2/8/2013

## Industry Trend 5: Market Participants Need to Manage Large Volumes of Data in Order to Adapt to Evolving Derivatives Environment

Data, and the ability to analyze and report data, is now more important than ever in the financial industry. To remain competitive and viable, firms must aggregate data from across asset classes, access data from a wide variety of data sources and markets, calculate real-time risk analytics, and optimize collateral / margin requirements. For example, the low-tech, high-touch bilateral voice transactions era for swaps trading has begun to make way to electronic trading and clearing. Furthermore, Dodd Frank regulations require additional data reporting requirements in order to remain compliant. These changes in the marketplace are requiring additional investments in technology and data infrastructures as well as business processes. The complexities of adapting to these changes present technical, operational, and business process challenges and opportunities to the industry. 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 a first line regulator. While all CFTC mission activities are impacted, CFTC's biggest requirements are in the surveillance and data infrastructure activities

### **Surveillance (Market, Financial and Risk, and Business Analytics)**

- The Commission performs three broad types of surveillance: market, financial and risk, and business analytics. All three types of surveillance will require additional resources to support the new regulatory regime.
- Market oversight and surveillance, in particular, are dependent on the ability to acquire large volumes of data and the development of sophisticated analytics to identify trends and/or outlying events that warrant further investigation.
- Equally important to CFTC's surveillance activities is the need for subject matter experts, to interpret the output of automated surveillance systems. Benefits of the balance between human expertise and technology investments will depend of the need to:
  - Develop new surveillance approaches that will be subsequently operationalized;
  - Analyze data and focus on participants, issues, and trends that have the biggest market impact; and
  - Record, track, and refer potential violations to other divisions (*e.g.*, enforcement) to ensure appropriate follow-up.
- Increasing availability of price information and electronic trade and settlement activity will create the need for analytic capability across the Commission's surveillance areas.

**Data Infrastructure**

- Currently CFTC extracts, transforms, and loads more than half a billion rows of data per day in support of business analytics, including:
  - Trade record data (every trade on every futures exchange);
  - Large-Trader end-of-day position data;
  - SDR data, including primary economic terms, confirmations, and open swaps positions;
  - Price, volume, and open interest data for futures, options, and swaps risk array data from DCOs;
  - Margin data from DCOs for individual counterparties and clearing members;
  - Segregation Information from DCOs;
  - Product reference data from DCMs;
  - Swap and futures account identification data; and
  - Registration data.
- Data understanding and ingestion is the first priority for the Commission's resources in data infrastructure. The CFTC has an imperative to aggregate various types of data from multiple industry sources (*e.g.*, DCMs, SDRs, and DCOs) across multiple markets (*e.g.*, futures, exchange-traded swaps, and off-exchange swaps. The new swaps data is an order of magnitude more complex than futures, independent of notional value). The increasing complexity, volume, and interrelations of the data set will require significantly more powerful hardware such as massively parallel processing systems to support business analytics.
- Data related to this aggregated market is expanding in size, shape, and complexity and industry adaptation to the Dodd-Frank environment cannot be precisely predicted. Receipt and analysis of the first wave of registrant reporting will give Commission staff insight into the markets, which can be used to firm-up requirements and designs for internal surveillance systems. Likewise, the same business analytics tools used for data understanding and ad hoc mining of mature datasets will also be used to automate transparency reporting.
- Ensuring data quality, consistency, and standardization is an important component in enabling accurate data analytics to support the Commission's surveillance activities. Implementation of internationally acceptable and used data standards is key for regulators around the globe to aggregate, analyze, and measure risk. The Commission will require both subject matter expertise and technology to fulfill these requirements. This capability must include the ability to define standards for data submission by firms and ingestion by CFTC, managing data quality through a combination of automated and expertise validation, and the creation of automated feedback loops with industry data sources.

## APPENDIX 5

### Overview of Planned Objectives by Strategic Goal

The Commission allocates budgetary resources by Strategic Goal in accordance with the Government Performance and Results Act (GPRA). The Dodd-Frank reforms passed on July 21, 2010 will require a thorough review of the Commission's Strategic Goals structure and an update of those Goals and or at the least the underlying outcomes objectives and business processes. Since that process is not yet complete this budget allocates resources under the structure of the Commission's current strategic plan, incorporating where appropriated, new responsibilities flowing from Dodd-Frank.

The CFTC FY 2011 – 2015 Strategic Plan was issued February 2011. The issuance of the CFTC Strategic Plan creates a unique situation in that the mission expanding the Dodd-Frank Act was passed in July 2010.

The goals of the CFTC largely remain the same with the regulation of swaps being incorporated within the regulatory structure currently applied to the futures and options markets. The CFTC's primary focus will be to write the rules to regulate the swaps markets, implement those rules, test and adjust those rules and write new rules as necessary to bring effective regulation to all derivatives markets over the next five years.

The Dodd-Frank Act will greatly increase the scope of regulation by the CFTC by bringing oversight to the swaps marketplace. The regulation of the swaps markets included in the Dodd-Frank Act builds upon:

- the Commission's strengths applicable to oversight of the futures markets;
- the benefits of clearing in the futures markets;
- the transparency and price discovery that centralized trading brings to the futures markets;
- the concept that intermediaries should be regulated to lower risk in the markets; and,
- the understanding that effective oversight can only be accomplished if the regulator has access to all relevant information about activity in the markets.

Summary of Goals, Objectives, and Strategies	
Goal One: <i>Protect the public and market participants by ensuring market integrity, promoting transparency, competition and fairness and lowering risk in the system.</i>	
Objective	Strategy
<b>1.1 Ensure that markets are structured to reflect the forces of supply and demand for the underlying commodity and are free from manipulation, disruptive activity and abusive trading practices.</b>	<ol style="list-style-type: none"> <li>1. Develop automated surveillance systems to monitor market conditions and trader activity, and develop an alert and case management system to identify and track potential trading violations.</li> <li>2. Review and update the content requirements of currently used trader reporting forms and identify potential new reporting forms or methods.</li> <li>3. Increase efficiency and reduce errors through the adoption of electronic filing of CFTC reporting forms.</li> <li>4. Review all contracts that have significant market impact for compliance with Core Principles in a timely manner.</li> <li>5. Timely review of new rules and rule changes for compliance with Core Principles.</li> <li>6. Ensure that new exchanges adopt rules that comply with Core Principles.</li> </ol>

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<b>1.2 Ensure that U.S. DCMs and SEFs have the systems, procedures and resources necessary for effective self-regulation and ongoing compliance with Core Principles.</b>	<ol style="list-style-type: none"> <li>1. Conduct examinations of individual DCMs and SEFs to ensure the structural sufficiency of their self-regulatory and Core Principle compliance programs.</li> <li>2. Conduct regular reviews of DCMs' and SEFs' automated systems and business continuity and disaster recovery programs for compliance with Core Principles related to market continuity.</li> </ol>
<b>1.3 Promote transparency by producing and publishing summary market statistics for the futures, options and swaps markets.</b>	<ol style="list-style-type: none"> <li>1. Develop and publish swaps market reports.</li> </ol>
<b>Goal Two: <i>Protect the public and market participants by ensuring the financial integrity of derivatives transactions, mitigation of systemic risk, and the fitness and soundness of intermediaries and other registrants.</i></b>	
<b>Objective</b>	<b>Strategy</b>
<b>2.1 Clearing organizations and firms participating in the derivatives industry are financially sound.</b>	<ol style="list-style-type: none"> <li>1. Monitor, review and assess SIDCOs &amp; DCOs' compliance with Core Principles.</li> <li>2. Review and assess designated contract markets' applications for compliance with the financial integrity provisions of the CEA.</li> <li>3. Review swaps submitted to the Commission for a determination regarding whether such swaps are required to be cleared.</li> <li>4. Review new rules and rule amendments submitted by DCOs.</li> <li>5. Review and analyze financial risks on large trader and clearing member positions and determine whether they are being appropriately managed by traders, firms and DCOs.</li> <li>6. Conduct risk reviews of large traders and clearing members.</li> </ol>
<b>2.2 Registered intermediaries meet standards for fitness and conduct.</b>	<ol style="list-style-type: none"> <li>1. Review Swap Dealers and Major Swap Participants to ensure that they comply with the CEA and Commission regulations.</li> <li>2. Review RFAs to ensure they fulfill their statutory and delegated responsibilities.</li> <li>3. Conduct risk-based examination of intermediaries not holding customer funds to ensure they are in compliance with Commission requirements.</li> </ol>
<b>2.3 Ensure that self-regulatory organizations fulfill their financial surveillance responsibilities.</b>	<ol style="list-style-type: none"> <li>1. Conduct oversight of the financial surveillance programs of SROs.</li> </ol>
<b>2.4 Ensure that information technology systems support the Commission's existing and expanded responsibilities to ensure financially sound markets, mitigate systemic risk, and monitor</b>	<ol style="list-style-type: none"> <li>1. Deliver technology infrastructure, systems, and services that support the financial integrity of derivatives transactions, the mitigation of systemic risk, and the fitness and soundness of intermediaries.</li> </ol>

intermediaries.	
<b>Goal Three: <i>Protect the public and market participants through a robust enforcement program.</i></b>	
<b>Objective</b>	<b>Strategy</b>
<b>3.1 Identify and stop violations of the Commodity Exchange Act and Regulations; deter others from engaging in future misconduct.</b>	1. Investigate and prosecute potential violations of the Commodity Exchange Act and Commission Regulations.
<b>3.2 Increase cooperative enforcement.</b>	1. Leverage resources through active cooperative enforcement with domestic entities.
<b>Goal Four: <i>Enhance integrity of U.S. markets by engaging in cross-border cooperation, promoting strong international regulatory standards, and encouraging ongoing convergence of laws and regulation worldwide.</i></b>	
<b>Objective</b>	<b>Strategy</b>
<b>4.1 Cooperate and coordinate with domestic and foreign regulatory authorities.</b>	1. Develop arrangements for expeditious cooperation with foreign governments.
<b>4.2 Promote high levels of internationally accepted standards of best practice.</b>	1. Promote high-quality principles internationally.
<b>4.3 Provide Global Technical Assistance.</b>	1. Provide technical assistance to foreign regulators.
<b>Goal Five: <i>Promote Commission excellence through executive direction and leadership, organizational and individual performance management, and effective management of resources.</i></b>	
<b>Objective</b>	<b>Strategy</b>
<b>5.1 An organizational structure that is aligned and streamlined to operate and carry out its mission efficiently and effectively.</b>	1. Ensure organizational structure best reflects the needs of the CFTC.

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<b>5.2 Effectively respond to a the regulatory needs of a dynamic and complex derivatives market place and efficiently allocate limited resources to the highest priority activities.</b>	<ol style="list-style-type: none"><li>1. Develop and implement a set of integrated Strategic, Budget and Operating Plan processes.</li></ol>
<b>5.3 Attract, engage, develop and retain an exceptionally qualified, diverse, and productive workforce.</b>	<ol style="list-style-type: none"><li>1. Assess, develop and implement automated hiring system.</li><li>2. Develop, implement, execute and sustain a workplace that is top in its class.</li><li>3. Develop, implement and execute a robust learning program.</li></ol>
<b>5.4 Information Technology (IT) supports and enhances mission accomplishment through effective and efficient infrastructure, systems and services.</b>	<ol style="list-style-type: none"><li>1. Ensure the highest practical return on both business and IT investments.</li><li>2. Facilitate the usefulness and usage of information, increasing its availability, ensuring quality and reducing staff time necessary to analyze relevant data.</li><li>3. Automate key business processes.</li></ol>
<b>5.5 Ensure effective stewardship and management of CFTC financial resources.</b>	<ol style="list-style-type: none"><li>1. Reengineer budget process accounting codes (BPAC).</li><li>2. Improve budget formulation and audit processes.</li><li>3. Implement web-based time and attendance system.</li></ol>

## **FY 2014 Planned Resources by Strategic Goal**

**Goal One: Protect the Public and Market Participants by Ensuring Market Integrity; Promoting Transparency; Competition and Fairness; and Lowering Risk in the System.**

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

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



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### Breakout of Goal One Request by Mission Activity

	FY 2013 Budget		FY 2014 Request		Change	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
<b>GOAL ONE: Protect the public and market participants by ensuring market integrity; promoting transparency; competition and fairness; and lowering risk in the system.</b>						
<b>Mission Activities</b>						
Registration and Registration Compliance	\$17,640	69	\$11,430	42	-\$6,210	-27
Product Reviews	7,520	30	5,720	22	-1,800	-8
Surveillance, including Data Acquisition & Analytics	47,670	143	45,550	123	-2,120	-20
Examinations	3,460	14	11,410	47	7,950	33
Enforcement	0	0	0	0	0	0
Economic and Legal Analysis	9,570	39	8,540	34	-1,030	-5
International Policy Coordination	0	0	0	0	0	0
Data Infrastructure and Technology Support	0	0	0	0	0	0
Agency Direction, Management and Administrative Support	5,160	22	5,010	21	-150	-1
<b>Total Goal One</b>	<b>\$91,020</b>	<b>317</b>	<b>\$87,660</b>	<b>289</b>	<b>-\$3,360</b>	<b>-28</b>

Table 32: Breakout of Goal One by Mission Activity

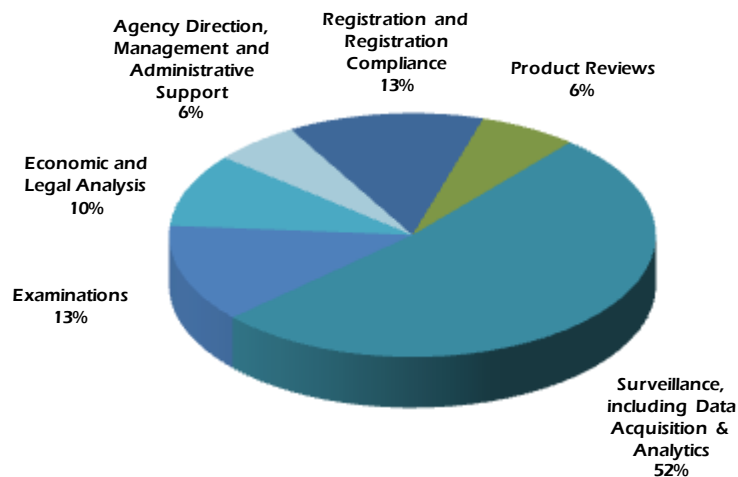


Figure 28: Breakout of Goal One Request by Mission Activity

Breakout of Goal One Request by Division

	FY 2013 Budget \$ (000)	FTE	FY 2014 Request \$ (000)	FTE	Change \$ (000)	FTE
Agency Direction	\$2,110	9	\$1,910	8	\$-200	-1
Administrative Mgmt. & Support	3,050	13	3,100	13	50	0
Chief Economist	3,280	14	2,860	12	-420	-2
Clearing & Risk	0	0	0	0	0	0
Data & Technology	27,950	48	30,200	48	2,250	0
Enforcement	0	0	0	0	0	0
General Counsel	7,030	30	7,390	31	360	1
International Affairs	0	0	0	0	0	0
Inspector General	0	0	0	0	0	0
Market Oversight	47,600	203	42,200	177	-5,400	-26
Swap Dealer & Intermediary Oversight	0	0	0	0	0	0
<b>TOTAL:</b>	<b>\$91,020</b>	<b>317</b>	<b>\$87,660</b>	<b>289</b>	<b>-\$3,360</b>	<b>-28</b>

Table 33: Breakout of Goal One Request by Division

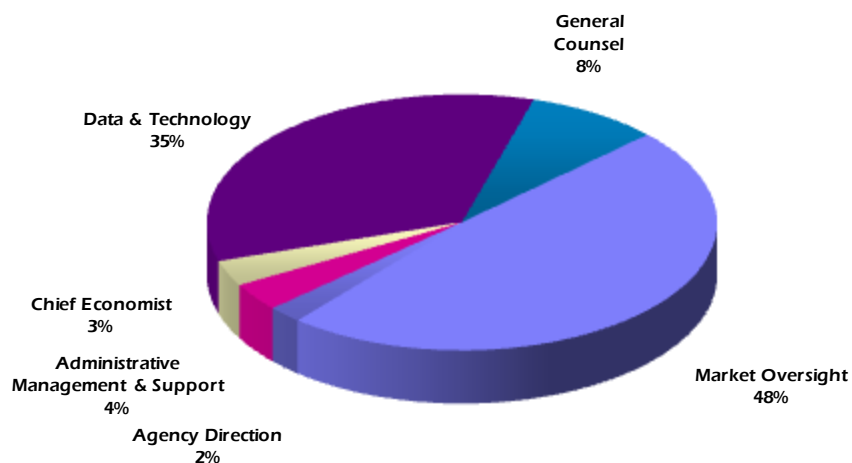


Figure 29: Breakout of Goal One Request by Division

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

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

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

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

With the implementation of the Dodd-Frank Act, the Commission has substantially greater responsibilities, including oversight of newly registered derivatives dealers, as well as implementation of enhanced compliance requirements for intermediaries and new core principle requirements for DCOs. The Commission also will be responsible for determining the initial eligibility or the continuing qualification of a DCO to clear swaps, as well as for the review of swaps submitted to the Commission for a determination as to whether the swaps are required to be cleared. The Commission also will be implementing new statutory provisions regarding review of new rules and rule amendments submitted by DCOs. In addition, the scope of the Commission's reviews of DCOs, DSROs, and intermediaries will be expanded to include swap transactions and swap intermediaries.

## Breakout of Goal Two Request by Mission Activity

	FY 2013 Budget		FY 2014 Request		Change	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
<b><i>GOAL TWO: Protect the public and market participants by ensuring the financial integrity of derivatives transactions, mitigation of systemic risk, and the fitness and soundness of intermediaries and other registrants.</i></b>						
<b>Mission Activities</b>						
Registration and Registration Compliance	\$14,120	54	\$16,920	65	\$2,800	11
Product Reviews	4,940	19	4,770	18	-170	-1
Surveillance, including Data Acquisition & Analytics	16,190	54	16,210	51	20	-3
Examinations	26,980	115	32,900	138	5,920	23
Enforcement	0	0	0	0	0	0
Economic and Legal Analysis	10,980	45	11,160	45	180	0
International Policy Coordination	230	1	0	0	-230	-1
Data Infrastructure and Technology Support	0	0	0	0	0	0
Agency Direction, Management and Administrative Support	5,160	22	5,010	21	-150	-1
<b>Total Goal Two</b>	<b>\$78,600</b>	<b>310</b>	<b>\$86,970</b>	<b>338</b>	<b>\$8,370</b>	<b>28</b>

Table 34: Breakout of Goal Two by Mission Activity

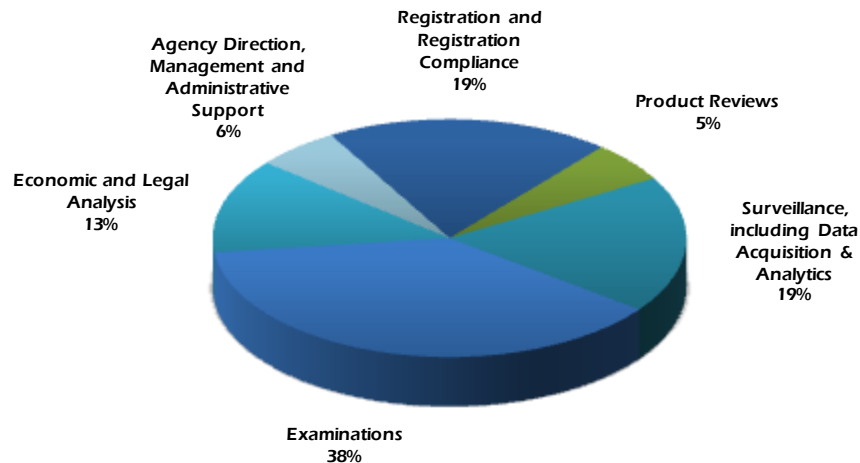


Figure 30: Breakout of Goal Two Request by Mission Activity

## FY 2014 President's Budget & Performance Plan

### Breakout of Goal Two Request by Division

	FY 2013 Budget \$ (000)	FTE	FY 2014 Request \$ (000)	FTE	Change \$ (000)	FTE
Agency Direction	\$2,110	9	\$1,910	8	\$-200	-1
Administrative Mgmt. & Support	3,050	13	3,100	13	50	0
Chief Economist	3,050	13	2,620	11	-430	-2
Clearing & Risk	23,920	102	26,940	113	3,020	11
Data & Technology	8,960	13	9,250	12	290	-1
Enforcement	0	0	0	0	0	0
General Counsel	7,030	30	6,680	28	-350	-2
International Affairs	0	0	0	0	0	0
Inspector General	0	0	0	0	0	0
Market Oversight	0	0	0	0	0	0
Swap Dealer & Intermediary Oversight	30,480	130	36,470	153	5,990	23
<b>TOTAL:</b>	<b>\$78,600</b>	<b>310</b>	<b>\$86,970</b>	<b>338</b>	<b>\$8,370</b>	<b>28</b>

Table 35: Breakout of Goal Two Request by Division

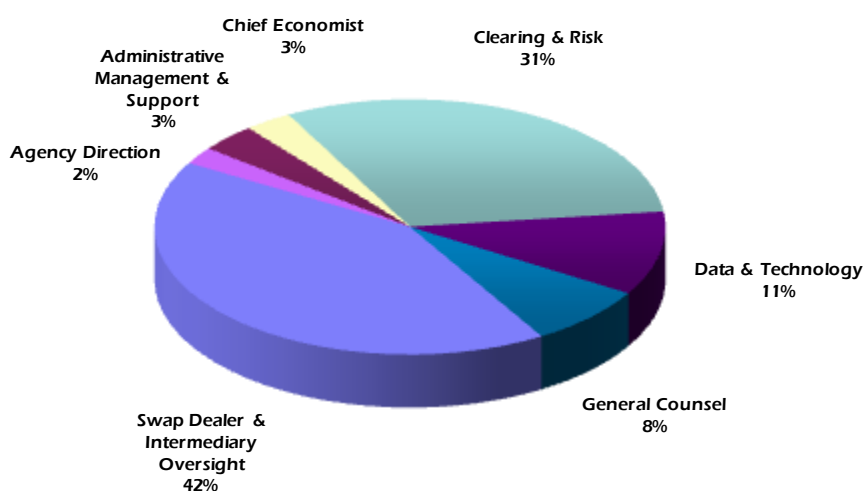


Figure 31: Breakout of Goal Two Request by Division

**Goal Three: Protect the public and market participants through a robust enforcement program.**

An increasing segment of the population has money invested in the derivatives markets, either directly or indirectly through pension funds or ownership of shares in publicly held companies that participate in the markets. Commission staff works to protect market users and the public by promoting compliance with and deterring violations of the CEA and Commission regulations. The range of available enforcement actions (including manipulation, disruptive trading practices and anti-fraud for example) will broaden beginning July 2011 when relevant provisions of the Dodd-Frank Act become effective. By providing a formalized structure and government oversight, the commodity laws carefully balance the desire for open, accessible and competitive markets with the need to protect market users.

This third strategic goal is to ensure that firms and individuals who come to the marketplace to fulfill their business and trading needs are in compliance with laws and regulations. In addition, market users and others must be protected from possible wrongdoing that may affect or tend to affect the integrity of the markets. The derivatives markets provide a great benefit to the U.S. economy; preserving the integrity of the markets ensures their continued vibrancy and promotes public confidence. Continuing IT investment in the eLaw program will support all Goal Three objectives by improving staff productivity, providing staff with a level IT playing field with those it investigates and effective tools to collaborate internally with oversight and clearing staff as well as with other regulators, and facilitating the use of information to identify high impact enforcement actions.

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### Breakout of Goal Three Request by Mission Activity

	FY 2013 Budget \$ (000)	FTE	FY 2014 Request \$ (000)	FTE	Change \$ (000)	FTE
<b>GOAL THREE: Protect the public and market participants through a robust enforcement program.</b>						
<b>Mission Activities</b>						
Registration and Registration Compliance	0	0	0	0	0	0
Product Reviews	0	0	0	0	0	0
Surveillance, including Data Acquisition & Analytics	0	0	0	0	0	0
Examinations	0	0	0	0	0	0
Enforcement	57,260	214	57,760	213	500	-1
Economic and Legal Analysis	3,170	14	3,770	14	600	0
International Policy Coordination	700	3	720	3	20	0
Data Infrastructure and Technology Support	0	0	0	0	0	0
Agency Direction, Management and Administrative Support	5,160	22	5,010	21	-150	-1
<b>Total Goal Three</b>	<b>\$66,830</b>	<b>253</b>	<b>\$67,260</b>	<b>251</b>	<b>\$430</b>	<b>-2</b>

Table 36: Breakout of Goal Three by Mission Activity

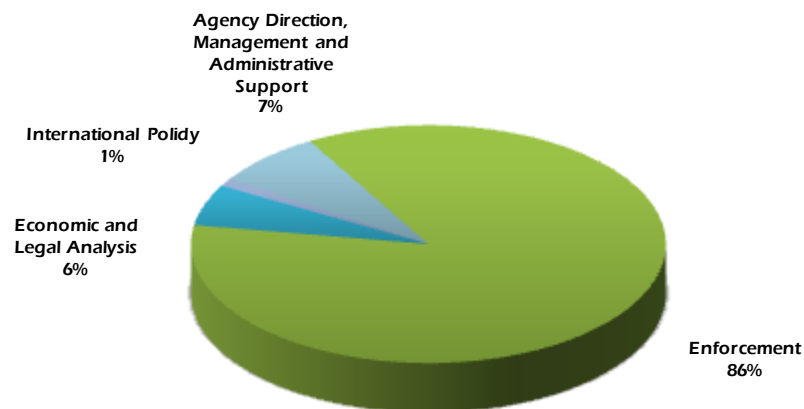


Figure 32: Breakout of Goal Three Request by Mission Activity

Breakout of Goal Three Request by Division

	FY 2013 Budget \$ (000)	FTE	FY 2014 Request \$ (000)	FTE	Change \$ (000)	FTE
Agency Direction	\$2,110	9	\$1,910	8	-\$200	-1
Administrative Mgmt. & Support	3,050	13	3,100	13	50	0
Chief Economist	470	2	480	2	8	0
Clearing & Risk	0	0	0	0	0	0
Data & Technology	9,140	7	9,080	7	-60	0
Enforcement	50,190	214	51,260	215	1,070	1
General Counsel	1,170	5	1,430	6	260	1
International Affairs	0	0	0	0	0	0
Inspector General	0	0	0	0	0	0
Market Oversight	700	3	0	0	-700	-3
Swap Dealer & Intermediary Oversight	0	0	0	0	0	0
<b>TOTAL:</b>	<b>\$66,830</b>	<b>253</b>	<b>\$67,260</b>	<b>251</b>	<b>\$430</b>	<b>-2</b>

Table 37: Breakout of Goal Three by Division

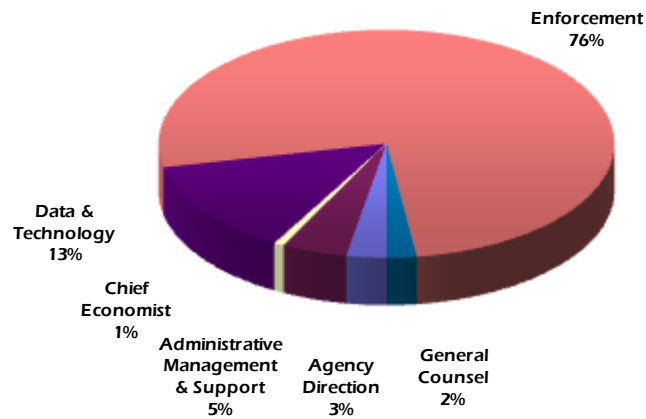


Figure 33: Breakout of Goal Three Request by Division



**FY 2014 President's Budget & Performance Plan**

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

The Commission recognizes that markets are global as the result of electronic access, linkages, mergers, and cooperative business arrangements. The CFTC historically has supported programs that facilitate cross-border access to markets and products, such as our recognition program for intermediaries and our registration category for FBOTs. Both of these programs are based on recognition of foreign home country regulators that comparably and comprehensively provide oversight, allowing the CFTC to rely on this foreign regulation. These programs reflect our understanding that no one regulator alone will have all of the information or authority to supervise global business.

Effective regulation requires international coordination and necessitates that the Commission cooperate with foreign market authorities to supervise U.S. markets and protect U.S. customers. Additionally, the Commission works closely with relevant international organizations to promote high-quality derivatives regulation worldwide and convergence where possible. The CFTC also provides technical assistance to emerging and recently-emerged markets to help these jurisdictions in establishing and implementing laws and regulations that foster global market integrity.

The Dodd-Frank Act increases the need for international outreach. Section 752 of the Dodd-Frank Act states that the Commission “shall consult and coordinate” with foreign authorities to establish “consistent international standards” regarding regulation of swaps. Many of the new entities subject to regulation under the Dodd-Frank Act are located abroad and the Commission will closely coordinate with foreign regulators in order to supervise these global entities.

## Breakout of Goal Four Request by Mission Activity

	FY 2013 Budget		FY 2014 Request		Change	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
<b>GOAL FOUR: Enhance integrity of U.S. markets by engaging in cross-border cooperation, promoting strong international regulatory standards, and encouraging ongoing convergence of laws and regulation worldwide.</b>						
<b>Mission Activities</b>						
Registration and Registration Compliance	0	0	0	0	0	0
Product Reviews	0	0	0	0	0	0
Surveillance, including Data Acquisition & Analytics	0	0	0	0	0	0
Examinations	0	0	0	0	0	0
Enforcement	0	0	0	0	0	0
Economic and Legal Analysis	610	2	620	2	10	0
International Policy Coordination	3,990	17	4,770	20	780	3
Data Infrastructure and Technology Support	0	0	0	0	0	0
Agency Direction, Management and Administrative Support	2,340	10	1,670	7	-670	-3
<b>Total Goal Four</b>	<b>\$6,940</b>	<b>29</b>	<b>\$7,060</b>	<b>29</b>	<b>\$120</b>	<b>0</b>

Table 38: Breakout of Goal Four by Mission Activity

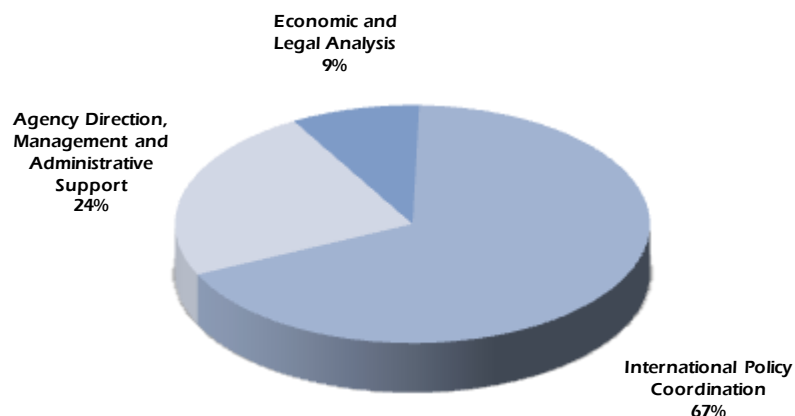


Figure 34: Breakout of Goal Four Request by Mission Activity

## FY 2014 President's Budget & Performance Plan

### Breakout of Goal Four Request by Division

	FY 2013 Budget \$ (000)	FTE	FY 2014 Request \$ (000)	FTE	Change \$ (000)	FTE
Agency Direction	\$1,410	6	\$720	3	-\$690	-3
Administrative Mgmt. & Support	940	4	950	4	10	0
Chief Economist	230	1	480	2	250	1
Clearing & Risk	0	0	0	0	0	0
Data & Technology	140	0	140	0	0	0
Enforcement	0	0	0	0	0	0
General Counsel	470	2	480	2	10	0
International Affairs	3,750	16	4,050	17	300	1
Inspector General	0	0	0	0	0	0
Market Oversight	0	0	0	0	0	0
Swap Dealer & Intermediary Oversight	0	0	240	1	240	1
<b>TOTAL:</b>	<b>\$6,940</b>	<b>29</b>	<b>\$7,060</b>	<b>29</b>	<b>\$120</b>	<b>0</b>

Table 39: Breakout of Goal Four by Division

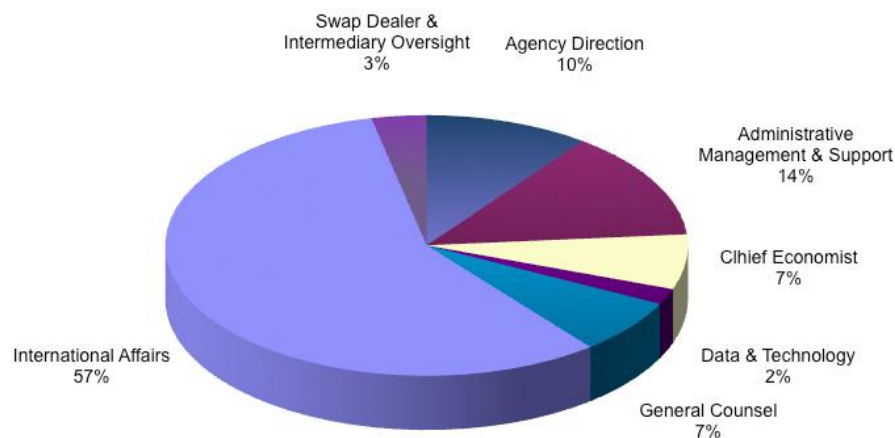


Figure 35: Breakout of Goal Four Request by Division

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

Commission excellence reflected in the achievement of the agency's strategic mission and goals depends on clear executive direction, strong and focused management, and a well-resourced, dedicated and productive workforce. These attributes of a high-performing organization combine to support and drive the critical work of the Commission to provide a sound regulatory oversight and enforcement program for the American people. To ensure the Commission's continued success, continuity of operations and adaptation to the ever-changing markets it is charged with regulating, the Commission must maintain a well-qualified workforce supported by a modern information technology infrastructure and working environment.

During the next five years, the Commission will develop and implement a host of rules many of which address the Dodd-Frank requirements and many of which will also alter and expand the Commission's mission and operation. To successfully develop, implement and manage these rules, the Commission requires unambiguous and timely direction, the right quantity and quality of staff, aligned in an optimal operating structure supported by the necessary training and development, tools and resources.

## FY 2014 President's Budget & Performance Plan

### Breakout of Goal Five Request by Mission Activity

	FY 2013 Budget		FY 2014 Request		Change	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
<b>GOAL FIVE: Promote Commission excellence through executive direction and leadership, organizational and individual performance management, and effective management of resources.</b>						
<b>Mission Activities</b>						
Registration and Registration Compliance	0	0	0	0	0	0
Product Reviews	0	0	0	0	0	0
Surveillance, including Data Acquisition & Analytics	0	0	0	0	0	0
Examinations	0	0	0	0	0	0
Enforcement	0	0	0	0	0	0
Economic and Legal Analysis	470	2	480	2	10	0
International Policy Coordination	0	0	0	0	0	0
Data Infrastructure and Technology Support	50,900	54	51,410	55	510	1
Agency Direction, Management and Administrative Support	13,240	50	14,160	51	920	1
<b>Total Goal Five</b>	<b>\$64,610</b>	<b>106</b>	<b>\$66,050</b>	<b>108</b>	<b>1,440</b>	<b>2</b>

Table 40: Breakout of Goal Five by Mission Activity

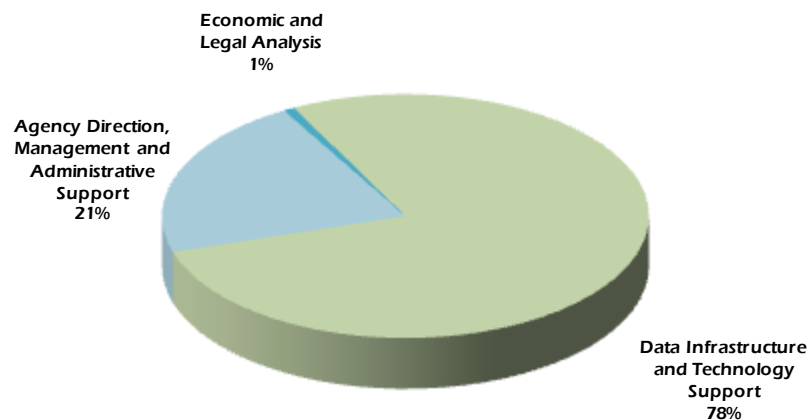


Figure 36: Breakout of Goal Five Request by Mission Activity

**Breakout of Goal Five Request by Division**

	FY 2013 Budget \$ (000)	FTE	FY 2014 Request \$ (000)	FTE	Change \$ (000)	FTE
Agency Direction	\$230	1	\$480	2	\$250	1
Administrative Mgmt. & Support	10,080	43	10,250	43	170	0
Chief Economist	0	0	0	0	0	0
Clearing & Risk	0	0	0	0	0	0
Data & Technology	52,420	54	53,410	55	990	1
Enforcement	0	0	0	0	0	0
General Counsel	470	2	480	2	10	0
International Affairs	0	0	0	0	0	0
Inspector General	1,410	6	1,430	6	20	0
Market Oversight	0	0	0	0	0	0
Swap Dealer & Intermediary Oversight	0	0	0	0	0	0
<b>TOTAL:</b>	<b>\$64,610</b>	<b>106</b>	<b>\$66,050</b>	<b>108</b>	<b>\$1,440</b>	<b>2</b>

Table 41: Breakout of Goal Five by Division

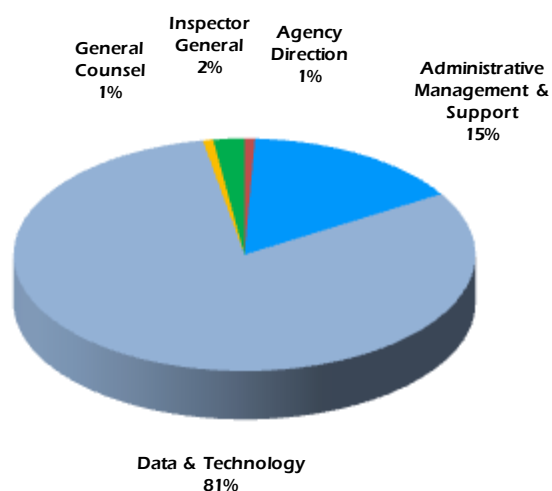


Figure 37: Breakout of Goal Five Request by Division

## **APPENDIX 6**

### **Privacy Policy for the CFTC Web Site**

#### **Web Site Privacy Policy**

The privacy of visitors to our website is of the utmost importance to the CFTC. You are not required to give us any personal information to visit our website. While we automatically collect certain data for statistical purposes, that data does not include your name, mailing or email address.

#### **Information Collected and Stored Automatically**

If you visit the CFTC website to read or download information, such as press releases or publications, we will collect and store certain technical information about your visit. We do not collect your name, email, mailing address or similar identifying information. We only collect the following:

- On your end, the name of the domain (the machine or website) from which you access the Internet (for example, aol.com if you are connecting from an America Online account) and/or the name and Internet Protocol (IP) address of the server you are using to access the CFTC website (the IP address is a series of numbers that identifies a server or computer connected to the Internet);
- The name and version of the web browser used to access a CFTC web page (for example, Microsoft Explorer or Firefox);
- On our side, the name and IP address of the CFTC server that received and logged the request;
- The date and time the request was received, and
- The information you are accessing (for example, which page or image you choose to read or download).

We use this information to measure the number of visitors to the different sections of our website, assess system performance and to help us make the website more useful to our visitors. In the event of a computer security incident, such data may be manually analyzed to allow computer security specialists to identify Internet service providers and, in extreme cases, to attempt to identify the specific computer and individual involved in an attack on the CFTC's website. The information below on "Intrusion Detection Monitoring" further explains this.

#### **Cookies**

The information being collected automatically, as explained above, is collected through the use of "session cookies" set through Google Analytics. "Session cookies" are small bits of text placed on a user's hard drive for the duration of a web session, *i.e.*, for as long as your browser is accessing the CFTC website at one time. As soon as you close the CFTC website, the cookie expires.

The CFTC does not use "persistent cookies," which are small bits of text saved on a user's hard drive in order to identify that user, or information about that user, the next time the user logs on the a web site. However, for some videos that are visible on <http://www.cftc.gov> or available on YouTube, a "persistent cookie" may be set by the third party providers when you click to play the video.

#### **If You Choose to Send Us Personal Information**

You may choose to send us information which personally identifies you. For example, you may complete an on-line form, send a complaint concerning a regulated person or entity, report suspicious activity, send a comment or input on a proposed rule, or email the CFTC through the website. Such information is used to respond to your request and to help us get you the information you have requested. We also use the information for the specific purposes identified on each form or on the web page requesting information.

For example, if you send us a comment letter on a proposed rule, that letter becomes part of the CFTC's comment file and generally is available to the public. The comments help the CFTC and other members of the public evaluate proposed Commission actions. If you register on <http://www.cftc.gov> and submit large trader data through the Position Entry for Reportable Traders application (PERT Online), this data will be used by the Commission for market oversight, *e.g.*, oversight of trader activities and enforcement of speculative position limits.

You may submit other forms to us, such as Freedom of Information Act requests or requests for correction of information. Such forms may contain information that CFTC staff use to track and respond to your request. Information you provide to the CFTC Division of Enforcement on our Report Suspicious Activities or Information form may be shared with other law enforcement or other Federal agencies when appropriate.

### **Sharing of Your Information**

If you choose to provide personal information, you are consenting to the CFTC's use of that information and permitting that it be shared with CFTC employees and contractors to conduct official business. Such employees and contractors are subject to confidentiality restrictions to protect your personal information. The information may also be shared by the CFTC with third parties to advance the purpose for which you provide the information, including law enforcement and other federal or state government agencies. Your information will only be used to perform official business for which it was collected. For example:

1. If you report suspicious activity that suggests a violation of the CEA, the information you have provided may be shared with law enforcement and other federal or state agencies. In this situation, the primary use of your PII would be to enable the government to contact you in the event we have questions regarding the information you have reported.
2. If you populate a Tip, Complaint or Referral (TCR) form to be considered as a whistleblower under the Dodd-Frank Act, the information you have provided may be disclosed to the Whistleblower Award Determination Panel, law enforcement, and other federal or state agencies. In this situation, the primary use of your PII would be to:
  - a. Evaluate the merit of an award;
  - b. Allow for the payment of monetary awards to eligible whistleblowers; and/or
  - c. Provide anti-retaliation protections for whistleblowers that share information with or assist the CFTC, as limited by the CEA.

Under certain circumstances, the CFTC may be required by law to disclose information you submit to other authorities for official purposes, for example, to respond to a Congressional inquiry or subpoena.

When you choose to send e-mail to the CFTC, you are consenting to the CFTC using the information provided therein, including PII, in accordance with this notice, unless you expressly state in the email your objection to any use.

Your personal information will be protected from misuse while in the possession of the CFTC. Management, operational and technical controls are in place with the goal of ensuring the confidentiality, availability, and integrity of the PII. If an incident or breach is suspected or confirmed involving sensitive personal information, contact will be made with all affected parties in a timely manner. The CFTC will then work with individuals to ensure swift and appropriate action is taken to mitigate risks.



## **Linking to Other Web sites**

We provide links to Federal and non-Federal websites if we think they may be useful to our visitors or necessary for the performance of agency functions. This includes commercial websites such as Facebook, Twitter, Flickr and YouTube.

When you follow a link to a non-CFTC website, you will first be directed to a web page that reminds you that you are leaving <http://www.cftc.gov> and that the website you are about to visit is not endorsed by the CFTC. These other websites are not within the CFTC's control. The CFTC does not guarantee the accuracy or completeness of any information on these sites. Be aware that the privacy protection provided to you on <http://www.cftc.gov> may not be available at the external link. Once you link to another site, you are subject to the policies of that site.

## **Use of Social Media Sites**

The CFTC uses Twitter, Facebook, Flickr, YouTube and other Social Media Sites as additional ways to provide information to the public and fulfill its mission of protecting market participants and the commodity and futures markets from fraud, manipulation and abusive practices. Flickr and YouTube allow the CFTC to post pictures and videos that may be of interest to the public. Facebook allows the Commission to reach out to a different audience, those who may not seek out <http://www.cftc.gov>. Twitter allows us to post microblogs known as "tweets," i.e., text-based posts of up to 140 characters. The tweets allow our Office of Public Affairs to quickly notify reporters, the public and other "followers" of a new press release, upcoming event or other information of interest.

Using these media, the CFTC will only collect, maintain, or disseminate personally identifiable information (PII) found on Social Media Sites (SMS) in two situations.

One, for Public Affairs purposes, comments about the CFTC on SMS pages may be reviewed internally, and for newsworthy posts, included in internally-circulated daily news clips with the author's name and affiliated organization if publicly-available. Two, for enforcement purposes, when necessary for an investigation or enforcement proceedings (such as suspected violations of the CEA or a threat of violence against the Commission), information obtained from the Internet may be collected and preserved. The information collected is offered to the Commission with consent or is from publicly-available sources on the Internet, except that in limited enforcement situations, when other investigative avenues are limited, a specifically approved Commission staff member may act as a member of the public by using a username and profile not affiliated with the CFTC to seek information about business opportunities that may violate the CEA, simulating the day-to-day customer experience.

Information collected for investigative purposes and to which the Privacy Act of 1974 applies is maintained in the Commission's investigatory or enforcement system of records. See CFTC System of Record Notice (SORN) CFTC-10, Investigatory Records (Exempted), and CFTC-16, Enforcement Case Files, at Federal Register, [76 Fed. Reg. 5973-6002 \(2011\)](#), as may be amended. To minimize privacy risks in this situation, a structured process is followed, very limited PII collected, only CFTC Internet users with a legitimate business "need to know" have access to this information, CFTC users have received specific training concerning the sensitivity of this type of information, and the CFTC provides public notice through this privacy policy, a Privacy Impact Assessment, and when feasible, a privacy notice on certain specific social media sites. See, e.g., [Internet and Social Media Use Privacy Impact Assessment](#) for details.

## **Security**

Personal information collected and maintained by the CFTC are protected from unauthorized access and misuse through comprehensive administrative, technical and physical security measures. Administrative measures include a privacy governance structure, mandatory annual privacy and security training for all CFTC employees, internal policies and controls over data handling practices, and regular auditing of systems. Technical security measures within CFTC include restrictions on computer access to authorized individuals, required use of strong passwords that are frequently

changed, use of encryption for certain data types and transfers, and regular review of security procedures and best practices to enhance security. Physical measures include restrictions on building access to authorized individuals only and maintaining records in lockable offices and filing cabinets.

### **Intrusion Detection Monitoring**

The CFTC uses software programs to monitor this website for security purposes to ensure it remains available to all users and to protect information in the system. By accessing this website, you are expressly consenting to these monitoring activities. Unauthorized attempts to defeat or circumvent security features; to use the system for other than intended purposes; to deny service to authorized users; to access, obtain, alter, damage, or to destroy information; or otherwise to interfere with the system or its operation are prohibited. Evidence of such acts may be disclosed to law enforcement authorities and result in criminal prosecution under the Computer Fraud and Abuse Act of 1986 and the National Information Infrastructure Protection Act of 1996, 18 USC 1030, or other applicable criminal laws. Except for authorized law enforcement investigations, no other attempts are made to identify individual users or their usage habits.

### **Other Privacy Information: Systems of Records Notices and Privacy Impact Assessments**

The CFTC regularly publishes information in the Federal Register on its systems of records maintained under the Privacy Act of 1974. See [CFTC Privacy Act Systems of Records Notices](#).

[CFTC Privacy Impact Assessments](#)

### **Questions About Privacy**

If you have questions about CFTC's privacy policy and information practices, you can email us at [privacy@cftc.gov](mailto:privacy@cftc.gov), or contact:

Chief Privacy Officer  
Commodity Futures Trading Commission  
1155 21st St., N.W.  
Washington DC 20581  
Phone: 202-418-5000  
Fax: 202-418-5532

## APPENDIX 7

### Table of Acronyms

AP	Associated Persons
CEA	Commodity Exchange Act
CFTC	Commodity Futures Trading Commission
CPO	Commodity Pool Operator
CTA	Commodity Trading Advisor
DCM	Designated Contract Market
DCO	Derivatives Clearing Organization
DCR	Division of Clearing and Risk (CFTC)
DMO	Division of Market Oversight (CFTC)
DOE	Division of Enforcement (CFTC)
DSIO	Division of Swaps and Intermediary Oversight (CFTC)
DSRO	Designated Self-Regulatory Organization
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
FBOT	Foreign Boards of Trade
FCM	Futures Commission Merchant
FOIA	Freedom of Information Act
FSOC	Financial Stability Oversight Council
FT	Floor Trader
FTE	Full-time Equivalent
FY	Fiscal Year
IB	Introducing Broker
IOSCO	International Organization of Securities Commissions
IT	Information Technology
MSP	Major Swap Participant
NFA	National Futures Association
OCC	Office of the Comptroller of the Currency
OCE	Office of Chief Economist (CFTC)
ODT	Office of Data and Technology (CFTC)
OGC	Office of the General Counsel (CFTC)
OMB	Office of Management and Budget
OTC	Other-the-Counter
RFED	Retail Foreign Exchange Dealers
SD	Swap Dealer
SDR	Swap Data Repository
SEC	Securities and Exchange Commission
SEF	Swap Execution Facility
SIDCO	Systemically Important Derivatives Clearing Organizations
SRO	Self-Regulatory Organization
USDA	United States Department of Agriculture
WBO	Whistleblower Office (CFTC)