Commodity Futures Trading Commission

FY 2008 President's Budget and Performance Plan

Prepared for the
Committee on Appropriations

February 2007

THE FY 2008 PRESIDENT'S BUDGET & PERFORMANCE PLAN

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FY 2008 President's Budget & Performance Plan—Figures and Tables

Summary & Highlight Statement

February 5, 2007

The Honorable Robert C. Byrd
Chairman
Committee on Appropriations
United States Senate
S-128 Capitol Building
Washington, D.C. 20510-6025

The Honorable David R. Obey
Chairman
Committee on Appropriations
United States House of Representatives
S-218 Capitol Building
Washington, D.C. 20515-6015

Dear Chairman Byrd and Chairman Obey:

I am pleased to transmit to you the Commodity Futures Trading Commission's (CFTC) Budget and Performance Estimate for FY 2008. This budget requests an appropriation of $116,000,000 and 475 staff-years, an increase of approximately $18,000,000 and 17 staff-years over the estimated FY 2007 appropriation of $98,000,000.

Congress created the CFTC in 1974 as an independent agency with the mandate to regulate commodity futures and option markets in the United States. The Commission's mandate was renewed and/or expanded in 1978, 1982, 1986, 1992, and 1995. In December 2000, the Commission was reauthorized by Congress and the President through FY 2005 with passage of the Commodity Futures and Modernization Act of 2000 (CFMA). Although the CFMA changed the Commission approach to regulation, the Commission mission remains the same. The CFTC continues to be responsible for fostering the economic utility of futures markets by encouraging their competitiveness and efficiency, ensuring their integrity, and protecting market participants against manipulation, abusive trading practices, and fraud. Through effective oversight regulation, the CFTC enables the commodity futures markets better to serve their vital function in the Nation's economy – providing a mechanism for price discovery and a means of offsetting price risks.

These trillion dollar futures markets, with massive economic force, are expanding steadily in both volume and new users and their complexity is rapidly evolving with new technologies, globalization, product innovation, and greater competition. In the past ten years trading volume has quintupled while Commission staffing levels have fallen significantly over the same time period. The funds requested will allow the Commission to hire critically needed staff, maintain the technological infrastructure, and acquire contractor assistance to keep pace with the volume and complexity of the burgeoning and dynamic futures markets. The Commission needs these funds simply to keep up with the industry we regulate. I respectfully submit that the additional sum requested in this budget is relatively small and needed to ensure the appropriate level of oversight.

Compared to the estimated FY 2007 appropriation, key changes in the FY 2008 Budget are:

> $3.1 million to provide for salary and expenses of 17 additional full-time equivalent staff-years (FTEs);
>
> $2.8 million to provide for increased compensation and benefit costs for a staff of 458 FTEs;
>
> $12.1 million to provide for increased operating costs for information technology modernization, lease of office space, and all other services.

The Administration will propose authorizing legislation to collect a transaction fee on all commodity futures and options contracts traded on approved futures and options exchanges. The proceeds from the fees would be returned to the general fund of the Treasury, to be used to offset the deficit impact of continuing to fund the Commission's operations through direct appropriations. They would not impact the discretionary spending allocations for the relevant Appropriations subcommittees. The complete Administration proposal is found in Appendix 7 of this document.

In accordance with the Commodity Exchange Act (CEA), copies of this submission are also being transmitted to the Senate and House Appropriations Committees, the Senate Committee on Agriculture, Nutrition, and Forestry, and the House Committee on Agriculture.

I would be happy to meet with you to discuss this budget request and to answer any questions you may have about this request.

Sincerely yours,

Reuben Jeffery III

cc:

The Honorable Tom Harkin
Chairman
Committee on Agriculture,
Nutrition, and Forestry
U.S. Senate
SR - 328A Russell Senate Office Building
Washington, D. C. 20510-6000

The Honorable Collin C. Peterson
Chairman
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D. C. 20515-6001

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The Commission and the Industry We Regulate

Indicators of Industry Growth Complexity

The charts that follow reflect many of the changes affecting the CFTC: 1) industry growth versus staff growth; 2) growth in actively traded futures and option contracts; 3) growth in foreign commodity trading; 4) registrants; 5) enforcement actions in energy and foreign currency (forex) markets; 6) contract markets designated by the CFTC; 7) CFTC-registered derivatives clearing organizations (DCOs); 8) exempt commercial markets (ECMs); 9) exempt boards of trade (XBOTs); and 10) customer funds held at futures commission merchants (FCMs).

The number of actively Growth in Volume of Futures & Option Contracts Traded & FTEs

In the last decade, trading volume has quintupled while staffing levels have decreased in recent years.

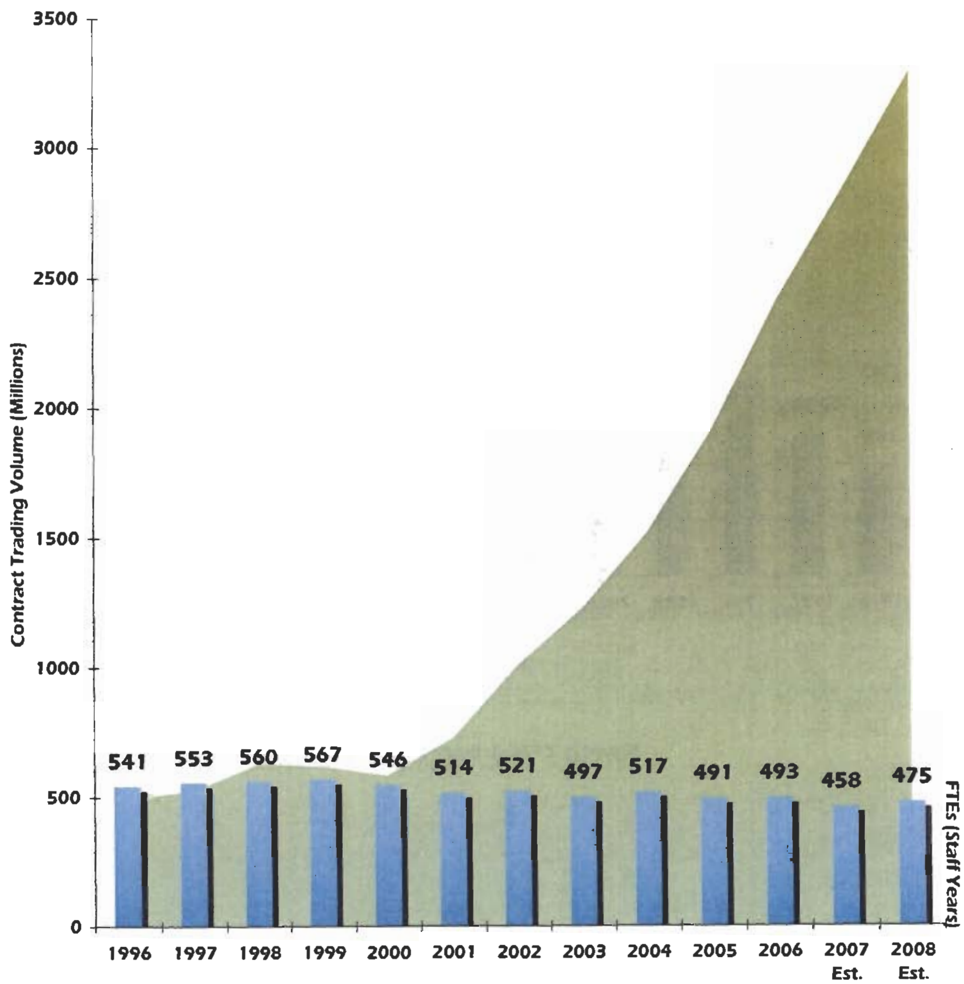

Figure 1: Growth of Volume of Contracts Traded and FTEs

Actively Traded Futures & Option Contracts

The number of actively traded contracts traded on U.S. exchanges has more than quintupled in the last decade. The number is expected to grow to over 1,500 contracts by FY 2008.

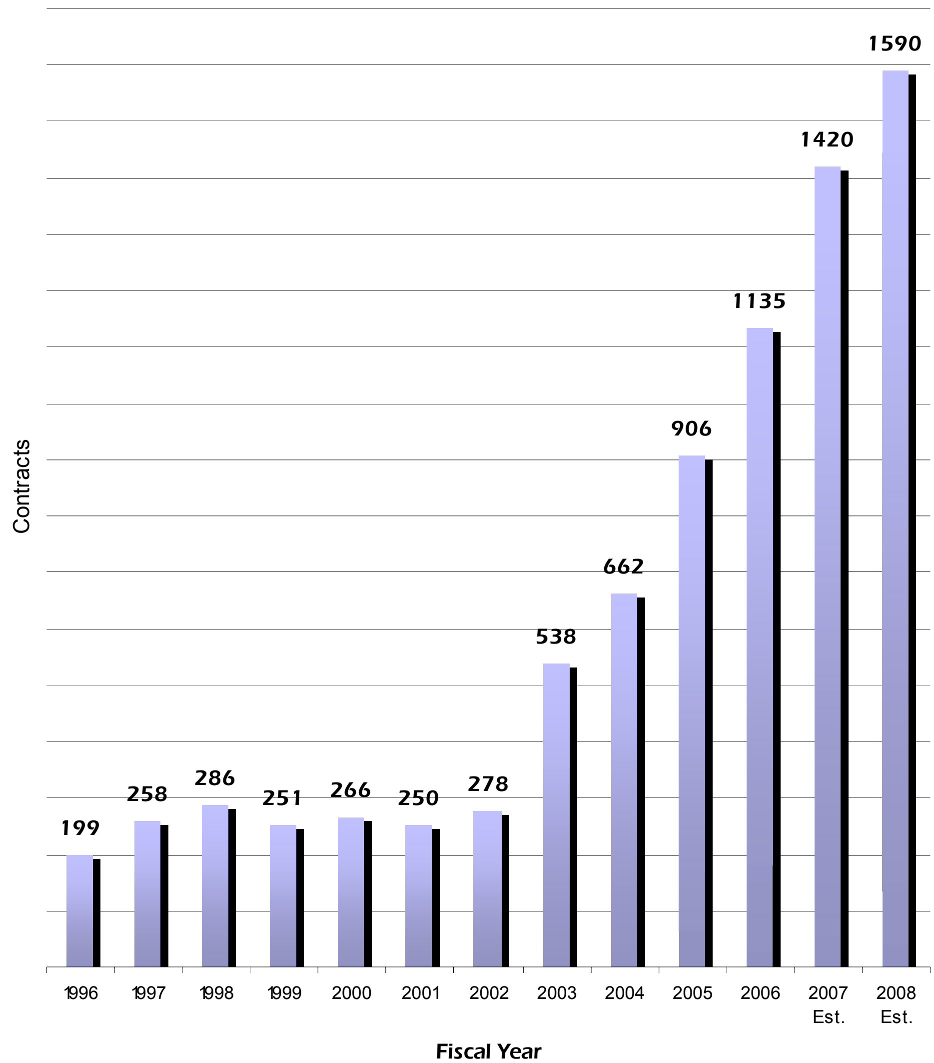

Figure 2: CFTC Actively Traded Contracts

Growth of Foreign Commodity Trading

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

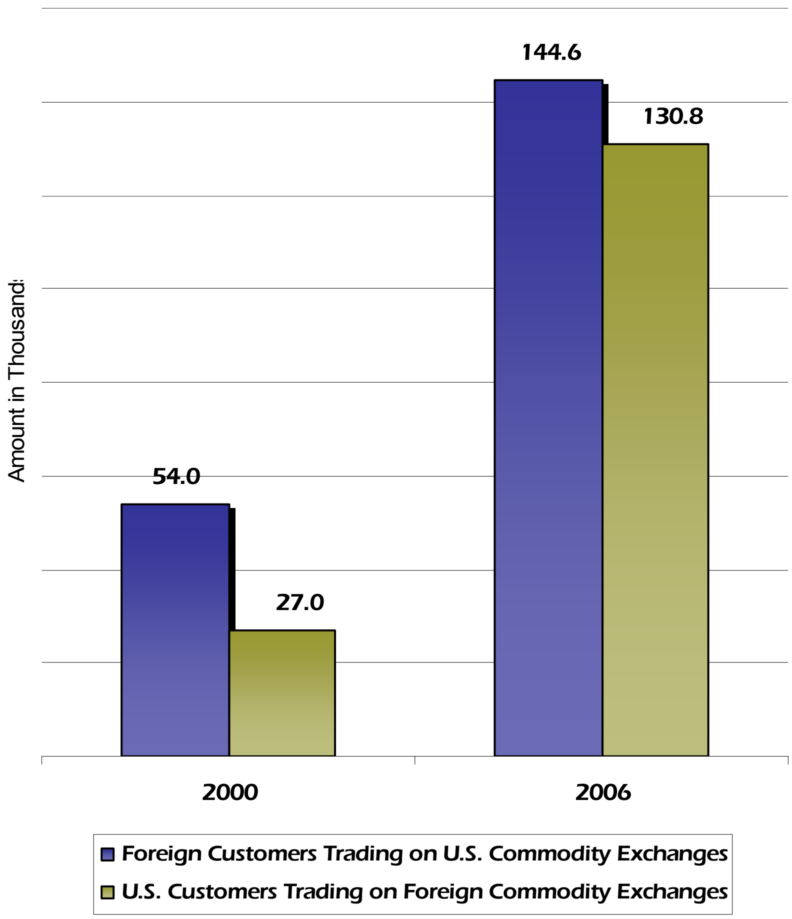

Figure 3: Foreign Commodity Trading

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 National Futures Association (NFA), a self-regulatory organization with delegated oversight authority from the Commission.

The Commission regulates the activities of over 70,000 registrants:

Type of Registered Professional	**Number as of September 30, 2006**
Associated Persons (AP) (Sales People)	*54,258*
Commodity Pool Operators (CPOs)	*1,570*
Commodity Trading Advisors (CTAs)	*2,589*
Floor Brokers (FBs)	*8,203*
Floor Traders (FTs)	*1,512*
Futures Commission Merchants (FCMs)	*210* [1]
Introducing Brokers (IBs)	*1,741* [2]
TOTAL	*70,083*

Table 1: Number of Registrants

[1] Includes 16 notice-registered FCMs.
[2] Includes 45 notice-registered IBs.

Preservation of Market Integrity and Protection of Market Users

Spotlight on Energy and Foreign Currency Markets

Actions Taken Since Enron Bankruptcy in December 2001	Energy Markets
Number of Cases Filed or Enforcement Actions	*35*
Number of Entities/Persons Charged	*55*
Number of Dollars in Penalties Assessed	
• *Civil Monetary Penalties*	*$302,863,500*

Table 2: Energy Markets

Actions Taken Since Passage of the CFMA in December 2000	Foreign Currency Markets
Number of Cases Filed or Enforcement Actions	*93*
Number of Entities/Persons Charged	*354*
Number of Dollars in Penalties Assessed	
• *Civil Monetary Penalties*	*$292,042,098*
• *Restitution*	*$182,471,571*
▪ *On Behalf of Customers*	*25,070*

Table 3: Foreign Currency Markets

Contract Markets Designated by the CFTC, 2001 – 2006

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

Commodity Exchanges [3]	2001	2002	2003	2004	2005	2006
BTEX	✓	✓	✓			
CBOT	✓	✓	✓	✓	✓	✓
CCFE				✓	✓	✓
CFFE	✓	✓				
CFE			✓	✓	✓	✓
CME	✓	✓	✓	✓	✓	✓
CSCE	✓	✓	✓	✓		
EPFE				✓		
Eurex US				✓	✓	✓
HedgeStreet				✓	✓	✓
INET		✓				
KCBT	✓	✓	✓	✓	✓	✓
MACE	✓	✓	✓			
ME	✓	✓	✓	✓		
MGE	✓	✓	✓	✓	✓	✓
NQLX	✓	✓	✓	✓	✓	
NYBOT				✓	✓	✓
NYCE	✓	✓	✓	✓		
NYFE	✓	✓	✓	✓		
NYMEX (incl. COMEX)	✓	✓	✓	✓	✓	✓
OCX		✓	✓	✓	✓	✓
PBOT	✓	✓	✓	✓	✓	✓
TOTAL	14	16	15	18	13	12

Table 4: Designated Contract Markets

[3] Refer to the CFTC Glossary in Appendix 6 for full names of organizations

Number of CFTC-Registered Derivatives Clearing Organizations, 2001 – 2006

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

DCOs [4]	2001	2002	2003	2004	2005	2006
AE Clearinghouse					✓	✓
BTEX	✓	✓	✓			
CCorp	✓	✓	✓	✓	✓	✓
CBOT				✓	✓	✓
CME	✓	✓	✓	✓	✓	✓
EnergyClear	✓	✓	✓			
FCOM	✓	✓	✓			
GCC		✓	✓			
HedgeStreet				✓	✓	✓
ICC	✓	✓	✓			
KCBT	✓	✓	✓	✓	✓	✓
LCH		✓	✓	✓	✓	✓
MGE	✓	✓	✓	✓	✓	✓
NYCC	✓	✓	✓	✓	✓	✓
NYMEX	✓	✓	✓	✓	✓	✓
OCC		✓	✓	✓	✓	✓
ONXCC	✓	✓	✓			
TOTAL	11	14	14	10	11	11

Table 5: CFTC-Registered Derivatives Clearing Organizations

[4] Refer to the CFTC Glossary in Appendix 6 for full names of organizations.

Exempt Commercial Markets, 2001 – 2006

Electronic trading facilities providing for the execution of principal-to-principal transactions between eligible commercial entities in exempt commodities may operate as ECMs as set forth under the CEA and the Commission's regulations. An ECM is subject to antifraud and anti-manipulation provisions and a requirement that, if performing a significant price discovery function, the ECM must provide pricing information to the public. A facility that elects to operate as an ECM must give notice to the Commission and comply with certain informational, recordkeeping and other requirements. An ECM is prohibited from claiming that the facility is registered with, or recognized, designated, licensed or approved by, the Commission. To date, 17 ECMs have filed notices with the Commission.

Exempt Commercial Markets [5]	2001	2002	2003	2004	2005	2006
CCX			✓	✓	✓	✓
CDXchange		✓	✓	✓	✓	✓
HSE		✓	✓	✓	✓	✓
ICE	✓	✓	✓	✓	✓	✓
IMAREX	✓	✓	✓	✓	✓	✓
NGX		✓	✓	✓	✓	✓
OPEX	✓	✓	✓	✓	✓	✓
SL			✓	✓	✓	✓
TFSE			✓	✓	✓	✓
TFS			✓	✓	✓	✓
TS		✓	✓	✓	✓	✓
ChemConnect						✓
ICAP ETC						✓
ICAP						✓
ICAP HYDE						✓
TCX					✓	✓
NTP						✓
TOTAL	3	7	11	11	12	17

Table 6: Exempt Commercial Markets

[5] Refer to the CFTC Glossary in Appendix 6 for full names of organizations.

Exempt Boards of Trade, 2001 – 2006

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

Exempt Boards of Trade [6]	2001	2002	2003	2004	2005	2006
CME AM					✓	✓
AE				✓	✓	✓
MATCHBOXX ATS						✓
WBOT			✓	✓	✓	✓
WXL		✓	✓	✓	✓	✓
Intrade					✓	✓
TOTAL	0	1	2	3	5	6

Table 7: Exempt Boards of Trade

[6] Refer to the CFTC Glossary in Appendix 6 for full names of organizations.

Customer Funds in Futures Commission Merchants Accounts

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

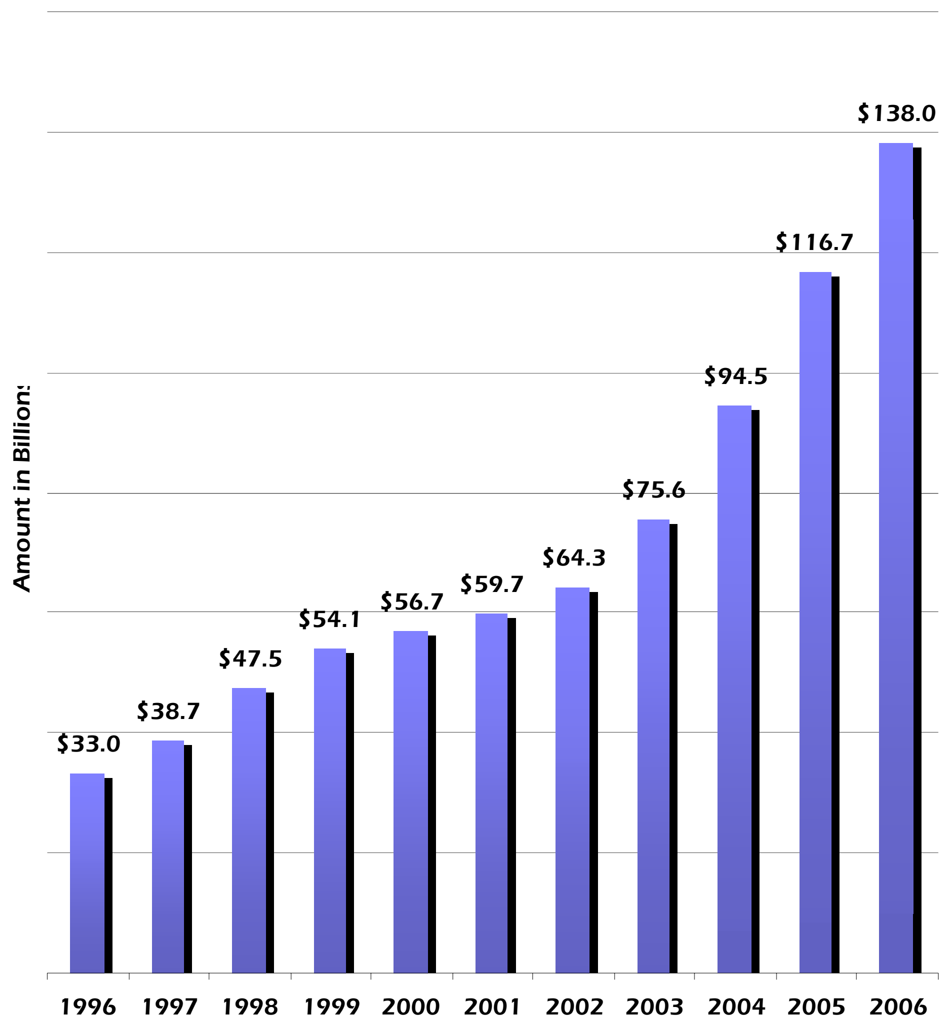

Figure 4: Customer Funds in FCM Accounts

Overview of Planned Outcomes by Strategic Goal

Introduction

The futures industry is experiencing a period of tremendous growth. Volume has more than doubled since 2002 and reached a record level of 2.4 billion contracts traded in 2006. The Commission's mission in the futures industry is to foster competitive and financially sound markets, to protect market users and the public from fraud, manipulation and abusive trading practices and to foster open, competitive, and financially sound markets.

The Commission requests $116 million in FY 2008 to fund its efforts to reach its three strategic goals:

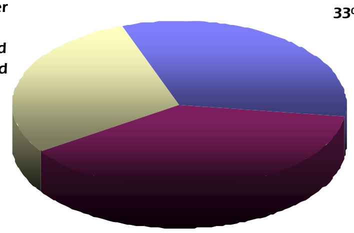

Figure 5: Budget & Performance Estimate by Strategic Goal

To achieve the planned outcomes for FY 2008, the Commission will allocate the $116 million request among six programs: Enforcement; Clearing & Intermediary Oversight; Market Oversight; Chief Economist; Proceedings; and General Counsel. There is one support program: Executive Direction[7] .

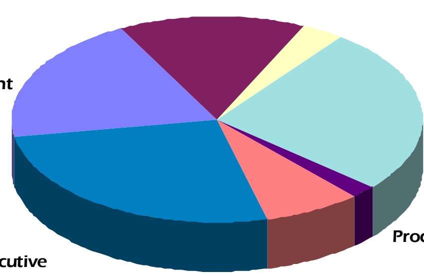

Figure 6: $116 Million Budget Estimate by Program

[7] Includes information technology in support of all programs.

FY 2008 Outcomes by Goal

Goal One: Ensuring Economic Vitality of Commodity Futures & Option Markets

In seeking to fulfill its mission, a substantial portion of the Commission's resources are devoted to daily oversight of registered exchanges, intermediaries, and derivatives clearing organizations (DCOs). In 1974, when the Commission was founded, the vast majority of futures trading took place in the agricultural sector. These contracts gave farmers, ranchers, distributors, and end-users of everything from corn to cattle an efficient and effective set of tools to hedge against price volatility.

Over the years, however, the futures industry has experienced increased complexity. While farmers and ranchers continue to use the futures markets as actively as ever to effectively lock in prices for their crops and livestock months before they come to market, new and highly complex financial contracts, based on such things as interest rates, foreign currencies, Treasury bonds, and stock market indices have now far outgrown agricultural contracts in trading volume. Latest statistics show that approximately eight percent of on-exchange derivatives activity is in the agricultural sector, while financial derivatives make up approximately 82 percent; and other contracts, such as those on metals and energy products, make up about 10 percent.

In FY 2008, the Commission requests $37.9 million to fund its efforts to reach the following outcomes of Strategic Goal One:

- Markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity—with an FY 2008 performance goal of zero price manipulations that would cause loss of confidence or negatively affect price discovery or risk shifting.

- Markets that are effectively and efficiently monitored to ensure early warning of potential problems or issues that could adversely affect their economic vitality—with an FY 2008 performance goal of improving effectiveness and efficiency of market surveillance.

Breakout of Goal One Request by Outcome

	FY 2007		FY 2008		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
GOAL ONE: Ensure economic vitality of commodity futures and option markets.						
Outcomes						
1.1 Futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	$25,797	125	$30,697	130	$4,900	5
1.2 Markets that can be monitored to ensure early warning of potential problems or issues that could adversely affect their economic vitality.	5,781	27	7,231	29	1,450	2
Total Goal One	**$31,578**	**152**	**$37,928**	**159**	**$6,350**	**7**

Table 8: Breakout of Goal One by Outcome

Goal Two: Protecting Market Users and the Public

While our country reaps the rewards of an explosive futures industry, never has the risk of fraud and manipulation been higher for market users and the public. The trend toward electronic trading platforms as well as the expanding complexity of trading instruments has challenged the Commission to reconfigure its ability to identify, investigate, and prosecute all parties involved in violating applicable laws and regulations. Typically, the Commission has over 100 investigations open at any particular time. If evidence of criminal activity is found, matters can and will be referred to state or Federal authorities for prosecution under criminal statutes.

Over the years, the Commission has prosecuted a number of cases involving manipulations or attempted manipulations of commodity prices. The Sumitomo copper case and the Hunt brothers silver case are well-known examples. Furthermore, during the last three years, the Commission charged over 40 individuals and companies for attempting to manipulate, or for manipulating energy markets. A variety of administrative sanctions are available to the Commission, such as bans on futures trading, civil monetary penalties, and restitution orders. The Commission may also seek Federal court injunctions, asset freezes, and orders to disgorge ill-gotten gains.

In FY 2008, the Commission requests $44.4 million to fund its efforts to reach the following outcomes of Strategic Goal Two:

- Violations of Federal commodities laws are detected and prevented—with an FY 2008 performance goal of increasing the probability of violators being detected and sanctioned.

- Commodity professionals meet high standards—with an FY 2008 performance goal of zero unregistered, untested, or unlicensed commodity professionals, unless they qualify for exemption from registration.

- Customer complaints against persons or firms registered under the Act are handled effectively and expeditiously—with an FY 2008 performance goal of resolving customer complaints within one year from the date filed and resolving appeals within six months.

Breakout of Goal Two Request by Outcome

	FY 2007		FY 2008		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
GOAL TWO: Protect markets users and the public.						
Outcomes						
2.1 Violations of Federal commodities laws are detected and prevented.	$29,599	135	$33,692	135	$4,093	0
2.2 Commodities professionals meet high standards.	4,741	22	6,921	29	2,180	7
2.3 Customer complaints against persons or firms falling within the jurisdiction of the Commodity Exchange Act are handled effectively and expeditiously.	3,206	15	3,817	15	611	0
Total Goal Two	**$37,546**	**172**	**$44,430**	**179**	**$6,884**	**7**

Table 9: Breakout of Goal Two by Outcome

Goal Three: Ensuring Market Integrity in Order to Foster Open, Competitive, and Financially Sound Markets

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

In FY 2008, the Commission requests $33.6 million to fund its efforts to reach the following outcomes of Strategic Goal Three:

- Clearing organizations and firms holding customer funds have sound financial practices—with FY 2008 performance goals of zero loss of customer funds as a result of firms' failure to adhere to regulations and zero customers prevented from transferring funds from failing firms to sound firms.

- Commodity futures and option markets are effectively self-regulated—with an FY 2008 performance goal of zero loss of funds resulting from failure of self-regulatory organizations (SROs) to ensure compliance with their rules.

- Markets are free of trade practice abuses.

- Regulatory environment is flexible and responsive to evolving market conditions.

Breakout of Goal Three Request by Outcome

	FY 2007		FY 2008		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
GOAL THREE: Ensure market integrity in order to foster open, competitive, and financially sound markets.						
Outcomes						
3.1 Clearing organizations and firms holding customer funds have sound financial practices.	$5,292	24	$6,356	26	$1,064	2
3.2 Commodity futures and option markets are effectively self-regulated.	12,915	60	15,002	60	2,087	0
3.3 Markets are free of trade practice abuses.	5,297	24	6,044	25	747	1
3.4 Regulatory environment responsive to evolving market conditions.	5,381	26	6,240	26	859	0
TOTAL	**$28,885**	**134**	**$33,642**	**137**	**$4,757**	**3**

Table 10: Breakout of Goal Three by Outcome

Summary of CFTC Mission Statement, Strategic Goals & Outcomes

Mission Statement
The mission of the CFTC is to protect market users and the public from fraud, manipulation, and abusive practices related to the sale of commodity futures and options, and to foster open, competitive and financially sound commodity futures and option markets.

Goal One ***Protect the economic functions of the commodity futures and option markets.***
Outcomes
1. Markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.
2. Markets that are effectively and efficiently monitored to ensure early warning of potential problems or issues that could adversely affect their economic vitality.

Goal Two ***Protect market users and the public.***
Outcomes
1. Violations of Federal commodities laws are detected and prevented.
2. Commodities professionals meet high standards.
3. Customer complaints against persons or firms falling within the jurisdiction of the Commodity Exchange Act are handled effectively and expeditiously.

Goal Three ***Ensure market integrity in order to foster open, competitive, and financially sound markets.***
Outcomes
1. Clearing organizations and firms holding customer funds have sound financial practices.
2. Commodity futures and option markets are effectively self-regulated.
3. Markets are free of trade practice abuses.
4. Regulatory environment is responsive to evolving market conditions.

Table 11: Summary of CFTC Mission, Goals, and Outcomes

Commission Strategies to Influence Outcomes

Strategic Goal One - Ensure the Economic Vitality of the Commodity Futures and Option Markets.

Background and Context

In order for commodity futures and option markets to fulfill their vital role in the national and global economy, they must operate efficiently, accurately reflect the forces of supply and demand, and serve market users by fulfilling an economic need, typically price discovery or risk management. Through direct market and trade practice surveillance, and through oversight of the surveillance efforts of the exchanges themselves, the Commission works to ensure that markets operate free of manipulation or congestion.

The heart of the Commission's direct market surveillance is a large-trader reporting system, under which clearing members of exchanges, FCMs, and foreign brokers electronically file daily reports with the Commission. These reports show all trader positions above specific reporting levels set by CFTC regulations. Because a trader may carry futures positions through more than one FCM, and due to the possibility that a customer may control more than one account, the Commission routinely collects information that enables its surveillance staff to aggregate information across FCMs for related accounts.

Using these reports, the Commission's surveillance staff closely monitors the futures and option market activity of all traders whose positions are large enough to potentially impact the orderly operation of a market. For contracts, which at expiration are settled through physical delivery -- such as contracts in the energy complex -- staff carefully analyze the adequacy of potential deliverable supply. In addition, staff monitor futures and cash markets for unusual movements in price relationships, such as cash/futures basis relationships and inter-temporal futures spread relationships, which often provide early indications of a potential problem.

The Commissioners and senior staff are kept apprised of market events and potential problems at weekly surveillance meetings, and more frequently when necessary. At these meetings, surveillance staff briefs the Commission on broad economic and financial developments and on specific market developments in futures and option markets of particular concern.

If indications of attempted manipulation are found, the Commission investigates and prosecutes alleged violations of the CEA or regulations. Subject to such actions are all individuals who are or should be registered with the Commission, those who engage in trading on any domestic exchange, those who engage in illegal cash market activities that affect or could affect the futures markets, and those who improperly market commodity futures or option contracts. The Commission has available to it a variety of administrative sanctions against wrongdoers, including revocation or suspension of registration, prohibitions on futures trading, and cease and desist orders. The Commission may seek Federal court injunctions, restraining orders, asset freezes, receiver appointments, and disgorgement orders. In both administrative and federal court actions, the Commission can seek civil monetary penalties and restitution if evidence of criminal activity is found, and may refer matters to state authorities or the Department of Justice (DOJ) for prosecution of violations not only of the Act, but also of state or Federal criminal statutes such as mail fraud, wire fraud, and conspiracy. Over the years, the Commission has brought numerous enforcement actions and imposed sanctions against firms and individual traders for attempting to manipulate prices, including the well-publicized attempted manipulation cases by several energy companies and the market power manipulation of worldwide copper prices.

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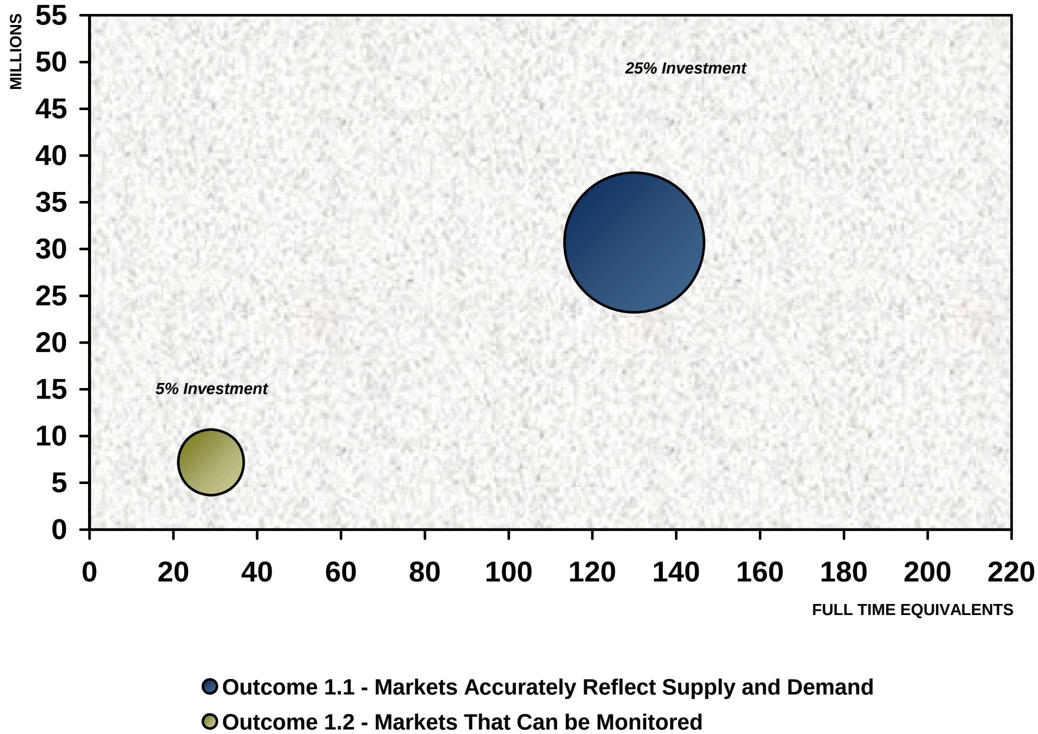
CFTC Strategy Mapping

FY 2008 Goal One Resource Investment by Outcome Objective

Figure 7: Goal One Resource Strategy Mapping



Outcome Objectives and Annual Performance Goals

Outcome 1.1 – Markets that accurately reflect the forces of supply and demand for underlying commodity and are free of disruptive activity.

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

Outcome 1.2 – Markets that are effectively and efficiently monitored so that the Commission receives early warning of potential problems or issues that could adversely affect their economic vitality.

- Annual Performance Goal: To have an effective and efficient market surveillance program.

Means and Strategies for Achieving Objectives

Means:

- Directly monitor the markets to detect and protect against price manipulation and abusive trading practices to ensure that the markets are performing the vital economic function of price discovery and risk transfer or hedging.

- Perform market surveillance and trade practice oversight by conducting examinations of exchange programs to ensure that the exchange is appropriately monitoring daily trading activity, positions of large traders and the supply and demand factors affecting prices.

- Review products listed by exchanges and rules and rule amendments submitted by exchanges to ensure compliance with the Act and to develop, implement and interpret regulations that are designed to protect the economic functions of the market, protect market participants, prevent trading abuses, and facilitate innovation.

Strategies:

- *Collect and analyze trading data*. On a daily basis, CFTC collects and analyzes U.S. futures and option data for all actively traded contracts to detect congestion and/or price distortion. Economists analyze the activities of traders, key price relationships, and relevant supply and demand conditions for nearly 1100 contracts representing major agricultural commodities, metals, energy, financial instruments, equity indices, and foreign currencies. CFTC staff also analyzes markets to determine how conditions and factors observed may impact individual registrants or the markets in general to deter potentially negative situations and to take appropriate action, responding quickly to potentially disruptive situations.

- *Review products and rules*. Properly designed futures and option markets serve vital price discovery and hedging functions, which are essential to a healthy, capital-based economy. Business, agricultural, and financial enterprises use the futures markets for pricing information and to hedge against price risk. The participants in commercial transactions rely extensively on the prices established by futures markets that affect trillions of dollars in commercial activity. Moreover, the prices established by the futures markets directly or indirectly affect all Americans. They affect what Americans pay for food, clothing, and shelter, what we pay to heat our homes and fuel our cars, as well as other necessities. Deficiencies in the terms and conditions of futures and option contacts increase the likelihood of cash, futures, or option market disruptions, and also decrease the economic usefulness and efficiency of a contract. To meet its statutory mission of ensuring market integrity and customer protection, the Commission places greater reliance on its existing oversight authorities in permitting exchanges to list contracts for trading without prior Commission approval. Commission staff conducts a due diligence review of each contract to ensure compliance with the CEA and the Commission's regulations, while the Commission relies on its authority to then alter, or supplement exchange rules or to take emergency action, as appropriate, if a violation is discovered.

- *Analyze markets and provide expert analysis*. Each week, reports are prepared on special market situations and on market conditions for all contracts approaching their critical expiration periods. Potential problems detected in preparing these reports are shared with the Commissioners and senior staff. The Commission shares pertinent information with other regulatory agencies and works with the affected exchange to develop and to administer responsive measures as necessary. Economists and futures trading specialists track innovation in the marketplace in technology, trading strategies, trading instruments, and methods to ensure an understanding of how the markets are functioning and to develop a flexible, effective regulatory response to market conditions as they evolve.

- *Coordinate with other financial regulators*. The Chairman participates in the President's Working Group on Financial Markets to ensure coordination of information and efforts among U.S. financial regulators. The Working Group brings together the leaders of the federal financial regulatory agencies, including the Secretary of the Treasury, who chairs the group, and the chairs of the Board of Governors of the Federal Reserve System, the CFTC, and the Securities and Exchange Commission (SEC). In addition to the four primary financial regulators, the Working Group also includes the heads of the National Economic Council, the Council of Economic Advisors, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, Federal Reserve Bank of New York, and the Office of Thrift Supervision. Issues considered by the Working Group and its staff have included individual and coordinated agency initiatives concerning risk assessment, capital requirements, internal controls, disclosure, accounting, market practices relating to trading in derivative instruments, bankruptcy law revisions, securities futures product (SFP) portfolio margining, futures on security indexes, and contingency planning for market emergencies. Every two weeks, Commission staff participates in the Steering Committee to discuss ongoing issues.

- *Provide information on the functions of the marketplace*. Commission staff prepare and provide materials and information on the functions and utility of the markets to the public through public Commission meetings, public roundtables, advisory committee meetings, symposia, publications, press releases, advisories, and publication of the Commitment of Trader reports. Staff also participates as appropriate in seminars sponsored by other Federal and state government organizations and industry-sponsored conferences. The Commission's Web site plays a significant role in providing information to the public.

- *Investigate and prosecute wrongdoing*. Commission attorneys and investigators conduct investigations and institute enforcement actions against potential violators. Violators are sanctioned. The sanctions are publicized and enforced. The administrative law judges hear and decide administrative enforcement cases brought by the Commission.

- *Review regulations and amend or abolish as appropriate*. In order to ensure that the regulations enforced by the CFTC are reflective of the needs of the industry and the public, the Commission reviews and adapts its regulations with evolving conditions and changes in the industry.

Resource Priorities and Return on Investment:

- *Reengineer the Commission's trade practice surveillance system and modernize the market surveillance system so that they remain effective and robust as trading migrates from the floors to electronic platforms*. Markets regulated by the Commission have experienced a dramatic shift from floor to screen-based trading over the past several years. The Chicago Board of Trade's (CBOT) and the Chicago Mercantile Exchange's (CME) screen-based volume currently accounts for approximately 75 percent of total exchange volume. While electronic trading brings certain regulatory benefits, such as precise audit trails, it also increases the opportunity for certain types of abuses, such as trading ahead of customers. In order to re-engineer our systems, we have examined the electronic trading systems and automated surveillance systems used by U.S. designated contract markets, as well as those used by foreign futures exchanges that have significantly more experience in electronic trading. We are also incorporating changes in the Commission's oversight systems and, where necessary, recommending alterations to systems of our designated contract markets to ensure the integrity of the markets and to ensure that customers continue to be protected against trading abuses and manipulations.

- *Continue collaborative regulatory efforts regarding SFPs*. The Commission will continue in its efforts to coordinate with the SEC in implementing those sections of the CFMA related to the trading of SFPs. These areas include: SFP definitions; registration requirements and functions; treatment of customer funds; margin rules; the offering of foreign SFPs to U.S. customers; possible further exemptions for notice registrants; the listing of options; and coordinated clearing. The Commission will also respond to inquires from intermediaries, their counsel and accountants, and the general public concerning operational issues as the market for SFPs develops. Further, the Commission will work with the exchanges in developing sound business, financial and sales practices concerning the trading of SFPs.

- *Complete energy investigations*. Since the fall of Enron, the Commission has conducted a significant number of investigations concerning potential misconduct by participants in the energy markets. To date, the Commission has filed 35 enforcement actions in this program area charging a total of 55 respondents/defendants (31 companies and 24 individuals). The Commission has obtained $303,413,500 in civil monetary penalties in settlement of these enforcement actions. Eight Commission energy market related enforcement actions remain in active litigation in Federal district court. The Commission is actively engaged in other energy sector investigations which may result in further prosecutions. The Commission's aggressive enforcement actions in the energy sector reflect an approach to market oversight that emphasizes tough enforcement actions against wrongdoers without creating overly burdensome regulations. The Commission is fully committed to resolving the on-going energy investigations as expeditiously as possible so that, in addition to identifying wrongdoers, it can exonerate those who were not involved and allow these important risk management markets to work toward restoring the confidence of market participants and the public.

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Summary of Goal One Performance Indicators

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

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

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

Performance Measures	FY 2005 Actual	FY 2006 Actual	FY 2007 Plan	FY 2008 Plan
Percentage growth in market volume	26%	26%	25%	25%
Percentage of novel or innovative market proposals or requests for CFTC action addressed within six months to accommodate new approaches to, or the expansion in, derivatives trading, enhance the price discovery process, or increase available risk management tools	100%	100%	100%	100%
Percentage increase in number of products traded	36%	25%	10%	10%
Percentage of new exchange and clearinghouse applications completed within expedited review period	100%	100%	100%	100%
Percentage of new contract certification reviews completed within three months to identify and correct deficiencies in contract terms that make contracts susceptible to manipulation	54%	81%	75%	80%
Percentage of rule change certification reviews completed within three months, to identify and correct deficiencies in exchange rules that make contracts susceptible to manipulation or trading abuses or result in violations of law	84%	86%	85%	90%

Outcome 1.2: Markets are effectively and efficiently monitored to ensure early warning of potential problems or issues that could adversely affect their economic vitality.

Annual Performance Goal: To have an effective and efficient market surveillance program.

Performance Measures	FY 2005 Actual	FY 2006 Actual	FY 2007 Plan	FY 2008 Plan
Percentage of DCO applications demonstrating compliance with core principles	100%	N/A[8]	100%	100%
Ratio of markets surveilled per economist	11	12	13	13
Percentage of contract expirations without manipulation	99.9%	99.9%	99.9%	99.9%

[8] Not applicable, no applications for registration as a DCO were received in FY 2006.

Breakout of Goal One Request by Program Activity

	FY 2007		FY 2008		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Market Oversight	$13,055	67	$15,217	68	$2,162	1
Clearing & Intermediary Oversight	775	4	926	4	151	0
Chief Economist	2,183	9	3,796	14	1,613	5
Enforcement	5,133	23	5,816	23	683	0
Proceedings	0	0	0	0	0	0
General Counsel	1,467	6	1,872	7	405	1
Executive Direction & Support	8,965	43	10,301	43	1,336	0
TOTAL:	**$31,578**	**152**	**$37,928**	**159**	**$6,350**	**7**

Table 12: Breakout of Goal One Request by Program Activity

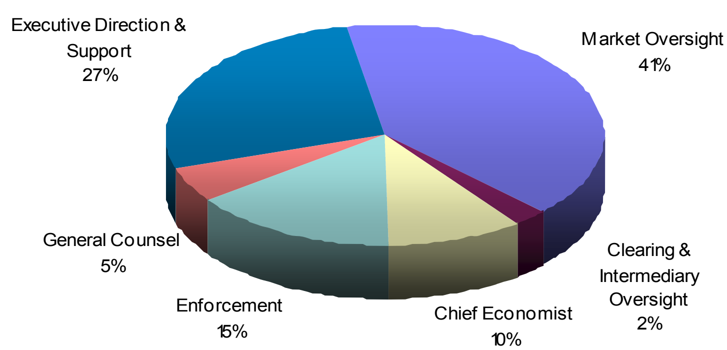

Figure 8: Breakout of Goal One Request by Program Activity

Breakout of Goal One Request by Outcome Objective

	FY 2007		FY 2008		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
GOAL ONE: Ensure economic vitality of commodity futures and option markets.						
Outcomes						
1.1 Futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	$25,797	125	$30,697	130	$4,900	5
1.2 Markets that can be monitored to ensure early warning of potential problems or issues that could adversely affect their economic vitality.	5,781	27	7,231	29	1,450	2
Total Goal One	**$31,578**	**152**	**$37,928**	**159**	**$6,350**	**7**

Table 13: Breakout of Goal One by Outcome

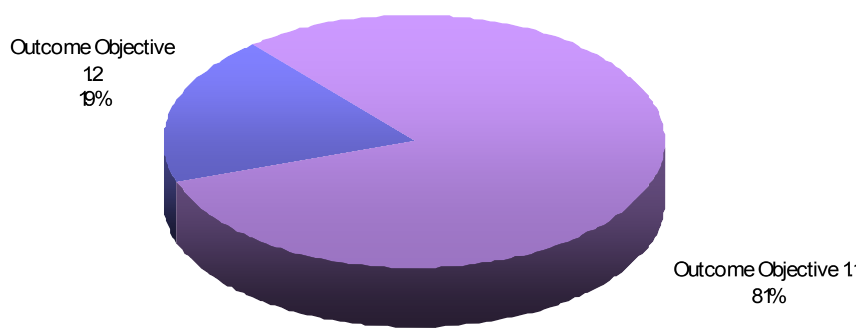

Figure 9: Breakout of Goal One Request by Outcome Objective

Strategic Goal Two – Protecting Market Users and the Public.

Background and Context

The focus of the second goal is protection of the firms and individuals—market users—who come to the marketplace to fulfill their business and trading needs. Market users must be protected from possible wrongdoing on the part of the firms and commodity professionals with whom they deal to access the marketplace, and they must be confident that the marketplace is free of fraud, manipulation, and abusive trading practices.

The Commission has promulgated requirements that mandate appropriate disclosure and customer account reporting, as well as fair sales and trading practices by registrants. The Commission has also sought to maintain appropriate sales practices by screening the fitness of industry professionals and by requiring proficiency testing, continuing education, and supervision of these persons. Extensive record-keeping of all futures transactions is also required. Likewise, the Commission monitors compliance with those requirements and supervises the work of the exchanges and NFA in enforcing the requirements.

The Commission plays an important role in deterring behavior that could affect market users' confidence by investigating and taking action against unscrupulous traders, entities, and others who engage in a wide variety of illegal activity, including but not limited to manipulation and fraudulent sales practices.

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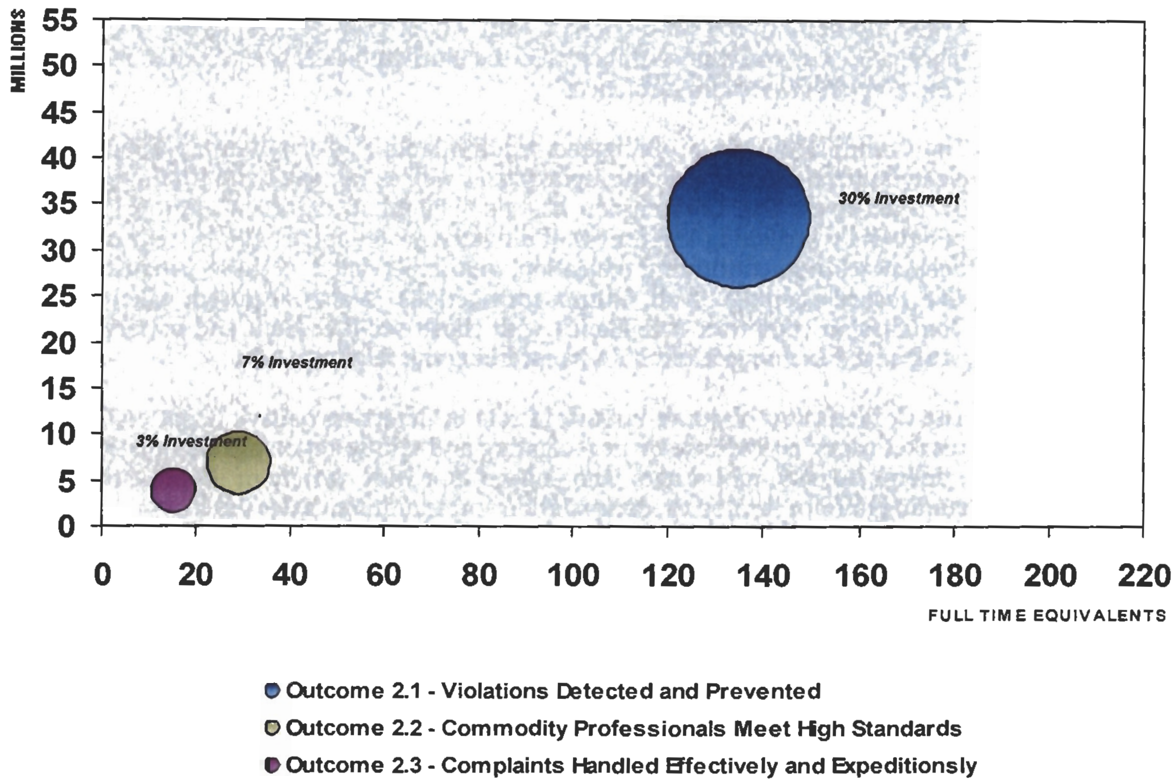
CFTC Strategy Mapping

FY 2008 Goal Two Resource Investment by Outcome Objective

Figure 10: Goal Two Resource Strategy Mapping



Outcome Objectives and Annual Performance Goals

Outcome 2.1 – Violations of Federal laws concerning futures and option contracts are detected and prevented.

- Annual Performance Goal: Violators have a strong probability of being detected and sanctioned

Outcome 2.2 – Commodity professionals meet high standards.

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

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

- Annual performance Goal: Customer complaints are resolved within one year from the date filed and appeals are resolved within six months.

Means and Strategies for Achieving Objectives

Means:

- Detect and prevent violations of Federal commodities laws.
- Require commodity professionals to meet high standards.
- Handle effectively and expeditiously customer complaints against firms and persons registered under the Act.

Strategies:

- *Investigate and prosecute wrongdoing*. The Commission identifies and investigates possible fraudulent and other illegal activities relating to the commodity futures and option markets and their registrants and brings enforcement actions as necessary.
- *Inform the public concerning violators*. Allegations of wrongdoing and associated legal actions are publicized and communicated to the industry and the public in order to ensure informed market users.
- *Provide a forum to bring complaints*. The Commission provides a reparations program for commodities market users to resolve complaints concerning possible violations of the Act. Approximately 80 reparations cases are filed per year. The cases are maintained in the Reparations Case Tracking System (Repcase), which houses all filings relating to the complaints as well as reparations sanctions information. Information regarding the Reparations program is also available on the Commission's Web site and information regarding the various reparations documents that have filed or issued by a Presiding Officer or Commission is available internally to Commission staff.
- *Oversee the NFA's registration program*. The Commission oversees the NFA's registration program, requiring testing, licensing, and ethics training for commodities professionals. CFTC maintains a strong working relationship with the NFA, including joint representation on the Registration Working Group (RWG).
- *Review regulations and amend or abolish as appropriate*. In order to ensure that the regulations enforced by the Commission are reflective of the needs of the industry and the public, the Commission reviews and adapts its regulations with the evolving conditions and changes in the industry.
- *Monitor media*. The Internet and other media venues are monitored for fraudulent activities and other possible violations of the Act.
- *Maintain cooperative relationships*. Strong working relationships with the exchanges, the NFA, other federal agencies, state governments and law enforcement entities, and foreign authorities maintain the Commission's ability to gain information for law enforcement purposes and to provide enforcement assistance as necessary and appropriate.

Resource Priorities and Return on Investment:

- *Complete energy investigations*. Since the fall of Enron, the Commission has conducted a significant number of investigations concerning potential misconduct by participants in the energy markets. To date, the Commission has filed 35 enforcement actions in this program area charging a total of 55 respondents/defendants (31 companies and 24 individuals). The Commission has obtained $303,413,500 in civil monetary penalties in settlement of these enforcement actions. Eight Commission energy market related enforcement actions remain in active litigation in Federal district court. The Commission is actively engaged in other energy sector investigations which may result in further prosecutions. The Commission's aggressive enforcement actions in the energy sector reflect an approach to market oversight that emphasizes tough enforcement actions against wrongdoers without creating overly burdensome regulations. The Commission is fully committed to resolving the on-going energy investigations as expeditiously as possible so that, in addition to identifying wrongdoers, it can exonerate those who were not involved and allow these important risk management markets to work toward restoring the confidence of market participants and the public.

- *Design and implement Project eLaw*. The Commission will continue its effort to design and implement Project eLaw, an automated law office that seamlessly integrates technology and work processes to support managers and staff across the Commission in their investigative trial and appellate work. Driven by the Commission's continued reliance on manual processes and automated tracking systems to manage cases and the millions of paper documents received or created annually, Project eLaw provides the automated tools to assist staff in performing their work more efficiently and effectively, both in the office and in the court room facing opposing counsel. Specifically, Project eLaw enables staff to: query and retrieve information about investigations and litigation provided to the Commission by outside parties, pursuant to subpoena or otherwise; develop documents in a collaborative electronic work environment across geographically dispersed locations; manage client contacts, investigation leads, and trial schedules; and present documentary and analytical evidence in court settings. The project achieved its final software application deployment throughout the Division of Enforcement in October 2006. In FY 2007, further enhancements will be implemented along with expansion to other offices within the Commission.

- *Upgrade training for Enforcement investigators*. Expert enforcement investigators are vital to the effectiveness of the Commission's Enforcement program. The Commission continues to upgrade the training of its enforcement investigators in order to ensure that their level of expertise keeps pace with the technological advancements, increasing cross-border participation in the financial markets, and new complex contracts and trading strategies. Training includes advanced investigative techniques, especially with respect to trade practice investigations of electronic exchanges, the tracking of international money flows, and in-depth analysis of growing markets with an emphasis on the over-the-counter (OTC) energy markets.

- *Coordinate with foreign regulatory authorities – cooperative enforcement*. The number, duration and speed of regulatory issues related to financial crises and market abuses can be mitigated through the enhancement of international cooperation amongst regulators and market authorities. It is therefore critical that the CFTC continue to foster productive and cooperative working relationships with these foreign counterparts. In particular, the Commission will continue to: 1) facilitate cross-border transactions through the removal or lessening of any unnecessary legal or practical obstacles; 2) endeavor to enhance the international supervisory cooperation and emergency procedures; 3) strengthen international cooperation for customer and market protection; 4) improve the quality and timeliness of international information sharing; and, 5) promote the development of internationally accepted regulatory standards of best practices. The CFTC will also continue to undertake measures to ensure that it maintains a high visibility in the international community and undertakes a leading role in the development of international financial policy affecting the futures and options markets.

- *Implement USA Patriot Act.* The Commission has actively supported and assisted the U.S. Treasury Department in developing anti-money laundering (AML) rules to implement the mandate of the USA Patriot Act with respect to the futures industry. These include various proposed and final rules requiring, among other things: 1) FCMs and IBs to report suspicious transactions; 2) FCMs and IBs to establish customer identification and verification programs (CIPs); and 3) FCMs and IBs to establish due diligence programs for detecting and reporting money laundering through correspondent accounts for foreign financial institutions and private banking accounts for non-U.S. persons. In addition to finalizing AML rules that already have been proposed, the Commission and Treasury will continue to effectuate the full extent of the protections against money laundering mandated by Congress (for example, extending the CIP rules to cover other futures firms as well). To assure consistency throughout the financial services industry, AML rules are being developed by an inter-agency working group with representatives from Treasury, the CFTC, the SEC, and several Federal banking agencies. The Commission's role includes making sure that futures industry registrants are not placed at a disadvantage relative to other financial service providers. Moreover, the Commission has been delegated AML examination authority with respect to FCMs and IBs. While much of the front-line examination work may be performed by NFA and other SROs, this delegation requires the implementation of an appropriate audit and compliance program and Commission oversight of the direct supervision by NFA and other SROs. The Commission also has repeatedly requested, and Treasury is considering, a similar delegation of Treasury's AML enforcement authority to the Commission with respect to futures firms. This delegation would bring additional responsibilities to the Commission for investigating and pursuing charges against those who do not have proper supervision, reporting, and record-keeping programs in place to combat money laundering and terrorist financing.

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Summary of Goal Two Performance Indicators

Goal Two: Protect market users and the public.

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

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

Performance Measures	**FY 2005 Actual**	**FY 2006 Actual**	**FY 2007 Plan**	**FY 2008 Plan**
Number of enforcement investigations opened during the fiscal year	131	123	85	95
Number of enforcement cases filed during the fiscal year	69	38	40	40
Percentage of enforcement cases closed during the fiscal year in which the Commission obtained sanctions (e.g., civil monetary penalties, restitution and disgorgement, cease and desist orders, permanent injunctions, trading bans, and registration restrictions)	100%	100%	95%	95%
Cases filed by other criminal and civil law enforcement authorities during the fiscal year that included cooperative assistance from the Commission	23	23	21	22

Outcome 2.2: Commodity professionals meet high standards.

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

Performance Measures	**FY 2005 Actual**	**FY 2006 Actual**	**FY 2007 Plan**	**FY 2008 Plan**
Percentage of SROs that comply with core principles	100%	100%	100%	100%
Percentage of DCOs that comply with core principles	100%	100%	100%	100%
Percentage of professionals compliant with standards regarding testing, licensing, and ethics training *(Professional compliance)*	100%	100%	100%	100%
Percentage of SROs that comply with requirement to enforce their rules	100%	100%	100%	100%
Percentage of total requests receiving CFTC responses for guidance and advice	90%	95%	95%	95%

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

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

Performance Measures	**FY 2005 Actual**	**FY 2006 Actual**	**FY 2007 Plan**	**FY 2008 Plan**
Percentage of filed complaints resolved within one year of the filing date	50%	39%	50%	50%
Percentage of appeals resolved within six months	46%	46%	50%	75%

Breakout of Goal Two Request by Program Activity

	FY 2007		FY 2008		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Market Oversight	$0	0	$0	0	$0	0
Clearing & Intermediary Oversight	4,503	21	6,308	26	1,805	5
Chief Economist	0	0	0	0	0	0
Enforcement	17,607	79	19,946	79	2,339	0
Proceedings	1,881	10	2,167	10	286	0
General Counsel	3,724	15	4,752	17	1,028	2
Executive Direction & Support	9,831	47	11,257	47	1,426	0
TOTAL:	**$37,546**	**172**	**$44,430**	**179**	**$6,884**	**7**

Table 14: Breakout of Goal Two Request by Program Activity

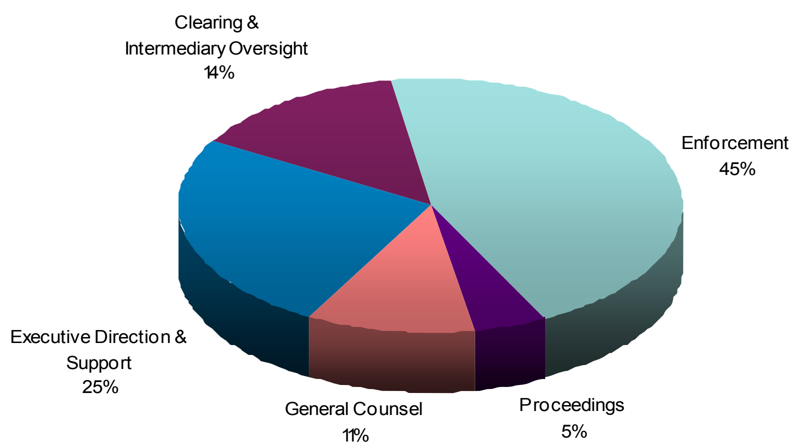

Figure 11: Breakout of Goal Two Request by Program Activity

Breakout of Goal Two Request by Outcome Objective

	FY 2007		FY 2008		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
GOAL TWO: Protect markets users and the public.						
Outcomes						
2.1 Violations of Federal commodities laws are detected and prevented.	$29,599	135	$33,692	135	$4,093	0
2.2 Commodities professionals meet high standards.	4,741	22	6,921	29	2,180	7
2.3 Customer complaints against persons or firms falling within the jurisdiction of the Commodity Exchange Act are handled effectively and expeditiously.	3,206	15	3,817	15	611	0
Total Goal Two	**$37,546**	**172**	**$44,430**	**179**	**$6,884**	**7**

Table 15: Breakout of Goal Two by Outcome

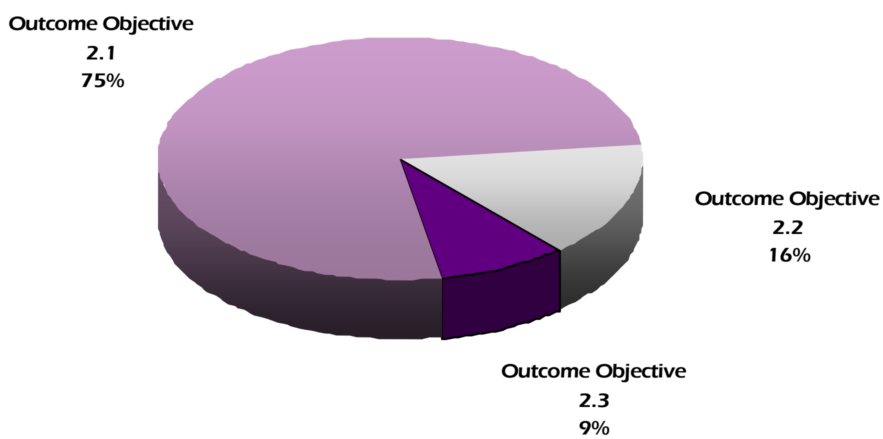

Figure 12: Breakout of Goal Two Request by Outcome Objective

Strategic Goal Three – Ensuring Market Integrity in Order to Foster Open, Competitive, and Financially Sound Markets.

Background and Context

In fostering open, competitive, and financially sound markets, the Commission's priorities are to protect the markets from abusive trading practice and to avoid disruptions to the systems for trading, clearing, and settling contract obligations and to protect the funds that customers entrust to FCMs. Clearing organizations and FCMs are the backbone of the exchange system— together, they protect against the financial difficulties of one trader becoming a systemic problem for other traders. Several aspects of the oversight framework help the Commission achieve this goal with respect to traders: 1) periodically reviewing exchanges' compliance with statutory and regulatory requirements, 2) directly overseeing activity on exchanges to detect and prosecute abusive trading, 3) requiring that market participants post margin to secure their ability to fulfill obligations; 4) requiring participants on the losing side of trades to meet their obligations, in cash, through daily (sometimes intraday) margin calls; and 5) requiring FCMs to segregate customer funds from their own funds.

The Commission devotes substantial resources to meet its oversight responsibility over futures industry SROs, including the NFA, and DCOs, to ensure their fulfillment of responsibilities for monitoring and ensuring the financial integrity of market intermediaries and the protection of customer funds. An important component of this effort is conducting risk-based reviews of SROs and DCOs to evaluate their compliance programs with applicable provisions of the Act and Commission regulations. In addition, financial and risk surveillance of market intermediaries is conducted by the Commission to monitor actual and potential implications of market events and conditions for the financial integrity of the clearing system and to follow up on indications of financial difficulty. The Commission also undertakes examinations of registrants such as FCMs to assess the adequacy of the SROs' and DCOs' compliance programs, to address compliance with specific Commission regulations, or on an as-needed basis.

With respect to intermediary oversight, the Commission can investigate and prosecute FCMs alleged to have violated financial and capitalization requirements or to have committed other supervisory or compliance failures in connection with the handling of customer business. Such cases result in substantial remedial changes in the supervisory structures and systems of FCMs, and can influence the way particular firms conduct business. This is an important part of fulfilling the Commission's responsibility for ensuring that sound practices are followed by FCMs, and to ensure that markets remain financially sound. The Commission also seeks to ensure market integrity by investigating a variety of trade and sales practice abuses. For example, the Commission brings actions alleging unlawful trade allocations, trading ahead of customer orders, misappropriating customer trades, and non-competitive trading.

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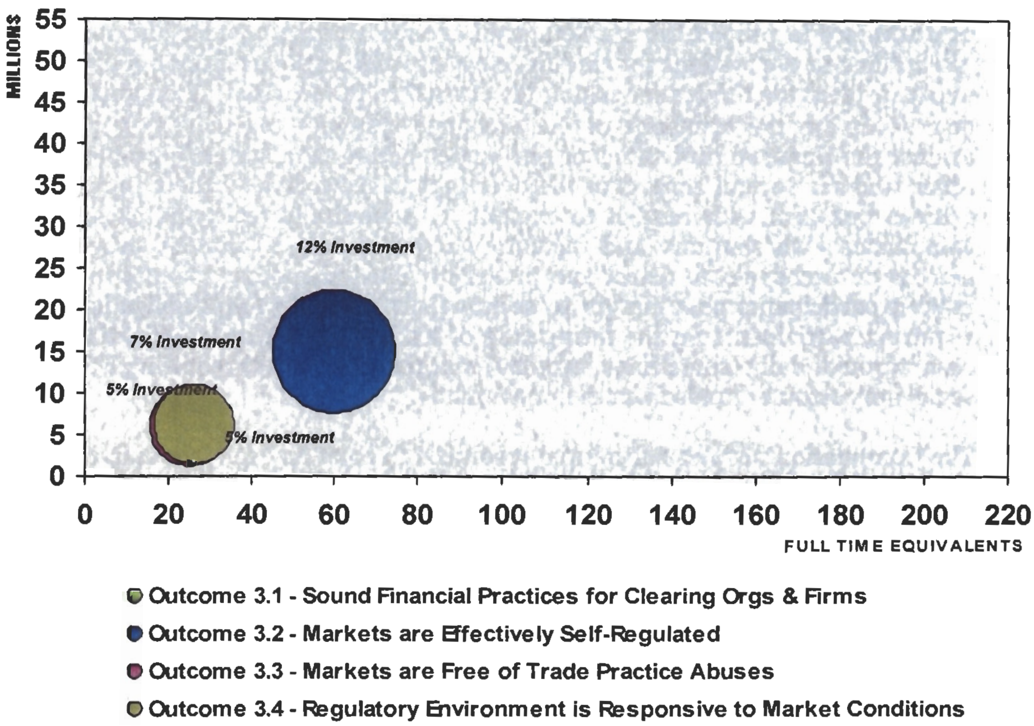
CFTC Strategy Mapping

FY 2008 Goal Three Resource Investment by Outcome Objective

Figure 13: Goal Three Resource Strategy Mapping



Outcome Objectives and Annual Performance Goals

Outcome 3.1 – Clearing organization and firms holding customer funds have sound financial practices.

- Annual Performance Goal: No loss of customer funds as a result of firms' failure to adhere to regulations; no customers prevented from transferring funds from failing firms to sound firms.

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

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

Outcome 3.3 – Markets are free of trade practice abuses.

- Annual Performance Goal: Minimize trade practice abuses.

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

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

Means and Strategies for Achieving Objectives

Means:

- Oversee market intermediaries and the self-regulatory programs and compliance activities of the futures industry SROs, which include the U.S. commodity exchanges, the NFA, and DCOs.

- Protect market users and financial intermediaries by developing regulations including requirements related to registration, record-keeping and reporting, financial adequacy, sales practices protection of customer funds, and clearance and settlement activities.

- Address cross-border transactions, the coordination of policy with foreign market authorities, systemic risk, anti-money laundering programs, and procedures to address extraordinary events such as firm defaults.

- Monitor market movements for potential financial impact on clearing firms and DCOs.

- Monitor trading activity to detect abusive trading practices through examinations of audit trail data.

Strategies:

- *Maintain a flexible regulatory environment responsive to evolving market conditions*. In an effort to ensure that the regulatory framework under which futures and option contracts are traded remains current, Commission staff will continue to review the Commission's regulations with the intention of: eliminating obsolete regulations; streamlining and coordinating regulations across markets; and fostering efficiency and competitiveness while assuring customer protection, sound financial practices, and market integrity. The Commission will also respond to requests for exemptions and other relief from regulatory requirements to address situations in which additional flexibility is warranted. The Commission also will issue advisories and other guidance concerning the application of Commission regulations.

- *Oversight of SROs and DCOs*. A key aspect of effective self-regulation is oversight by the Commission of SROs, NFA, and DCOs to ensure their fulfillment of responsibilities for monitoring and ensuring the financial integrity of market intermediaries and the protection of customer funds. This oversight program involves conducting risk-based reviews and examinations of SROs, NFA, and DCOs to evaluate their compliance programs with applicable provisions of the Act and Commission regulations.

- *Conduct Financial Surveillance*. An important component of oversight of DCOs and SROs is the conduct of financial surveillance of market intermediaries by using automated tools for collecting, analyzing, and reporting upon the financial condition and risk exposures of FCMs and clearing organizations. Monitoring of broad-based stock-index futures and security futures margins was added to the financial surveillance functions now performed.

- *Enhance risk assessment*. To address changes in the operations and structures of multinational, multi-product financial firms, the Commission has implemented a risk assessment program by obtaining better information on such firms in the form of required organizational charts and internal control filings, consolidated and consolidating financial statements, identification of other regulators to whom such firms report, and descriptions of procedures in place to control risks associated with clearing of trades for affiliates of the regulated firm.

- *Develop global cooperation to enhance financial safeguards*. Internationally, recent market issues with global market impact have underscored the importance of developing international standards of best practice. The Commission has increased its efforts to achieve greater international coordination, and thereby enhance the effectiveness of financial safeguards applicable to U.S. markets and market participants, as well as those applicable internationally.

- *Review SRO rule submissions*. New rules and rule changes submitted by the exchanges, DCOs, and NFA to the Commission are reviewed with a view towards ensuring compliance with core principles and regulatory standards in order to maintain the fairness and integrity of the markets, protect customers, and accommodate and foster innovation and efficiency in self-regulation consonant with the Commission's statutory mandates. Many of the rule submissions present complex new trading and clearing procedures, market structures, and financial arrangements that present novel issues and, in some cases, require amendments or interpretations by the Commission to facilitate implementation of the SRO's rule changes. The Commission has adapted its requirements to ensure, when approval is requested, quicker implementation of rule changes.

- *Respond to globalization of the markets*. Electronic technology is rapidly integrating the world's commodities markets. These technology-driven changes will increase cross-border trading volume, cross-border participation, and cross-border exchange linkages. Markets, intermediaries, and customers demand efficient access to these global markets with a minimum of regulatory borders. Because no one regulator will have the information or geographic reach to address regulatory and practical issues related to cross-border access, the Commission will increase its cooperative efforts with global regulators.

- *Investigate and prosecute wrongdoing*. In order to foster open, competitive, and financially sound markets, the Commission can investigate and brings enforcement cases involving trade practice abuses, financial capitalization and segregation violations, and supervision and compliance failures by registrants authorized to handle customer business. The Administrative Law Judges will continue to hear and decide administrative enforcement cases brought by the Commission against persons or firms charged with violating the Act or Commission rules and regulations.

Resource Priorities and Return on Investment:

- *Implement risk-based oversight reviews of SROs and DCOs*. The Commission will refine its risk-based approach to conducting reviews and examinations of SROs and DCOs. This approach involves conducting cyclical reviews of SROs and DCOs with an identification of their activities and risks, followed by an assessment of the appropriateness and adequacy of the systems and procedures that are relied upon by the SROs and DCOs to fulfill their responsibilities under the Act and Commission regulations. This approach tailors oversight efforts to the relative probability and severity of potential risks.

- *Implement risk-based oversight of DSROs*. The Commission will fully implement its risk-based approach to the oversight of designated self-regulatory organizations (DSROs) in which Commission staff approach the cyclical review of each DSRO with an identification of its activities and potential risks, followed by an assessment of the appropriateness and adequacy of the systems, procedures, and practices that the DSRO relies upon to fulfill its responsibilities under the core principles set forth in the CFMA. This risk-based approach, already being utilized by other Federal financial regulators and international counterparts such as the U.K. Financial Services Authority, promises to make more effective use of Commission resources by tailoring oversight efforts to the relative probability and severity of potential risks to market integrity and to market participants.

- *Establish a financial surveillance unit and fully implement financial surveillance information system (FSIS)*. With the establishment of a financial surveillance unit, the Commission has an enhanced capability to monitor market information, evaluate the impact of market moves on the financial integrity of market participants, and anticipate and act upon indications of financial difficulty. This capability is built upon the implementation and use of the new FSIS component systems, including the RSR Express system that compiles FCM financial statements, the SPARK system that utilizes large trader information to allow the tracking of risk at market, firm, and account levels, and the SPAN Risk Manager system that will permit "what if" analyses.

- *Develop and implement a new Commission trade surveillance system*. The Commission has two electronic oversight systems – one to monitor for trading abuses (such as trading ahead of customers and trading against customers and one to monitor for market manipulation utilizing the large trader reports). The first of these two systems is woefully out of date, and the Commission has concluded that the demands of today's futures marketplace require development and implementation of a new approach. By supporting the Commission's efforts to protect market participants from abusive trading practices and the integrity of the markets as a price discovery mechanism, the Commission trade practice investigation program helps the Commission maintain public confidence in the markets and in the Commission as their regulator.

  The Commission seeks an approach that will allow identification of inter-exchange violations that individual exchanges lack the capacity to detect, allow quicker access to and more sophisticated and customizable analysis of the full range of data supplied by exchanges with respect to electronic as well as open outcry trading, and enable meaningful Commission evaluation of the exchanges' own electronic surveillance systems.

- *Continue collaborative regulatory efforts regarding SFPs*. The Commission will continue in its efforts to coordinate with the SEC in implementing those sections of the CFMA related to the trading of SFPs. These areas include: SFP definitions; registration requirements and functions; treatment of customer funds; margin rules; the offering of foreign SFPs to U.S. customers; possible further exemptions for notice registrants; the listing of options; and coordinated clearing. The Commission will also respond to inquires from intermediaries, their counsel and accountants, and the general public concerning operational issues as the market for SFPs develops. Further, the Commission will work with the exchanges in developing sound business, financial and sales practices concerning the trading of SFPs.

- *Coordinate with foreign regulatory authorities – cooperative enforcement*. The number, duration and speed of regulatory issues related to financial crises and market abuses can be mitigated through the enhancement of international cooperation amongst regulators and market authorities. It is therefore critical that the CFTC continue to foster productive and cooperative working relationships with these foreign counterparts. In particular, the Commission will continue to: 1) facilitate cross-border transactions through the removal or lessening of any unnecessary legal or practical obstacles; 2) endeavor to enhance the internal supervisory cooperation and emergency procedures; 3) strengthen international cooperation for customer and market protection; 4) improve the quality and timeliness of international information sharing; and, 5) promote the development of internationally accepted regulatory standards of best practices. The CFTC will also continue to undertake measures to ensure that it maintains a high visibility in the international community and undertakes a leading role in the development of international financial policy affecting the futures and options markets.

- *Reengineer the Commission's trade practice surveillance system and update the market surveillance system so that they remain effective and robust as trading migrates from the floors to electronic platforms*. Markets regulated by the Commission have experienced a dramatic shift from floor to screen based trading over the past several years. The CBOT's and the CME's screen-based volume currently accounts for about 75 percent of total exchange volume. While electronic trading brings certain regulatory benefits, such as more precise audit trails, it also increases the opportunity for certain types of abuses, such as trading ahead of customers. In order to re-engineer our systems, we have examined the electronic trading systems and automated surveillance systems used by U.S. designated contract markets as well as those used by foreign futures exchanges that have significantly more experience in electronic trading. We are also incorporating changes in the Commission's oversight systems and, where necessary, recommending alterations to systems of our designated contract markets to ensure that customers continue to be protected against trading abuses and manipulations.

- *Finalize rules for intermediaries.* The Commission continues its efforts to modernize the rules affecting futures commission merchants, managers of pooled investment vehicles or individual accounts, and other intermediaries in the futures markets. Through hearings, studies, and roundtables, the Commission has, as directed by Congress, undertaken a concerted examination of the rules currently imposed on intermediaries, and we have adopted several rule changes—such as 1) providing financial institutions that are primarily overseen by another regulator (such as banks, insurance companies, and mutual funds) with an opportunity to use the risk management tools offered in the futures markets without subjecting themselves to unnecessary duplicative regulation; 2) providing appropriate registration relief to managers of pooled investment vehicles that restrict participation to highly sophisticated persons who use futures on a limited basis; and 3) affording FCMs greater operational flexibility so that they can provide their customers with more efficient trade executions. The Commission will continue with efforts to enhance an effective oversight framework for intermediaries, as envisaged by the CFMA.

- *SRO Study – Request for Comments on Proposed Acceptable Practices for Core Principle 15.* On July 7, 2006, the Commission published and sought public comment on proposed Acceptable Practices for Section 5(d)(15) of the Act (Core Principle 15), which requires that exchanges minimize conflicts of interest in their decision-making processes. The proposed Acceptable Practices, the first for Core Principle 15, emphasize exchange governance and boards of directors as a means of mitigating conflicts of interest between exchanges' regulatory responsibilities and their commercial activities. The proposals are based on the Commission's three-year study of self-regulation and self-regulatory organizations in the U.S. futures industry (SRO Study), launched in 2003. They respond to recent changes in the industry, including the demutualization of exchanges, their conversion to for-profit business models, and increased competition among exchanges and others. The comment period on the proposed Acceptable Practices closed on September 7, 2006.

- *Implement USA Patriot Act.* The Commission has actively supported and assisted the U.S. Treasury Department in developing AML rules to implement the mandate of the USA Patriot Act with respect to the futures industry. These include various proposed and final rules requiring, among other things: 1) FCMs and IBs to report suspicious transactions; 2) FCMs and IBs to establish customer identification and verification programs (CIPs); and 3) FCMs and IBs to establish due diligence programs for detecting and reporting money laundering through correspondent accounts for foreign financial institutions and private banking accounts for non-U.S. persons. In addition to finalizing AML rules that already have been proposed, the Commission and Treasury will continue to effectuate the full extent of the protections against money laundering mandated by Congress (for example, extending the CIP rules to cover other futures firms as well). To assure consistency throughout the financial services industry, AML rules are being developed by an inter-agency working group with representatives from Treasury, the CFTC, the SEC, and several Federal banking agencies. The Commission's role includes making sure that futures industry registrants are not placed at a disadvantage relative to other financial service providers. Moreover, the Commission has been delegated AML examination authority with respect to FCMs and IBs. While much of the front-line examination work may be performed by NFA and other SROs, this delegation requires the implementation of an appropriate audit and compliance program and Commission oversight of the direct supervision by NFA and other SROs. The Commission also has repeatedly requested, and Treasury is considering, a similar delegation of Treasury's AML enforcement authority to the Commission with respect to futures firms. This delegation would bring additional responsibilities to the Commission for investigating and pursuing charges against those who do not have proper supervision, reporting, and record-keeping programs in place to combat money laundering and terrorist financing.

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Summary of Goal Three Performance Indicators

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

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

Annual Performance Goal: No loss of customer funds as a result of firms' failure to adhere to regulations. No customers prevented from transferring funds from failing firms to sound firms.

Performance Measures	FY 2005 Actual	FY 2006 Actual	FY 2007 Plan	FY 2008 Plan
Lost funds: a) Percentage decrease in number of customers who lose funds b) Amount of funds lost	 0 $0	 0 $0	 0 $0	 0 $0
Number of rulemakings to ensure market integrity and financially sound markets	3	3	6	6
Percentage of self-regulatory organizations that comply with requirement to enforce rules	100%	100%	100%	100%

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

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

Performance Measures	FY 2005 Actual	FY 2006 Actual	FY 2007 Plan	FY 2008 Plan
Percentage of intermediaries who meet risk-based capital requirements	100%	100%	100%	100%
Percentage of clearing organizations that comply with requirement to enforce their rules	100%	100%	100%	100%

Outcome 3.3: Markets are free of trade practice abuses.

Annual Performance Goal: Minimize trade practice abuses.

Performance Measures	FY 2005 Actual	FY 2006 Actual	FY 2007 Plan	FY 2008 Plan
Percentage of exchanges deemed to have adequate systems for detecting trade practice abuses	100%	100%	100%	100%
Percentage of exchanges that comply with requirement to enforce their rules	100%	100%	100%	100%

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

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

Performance Measures	FY 2005 Actual	FY 2006 Actual	FY 2007 Plan	FY 2008 Plan
Percentage of CFMA Section 126(b) objectives implemented	100%	100%	100%	100%
Number of rulemakings, studies, interpretations, and guidance to ensure market integrity and exchanges' compliance with regulatory requirements	6	20	18	19
Percentage of requests for no-action or other relief completed within six months related to novel market or trading practices and issues to facilitate innovation	100%	100%	100%	100%
Percentage of total requests receiving CFTC responses for guidance and advice	90%	95%	95%	95%

Breakout of Goal Three Request by Program Activity

	FY 2007		FY 2008		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Market Oversight	$6,963	33	$7,963	33	$1,000	0
Clearing & Intermediary Oversight	8,095	37	9,836	39	1,741	2
Chief Economist	0	0	0	0	0	0
Enforcement	3,973	18	4,500	18	527	0
Proceedings	188	1	217	1	29	0
General Counsel	1,763	7	2,250	8	487	1
Executive Direction & Support	7,903	38	8,876	38	973	0
TOTAL	**$28,885**	**134**	**$33,642**	**137**	**$4,757**	**3**

Table 16: Breakout of Goal Three by Program Activity

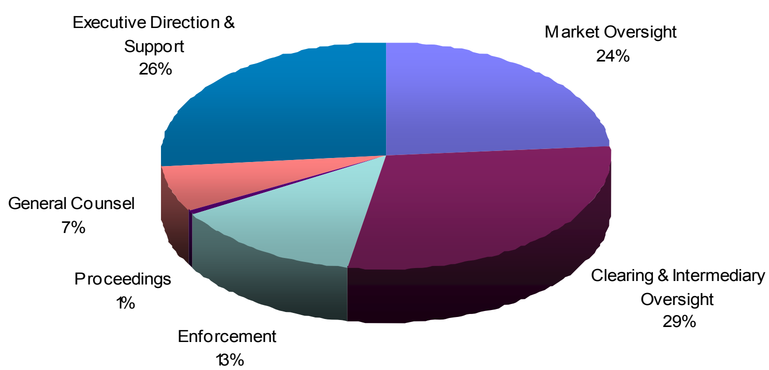

Figure 14: Breakout of Goal Three Request by Program Activity

Breakout of Goal Three Request by Outcome Objective

	FY 2007 $ (000)	FY 2007 FTE	FY 2008 $ (000)	FY 2008 FTE	Change $ (000)	Change FTE
GOAL THREE: Ensure market integrity in order to foster open, competitive, and financially sound markets.						
Outcomes						
3.1 Clearing organizations and firms holding customer funds have sound financial practices.	$5,292	24	$6,356	26	$1,064	2
3.2 Commodity futures and option markets are effectively self-regulated.	12,915	60	15,002	60	2,087	0
3.3 Markets are free of trade practice abuses.	5,297	24	6,044	25	747	1
3.4 Regulatory environment responsive to evolving market conditions.	5,381	26	6,240	26	859	0
TOTAL	**$28,885**	**134**	**$33,642**	**137**	**$4,757**	**3**

Table 17: Breakout of Goal Three Request by Outcome

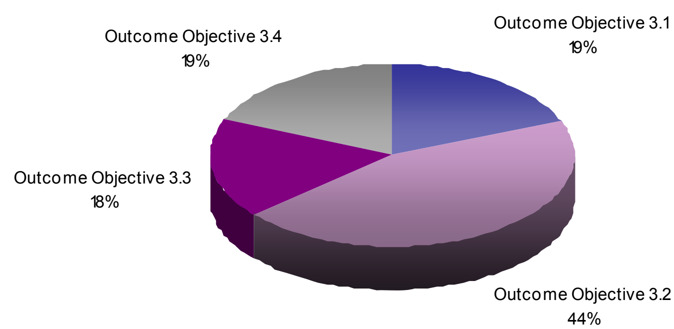

Figure 15: Breakout of Goal Three Request by Outcome Objective

Justification of the FY 2008 Budget & Performance Estimate

Breakout of $116.0 Million Budget Estimate by Program

	FY 2006		FY 2007		FY 2008 Current Svcs.		FY 2008 Request	
	FTE	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE	$ (000)
Market Oversight	103	$20,473	100	$20,018	100	$23,250	101	$23,180
Clearing & Intermediary Oversight	64	$12,722	62	$13,373	62	$15,313	69	$17,070
Chief Economist	8	$1,590	9	$2,183	9	$2,485	14	$3,796
Enforcement	132	$26,245	120	$26,713	120	$30,669	120	$30,262
Proceedings	13	$2,584	11	$2,069	11	$2,421	11	$2,384
General Counsel	31	$6,163	28	$6,954	28	$7,895	32	$8,874
Exec. Direction & Support	139	$27,620	128	$26,699	128	$30,866	128	$30,434
Total	490	$97,397	458	$98,009	458	$112,899	475	$116,000

Table 18: Budget Estimate by Program

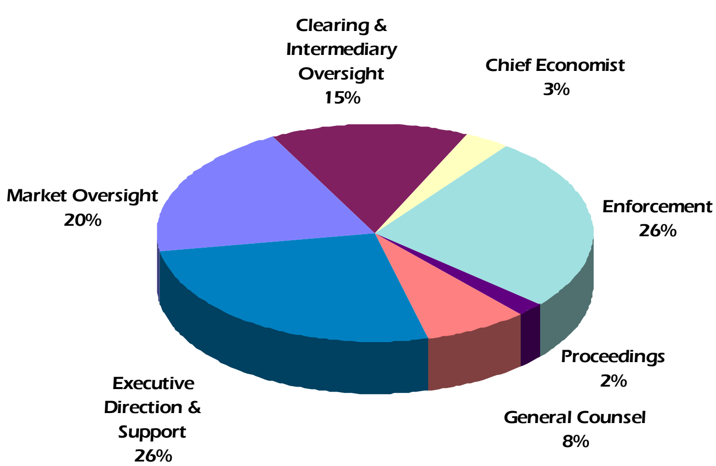

Figure 16: $116.0 Million Budget Estimate by Program[9]

9 Includes information technology in support of all programs.

Breakout of $116.0 Million Budget Estimate by Object Class

	FY 2006 ($000)	FY 2007 ($000)	FY 2008 ($000)
11.1 Full-Time Perm. Compensation	$58,318	$55,849	$60,356
11.5 Other Personnel Compensation	1,379	1,851	1,888
11.8 Special Pers. Serv. Payments	3	22	22
11.9 Subtotal, Personnel Comp.	59,700	57,722	62,266
12.1 Personnel Benefits: Civilian	14,619	14,707	16,068
13.0 Benefits for Former Personnel	3	34	35
21.0 Travel & Transportation of Persons	1,168	1,411	1,540
22.0 Transportation of Things	52	88	88
23.2 Rental Payments to Others	10,990	11,701	12,362
23.3 Comm., Utilities & Miscellaneous	2,208	2,836	4,427
24.0 Printing and Reproduction	327	401	433
25.0 Other Services [10]	7,026	7,153	13,783
26.0 Supplies and Materials	595	803	866
31.0 Equipment	680	1,087	4,066
32.0 Building/Fixed Equipment	18	66	66
42.0 Claims/Indemnities	11	0	0
99.0 Subtotal, Direct Obligations	97,397	98,009	116,000
99.0 Reimbursable	23	100	100
99.0 Total Obligations	$97,420	$98,109	$116,000

Table 19: Budget Estimate by Object Class

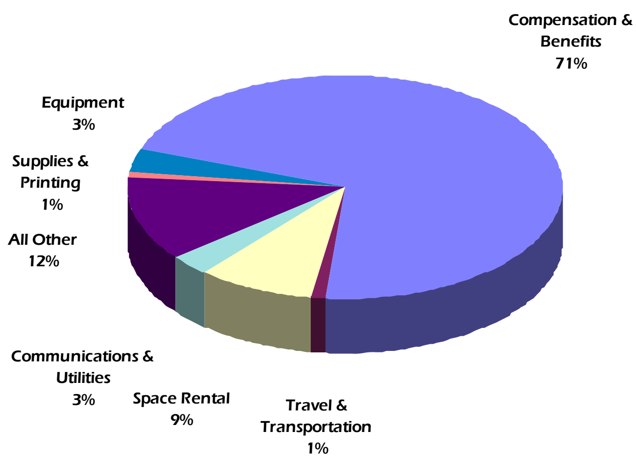

Figure 17: $116.0 Million Budget Estimate by Object Class

[10] Includes costs for Enforcement investigations, information technology modernizations, operations & maintenance, and advisory & assistance services.

Crosswalk from FY 2007 to FY 2008

	FY 2007 Budget	FY 2008 Request	Change
Budget Authority ($000)	$98,000	$116,000	$18,000
Full-Time Equivalents (FTEs)	458	475	17

Explanation of Change	**FTEs**	**Dollars ($000)**
Current Services Increases: (Adjustments to FY 2007 Base)		
To provide for the following changes in personnel compensation:		
-- Estimated July 2007 2.2% pay increase (annualization of)		1,132
-- Estimated July 2008 2.6% pay increase		331
--Within-grade increases		525
--To provide for increased costs of personnel benefits		784
--To provide employee performance awards		37
To provide for the following changes in non-personnel costs:		12,085
--Travel/Transportation ($129)		
--Space Rental/Communications/Utilities ($2,252)		
--Supplies/Printing ($95)		
--All Services ($6,630)		
-- Equipment ($2,979)		
Program Increase: (Adjustments to FY 2008 Current Services)		
--To provide for salaries and expenses for 17 more FTEs	+17	3,106
Total Increases	**+17**	**$18,000**

Table 20: Crosswalk from FY 2007 to FY 2008

Market Oversight

Total Budget: $23,180,000 101 FTEs

Total Change: $ 3,162,000 1 FTE

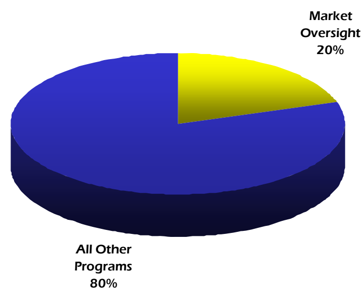

Figure 18: Market Oversight Percentage of Total Budget Dollars

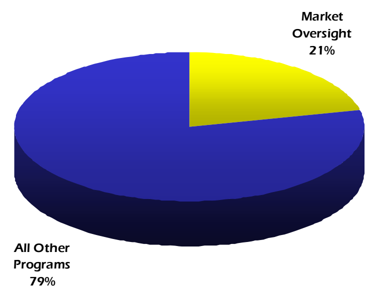

Figure 19: Market Oversight Percentage of Total Budget FTEs

Justification of the FY 2008 President's Budget & Performance Plan

The primary responsibility of the Market Oversight program is to foster markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity. By detecting and protecting against price manipulation and abusive trading practices, this program assists the markets in performing the vital economic functions of price discovery and risk transfer (hedging). The Market Oversight program will initiate and carry out the Commission's surveillance and oversight programs for these markets. The program also will conduct trade practice surveillance and reviews of exchange rule amendments and submissions. In addition, the program will develop, implement, and interpret regulations that protect customers, prevent trading abuses, and assure the integrity of the futures markets.

In FY 2008, the Market Oversight program requests 101 full-time equivalents (FTEs), an increase of one FTE over the FY 2007 level. The three subprograms—Market Surveillance, Market and Product Review, and Market Compliance—are requesting 49 FTEs, 18 FTEs, and 34 FTEs, respectively.

Market Surveillance. Futures prices are generally quoted and disseminated throughout the U.S. and abroad. Business, agricultural, and financial enterprises use the futures markets for pricing information and for hedging against price risk. The participants in commercial transactions rely extensively on prices established by the futures markets, which affect trillions of dollars in commercial activity. Moreover, the prices established by the futures markets directly or indirectly affect all Americans. They affect what Americans pay for food, clothing, and shelter, what we pay to heat our homes and fuel our cars, as well as other necessities. Since futures and option prices are susceptible to manipulation and excessive volatility, and producers and users of the underlying commodities can be harmed by manipulated prices, preventive measures are necessary to ensure that market prices accurately reflect supply and demand conditions.

Actions to detect and prevent price manipulation are taken by economists who monitor all active futures and option contracts for potential problems. The FTEs requested for the Market Oversight program will work on investigating possible manipulation and other trading abuses, analyze routine reports of large trader activity, conduct rule enforcement reviews, and work to detect and prevent threats of price manipulation or other major market disruptions caused by abusive trading practices.

Price manipulation prevention activities of Market Surveillance economists are enhanced by support personnel, such as futures trading specialists, futures trading assistants, and statisticians. Their activities include operating an extensive daily data-gathering and verification system and collecting reports from exchanges, futures industry firms, and traders. The reports provide current market information on the size of futures and option positions held by large traders as well as other background information that is necessary to enforce Commission and exchange speculative limits.

Market and Product Review. In order to serve the vital price-discovery and hedging functions of futures and option markets, exchanges must provide consumers safe marketplaces that have appropriate protections in place and provisions for ensuring the fairness of the market and the integrity of contracts traded. Exchanges must list products for trading that are not readily susceptible to manipulation and do not lead to price distortions or disruptions in the futures or option markets, or in the underlying cash markets. Adherence to the approval criteria, core principles, and appropriate contract design minimizes market disruptions and the susceptibility of the contracts to manipulation or price distortion.

The Market and Product Review subprogram, in cooperation with other offices of the Commission, reviews exchanges' applications for approval as a contract market or as a Derivatives Transaction Execution Facility (DTEF) to ensure that the exchange is in compliance with approval criteria and core principles and Commission regulations. The subprogram also reviews filings by exempt markets and, as required, analyzes these entities to ascertain whether they comply with statutory requirements.

The subprogram reviews requests from exchanges for approval of new contracts and rule amendments to existing contracts to ensure that contracts are in compliance with statutory and regulatory anti-manipulation requirements. It also conducts reviews of new products and rule changes of economic significance submitted under certification procedures to provide information about the markets and product design features, and to ensure that contracts and rules comply with statutory requirements as well as the Commission's rules and policies. The reviews foster markets free of disruptions, or price manipulation, provide essential information to conduct effective market surveillance, and address regulatory and public interest issues. In this regard, deficiencies in the terms and conditions of futures and option contracts increase the likelihood of cash, futures, or option market disruptions and decrease the economic usefulness and efficiency of contracts.

The subprogram also reviews new rules and rule amendments for current markets. To ensure compliance with core principles and regulatory standards in order to maintain fairness and integrity, protect customers, and accommodate and foster innovation and efficiency in self-regulation consonant with the Commission's statutory mandates. The reviews consider complex new trading procedures and market structures that present novel issues and, in some cases, require amendments or interpretations by the Commission to facilitate implementation of the SRO's rule changes. In this regard, deficiencies in the new programs or changes to existing programs increase the likelihood of trading abuses, inconsistent market oversight, or implementation of market or governance changes that create conflicts of interest or raise other regulatory concerns.

Market Compliance. The Market Compliance subprogram oversees the regulatory and oversight activities of all designated contract markets in furtherance of the Commission's primary goals of ensuring customer protection and market integrity. The oversight program consists of examinations of exchange self-regulatory programs on an ongoing, routine basis to assess their continuing compliance with applicable core principles under the Act and the Commission's regulations. The examinations result in rule enforcement review reports that evaluate an exchange's compliance and surveillance capabilities. The reports set forth recommendations for improvement, where appropriate, with respect to an exchange's trade practice surveillance, market surveillance, disciplinary, audit trail, record-keeping, and dispute resolution programs. These periodic reviews promote and enhance continuing effective self-regulation and ensure that exchanges rigorously enforce compliance with their rules.

The Market Compliance subprogram also monitors trading activity on all exchanges in order to detect and prevent possible trading violations. This type of oversight is conducted through the use of automated surveillance and floor surveillance, and it fosters markets that are free of trading abuses. The identification of potential trading violations results in referrals to relevant exchanges and to the Commission's Division of Enforcement. In addition, the Market Compliance subprogram reviews and analyzes proposed exchange trading platforms, rule enforcement programs, and disciplinary procedures in conjunction with new designated contract market applications. The subprogram also conducts special studies of exchange rules, procedures, and trading practices as issues arise affecting a particular exchange. This serves to promote orderly trading and facilitates open and competitive markets.

The growth of electronic trading and increased competition has expanded the scope of trade-monitoring beyond the initial review of trading platforms. Reviews of front-end data entry systems and back-end account processing systems are being developed. Analysis of side-by-side trading in electronic and open outcry markets, as well as trading in related contracts on multiple exchanges, is becoming increasingly important.

Consequence of Not Receiving Requested Level of Resources

The growth in the number and different types of facilities that trade a wider array of derivatives products, including single-stock futures, futures on OTC instruments, contracts based on events or occurrences and novel approaches to derivatives trading, requires an increased and more sophisticated level of surveillance, data collection, analysis, reporting, and research to conduct effective oversight and develop the necessary expertise to monitor these developments. Surveillance and oversight of exchanges and product design involves monitoring an increasing number of innovative and often complex futures and option contracts to detect or prevent potential problems, price manipulation, and other major market disruptions caused by abusive trading practices or contract design flaws.

In FY 2008, the Market Oversight staff will be required to monitor a large and diverse array of markets and will continue to carry out the Commission's program of surveillance and oversight of single-stock futures. The Commission anticipates that a large number of new contracts, including contracts based on broad-based debt indexes and SFPs based on debt instruments, will be listed for trading on futures exchanges. The number of energy futures contracts is also expected to continue to grow. Also, exchanges have indicated an interest in listing a large number of contracts, including new kinds of contracts, based on events that raise core issues regarding the extent of the Commission's jurisdiction. Furthermore, the Commission anticipates that new technology and a number of new market plans and new trade execution methods will be adopted by exchanges. In large part, the growth in the number of exchanges, products, and product types resulted from the more flexible regulatory environment created by the CFMA. In addition, the development new of technology, side-by-side trading, and directly competitive markets creates new types of abuses across markets as well as abuses that utilize these newly-available capabilities.

Without adequate resources, in FY 2008 the Market Oversight program of surveillance, exchange oversight, new exchange reviews, and studies to enhance understanding of the markets and new technology will not be commensurate with the growth in new types of exchanges, new trading execution methods in futures markets, and the initiation of trading in new innovative complex products that require detailed analysis and raise substantive legal and policy questions. Thus, some price manipulations and abusive trading practices will go undetected or detected too late to permit amelioration or intervention. In particular, there is a substantial risk that abusive trading in energy futures markets will go undetected, potentially costing American consumers hundreds of millions of dollars in additional energy costs. Further, the efficacy of exchange self-regulatory programs will not be evaluated as effectively or on a timely basis. By lengthening the time between reviews, staff will not be able to ensure that exchanges are effectively fulfilling their self-regulatory responsibilities with respect to customer protection and market integrity, and as a result, traders will suffer direct economic harm from an increase in illegal trading activity. In addition, the Commission recently proposed acceptable practices for Core Principle 15 relating to exchange governance and conflicts of interest. Without adequate resources, staff will not be able to conduct necessary reviews to ensure that exchanges adequately address potential conflicts of interest between their self-regulatory functions and responsibilities and their commercial interests.

The additional staff person will help the Market Oversight program meet its oversight and surveillance responsibilities especially in connection with its goal of monitoring electronic trading, which is rapidly growing in importance. However, even with this additional resource, staff may not be able to maintain its ability to promptly process requests from foreign boards of trade to permit direct trading access to U.S. market users. Any such delays would have a detrimental impact on the ability of U.S. market users to avail themselves of foreign liquidity pools and would generally impede the accelerating rate of globalization in the futures industry.

In addition, staff may not be able to review all new contracts and rule change submissions for approval within statutory time frames, and will not be able to appropriately review all new contract and rule change certifications in a timely manner. In the absence of a timely new contract review, it is possible that a contract market might inadvertently list for trading a flawed contract that does not meet statutory or regulatory requirements. In the absence of a timely rule amendment review, a contract market might create a violation of the CEA or the Commission's regulations. This could result in direct economic harm to producers, consumers, and other users of the underlying commodities and indirect harm to the economy as a whole because market prices may not accurately reflect supply and demand conditions.

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Table 21: Market Oversight Request by Subprogram

	FY 2007		FY 2008		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Market Compliance	$7,209	34.00	$8,228	34.00	$1,019	0.00
Market & Product Review	3,561	17.00	4,372	18.00	811	1.00
Market Surveillance	9,248	49.00	10,580	49.00	1,332	0.00
TOTAL	$20,018	100.00	$23,180	101.00	$3,162	1.00

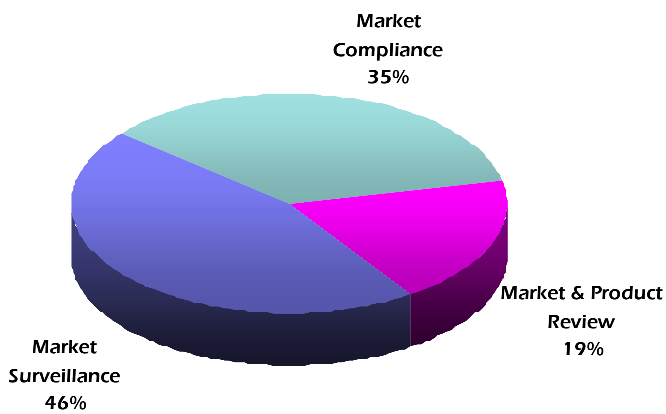

Figure 20: Market Oversight FY 2008 Budget by Subprogram

Table 22: Market Oversight Request by Goal

	FY 2007		FY 2008		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcomes						
1.1 Futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	$11,627	60.00	$13,572	61.00	$1,945	1.00
1.2 Markets that can be monitored to ensure early warning of potential problems or issues that could adversely affect their economic vitality.	1,428	7.00	1,645	7.00	217	0.00
Subtotal Goal One	**$13,055**	**67.00**	**$15,217**	**68.00**	**$2,162**	**1.00**
GOAL TWO: Protect market users and the public.						
None						
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcomes						
3.2 Commodity futures and option markets are effectively self-regulated.	$4,846	23.00	$5,543	23.00	$697	0.00
3.3 Markets are free of trade practice abuses.	1,908	9.00	2,178	9.00	270	0.00
3.4 Regulatory environment responsive to evolving market conditions.	209	1.00	242	1.00	33	0.00
Subtotal Goal Three	**$6,963**	**33.00**	**$7,963**	**33.00**	**$1,000**	**0.00**
TOTAL	**$20,018**	**100.00**	**$23,180**	**101.00**	**$3,162**	**1.00**

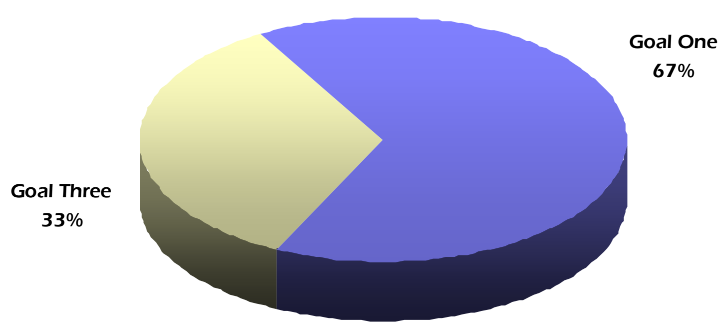

Figure 21: Market Oversight FY 2008 Budget by Goal

Clearing & Intermediary Oversight

Total Budget: **$17,070,000** **69 FTEs**

Total Change: **$3,697,000** **7 FTEs**

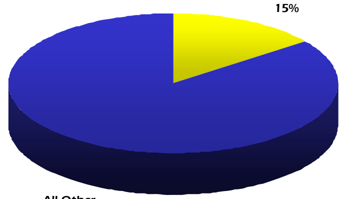

Figure 22: Clearing & Intermediary Oversight Percentage of Total Budget Dollars

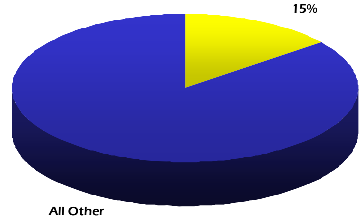

Figure 23: Clearing & Intermediary Oversight Percentage of Total Budget FTEs

Justification of the FY 2008 President's Budget & Performance Plan

In FY 2008, the Clearing and Intermediary Oversight (DCIO) program requests 69 FTEs, an increase of seven FTEs over the FY 2007 level. The requested level is necessary for the Clearing and Intermediary Oversight program to meet its regulatory oversight responsibilities. Of the seven additional FTEs, four FTEs will be allocated to the Clearing Policy and Review subprogram, and three FTES will be allocated to the Audit and Financial Review subprogram.

The Act, as amended in December 2000 by the CFMA, sets forth several purposes for which the Clearing and Intermediary Oversight program has direct responsibility:

- To ensure the *financial integrity* of all transactions subject to the Act and the avoidance of systemic risk; and
- To *protect all market participants* from fraudulent or other abusive sales practices and misuses of customer assets.

The futures markets have grown rapidly since passage of the CFMA, with customer funds on deposit having more than doubled between 2000 and 2006 to approximately $138 billion. In addition, Congress gave the Commission direct oversight responsibility over DCOs. DCOs, as the central counterparties in the futures markets, are key to the financial integrity of the futures markets by centralizing counterparty credit risk exposures. Their proper supervision requires the Commission to devote substantial resources to developing new competencies and implementing and executing new oversight programs. DCIO currently has direct supervisory responsibility for 11 DCOs.

The DCIO program also requires substantial Commission resources to meet its oversight responsibility over SROs to ensure their fulfillment of responsibilities for monitoring and ensuring the financial integrity of market intermediaries, enforcing appropriate sales practice standards for the protection of customers and the public, and protecting customer funds. This is accomplished by conducting risk-based examinations of SROs, including the NFA, to evaluate their compliance programs over registrants with respect to applicable provisions of the Act and Commission regulations concerning requirements such as fitness, net capital, segregation of customer funds, disclosure, reporting, sales practices, and related recordkeeping. In addition, financial and risk surveillance of market intermediaries is conducted as part of the DCIO program of oversight of SROs and DCOs.

The DCIO program responsibilities further include oversight of DCOs, intermediaries holding customer funds, and other market participants in their efforts to compete in dynamically evolving markets without sacrificing customer protections. Rapid market and product evolution will require that existing regulations be reviewed, refined, and applied in a manner that facilitates competitiveness while preserving core safeguards. The globalization of the markets, the blurring of distinctions among financial institutions, and the explosive growth of technology have made it essential that the Commission adapt its regulations continually and appropriately to changing market conditions.

Clearing Policy and Review. A Clearing Policy and Review subprogram level of 18 FTEs in FY 2008 would represent an increase of four FTEs over the FY 2007 level. The higher level is needed to enable the Clearing Policy and Review subprogram to address its current and additional responsibilities in a satisfactory manner, particularly with respect to the assessment of new DCOs seeking to clear for domestic markets, the execution of risk-based oversight and examination of DCOs, and the expansion and enhancement of financial and risk surveillance functions of the DCIO program.

The Clearing Policy and Review subprogram is responsible for reviewing applications for registration as DCOs and rule submissions submitted by DCOs, and for conducting risk-based oversight and examinations of DCOs to evaluate their compliance with applicable provisions of the Act and Commission regulations, including Core Principles with regard to financial resources, risk management, default procedures, protection of customer funds, and system safeguards. In addition, financial and risk surveillance of market intermediaries is conducted as part of the DCIO program of oversight of DCOs.

Effective oversight must help to ensure financial integrity and adequate risk management within the FCMs and DCOs that are the backbone of the futures clearing system. This requires examination of both the clearinghouses themselves and assessments of how well they in turn monitor the activities of their clearing members. Two of the four FTEs allocated to the Clearing Policy and Review subprogram will be used to staff additional positions in the Major Review unit that is responsible for executing risk-based examinations of DCOs.

The Clearing Policy and Review subprogram also has responsibility for monitoring, through both traditional supervisory methods and evolving financial surveillance efforts using automated quantitative analysis tools, the adequacy, reliability, and resilience of the clearing system (consisting of both DCOs and FCMs) to protect against: 1) the financial problems of a single market participant becoming systemic problems that could affect other market participants or other markets; 2) customer funds being misused or exposed to inappropriate risks of loss; and 3) abusive sales practices that harm customers and undermine market integrity. The Financial Surveillance unit was formed to focus, enhance, and expand the subprogram's utilization of automated tools and systems to gather, combine, and analyze information from monthly financial reports filed by FCMs, large trader position information, and other relevant market and financial information so as to provide ongoing surveillance of actual or potential financial risks facing firms and clearinghouses and to anticipate emerging problems that may pose systemic risks. The unit acquired the responsibility of monitoring broad-based stock-index futures and security futures margins. Two of the four FTEs allocated to the

Clearing Policy and Review subprogram will be used to staff additional positions in the Financial Surveillance unit.

Audit and Financial Review. An Audit and Financial Review subprogram level of 41 FTEs in FY 2008 would represent an increase of three FTEs over the FY 2007 level. The higher level is needed in order to enable the Audit and Financial Review subprogram to address its current and anticipated additional responsibilities in a satisfactory manner. The increase in resources also will allow subprogram staff to respond to the multitude of accounting and regulatory issues relating to the Commission's minimum capital regulations and to address potential changes vis-à-vis the SEC's capital regulations, to monitor the financial integrity of individual registrants and the markets generally, and to improve SRO oversight programs.

The Audit and Financial Review subprogram encompasses the activities of the chief accountant who is responsible for, among other things, developing and interpreting the Commission's regulations in such areas as minimum net capital and segregation requirements for futures firms. One of the three FTEs will be used to fill an associate chief accountant position that will support the chief accountant and meet the need to respond to the increasing number of inquiries for regulatory and accounting interpretations of the Commission's capital and segregation regulations, and to address potential major changes to the Commission's and SEC capital regulations resulting from the SEC's adopting a new capital requirement for certain broker-dealers that elect to submit to consolidated supervision by the SEC. The associate chief accountant would assume a significant role in the oversight of consolidated supervised entities, a new class of the largest broker-dealer/FCMs that use complex mathematical models to compute regulatory capital.

Another Audit and Financial Review subprogram priority is the enhancement of its risk-based oversight program of SROs, and focusing more resources on the examinations of registrants, particularly foreign currency (Forex)-only FCMs and mid-level FCMs whose sales practices have raised concerns. Two of the three FTEs would be allocated to the regional office in Kansas City to better enable the Audit and Financial Review subprogram to increase Commission oversight of Forex-only FCMs and other FCMs of interest, and to augment the pool of auditor resources that could be devoted to examinations of SROs.

Compliance and Registration. A Compliance and Registration subprogram level of 10 FTEs in FY 2008 will represent the same level of staffing as the FY 2007 level. A lower level would not enable the Compliance and Registration subprogram to address its current and anticipated responsibilities in a satisfactory manner.

The Compliance and Registration subprogram is responsible for providing policy advice and recommendations to the Commission, other staff units, the public, and the industry concerning the activities of futures industry intermediaries with respect to, among other things, registration, disclosure, reporting, sales practices, and record-keeping. The subprogram is engaged in an ongoing regulatory modernization effort to keep the Commission's regulatory framework abreast of market developments. This requires the subprogram to develop or modernize regulations and interpretations that are flexible, effective, and efficient and that respond to further industry innovation and enhancements. Subprogram staff work closely with the staff of NFA and other industry groups to effectively address issues that arise in connection with the business practices of intermediaries.

More specifically, in FY 2008, the ongoing responsibilities of the Compliance and Registration subprogram will include: 1) addressing regulatory issues and implementing a regulatory modernization program for intermediaries; 2) examining the regulations relating to, and working with the Enforcement program concerning firms engaged in, retail off-exchange Forex transactions; 3) assisting in the Commission's participation with the Treasury Department, the Financial Crimes Enforcement Network, and other financial regulators to develop and promulgate regulations to implement the AML requirements of the USA PATRIOT Act; 4) continuing to effectively supervise the NFA and its fulfillment of CFTC-delegated responsibilities; 5) continuing to evaluate the regulations covering registration of and reporting and disclosure by CPOs and CTAs, some of which may operate or advise "hedge funds;" 6) addressing any additional matters presented as a result of the current reauthorization process; 7) continuing to coordinate with the SEC with respect to the trading of SFPs, including addressing issues related to trading of foreign SFPs and foreign index products by U.S. customers; and 8) managing the Commission's Part 30 program that helps to ensure the protection of U.S. customers who trade on foreign boards of trade and through foreign intermediaries, and to preserve appropriate supervisory capabilities for the Commission.

Consequences of Not Receiving Requested Level of Resources

The DCIO program must at all times maintain an effective supervisory system that is responsive to technological development, business changes, increasing globalization, increasing trading volume, and other evolutionary changes in the markets and the clearing process.

Without the requested resources, the DCIO program will not meet its established and evolving responsibilities. The increased level of resources requested is necessary for the DCIO program to meet the responsibilities assigned to it by Congress through the CFMA and any further changes to the CEA resulting from the Commission's current reauthorization process, and to help keep pace with the rapid growth in futures and option trading volume and the profound changes resulting from global competition, innovations in derivative contracts, innovations in clearing practices, new clearing organizations, advances in technology, and new market practices. The DCIO program also is responsible for ensuring that Commission registrants comply with the requirements of the USA PATRIOT Act, and the program staff expects that additional resources will be needed to address AML concerns. The volume and nature of retail off-exchange foreign currency transactions also will require increased resources.

The increase in staff resources will enable the program to ensure that it meets its responsibilities of effective supervision of SROs, intermediaries, and DCOs, as well as other compliance and investigative support activities performed by staff to ensure the integrity of the marketplace. In addition, the increased level of resources requested is necessary for the DCIO program to provide appropriate guidance to industry professionals, customers, and other market users regarding compliance with an increasingly changing business and regulatory environment as promptly and effectively as possible, which will facilitate innovation and market growth and improve the environment for the international competitiveness of the U.S. futures industry. The consequence of not receiving the DCIO program's requested level of resources is that the program would not be able to adequately fulfill its oversight and audit functions over DCOs, SROs, and FCMs, thereby increasing the possibility that a misappropriation or insolvency could harm customers and consumers, compromise the integrity of the futures markets, and create systemic instability.

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Table 23: Clearing & Intermediary Oversight Request by Subprogram

	FY 2007		FY 2008		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Clearing Policy & Review	$1,988	14.00	$3,304	18.00	$1,316	4.00
Compliance & Registration	2,063	10.00	2,330	10.00	267	0.00
Audit & Financial Review	9,322	38.00	11,436	41.00	2,114	3.00
TOTAL	$13,373	62.00	$17,070	69.00	$3,697	7.00

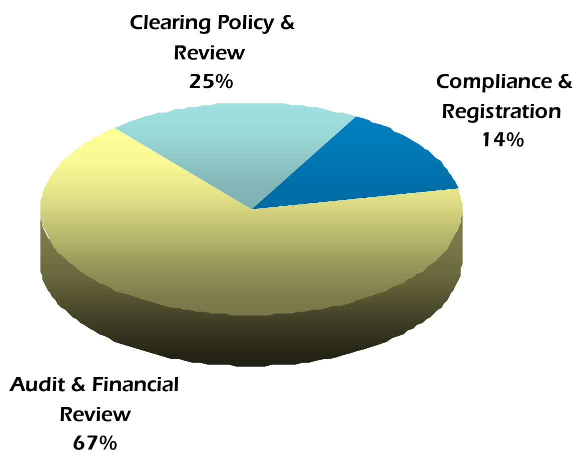

Figure 24: Clearing & Intermediary Oversight FY 2008 Budget by Subprogram

Table 24: Clearing & Intermediary Oversight Request by Goal

	FY 2007		FY 2008		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcomes						
1.1 Futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	$387	2.00	$463	2.00	$76	0.00
1.2 Markets that can be monitored to ensure early warning of potential problems or issues that could adversely affect their economic vitality.	388	2.00	463	2.00	$75	0.00
Subtotal Goal One	**$775**	**4.00**	**$926**	**4.00**	**$151**	**0.00**
GOALTWO: Protect market users and the public.						
Outcomes						
2.1 Violations of Federal commodities laws are detected and prevented.	$1,226	5.50	$1,415	5.50	$189	0.00
2.2 Commodities professionals meet high standards.	3,033	14.50	4,614	19.50	1,581	5.00
2.3 Customer complaints against persons or firms falling within the jurisdiction of the Commodity Exchange Act are handled effectively.	244	1.00	279	1.00	35	0.00
Subtotal Goal Two	**$4,503**	**21.00**	**$6,308**	**26.00**	**$1,805**	**5.00**
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcomes						
3.1 Clearing organizations and firms holding customer funds have sound financial practices.	$1,685	8.50	2,175	9.50	$490	1.00
3.2 Commodity futures and option markets are effectively self-regulated.	4,945	21.00	5,946	22.00	1,001	1.00
3.4 Regulatory environment responsive to evolving market conditions.	1,465	7.50	1,715	7.50	250	0.00
Subtotal Goal Three	**$8,095**	**37.00**	**$9,836**	**39.00**	**$1,741**	**2.00**
TOTAL	**$13,373**	**62.00**	**$17,070**	**69.00**	**$3,697**	**7.00**

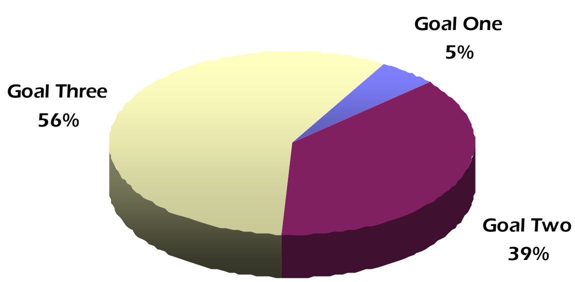

Figure 25: Clearing & Intermediary Oversight FY 2008 Budget by Goal

Enforcement

Total Budget:	**$30,262,000**	**120 FTEs**
Total Change:	**$ 3,549,000**	**0 FTE**

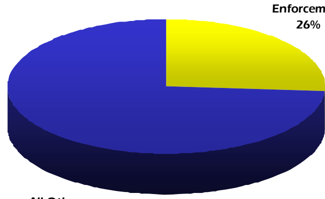

Figure 26: Enforcement Percentage of Total Budget Dollars

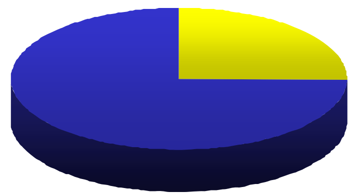

Figure 27: Enforcement Percentage of Total Budget FTEs

Justification of the FY 2008 President's Budget & Performance Plan

The primary responsibility of the Enforcement program is to police for conduct that violates the CEA and Commission regulations. Such conduct undermines the integrity of the market and the confidence of market participants.

In FY 2008, the Enforcement program requests 120 FTEs, resulting in no increase over the FY 2007 level. This stability in FTEs is vitally needed by the Enforcement program to address the following developments:

- Trading strategies have become more complex, crossing product lines and markets, which has required the Enforcement program to expand the scope of its investigations concerning fraud, market manipulation, and other abusive trading practices. A striking example is the program's intensive investigations and litigations energy-related market abuses. Due to their complexity, the Enforcement program must devote significantly more resources to these investigations in order to analyze voluminous trading data, hire experts, and to examine the activities of multiple energy market participants.
- The Enforcement program anticipates an increase in the number of large, complex investigations and trials during FY 2007 and FY 2008. To adequately address these complex matters will require the Enforcement program to commit expenditures, especially with respect to transcripts and experts, that exceed its historical usage.
- The Enforcement program continues to battle the pervasive fraudulent sale of illegal, off-exchange futures and options foreign currency contracts to retail customers. The Enforcement program expects that recent successful challenges to the Commission's jurisdictional authority will require additional resources to enforce against this area of fraud. The Enforcement program also focuses resources against other types of off-exchange fraud.
- Matters involving fraud by registered and unregistered pool operators and trading advisors typically require immediate action using the Enforcement program's "quick strike" capability to freeze assets belonging to customers

and preserve books and records.[11] The Enforcement program anticipates that it will need to devote additional resources to investigate CPO and CTA activity.

- Violative Internet solicitations continue to increase and, therefore, require additional resources to investigate and prosecute.

- The dramatic increase in electronic trading poses additional challenges to the Enforcement program in terms of potential novel violations (or adaptations of traditional trade practice violations) and potential audit trail gaps. These challenges will require additional resources not only for investigation and prosecution but also for Enforcement staff training.

Responding to Violative Conduct. When an enforcement investigation indicates that violative conduct has occurred, the Commission either files an administrative or civil injunctive enforcement action against the alleged wrongdoers. In administrative actions, wrongdoers found to have violated the CEA or Commission regulations or orders can be prohibited from trading and, if registered, have their registrations suspended or revoked. Violators also can be ordered to cease and desist from further violations, to pay civil monetary penalties of up to $130,000 per violation or triple their monetary gain, and to pay restitution to those persons harmed by the misconduct. In civil injunctive actions, defendants can be enjoined from further violations, their assets can be frozen, and their books and records can be impounded. Defendants also can be ordered to disgorge all illegally obtained funds, make full restitution to customers, and pay civil penalties.

As detailed above, violations prosecuted by the Enforcement program may arise from commodity futures or option trading on U.S. exchanges, from manipulative trading in the OTC markets that affect, or tend to affect, the futures or options markets, or from the sale of illegal futures or option contracts not traded on trading facilities designated or registered by the Commission. The Enforcement program addresses various types of violative conduct including conduct that threatens the economic functions of the markets.

Protecting Market Users. The Enforcement program works to protect market users and the public by promoting compliance with and deterring violations of the CEA and Commission regulations. The bulk of the work in this area involves investigating and prosecuting enforcement actions in matters involving fraud, and imposing sanctions against wrongdoers. These actions send a message to industry professionals about the kinds of conduct that will not be tolerated.

The Commission also pursues actions involving false or misleading advertising. Over the past several years, there has been substantial false and deceptive advertising of commodity-related investment products, often by unregistered persons and entities through various forms of mass media, such as cable television, radio, and the Internet. The Enforcement program has worked aggressively to detect and stop such advertising by filing enforcement actions. Similarly, the Enforcement program pursues cases charging illegal futures and options, often in Forex and precious metals. Such cases typically involve unregistered "boiler rooms" selling illegal futures contracts and options to the general public. Again, the most likely victims are individual retail investors.

Supervision and Compliance Failures. The Enforcement program investigates and prosecutes cases involving supervision and compliance failures by registrants handling customer business. Such violations can threaten the financial integrity of registered firms holding customer funds and can, in certain circumstances,

[11] "Quick-strike" enforcement actions are those that the Commission files within four months of opening an investigation.

threaten the financial integrity of clearing organizations. Diligent supervision by registered firms also protects markets from abusive trading practices, including manipulation and wash sales.

Cooperative Enforcement Efforts. The Enforcement program works cooperatively with both domestic and foreign authorities to maximize its ability to detect, deter, and bring sanctions against wrongdoers involving U.S. markets, registrants, and customers.

On the domestic level, this includes sharing information with, and on occasion providing testimony or other assistance to, state regulators and other Federal agencies, such as the DOJ, the Federal Bureau of Investigation, the SEC, the Federal Energy Regulatory Commission, and Federal banking regulators. The Commission may also file injunctive actions jointly with state authorities with concurrent jurisdiction. These cooperative efforts bolster the effectiveness of the Enforcement program by allowing it to investigate and litigate more efficiently.

Similarly, in the international realm, the Commission has entered into more than a dozen formal information-sharing arrangements and numerous other informal arrangements with foreign authorities. These arrangements permit information sharing and cooperative assistance among regulators. Such arrangements benefit all nations involved and greatly enhance the ability of the Enforcement program to investigate matters that involve foreign entities and/or, individuals or transfers of tainted funds to foreign jurisdictions.

Consequences of Not Receiving Requested Level of Resources

The markets continue to grow in volume and complexity as increasingly sophisticated instruments are employed across markets. An ever-larger segment of the population has money at risk in the futures markets, either directly or indirectly through pension funds or ownership of shares in publicly held companies that participate in the markets.

The Enforcement program will utilize the FTEs requested for FY 2008 in targeting certain program areas, for example: 1) allegations of manipulation, trade practice violations, and false reporting; 2) fraud and other illegal conduct committed by registered entities; 3) off-exchange fraud, involving illegal futures and options contracts by, among others, unregulated boiler rooms and bucket shops targeting the general public; and 4) unregistered and registered CTA/CPO fraud. The requested FTEs also will enable the Enforcement program to maintain full staff levels for its litigation teams, continue its commitment both to cooperative enforcement activities, and provide additional skilled staff to properly investigate and litigate complex matters.

Without the requested resources, the Enforcement program will not meet established responsibilities. Without adequate staffing, the Enforcement program must be more selective in the matters it investigates, potentially leaving serious wrongdoing unaddressed. Furthermore, investigations will take longer to complete, particularly when increasing litigation draws resources away from investigations. Likewise, domestic and international cooperative enforcement activities will be undermined, adversely affecting not only the mission of the Commission, but also that of its domestic and international counterparts.

Over each of the past three fiscal years, through the effective use of productivity and efficiency measures and a reorganization that occurred in October 2002, the program filed more actions than at any other time in Enforcement's history. However, active litigation has increased by approximately 40 percent over the last five years, therefore requiring a shift of resources from investigations. Similarly, the number of litigated cases per FTE has increased approximately 60 percent over the same time period. Enforcement staff are operating at full capacity and shifting resources from important investigations to ongoing and future litigation demands, limiting the ability to pursue new investigations. If the Enforcement program is unable to bring actions because of insufficient resources, other authorities will not be available to step in and fill the void. SROs can take action only against their own members, and their sanctions cannot affect conduct outside their jurisdiction or markets. In addition, other Federal regulators and state regulators have limited jurisdiction and expertise in handling futures-related misconduct. Finally, while criminal prosecutions by the DOJ are an important adjunct to effective enforcement of the CEA, cooperative enforcement still requires the active use of Commission FTEs to assist criminal authorities in their prosecutions.

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Table 25: Enforcement Request

	FY 2007		FY 2008		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Enforcement	$26,713	120.00	$30,262	120.00	$3,549	0.00
TOTAL	$26,713	120.00	$30,262	120.00	$3,549	0.00

Table 26: Enforcement Request by Goal

	FY 2007		FY 2008		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcomes						
1.1 Futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	$4,580	20.57	$5,188	20.57	$608	0.00
1.2 Markets are effectively and efficiently monitored to ensure early warning of potential problems or issues that could adversely affect their economic vitality.	553	2.49	628	2.49	75	0.00
Subtotal Goal One	**$5,133**	**23.06**	**$5,816**	**23.06**	**$683**	**0.00**
GOAL TWO: Protect market users and the public.						
Outcomes						
2.1 Violations of Federal commodities laws are detected and prevented.	$17,500	78.61	$19,824	78.61	2,324	0.00
2.2 Commodities professionals meet high standards.	107	0.48	122	0.48	15	0.00
Subtotal Goal Two	**$17,607**	**79.09**	**$19,946**	**79.09**	**$2,339**	**0.00**
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcomes						
3.1 Clearing organizations and firms holding customer funds have sound financial practices.	$1,838	8.25	$2,079	8.25	$241	0.00
3.2 Commodity futures and option markets are effectively self-regulated.	17	0.08	20	0.08	3	0.00
3.3 Markets are free of trade practice abuses.	1,598	7.18	1,811	7.18	213	0.00
3.4 Regulatory environment responsive to evolving market conditions.	520	2.34	590	2.34	70	0.00
Subtotal Goal Three	**$3,973**	**17.85**	**$4,500**	**17.85**	**$527**	**0.00**
TOTAL	**$26,713**	**120.00**	**$30,262**	**120.00**	**$3,549**	**0.00**

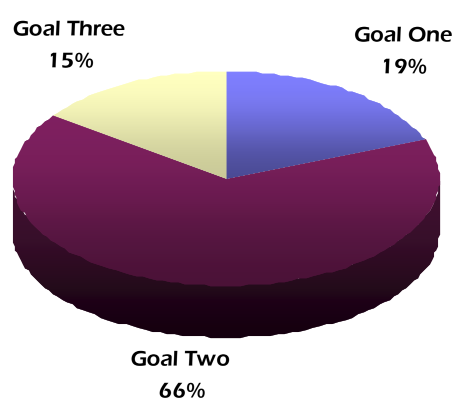

Figure 28: Enforcement FY 2008 Budget by Goal

Office of the Chief Economist

Total Budget: $ 3,796,000 14 FTEs

Total Change: $ 1,613,000 5 FTEs

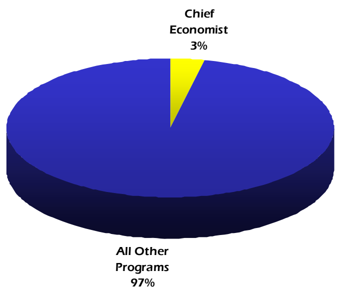

Figure 29: Chief Economist Percentage of Total Budget Dollars

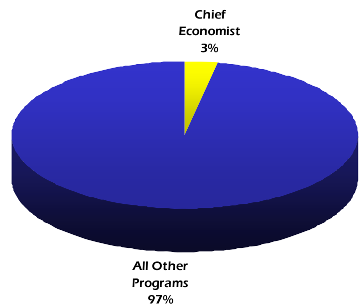

Figure 30: Chief Economist Percentage of Total Budget FTEs

Justification of the FY 2008 President's Budget & Performance Plan

As innovation in the futures and option markets continues, the ability of staff to conduct thorough market research is vital to achieving Commission goals. Innovations in trading technology and trading instruments create significant regulatory challenges that require economic research and analysis in the form of:

- Participation in the development of flexible and effective regulatory responses to evolving market conditions;
- Review and analysis of new market trading structures and new trading products;
- Continuous support to the Commission's Enforcement program in the form of economic and statistical analysis or expert testimony to promote compliance with and deter violations of commodity laws;
- Development of educational materials on futures and option trading for dissemination to producers, market users, and the general public; and
- Review and analysis of the futures industry's financial safeguard system, including evaluation of risk management processes employed by DCOs and intermediaries, and evaluation of new clearing processes.

In FY 2008, the Office of the Chief Economist (OCE) program requests 14 FTEs, an increase of five FTEs over the FY 2007 level.

The growth in the number of markets that trade and clear a wider array of complex derivative products requires analysis and research to determine the appropriate regulatory approach to these markets and products. In FY 2008, staff of the OCE will be required to monitor a large and diverse array of markets, including new energy products, new types of "event-related" markets, such as corporate actions, derivatives on economic statistics, and derivatives on exchange-traded commodity funds. The Commission anticipates that a large number of these contracts will be listed for trading, both on futures and securities exchanges. In addition, management and parsing of the huge amounts of trading data, both transaction data and order book data, as a result of the continued expansion of electronic trading and the noted increase in products traded requires involvement of OCE staff as principal users of such data.

With the requested level of resources, analysis to enhance understanding of the markets will keep pace with, but in very few cases anticipate, the growth in new types of exchanges and the initiation of trading in new products. Moreover, at the requested level, the staff will be able to monitor most but not all developments in derivatives trading and market innovations. In this regard, innovations in technology and derivative instruments and trading methods in futures markets create many challenging economic and regulatory issues. The performance of derivative markets has a potentially large impact on the stability of international and domestic financial markets. Market research and effective monitoring of these developments help ensure that the Commission has in place sound regulatory policies to reduce systemic risk in financial markets and protect the economic function of the markets without undermining innovation and the development of new approaches to risk management.

Consequence of Not Receiving Requested Level of Resources

If the OCE does not receive the requested level of resources it will not be able to conduct market research and analysis commensurate with the growth in new types of exchanges, new trading execution methods in futures markets, and the initiation of trading in the array of new products noted above. Moreover, staff efforts to monitor developments in derivatives trading and market innovation will be delayed at a lower level of resources. This will undermine the ability of the Commission to keep its regulatory policies in line with new developments in the industry, which could impede innovation, lead to systemic risk in financial markets, and adversely affect the economic function of the markets.

The development of new technology brought about by electronic trading in existing yet growing markets and in new markets generate a huge amount of trading data. This requires additional management of the data and, importantly, the ability to effectively analyze the data. Without the additional resources, the OCE will be unable to keep pace with this growth, meet its established and developing responsibilities, stay abreast of market developments, and would be unable to adequately provide effective and timely support to the other divisions within the Commission. Also, the lack of additional resources will undermine the ability of OCE to monitor and analyze the large and diverse array of markets, including new energy products, new types of "event-related" markets, such as corporate actions, derivatives on economic statistics, and derivatives on exchange-traded commodity funds.

Without the requested level of resources OCE will be unable to provide effective economic and statistical analysis to the enforcement and surveillance programs, and review the financial safeguard system. This may result in substantial time delays in critical market research, which may adversely affect the economic function of the markets and may lead to systemic risk across the broader financial market system.

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Table 27: Office of the Chief Economist Request

	FY 2007		FY 2008		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Chief Economist	$2,183	9.00	$3,796	14.00	$1,613	5.00
TOTAL	$2,183	9.00	$3,796	14.00	$1,613	5.00

Table 28: Office of the Chief Economist Request by Goal

	FY 2007 $ (000)	FY 2007 FTE	FY 2008 $ (000)	FY 2008 FTE	Change $ (000)	Change FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcomes						
1.1 Futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	$1,213	5.00	$2,169	8.00	956	3.00
1.2 Markets that can be monitored to ensure early warning of potential problems or issues that could adversely affect their economic vitality.	970	4.00	1,627	6.00	657	2.00
Subtotal Goal One	**$2,183**	**9.00**	**$3,796**	**14.00**	**$1,613**	**5.00**
GOAL TWO: Protect market users and the public.						
None.						
GOAL THREE: Foster open, competitive, and financially sound markets.						
None						
TOTAL	**$2,183**	**9.00**	**$3,796**	**14.00**	**$1,613**	**5.00**

Office of Proceedings

Total Budget: $ 2,384,000 11 FTEs

Total Change: $ 315,000 0 FTE

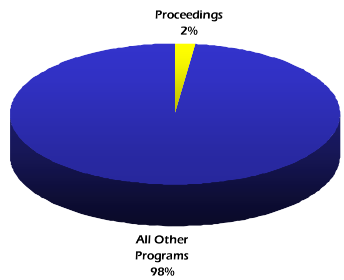

Figure 31: Proceedings Percentage of Total Budget Dollars

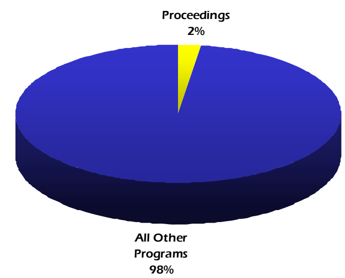

Figure 32: Proceedings Percentage of Total Budget FTEs

Justification of the FY 2008 President's Budget & Performance Plan

The Office of Proceedings is responsible for providing an inexpensive, impartial, and expeditious forum for handling customer complaints against persons or firms registered under the CEA. In FY 2008, the Office of Proceedings program requests 11 FTEs, resulting in no increase over the FY 2007 level.

The Complaints section of the Office of Proceedings receives and prepares customer claims for action by appropriate officials, dismissing those that are outside the jurisdiction of the Commission or are pending in another forum. The Hearings section includes judgment officers (JOs), who decide reparations complaints in voluntary and summary proceedings and administrative law judges (ALJs), who conduct formal proceedings.

The ALJs also decide administrative enforcement cases brought by the Commission against persons or firms responsible for violating the CEA or Commission regulations.

The Office of Proceedings receives 80 cases per year and will respond to 6,500 telephone inquiries and requests. Inquiries from members of the public include questions from those considering investing in commodity futures and options, and questions about specific firms and whether or not they have had customer complaints filed against them. Information is also provided about how to utilize the CFTC complaints process.

The Office of Proceedings maintains a case-tracking system that tracks the progress of each case from receipt of complaint through disposition, including any appeal to the Commission or Federal court. The case-tracking system not only assists with case management within the Commission, but it also enables the Office of Proceedings to provide current information on the status of cases in response to public inquiries.

The Office of Proceedings maintains the *Reparations Sanctions in Effect List* publication, a record of individuals and firms that have not paid reparations awards. This document is published annually and as needed. The office also maintains the *Administrative Sanctions in Effect List* publication, a record of individuals and firms that have outstanding against them enforcement sanctions, such as trading prohibitions. This document is published annually and updated quarterly. These lists are made available to the public and are distributed to the exchanges, the NFA, the Futures Industry Association, the National Association of Securities Dealers, and the SEC for use in their compliance efforts.

Consequence of Not Receiving Requested Level of Resources

The Office of Proceedings' ability to perform its activities in a timely fashion depends on the requested level. If the requested level is not received, the Office of Proceedings will experience time delays in the performance of its activities. These time delays will have several deleterious effects: they will directly impact citizens seeking a timely and responsive forum for resolving their complaints, many of whom are without other options for seeking relief; they will impact the Commission's ability to meet legal deadlines for processing Commission orders; and finally, they will prevent citizens from gaining timely background information on the commodity firms and professionals, impacting their ability to make sound business and investment decisions.

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Table 29: Proceedings Request by Subprogram

	FY 2007		FY 2008		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Enforcement	$752	4.00	$867	4.00	$115	0.00
Reparations	1,317	7.00	1,517	7.00	200	0.00
TOTAL	$2,069	11.00	$2,384	11.00	$315	0.00

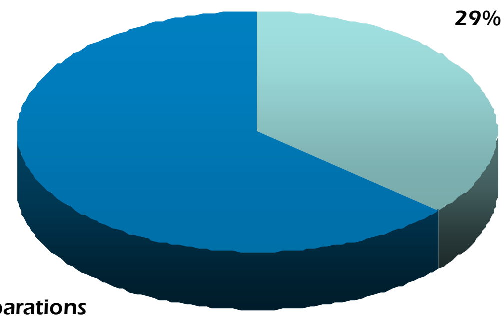

Figure 33: Proceedings FY 2008 Budget by Subprogram

Table 30: Proceedings Request by Goal

	FY 2007		FY 2008		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
None						
GOAL TWO: Protect market users and the public.						
Outcomes						
2.1 Violations of Federal commodities laws are detected and prevented.	$940	5.50	$1,084	5.50	$144	0.00
2.2 Require commodities professionals to meet high standards.	94	0.50	108	0.50	14	0.00
2.3 Customer complaints against persons or firms falling within the jurisdiction of the Commodity Exchange Act are handled effectively and expeditiously.	847	4.50	975	4.50	128	0.00
Subtotal Goal Two	**$1,881**	**10.00**	**$2,167**	**10.00**	**$286**	**0.00**
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcomes						
3.3 Markets are free of trade practice abuses.	188	1.00	217	1.00	29	0.00
Subtotal Goal Three	**$188**	**1.00**	**$217**	**1.00**	**$29**	**0.00**
TOTAL	**$2,069**	**11.00**	**$2,384**	**11.00**	**$315**	**0.00**

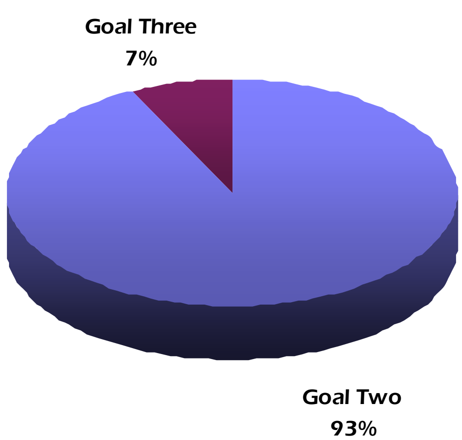

Figure 34: Proceedings FY 2008 Budget by Goal

Office of the General Counsel

Total Budget:	**$ 8,874,000**	**32 FTEs**
Total Change:	**$ 1,920,000**	**4 FTEs**

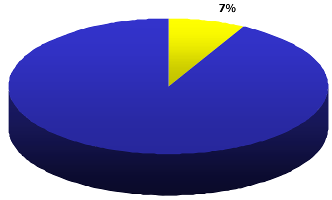

Figure 35: Percentage of Total Budget Dollars

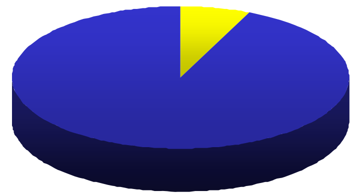

Figure 36: Percentage of Total Budget FTEs

Justification of the FY 2008 President's Budget & Performance Plan

The Office of General Counsel (OGC) provides legal services and support to the Commission and its programs. These services include: 1) engaging in defensive, appellate, and *amicus curiae* litigation; 2) assisting the Commission in the performance of its adjudicatory functions; 3) providing legal advice and support for Commission programs; 4) drafting and assisting other program areas in preparing Commission regulations; 5) interpreting the CEA; 6) providing advice on legislative and regulatory issues; and 7) providing exemptive, interpretive, and no-action letters and opinions to the public. In FY 2008, the OGC program requests 32 FTEs, an increase of four FTEs over the FY 2007 level.

OGC is the legal advisor to the Commission, and a large portion of its workload is reactive in nature. The Office:

- Reviews all substantive regulatory, legislative, and administrative matters presented to the Commission and advises it on the application and interpretation of the CEA and other pertinent administrative and legislative issues;
- Assists the Commission in performing its adjudicatory functions through its Opinions Program;
- Represents the Commission in appellate litigation and certain trial-level cases, including bankruptcy cases involving futures industry professionals;
- Provides legal support to Commission administrative programs, such as compliance with the Freedom of Information, Privacy, Government in the Sunshine, Regulatory Flexibility, Paperwork Reduction, Small Business Paperwork Reduction, and Federal Advisory Committee Acts;
- Monitors, reviews, and comments on proposed legislation affecting the Commission or the futures industry, prepares draft legislation as requested by members of Congress or their staff, and provides liaison with other Federal regulators as necessary on specific projects;
- Provides Commission support to the President's Working Group;
- Counsels other Commission staff on legal aspects of various issues arising during the course of Commission business;

- Provides written interpretations of Commission statutory and regulatory authority to members of the public and, where appropriate, provides exemptive, interpretive, or no-action letters to regulatees and potential regulatees of the Commission;
- Advises the Commission on personnel, labor, contract, and employment law matters, including cases arising under Title VII of the Civil Rights Act of 1964 and Merit Protection Board cases arising under the Civil Service Reform Act of 1978; and
- Advises the Commission with respect to 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, including the requirement of annual ethics training for Commission employees.

OGC's activities, programs, and support contribute to all of the outcomes and functions of the Commission and have a direct and significant impact on the ability of the Commission to perform its mission. In particular, OGC's services and expertise are increasingly in demand as a consequence of added enforcement and other litigation activities in, among other areas, exempt commercial markets (primarily energy commodities) and with respect to collective investment vehicles (such as domestic and offshore hedge funds) that now play an expanding role in nearly every market that falls within the Commission's mission. Moreover, exchange-traded contracts and other newer derivatives platforms continue to experience explosive growth and, as a consequence of the flow-through from increased activities in these markets, the Commission's surveillance and enforcement resources are increasingly stressed. This heightened deployment of enforcement resources, in turn, spurs demand for readily available legal services from experienced legal talent within OGC. As a direct consequence, OGC's appellate practice and its other litigation dockets (including subpoena enforcement, complex document review, and personnel-related matters) require added resources.

Commission Reauthorization

The authorization for the Commission's appropriations expired at the end of FY 2005. The Commission's seventh reauthorization is raising some particularly complex issues, in part because it is the first reauthorization after the enactment of the CFMA and comes as energy and international issues are becoming an increasing focus of congressional attention. The House of Representatives passed a reauthorization bill in mid-December, 2005; the Senate Agriculture Committee has reported a different reauthorization bill, but the timing of full Senate consideration of the issue is unknown at this time. OGC will continue to assist the Commission in analyzing, and taking the necessary actions to implement, the legislative proposals that Congress enacts in reauthorization.

Consequence of Not Receiving Requested Level of Resources

The Commodity Exchange Act provides that the Commission "shall have a General Counsel" who "shall report directly to the Commission and serve as its legal advisor." In that role, the Office of General Counsel reviews all proposed Commission actions to assure their legal sufficiency under the CEA and any other applicable statues, e.g., the Administrative Procedure Act, the Freedom of Information Act, and others. The Office is the Commission's appellate advocate, and also acts as the Commission's trial lawyer in a range of administrative proceedings and federal district court matters. It assists the Commission in resolving adjudicatory matters, reviews proposed legislation for its likely impact on the futures industry, and suggests needed legislative reforms. In addition, the General

Counsel serves as the Commission's Designated Agency Ethics Officer, and in that capacity assures that the agency, the Commission and its employees comply with federal ethics rules and regulations.

The volume and complexity of the futures and derivatives markets have grown exponentially while the General Counsel's office has shrunk. This imbalance between resources and need has led to legal advice regarding the sufficiency of proposed actions and the interpretation of the CEA being offered by staff outside OGC. When decision-making and legal analysis become inappropriately balkanized, the Commission runs the risk of reaching inconsistent outcomes based on ad hoc analysis. The Commission wants, and needs, to centralize its legal advisory services in the Office of General Counsel, where Congress placed that function. This requires a substantial increase in OGC's staff. The four new positions requested will go far toward enabling OGC to perform its statutory functions with efficiency and authority.

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Table 31: General Counsel Request

	FY 2007		FY 2008		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
General Counsel	$6,954	28.00	$8,874	32.00	$1,920	4.00
TOTAL	$6,954	28.00	$8,874	32.00	$1,920	4.00

Table 32: General Counsel Request by Goal

	FY 2007 $ (000)	FY 2007 FTE	FY 2008 $ (000)	FY 2008 FTE	Change $ (000)	Change FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcomes						
1.1 Futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	$1,373	5.53	$1,752	6.32	$379	0.79
1.2 Markets that can be monitored to ensure early warning of potential problems or issues that could adversely affect their economic vitality.	94	0.38	120	0.43	26	0.05
Subtotal Goal One	**$1,467**	**5.91**	**$1,872**	**6.75**	**405**	**0.84**
GOAL TWO: Protect market users and the public.						
Outcomes						
2.1 Violations of Federal commodities laws are detected and prevented.	$2,203	8.87	$2,811	10.14	$608	1.27
2.2 Commodities professionals meet high standards.	437	1.76	558	2.01	121	0.25
2.3 Customer complaints against persons or firms falling within the jurisdiction of the Commodity Exchange Act are handled effectively and expeditiously.	1,084	4.36	1,383	4.99	299	0.63
Subtotal Goal Two	**$3,724**	**14.99**	**$4,752**	**17.14**	**$1,028**	**2.15**
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcomes						
3.1 Clearing organizations and firms holding customer funds have sound financial practices.	$445	1.78	$567	2.04	$122	0.26
3.2 Commodity futures and option markets are effectively self-regulated.	188	0.76	240	0.87	52	0.11
3.3 Markets are free of trade practice abuses.	428	1.73	547	1.97	119	0.24
3.4 Regulatory environment responsive to evolving market conditions.	702	2.83	896	3.23	194	0.40
Subtotal Goal Three	**$1,763**	**7.10**	**$2,250**	**8.11**	**487**	**1.01**
TOTAL	**$6,954**	**28.00**	**$8,874**	**32.00**	**$1,920**	**4.00**

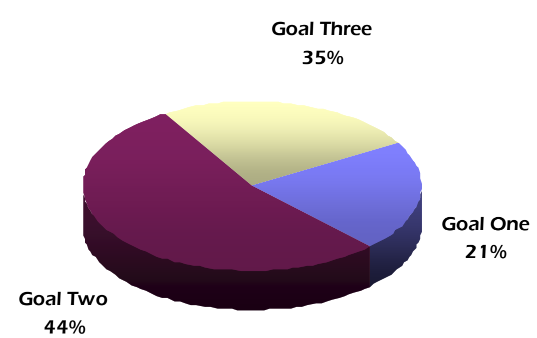

Figure 37: General Counsel FY 2008 Budget by Goal

Executive Direction & Support

Total Budget: $30,434,000 128 FTEs
Total Change: $ 3,735,000 0 FTE

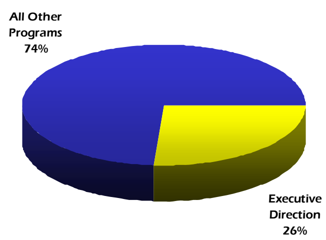

Figure 38: Percentage of Total Budget Dollars

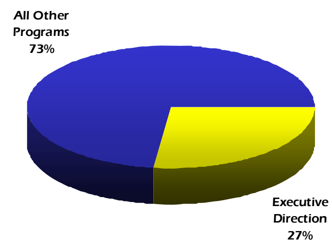

Figure 39: Percentage of Total Budget FTEs

Justification of the FY 2008 President's Budget & Performance Plan

Agency Direction. The Commission develops and implements agency policy in furtherance of the purposes of the CEA. This policy is designed to foster the financial integrity and economic utility of commodity futures and option markets for hedging and price discovery, to conduct market and financial surveillance, and to protect the public and market participants against manipulation, fraud, and other abuses. Agency Direction is administered by the Chairman and Commissioners and includes the following offices of the Chairman: 1) External Affairs; 2) the Secretariat; 3) the Inspector General; and 4) International Affairs.

The Commission continues to implement the CFMA. The legislation, signed by President Clinton in December 2000: 1) repealed the ban on single-stock futures and implemented a regulatory framework for these instruments based on the agreement between the Commission and SEC; 2) enacted the principal provisions of the Commission's new regulatory framework; 3) brought legal certainty to bilateral and multilateral trading in OTC financial markets; 4) confirmed the Commission's jurisdiction over certain aspects of the retail market in foreign currency trading; and 5) gave the Commission authority to regulate clearing organizations.

In FY 2008, the Agency Direction program requests a total of 39 FTEs, resulting in no increase over the FY 2007 level.

Administrative Management and Support. Administrative Management and Support is provided by the Office of the Executive Director (OED), which is responsible for policy development and implementation of the management and administrative functions of the Commission. Administrative Management and Support is administered by the Chief of Staff and Executive Director and includes the following offices of the Executive Director: 1) Human Resources (OHR); 2) Financial Management (OFM); 3) Information and Technology Services (OITS); 4) Management Operations (OMO); and 5) the Library. OED staff:

- Formulate budget and resource authorization strategies;
- Supervise the allocation and utilization of agency resources;
- Promote management controls and financial integrity;

- Manage administrative support offices;
- Manage the Commission's technical and information infrastructure;
- Manage human capital resource strategies;
- Oversee the development and implementation of the Commission's automated information systems; and
- Oversee the library services of the Commission.

In addition, the staffs of OED and subordinate offices oversee Commission-wide compliance with Federal requirements enacted by Congress and imposed by the Office of Management and Budget (OMB), the U.S. Treasury, the Government Accountability Office (GAO), and the Office of Personnel Management.

In FY 2008, the Administrative Management and Support subprogram requests a total of 89 FTEs, resulting in no increase over the FY 2007 level.

Consequence of Not Receiving Requested Level of Resources

Agency Direction. Without the requested level of resources, the Offices of the Commissioners and Chairman will suffer a diminution in the administrative and regulatory responsiveness of the Commission. For example, public outreach, and responsiveness to Congress, other government agencies, the futures industry, and other public inquiries may be slower, or administrative and technical review of Commission memoranda, correspondence, or official actions, such as responding to Freedom of Information Act requests, may take longer.

Our markets are global and the Commission needs resources to cooperate with our foreign regulatory counterparts. Any diminution in resources will also severely affect the ability of the Commission to continue its existing international cooperation and coordination program. Cutbacks in the Commission's relatively lean international program could require the Commission to reduce its participation in standard-setting international organizations, restrict its ability to engage in bilateral meetings with foreign regulatory authorities that are increasingly necessary to address important cross-border issues (e.g., electronic markets), and restrict our ability to respond positively to requests by the U.S. Treasury to participate in international dialogues where Commission contributions are requested (e.g., U.S.-China dialogue).

Administrative Management & Support. Without the requested level of resources, the Administrative Management and Support subprogram will impair its ability to manage the: 1) increased complexity associated with novel programs under pay parity and directives related to the President's Management Agenda; 2) accelerated modernization of the Commission's human capital programs, such as pay for performance and pay banding; 3) workforce/succession planning needed to address the anticipated retirement of 33 percent of the CFTC total workforce and 41 percent of the leadership positions through 2009, plus non-retirement attrition; 4) the increased regulatory and administrative responsibilities imposed by GAO, GSA, OMB, the U.S. Treasury and legislative mandates such as the Government Performance and Results Act, Government Information Security Reform Act, Federal Managers' Financial Integrity Act, and the Tax Accountability Act; 5) in-house expertise needed to assist major programs in the monitoring, audit, and investigation of increasingly sophisticated and technologically driven markets; 6) coordination and implementation of the agency asset management initiative as identified in the FY 2004 KPMG financial audit statement as an internal control weakness; and 7) preparedness and readiness of the Commission and staff in the event of an emergency.

Table 33: Executive Direction & Support Request by Subprogram

	FY 2007		FY 2008		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Agency Direction	$8,212	39.00	$9,352	39.00	$1,140	0.00
Admin. Mgmt. & Supp.	18,487	89.00	21,082	89.00	2,595	0.00
TOTAL	$26,699	128.00	$30,434	128.00	$3,735	0.00

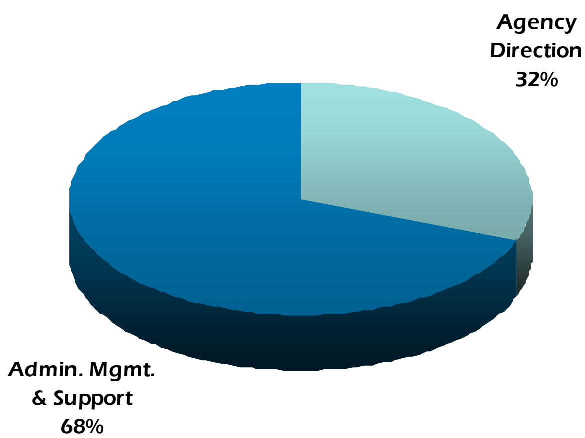

Figure 40: Executive Direction & Support FY 2008 Budget by Subprogram

Table 34: Executive Direction & Support Request by Goal

	FY 2007		FY 2008		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcomes						
1.1 Futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	$644	3.10	$734	3.10	$90	0.00
1.2 Oversee markets which can be used effectively by producers, processors, financial institutions, and other firms for the purposes of price discovery and risk shifting.	1,049	5.05	1,195	5.05	146	0.00
Subtotal Goal One	**$1,693**	**8.15**	**$1,929**	**8.15**	**$236**	**0.00**
GOALTWO: Protect market users and the public.						
Outcome						
2.1 Violations of Federal commodities laws are detected and prevented.	$1,267	6.10	$1,446	6.10	$179	0.00
2.3 Customer complaints against persons or firms falling within the jurisdiction of the Commodity Exchange Act are handled effectively and expeditiously.	322	1.55	368	1.55	$46	0.00
Subtotal Goal Two	**$1,589**	**7.65**	**$1,814**	**7.65**	**$225**	**0.00**
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcomes						
3.1 Clearing organizations and firms holding customer funds have sound financial practices.	$135	0.65	$154	0.65	$19	0.00
3.2 Commodity futures and option markets are effectively self-regulated.	103	0.50	118	0.50	15	0.00
3.4 Regulatory environment responsive to evolving market conditions.	1,263	6.00	1,439	6.00	176	0.00
Subtotal Goal Three	**$1,501**	**7.15**	**$1,711**	**7.15**	**$210**	**0.00**
Unallocated						
Unallocated & Prorated	21,916	105.05	24,980	105.05	3,064	0.00
Subtotal Unallocated	**$21,916**	**105.05**	**$24,980**	**105.05**	**$3,064**	**0.00**
TOTAL	**$26,699**	**128.00**	**$30,434**	**128.00**	**$3,735**	**0.00**

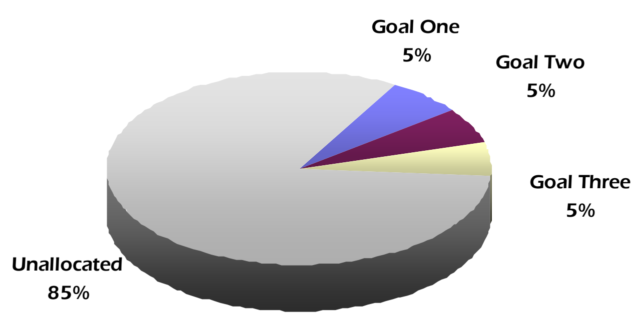

Figure 41: Executive Direction & Support FY 2008 Budget by Goal

APPENDIX 1

The Commissioners

Reuben Jeffery III, Chairman

Reuben Jeffery III was nominated by President George W. Bush to serve as Chairman of the Commodity Futures Trading Commission. He was confirmed by the U.S. Senate on June 30, 2005, to a term expiring April 13, 2007.

In his capacity as Chairman, Mr. Jeffery serves as a member of the President's Working Group on Financial Markets along with the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve, and the Chairman of the Securities and Exchange Commission.

Prior to joining the CFTC, Mr. Jeffery was the Special Assistant to the President and Senior Director for International Economic Affairs at the National Security Council. He was previously the Representative and Executive Director of the Coalition Provisional Authority Office at the Pentagon, after having served as an advisor to Ambassador Bremer in Iraq. Before joining the Coalition Provisional Authority in May of 2003, Mr. Jeffery served as Special Advisor to the President for Lower Manhattan Development. In this capacity he helped coordinate ongoing federal efforts in support of the longer term recovery and redevelopment of Lower Manhattan in the aftermath of September 11, 2001.

Mr. Jeffery spent eighteen years working for Goldman, Sachs & Co. where he was managing partner of Goldman Sachs in Paris (1997-2001) and of the firm's European Financial Institutions Group (1992-1997) based in London. Mr. Jeffery has a broad range of international capital markets, corporate finance and merger and acquisition experience.

Prior to joining Goldman Sachs, Mr. Jeffery was a lawyer with the New York firm of Davis Polk & Wardwell. He began his career as a commercial banker with the Morgan Guaranty Trust Company of New York.

Mr. Jeffery received his BA degree in Political Science from Yale University in 1975 and his Juris Doctor and Master of Business Administration degrees from Stanford University in 1981. He was admitted to the New York Bar in 1982. Mr. Jeffery lives with his wife, Robin and three children, Jocelyn, Ben and Bob in Washington, D.C.

Walter L. Lukken, Commissioner

Walter L. Lukken was sworn in on August 7, 2002 as a Commissioner of the CFTC. He was nominated by President George W. Bush on April 16, 2002, and confirmed by the Senate on August 2, 2002, to a term expiring April 13, 2005. On May 25, 2005, Mr. Lukken was nominated by President Bush to a second term as a Commissioner expiring April 13, 2010. The Senate confirmed that nomination on June 30, 2005.

Commissioner Lukken was appointed in October 2003 to serve as Chairman and Designated Federal Official of the CFTC's Global Markets Advisory Committee (GMAC). The GMAC was created by the Commission to provide a forum in which it can discuss the many complex and novel issues raised by the ever-increasing globalization of futures markets. Commissioner Lukken has also represented the CFTC before the International Organization of Securities Commissions (IOSCO), the European Union, and other foreign regulatory bodies.

In May 2003, CFTC Chairman James Newsome and SEC Chairman William Donaldson tasked Commissioner Lukken and SEC Commissioner Paul Atkins, respectively, to work together with agency staff on the completion of issues arising from the implementation of the Commodity Futures Modernization Act of 2002 (H.R. 5660). Their efforts resulted in a memorandum of understanding between the agencies regarding security futures products in March 2004.

Mr. Lukken joined the Commission after serving four years on the professional staff of the U.S. Senate Agriculture Committee under Chairman Richard Lugar (R-IN). While working for the committee, Mr. Lukken specialized in futures and derivatives markets, agricultural banking, and agricultural tax issues. In this capacity, Mr. Lukken was involved in the drafting of the Commodity Futures Modernization Act of 2002 (H.R. 5660) and the 2002 Farm Bill (H.R. 2646).

Before joining the committee, Mr. Lukken worked for five years in the personal office of Senator Lugar as a legislative assistant specializing in finance and tax matters.

A native of Richmond, Indiana, Mr. Lukken received his B.S. degree with honors from the Kelley School of Business at Indiana University, and his Juris Doctor degree from Lewis and Clark Law School in Portland, Oregon. Mr. Lukken is a member of the Illinois Bar. He is married to Dana Bostic Lukken of Morgan City, Louisiana, and they and their son William and daughter Genevieve reside in Washington, D.C.

Michael V. Dunn, Commissioner

Michael V. Dunn was nominated to a second term as a Commissioner of the Commodity Futures Trading Commission by President Bush on June 16, 2006, and confirmed by the Senate on August 3, 2006. Mr. Dunn has served as a Commissioner since December 6, 2004. On January 9, 2006, he was chosen by his colleagues to chair the Commission's Agriculture Advisory Committee and on March 13, 2006, he was appointed Chairman of the Commission's Forex Task Force.

Prior to joining the CFTC, Mr. Dunn served as Director, Office of Policy and Analysis at the Farm Credit Administration (FCA). Prior to this position, in January 2001 he served briefly as a member of the FCA Board.

Prior to joining FCA, Mr. Dunn was the Under Secretary of Agriculture for Marketing and Regulatory Programs at the U.S. Department of Agriculture (USDA). He also served as the Acting Under Secretary for Rural Economic Community Development and as Administrator of the Farmers Home Administration (FmHA) at USDA.

Mr. Dunn has had a long involvement in agricultural credit dating back to the late 1970s, when he was the Midwest Area Director for the FmHA. He has been a loan officer and vice president of the Farm Credit Banks of Omaha and has served as a member of the Professional Staff of the Senate Agricultural Committee, specializing in agricultural credit. At the USDA, Mr. Dunn also served as a member of the Commodity Credit Corporation and Rural Telephone Bank Board. He is a past member of the Iowa Development Commission and has served as the Chairman of the State of Iowa's City Development Board.

A native of Keokuk, Iowa, and a current resident of Harpers Ferry, West Virginia, Mr. Dunn received his B.A. and M.A. degrees from the University of New Mexico.

APPENDIX 2

Summary of Goals, Outcomes, and Business Processes

Goal One: *Ensure the economic vitality of the commodity futures and option markets.*	
Outcome	**Business Process**
1.1 Markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	1. Conduct financial surveillance 2. Conduct market surveillance 3. Conduct trade practice surveillance 4. Conduct economic research 5. Review trading facility filings and clearing organization contracts and rules 6. Conduct cooperative enforcement 7. Investigate violations 8. File and prosecute cases 9. Take appropriate remedial or punitive action
1.2 Markets are effectively and efficiently monitored to ensure early warning of potential problems or issues that could adversely affect their economic vitality.	1. Conduct financial surveillance 2. Conduct market surveillance 3. Conduct trade practice surveillance 4. Conduct economic research 5. Review trading facility filings and clearing organization contracts, and rules 6. Investigate violations 7. File and prosecute cases 8. Share information externally 9. Coordinate with domestic regulators
Goal Two: ***Protect market users and the public.***	
Outcome	**Business Process**
2.1 Violations of Federal commodities laws are detected and prevented.	1. Conduct financial surveillance 2. Conduct cooperative enforcement 3. Investigate violations 4. File and prosecute cases 5. Resolve administrative enforcement cases 6. Resolve appeals 7. Share information externally 8. Take appropriate remedial or punitive action 9. Represent Commission in litigation or other disputes 10. Collect monetary penalties from violators.
2.2 Commodity professionals meet high standards.	1. Provide guidance, advice, and regulate business, financial, and sales practices 2. Review self-regulatory organizations and clearing organizations 3. Investigate, file, and prosecute cases

Goal Two: *Protect market users and the public. (Continued)*	
Outcome	**Business Process**
2.3 Customer complaints against persons or firms registered under the Act are handled effectively and expeditiously.	1. Manage reparations program 2. Resolve appeals 3. Represent Commission in litigation or other disputes
Goal Three: *Ensure market integrity in order to foster open, competitive, and financial sound markets.*	
3.1 Clearing organizations and firms holding customer funds have sound financial practices.	1. Conduct financial surveillance 2. Provide guidance, advice, and regulate business, financial, and sales practices 3. Review self-regulatory organization enforcement 4. Investigate violations 5. File and prosecute cases 6. Take appropriate remedial or punitive action
3.2 Commodity futures and option markets are effectively self-regulated.	1. Conduct financial surveillance 2. Provide guidance, advice, and regulate business, financial, and sales practices 3. Review exchange applications, contracts, and rules 4. Review self-regulatory organization enforcement
3.3 Markets are free of trade practice abuses.	1. Investigate violations 2. File and prosecute cases
3.4 Regulatory environment is flexible and responsive to evolving market conditions.	1. Coordinate with domestic regulators 2. Coordinate with foreign and international regulators 3. Draft, review, and comment on legislation 4. Provide guidance, advice, and regulate business, financial, and sales practices

APPENDIX 3

Management Initiatives Supporting the President's Management Agenda

Strategic Management of Human Capital

The framework of the PMA supported OHR in remaining focused on building agency capacity to manage its human capital strategically. The goal is to build and refine complementary tools and self-reinforcing business processes that work together to form an enduring basis for strategic resource management. This overall agency competency relies on the direct input of the invaluable expertise of all the individuals that form the human capital foundation for our mission readiness. By conducting the second annual online SWP Survey of employee job competencies and enhancing the capacity of that system to provide quantitative data in support of management decision makers, CFTC reinforced the message that every employee has a role in attaining and effectively managing the mission-critical competencies needed over the life of the CFTC strategic plan. Putting enhanced tools and processes in place to support employees and managers in realizing that potential allowed CFTC to continue its self rating of green on the standards for success under this goal on the Executive Branch Management Scorecard. Specific actions underway to strengthen our response to each standard and the basis for the overall green light rating include:

- <u>*Strategy aligned with mission, goals, and organizational objectives*</u>. By establishing a permanent Pay Parity Governance Committee (PPGC) with representatives from every major agency subdivision, the CFTC has a resource dedicated to studying and recommending options for human capital programs aligned with agency objectives. The PPGC has relied on a best practice model in developing a compensation philosophy that will guide our human capital strategy. These general goals help focus specific program choices on making the most efficient and effective use of CFTC authority, under the Farm Security and Rural Investment Act of 2002, to provide pay and benefits parity with other Federal financial regulators as we compete for mission-critical talent.

- <u>*Citizen-centered organizational structure*</u>. By providing impartial insight into the availability and utilization of the agency's human capital, our online inventory of job competencies allows responsive organizational alignment of resources with stakeholder needs as financial markets rapidly evolve. The SWP Survey system not only projects how the required competency mix will change in response to industry trends, it identifies the nature, level, and probable point in time for loss to retirement or other turnover of the skills held by each current employee. This knowledge supports the flexible matrix planning and management of agency resources required by the oversight rather than front-line regulator role assigned to the agency by the CFMA.

- <u>*Sustains performance, utilizes flexibilities, and plans succession*</u>. In order to maintain our mission-readiness, CFTC has acted to train replacements for the 40 percent of managers projected to retire by 2009. A major resource is the custom suite of online management training from Harvard Business School Press now available at each supervisor's desktop. To strengthen our skills base at all levels, CFTC is also rolling out the online SkillSoft product for all employees. In view of the projected loss of 70 percent of all staff by 2009, these agency-wide initiatives will help close the gaps identified by means of the talent management action plan templates that managers and employees use to identify strategies to close anticipated shortfalls in organizational or individual skills sets.

- *Meet mission-critical skill needs*. Several initiatives have reinforced the message that each employee must take an active role in developing, maintaining, and applying the specific skills needed by the agency now and over time. Providing access to a library of job competencies that are ranked for current and future importance to the agency mission allows employees to assess their skills against agency needs. The annual all-employee online survey of training needs encourages employees to participate in their self-development. As part of the development of a new performance appraisal system, all employees have had opportunities via focus groups, online surveys, a Webinar, and town hall meetings to discuss ways by which a revised system could encourage demonstration of knowledge by producing results that are important to the agency. These measures help encourage a culture that values the creation and management of knowledge and is suited to our professional workforce.

- *Reward performance*. In March of 2006, the PPGC was assigned responsibility to develop specific recommendations for revised CFTC compensation and performance management systems. The goal is enhanced ability to effectively take into account achievement of agency results when setting the total rewards of CFTC employment, including a pay-for-performance system. Based on input from all agency employees on how to improve our performance management approach to better support a merit-based system of rewards, our revised Performance Management Program took effect October 1, 2006. Implementation included initial and refresher training for managers and employees in how to successfully fulfill their roles, to prepare all staff for the July 1, 2007, effective date of our pay-for-performance system.

- *Workforce emphasizes E-government and competition*. OHR has continued its actions to adopt available e-government programs promptly, in order to gain efficiencies and enhance service levels. It has entered into the assessment phase of conversion to electronic Official Personnel Folders (eOPF) under the OPM Enterprise Human Resources Integration program. To support continued sharing of knowledge through the agency's popular in-house training program, OHR advises the CFTC Training Advisory Group in conducting online surveys of employee training needs. Managers now have online courses available at their desktop and employees are about to receive the same capability. We continue to make full use of the e-government facilities in the area of employee security and suitability determinations, including a planned update to our existing electronic fingerprinting capability that allows efficient prescreening of employment candidates. Several initiatives discussed here have benefited from efficient program development support secured through competitive bidding.

In line with the OED emphasis on the strategic perspective embodied in the PMA, OHR plans its activities around building programs and operational processes that deliver information and services to support effective management analysis and decisions. These programs enlist the skills of all our employees in order to meet agency goals, fully realize the standards for success in human capital management, and maintain the overall green light rating.

Expanding Electronic Government

The Commission continues to review, access, and improve its overall web presence in support of E-Government. In FY 2006, the Commission embarked upon a new initiative to redesign and restructure its Internet Web site based upon standards and best practices. This initiative will improve the Commission's overall web presence, improve usability of the Web site, and provide a consistent customer experience.

Competitive Sourcing

The Commission continues incorporating the elements of performance-based service contracting in its service contracts, as appropriate.

Budget and Performance Integration

The Commission continues to make steady progress toward achieving the accelerated financial reporting requirements of the President's Management Agenda. During the FY 2006 reporting cycle, the Commission issued its third Performance and Accountability Report by the mid-November due date. In FY 2007, we are conforming to the accelerated reporting requirement.

In addition we continue to make progress with respect to each of the standards for success associated with the President's goal of budget and performance integration as outlined below:

- *Creation, implementation, and monitoring of an integrated performance plan/budget*. The FY 2008 President's budget request and the Annual Performance Plan are integrated—with the budget showing the request broken out by object class, by program, and by strategic goal and planned outcome.

  To further demonstrate the Commission's progress, the Office of Financial Management has begun working to restructure the financial management system to align the monitoring of spending with that of budgeting or planning for spending. On October 1, 2006, the Commission migrated towards a new financial management system, Delphi. OFM took full advantage of the new capabilities Delphi offers and also migrated its work measurement system, formally known as the Management Accounting Structure Code (MASC) system to Delphi's Budget Program Activity Code (BPAC) system.

  This meant a complete overhaul of the agency's work measurement system to better align it with the goals, outcomes, and business processes of the new strategic performance planning and measurement structure. A new coding structure was developed from six digits to 10 alpha-numeric characters and realigned from program activities to the agency's strategic planning structure, as set forth in the CFTC's 2004-2009 Strategic Plan.

  This restructuring of the financial management system and work measurement system will enable a better understanding by program staff of how their activities help the Commission reach its goals, outcomes, and performance targets. As a result, monitoring of resource expenditures—monetary and human—will become more successfully aligned as originally envisioned.

- *Full cost of outputs and programs is integrated with performance*. The Commission's fully integrated budget and performance estimate contain a cross-cutting analysis that demonstrates how the full cost of each budget request is fully integrated with planned performance. That is, the program-based and object class-based analyses of the request are augmented by a programmatic distribution of resources by each of the Commission's strategic goals. Conversely, the goal-based analysis of request's planned performance also disaggregates resources by program. This analysis was developed both to demonstrate that full costs were integrated with performance *and* to engender greater understanding among the public, the Congress, the Administration, market users, and the many other interested persons and entities regarding how resources contribute to the accomplishment of the Commission's mission.

- *Agency documents program effectiveness, analyzes policies' impact on outcomes, and demonstrates how results inform budget decisions*. With the work of the senior staff to revamp the strategic performance planning and measurement system as well as the efforts of the Budget & Planning and Accounting teams of OFM to align planning and monitoring of resource expenditure, the Commission will have the foundation in place to begin documenting program effectiveness, analyzing the impact of policy decisions on outcomes, and demonstrating how performance results affect budget decisions.

Improved Financial Performance

OFM continues to work toward improving its financial performance through increasing the efficiency of financial reporting, enhancing financial systems to improve functionality and strengthen regulatory compliance. Initiatives for improving the Commission's financial performance to meet the core criteria for successful financial management standards include the following:

- *Financial management systems meet Federal financial management systems requirements and applicable Federal accounting and transaction standards*. As a result of the passage of the Accountability of Tax Dollars Act of 2002 and the E-Government Act of 2002, the CFTC is even more strongly committed to delivering its mission in an effective and efficient manner. The agency is eager to adapt current business processes to leverage efficiencies that new technology brings. Moreover, the evolving nature of the commodity futures trading industry drive greater reliance on more sophisticated regulatory techniques, which in turn drive expectations within the CFTC for better technological systems to support its key activities. Meaningful data is needed now more then ever to evaluate program plans, budgets, and performance, as well as to support a broad array of management decisions. Meeting these expectations will require a transformation in the systems and processes the CFTC currently uses to record, collect, assemble, and analyze data.

  In FY 2007, the agency migrated its core financial management system to the Department of Transportation's Enterprise Services Center; an OMB-approved Center of Excellence. It will continue its efforts to integrate additional systems and business lines, such as acquisitions, asset management, and eTravel as part of an enterprise-wide financial management system in FY 2008.

- *Integrated financial and performance management systems supporting day-to-day operations*. In FY 2006, OFM completed an assessment of its current methods for producing financial and performance data from its systems. As a result, enhancements to the core financial system were made to provide better integration of cost and performance data. In future fiscal years, OFM will continue its effort to refine and improve the integration of financial and performance data to support better performance measurement and decision-making regarding the Commission's resources.

- *Unqualified and timely audit opinions*. The Accountability of Tax Dollars Act of 2002 required the Commission to comply with reporting requirements of the Chief Financial Officers Act of 1990 for FY 2004. Reporting requirements include submitting audited financial statements for fiscal year-end. In FY 2007, the Commission received an unqualified, or clean opinion, on its audited financial statements. As a result, continued efforts and resources were committed to making improvements in the timeliness and integrity of financial reporting. These improvements included:

  - Producing financial reporting that was more timely, complete, and accurate by implementing a series of analytical controls, including trial balance and relationship tests, fluctuation analysis, computation validation, statement crosswalk balancing, and account and report reconciliation;

  - Meeting accelerated reporting deadlines of OMB and U.S. Treasury;

- Documenting agency accounting events and business processes to include asset management, civil monetary sanctions, human resources, funds management, and financial reporting;
- Conducting a series of management control reviews and validation of its financial activities; and
- Improving integration of accountability reporting to reflect agency's internal control framework and revised requirements of OMB Circular A-123, *Management's Responsibility for Internal Control*.

OFM will continue to support the OED emphasis on improving financial performance as envisioned in the PMA, specifically by maintaining and sustaining controls to ensure an unqualified audit opinion and effective stewardship of the agency's assets; ongoing implementation and integration of an enterprise-wide financial management system solution that provides valuable financial management tools to enhance and drive sound decision-making; and refining and expanding efficiency indicators to measure program results against performance.

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APPENDIX 4

Proposed Goal 4: To facilitate Commission performance through organizational and management excellence, efficient use of resources, and effective mission support.

Background and Context

The fulfillment of the Commission's mission and the achievement of our goals are tied to a foundation of sound management and organizational excellence. This foundation is essential to support the work of the Commission in the Washington D.C. headquarters, two regional offices in New York and Chicago, and one field office in Kansas City. The Commission is committed to maintaining a well-qualified workforce supported by a modern support infrastructure that enables the Commission to achieve its programmatic goals. Building this foundation will require significant investment in people, Management Initiatives systems and facilities.

Agency Direction. The Office of the Chairman and the Commissioners provide executive direction and leadership to the Commission – specifically as it develops and adopts agency policy that implements and enforces the Commodity Exchange Act and amendments to that Act including the CFMA. This policy is designed to foster the financial integrity and economic utility of commodity futures and option markets for hedging and price discovery, to conduct market and financial surveillance, and to protect the public and market participants against manipulation, fraud, and other abuses. Executive leadership, in this regard, is the responsibility of the Chairman and Commissioners and includes the offices of the Chairman: the Office of External Affairs, the Secretariat, the Office of Inspector General, the Office of International Affairs, and the Office of Equal Employment Opportunity.

The Commission continues to implement the CFMA passed by Congress and signed by President Clinton in December 2000. Specifically, the CFMA: 1) repealed the ban on single-stock futures and implemented a regulatory framework for these instruments based on the agreement between the Commission and SEC; 2) enacted the principal provisions of the Commission's new regulatory framework; 3) brought legal certainty to bilateral and multilateral trading in over-the-counter financial markets; 4) confirmed the Commission's jurisdiction over certain aspects of the retail market in foreign exchange trading; and 5) gave the Commission authority to regulate clearing organizations. The CFMA reauthorized the Commission through FY 2005. The Commission is currently working with the Administration and the Congress on issues related to the reauthorization of the Commission.

Human Resources Management. The Commission, with less than 500 employees, performs a vital role in protecting the integrity of the futures and option markets – one of America's most innovative and competitive financial services industries. To maintain the U.S. role as the world leader in setting the standard for ensuring market integrity and protection for market users, the Commission must have sufficient resources to attract, train, promote and retain a professional workforce.

The Commission continues to pursue human resource initiatives aimed at building, developing and sustaining a knowledgeable, diverse and productive workforce. The Commission aims to have a workforce whose size, skills and composition react and adapt quickly to changes in the industry and technology and/or statutory or regulatory developments. The Commission has embarked on a comprehensive Strategic Management of Human Capital Initiative with the goals of improving the ability to: plan for anticipated change in workforce composition, target and recruit employees to fill critical skill deficiencies, target developmental resources, identify and justify staff resources need to perform statutory mandates, and to implement the Title V-exempt CT pay plan as mandated by Section 10702 of Public Law 107-171, the Farm Security and Rural Investment Act of 2002.

Information Technology Management. The Commission's ability to fulfill its mission successfully depends on the collection, analysis, communication and presentation of information in forms useful to Commission employees and other interested parties, such as, the industry it regulates, as well as other Federal and state, and international agencies with which we cooperate, the Congress and the American public. A secure modern information technology infrastructure is a vital tool that enables the Commission to serve these stakeholders effectively. The Commission is making a concerted effort to use commercial best practices developing and maintaining its Information Technology (IT) systems, applications and infrastructure, deploying a modern messaging, archiving and document management system.

This includes significant enhancements to the Integrated Surveillance System, the Commission's primary mission critical application to support futures and option market surveillance, to address changes and growth in the futures industry; the Exchange Database System to improve the data collection technology and processes to provide a more efficient means of exchange data collection, resulting in more effective support for the Commission's market oversight objectives. This effort will enable the Commission to strengthen its market oversight activities.

Another significant project is the CFTC.gov redesign. This initiative will improve the Commission's ability to communicate effectively with the public by providing mission-critical information in an easily accessible and usable manner. The redesign includes an assessment and review of the current content and structure of CFTC.gov to gain insight into the depth and breadth of the Web site, its navigation, and architecture. Based upon the needs of CFTC's customers, work is being conducted to develop and implement a new information architecture design and high-level user-interface structure. This initiative also includes an assessment and evaluation of the current Web technology environment and identifying solutions to manage CFTC's Internet presence. When complete, the redesigned CFTC.gov will improve the Commission's Web presence, enhance usability, and provide a consistent customer experience.

Other new systems are under development. The Filings and Actions System allows DMO and DCIO to manage the processing of submissions from regulated entities. Users can enter, modify and query data associated with Organizations, Products, Rules, and Foreign Filings and Actions. Project eLaw provides law office automation and modernization by seamlessly integrating technology and work processes to support managers and staff across the Commission in their investigative, trial, and appellate work. Project eLaw provides support in the areas of case planning, case management, litigation, and document management.

Management Operations. The Office of Management Operations (OMO) provides support to Commission staff by ensuring the timely delivery of products and services, ensuring safety and security of all employees, and operations and maintenance of the facilities at Headquarters and in the regional offices. Many improvements in critical administrative service areas have occurred during the last few years, with current goals of developing a property management system for non-capitalized, sensitive items, conducting testing, training and evaluation on all security programs, i.e., Occupant Emergency Plan, Shelter in Place, and Continuity of Operations (COOP).

Financial Management. Improved accountability for performance, together with unquestionable fiscal integrity, serves as key mission delivery cornerstones. Effective financial management systems and services facilitate Commission performance, and earning unqualified audit opinions demonstrates financial accountability. Migration to Department of Transportation systems and services ensures that the financial resources entrusted to the Commission are well managed and judiciously deployed. The budget and Performance and Accountability Report permit the public to see how well programs perform, and the cost they incur to achieve that performance.

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Outcome Objectives and Annual Performance Goals

Outcome 4.1 – A productive, technically competent and diverse work-force that takes into account current and future technical and professional needs of the Commission.

- Annual Performance Goal: Recruit, retain, and develop a skilled and diversified staff to keep pace with attrition and anticipated losses due to retirement.

Outcome 4.2 – A modern and secure information portfolio that reflects the strategic priorities of the Commission.

- Annual Performance Goal: Link business decisions on IT resources to CFTC strategic goals by establishing a decision making and review process for allocation of IT resources.

Outcome 4.3 – An organizational infrastructure that efficiently and effectively responds to and anticipates both the routine and emergency business needs of the Commission.

- Annual Performance Goal: A fully operational Contingency Planning Program to ensure the CFTC is prepared for emergencies and is fully capable of recovery and reconstitution.

Outcome 4.4 – Financial resources are allocated, managed and accounted for in accordance with the strategic priorities of the Commission.

- Annual Performance Goal: A clean financial audit opinion for the CFTC.

Outcome 4.5 – The Commission's mission is fulfilled and goals are achieved through sound management and organizational excellence provided by executive leadership.

- Annual Performance Goal: Progress in completing the 16 priorities established in the Commission Strategic Plan for fiscal years 2004 through 2009.

Means and Strategies for Achieving Objectives

Means:

- Assess continually the external and internal issues and trends that may affect the mission and the way in which we must respond to meet it successfully.

- Evaluate and adjust management and strategic plans to ensure that potential problems or weaknesses are managed before they develop into crises.

- Develop and employ strategies which will focus on achieving results -- strategies that will: define the basis for developing policies, making decisions, taking actions, allocating resources and defining program definition; clarify why the organization exists, what it does and why it does it—providing a bridge to understanding how the Commission connects to its environment.

Strategies:

- Plan for anticipated change in the workforce composition, improve ability to target recruitment to fill critical needs, and improve ability to identify and justify FTE resource needs.

- Implement Farm Security and Rural Investment Act of 2002 mandates and benchmark CFTC/FIRREA comparability.

- Manage newly implemented telework policy.

- Link business decisions on IT resources to CFTC strategic goals and establish a decision making process for allocation of IT resources.

- Build roadmap for all IT systems requirements to improve planning, resource allocation, systems development and capital planning.

- Build/ensure robust information security program.

- Ease access to information with a user centric Web site that provided current, consistent and accurate information.

- Secure agency assets by ensuring appropriate internal controls on assets and providing a basis for life cycle management of assets.

- Build/ensure archives management program that supports electronic records and improves handling, management and storage of records.

- Improve IT customer service by improving linkage between program areas and short and long-term technology goals.

- Create on-line CFTC legislative database to capture CFTC legislative history thereby providing an essential, efficient and permanent legal research tool to the Commission.

- Build a Contingency Planning Program to ensure that the CFTC is prepared for emergencies and is fully capable of recovery and reconstitution.

- Comply with U.S. Homeland Security directives and improve Federal identification procedures in the event of a disaster.

- Standardize furniture assets and implement life-cycle management thereby improving financial planning, management and maintenance.

- Manage events proactively to ensure effective application of scare resources and to improve customer service.

- Create a permanent Office of Proceedings resource manual to ensure consistent guidance to new employees and to provide a performance framework to enable feedback to current employees.

- Ensure a clean independent audit opinion of the agency's financial statements by improving internal controls and improving financial reporting.

- Execute an audit remediation plan to correct any deficiencies and/or implement recommendations.

- Upgrade the Financial Management System to comply with Federal mandates to consolidate financial systems, to provide more meaningful data to evaluate program plans, budgets and performance and support resource management decision-making and to improve the ability to target resources to intended programmatic outcomes.

- Integrate budget and performance information to improve management and performance of the Commission.

- Undertake IT investments reviews to ensure the prudence of ongoing IT investments.

Resource Priorities and Return on Investment:

- *Prepare for Commission reauthorization*. The authorization for the Commission's appropriations expired at the end of FY 2005. The Commission's seventh reauthorization is raising some particularly complex issues, in part because it is the first reauthorization after the enactment of the CFMA and comes as energy and international issues are becoming an increasing focus of congressional attention. The House of Representatives passed a reauthorization bill in mid-December, 2005; the Senate Agriculture Committee has reported a different reauthorization bill, but the timing of full Senate consideration of the issue is unknown at this time.

- *Develop and implement a new Commission trade surveillance system*. The Commission has two electronic oversight systems – one to monitor for trading abuses (such as trading ahead of customers and trading against customers) and one to monitor for market manipulation utilizing the large trader reports). The first of these two systems is woefully out of date, and the Commission has concluded that the demands of today's futures marketplace require development and implementation of a new approach. By supporting the Commission's efforts to protect market participants from abusive trading practices and the integrity of the markets as a price discovery mechanism, the Commission trade practice investigation program helps the Commission maintain public confidence in the markets and in the Commission as their regulator.

The Commission seeks an approach that will allow identification of inter-exchange violations that individual exchanges lack the capacity to detect, allow quicker access to and more sophisticated and customizable analysis of the full range of data supplied by exchanges with respect to electronic as well as open outcry trading, and enable meaningful Commission evaluation of the exchanges' own electronic surveillance systems.

- *Continue collaborative regulatory efforts regarding SFPs*. The Commission will continue in its efforts to coordinate with the SEC in implementing those sections of the CFMA related to the trading of SFPs. These areas include: SFP definitions; registration requirements and functions; treatment of customer funds; margin rules; the offering of foreign SFPs to U.S. customers; possible further exemptions for notice registrants; the listing of options; and coordinated clearing. The Commission will also respond to inquires from intermediaries, their counsel and accountants, and the general public concerning operational issues as the market for SFPs develops. Further, the Commission will work with the exchanges in developing sound business, financial and sales practices concerning the trading of SFPs.

- *Coordinate with foreign regulatory authorities – cooperative enforcement*. The number, duration and speed of regulatory issues related to financial crises and market abuses can be mitigated through the enhancement of international cooperation amongst regulators and market authorities. It is therefore critical that the CFTC continue to foster productive and cooperative working relationships with these foreign counterparts. In particular, the Commission will continue to: 1) facilitate cross-border transactions through the removal or lessening of any unnecessary legal or practical obstacles; 2) endeavor to enhance the international supervisory cooperation and emergency procedures; 3) strengthen international cooperation for customer and market protection; 4) improve the quality and timeliness of international information sharing; and, 5) promote the development of internationally accepted regulatory standards of best practices. The CFTC will also continue to undertake measures to ensure that it maintains a high visibility in the international community and undertakes a leading role in the development of international financial policy affecting the futures and options markets.

- *Reengineer the Commission's trade practice surveillance system and update the market surveillance system so that they remain effective and robust as trading migrates from the floors to electronic platforms*. Markets regulated by the Commission have experienced a dramatic shift from floor to screen based trading over the past several years. The CBOT's and the CME's screen-based volume currently accounts for about 75 percent of total exchange volume. While electronic trading brings certain regulatory benefits, such as more precise audit trails, it also increases the opportunity for certain types of abuses, such as trading ahead of customers. In order to re-engineer our systems, we have examined the electronic trading systems and automated surveillance systems used by U.S. designated contract markets as well as those used by foreign futures exchanges that have significantly more experience in electronic trading. We are also incorporating changes in the Commission's oversight systems and, where necessary, recommending alterations to systems of our designated contract markets to ensure that customers continue to be protected against trading abuses and manipulations.

- *Upgrade training for Enforcement investigators*. Expert enforcement investigators are vital to the effectiveness of the Commission's Enforcement program. The Commission continues to upgrade the training of its enforcement investigators in order to ensure that their level of expertise keeps pace with the technological advancements, increasing cross-border participation in the financial markets, and new complex contracts and trading strategies. Training includes advanced investigative techniques, especially with respect to trade practice investigations of electronic exchanges, the tracking of international money flows, and in-depth analysis of growing markets with an emphasis on the OTC energy markets.

- *Design and implement Project eLaw*. The Commission will continue its effort to design and implement Project eLaw, an automated law office that seamlessly integrates technology and work processes to support managers and staff across the Commission in their investigative trial and appellate work. Driven by the Commission's continued reliance on manual processes and automated tracking systems to manage cases and the millions of paper documents received or created annually, Project eLaw provides the automated tools to assist staff in performing their work more efficiently and effectively, both in the office and in the court room facing opposing counsel. Specifically, Project eLaw enables staff to: query and retrieve information about investigations and litigation provided to the Commission by outside parties, pursuant to subpoena or otherwise; develop documents in a collaborative electronic work environment across geographically dispersed locations; manage client contacts, investigation leads, and trial schedules; and present documentary and analytical evidence in court settings. The project achieved its final software application deployment throughout the Division of Enforcement in October 2006. In FY 2007, further enhancements will be implemented along with expansion to other offices within the Commission.

- *Establish a financial surveillance unit and fully implement FSIS*. With the establishment of a financial surveillance unit, the Commission has an enhanced capability to monitor market information, evaluate the impact of market moves on the financial integrity of market participants, and anticipate and act upon indications of financial difficulty. This capability is built upon the implementation and use of the new FSIS component systems, including the RSR Express system that compiles FCM financial statements, the SPARK system that utilizes large trader information to allow the tracking of risk at market, firm, and account levels, and the SPAN Risk Manager system that will permit "what if" analyses.

- *Complete energy investigations*. Since the fall of Enron, the Commission has conducted a significant number of investigations concerning potential misconduct by participants in the energy markets. To date, the Commission has filed 35 enforcement actions in this program area charging a total of 55 respondents/defendants (31 companies and 24 individuals). The Commission has obtained $303,413,500 in civil monetary penalties in settlement of these enforcement actions. Eight Commission energy market related enforcement actions remain in active litigation in Federal district court. The Commission is actively engaged in other energy sector investigations which may result in further prosecutions. The Commission's aggressive enforcement actions in the energy sector reflect an approach to market oversight that emphasizes tough enforcement actions against wrongdoers without creating overly burdensome regulations. The Commission is fully committed to resolving the on-going energy investigations as expeditiously as possible so that, in addition to identifying wrongdoers, it can exonerate those who were not involved and allow these important risk management markets to work toward restoring the confidence of market participants and the public.

- *Finalize rules for intermediaries.* The Commission continues its efforts to modernize the rules affecting futures commission merchants, managers of pooled investment vehicles or individual accounts, and other intermediaries in the futures markets. Through hearings, studies, and roundtables, the Commission has, as directed by Congress, undertaken a concerted examination of the rules currently imposed on intermediaries, and we have adopted several rule changes—such as 1) providing financial institutions that are primarily overseen by another regulator (such as banks, insurance companies, and mutual funds) with an opportunity to use the risk management tools offered in the futures markets without subjecting themselves to unnecessary duplicative regulation; 2) providing appropriate registration relief to managers of pooled investment vehicles that restrict participation to highly sophisticated persons who use futures on a limited basis; and 3) affording FCMs greater operational flexibility so that they can provide their customers with more efficient trade executions. The Commission will continue with efforts to enhance an effective oversight framework for intermediaries, as envisaged by the CFMA.

- *Implement risk-based oversight of DSROs*. The Commission will fully implement its risk-based approach to the oversight of DSROs in which Commission staff approach the cyclical review of each DSRO with an identification of its activities and potential risks, followed by an assessment of the appropriateness and adequacy of the systems, procedures, and practices that the DSRO relies upon to fulfill its responsibilities under the core principles set forth in the CFMA. This risk-based approach, already being utilized by other Federal financial regulators and international counterparts such as the U.K. Financial Services Authority, promises to make more effective use of Commission resources by tailoring oversight efforts to the relative probability and severity of potential risks to market integrity and to market participants.

- *Implement risk-based oversight reviews of SROs and DCOs*. The Commission will refine its risk-based approach to conducting reviews and examinations of SROs and DCOs. This approach involves conducting cyclical reviews of SROs and DCOs with an identification of their activities and risks, followed by an assessment of the appropriateness and adequacy of the systems and procedures that are relied upon by the SROs and DCOs to fulfill their responsibilities under the

Act and Commission regulations. This approach tailors oversight efforts to the relative probability and severity of potential risks.

- *SRO Study – Request for Comments on Proposed Acceptable Practices for Core Principle 15.* On July 7, 2006, the Commission published and sought public comment on proposed Acceptable Practices for Section 5(d)(15) of the Act (Core Principle 15), which requires that exchanges minimize conflicts of interest in their decision-making processes. The proposed Acceptable Practices, the first for Core Principle 15, emphasize exchange governance and boards of directors as a means of mitigating conflicts of interest between exchanges' regulatory responsibilities and their commercial activities. The proposals are based on the Commission's three-year study of self-regulation and self-regulatory organizations in the U.S. futures industry (SRO Study), launched in 2003. They respond to recent changes in the industry, including the demutualization of exchanges, their conversion to for-profit business models, and increased competition among exchanges and others. The comment period on the proposed Acceptable Practices closed on September 7, 2006.

- *Increase staffing*. The arrival of pay parity authority promises to greatly enhance the Commission's opportunity to have planned organizational change by stemming the high attrition rate with more competitive salaries. The Commission is moving to utilize the newest flexibilities in Federal staffing, including category ranking, so that priority recruitments for any shift in program emphasis or unexpected losses begin immediately and conclude rapidly. At the same time, our pay rates now allow us to compete for a broader range of experience levels, which should help with succession planning. By developing revised competencies on a job function or series basis, such as with auditors moving to risk-based reviews, we are building a revised foundation of job requirements and skills analysis that makes both our near-term recruitment more targeted and our long-range workforce planning more efficient. Performing this agency-wide review of our staffing efforts is producing complementary effects in the form of a workforce with a broader range of the most needed training and skills, resulting in the most efficient and responsive market oversight activities presently feasible.

- *Achieve full funding for pay parity*. With the implementation of a new pay schedule on April 20, 2003, CFTC closed the major part of the gap between its pay rates and those of the other Federal financial regulators. This transitional step has resulted in a substantive improvement in the agency recruitment and retention trends, including evident indicators of employee morale. To begin a corresponding upgrade in its benefits program, the Commission implemented an employee dental benefit in FY 2004. In terms of total compensation, the Commission's conservative initial approach to using its authority to make these pay and benefits changes closed just under 80 percent of the gap in aggregate compensation relative to the benchmark agencies' practices. However, due to budgetary constraints, the Commission delayed the FY 2004 and FY 2005 pay increases to September 2o04 and July 2005 respectively which further contributed to widen the pay gap. We expect the gap to grow without appropriate funding for pay and benefits increases, including variable compensation centered on the concept of pay for performance. Commission senior staff will continue to seek appropriate funding through discussions with oversight committees and OMB.

- *Implement USA Patriot Act.* The Commission has actively supported and assisted the U.S. Treasury Department in developing AML rules to implement the mandate of the USA Patriot Act with respect to the futures industry. These include various proposed and final rules requiring, among other things: 1) FCMs and IBs to report suspicious transactions; 2) FCMs and IBs to establish customer identification and verification programs (CIPs); and 3) FCMs and IBs to establish due diligence programs for detecting and reporting money laundering through correspondent accounts for foreign financial institutions and private banking accounts for non-U.S. persons. In addition to finalizing AML rules that already have been proposed, the Commission and Treasury will continue to effectuate the full extent of the protections against money laundering mandated by Congress (for example, extending the CIP rules to cover other futures firms as well). To assure consistency throughout the financial services industry, AML rules are being developed by an inter-agency working group with representatives from Treasury, the CFTC, the SEC, and several Federal banking agencies. The Commission's role includes making sure that futures industry registrants are not placed at a disadvantage relative to other financial service providers. Moreover, the Commission has been delegated AML examination authority with respect to FCMs and IBs. While much of the front-line examination work may be performed by NFA and other SROs, this delegation requires the implementation of an appropriate audit and compliance program and Commission oversight of the direct supervision by NFA and other SROs. The Commission also has repeatedly requested, and Treasury is considering, a similar delegation of Treasury's AML enforcement authority to the Commission with respect to futures firms. This delegation would bring additional responsibilities to the Commission for investigating and pursuing charges against those who do not have proper supervision, reporting, and record-keeping programs in place to combat money laundering and terrorist financing.

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Summary of Goal Four Performance Indicators

Goal Four: (Proposed) To facilitate Commission performance through organizational and management excellence, efficient use of resources, and effective mission support.

Outcome 4.1: ***A productive, technically competent, competitively compensated, and diverse workforce that takes into account current and future technical and professional needs of the Commission.***

Annual Performance Goal: Recruit and retain a skilled and diversified staff to replace aging and retiring workforce.

Performance Measures	FY 2005 Actual	FY 2006 Est. Actual	FY 2007 Plan	FY 2008 Plan
4.1.1 Met FY objectives for phased implementation of pay for performance system	N/A	TBD	TBD	TBD
4.1.2 Percentage decrease in the time required to fill vacant positions, in comparison to previous FY	N/A	TBD	TBD	TBD
4.1.3 Percentage decrease in employee turnover other than due to retirement, in comparison to previous FY	N/A	TBD	TBD	TBD
4.1.4 Percentage increase in employees in mission-critical positions rating themselves at "extensive" or higher level of expertise on Strategic Workforce Planning Survey	N/A	TBD	TBD	TBD
4.1.5 Percentage increase in underrepresented groups among new hires, in comparison to previous FY	N/A	TBD	TBD	TBD

Outcome 4.2: A modern and secure information system that reflect the strategic priorities of the Commission.

Annual Performance Goal: Link business decisions on IT resources to CFTC strategic goals by establishing a decision- making and review process for allocation of IT resources.

Performance Measures	FY 2005 Actual	FY 2006 Est. Actual	FY 2007 Plan	FY 2008 Plan
4.2.1 Percentage of Agency IT resources directly tied to Agency resource priorities as stated in the Strategic Plan	N/A	TBD	TBD	100%
4.2.2 Percentage of major IT investments having undergone an investment review within the last three years	100%	100%	100%	100%
4.2.3 Percentage of Customer Support Center inquires resolved within established performance metrics	N/A	N/A	85%	99%
4.2.4 Percentage of employees with network availability	100%	100%	100%	100%
4.2.5 Percentage of employees who require remote network availability that have it	N/A	TBD	95%	100%
4.2.6 Percentage of major systems and networks certified and accredited in accordance with NIST guidance	50%	28%	50%	100%
4.2.7 Percentage of IT e-government initiatives on target for compliance with implementation schedule	N/A	TBD	100%	100%
4.2.8 Percentage of network users who have completed annual security and privacy training	N/A	90%	95%	95%

Outcome 4.3: An organizational infrastructure that efficiently and effectively responds to and anticipates both the routine and emergency business needs of the Commission.

Annual Performance Goal: A fully operational Contingency Planning Program to ensure the CFTC is prepared for emergencies and is fully capable of recovery and reconstitution.

Performance Measures	FY 2005 Actual	FY 2006 Est. Actual	FY 2007 Plan	FY 2008 Plan
4.3.1 Number of hours required to deploy staff and begin mission essential functions at the COOP site	N/A	N/A	24	18

Outcome 4.4: Financial resources are allocated, managed and accounted for in accordance with the strategic priorities of the Commission.

Annual Performance Goal: A clean audit opinion for CFTC.

Performance Measures	FY 2005 Actual	FY 2006 Est. Actual	FY 2007 Plan	FY 2008 Plan
4.4.1 Audit opinion of the Agency's annual financial statements as reported by the Agency's external auditors	N/A	Unqualified	Unqualified	Unqualified
4.4.2 Number of material internal control weaknesses reported in the Performance & Accountability Report	N/A	0	0	0
4.4.3 Number of non-compliance items disclosed in audit report; percentage of total items	N/A	2/2%	1/1%	0/0%
4.4.4 Percentage of open obligations that are from prior years as of September 30	N/A	2%	2%	2%

Outcome 4.5: The Commission's mission is fulfilled and goals are achieved through sound management and organizational excellence provided by executive leadership.

Annual Performance Goal: Progress in achieving priorities for fiscal years 2007 through 2011 as established by the Strategic Plan.

Performance Measures	FY 2005 Actual	FY 2006 Est. Actual	FY 2007 Plan	FY 2008 Plan
4.5.1 Percentage of 16 strategic plan priorities that are on track to completion by FY 2011	N/A	N/A	100%	100%

Breakout of Goal Four Request by Outcome Objective

	FY 2007		FY 2008		Change	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
GOAL FOUR: To facilitate Commission performance through management excellence, efficient use of resources, and effective mission support.						
Outcomes						
4.1 A productive, technically competent, competitively compensated, and diverse workforce that takes into account current and future technical and professional needs of the Commission.	$3,739	18.00	$4,264	18.00	$415	0
4.2 A modern and secure information system that reflect the strategic priorities of the Commission. [12]	3,126	15.05	3,565	15.05	647	0
4.3 An organizational infrastructure that efficiently and effectively responds to and anticipates both the routine and emergency business needs of the Commission.	3,531	17.00	4,027	17.00	392	0
4.4 Financial resources are allocated, managed and accounted for in accordance with the strategic priorities of the Commission.	3,739	18.00	4,264	18.00	415	0
4.5 The Commission's mission is fulfilled and goals are achieved through sound management and organizational excellence provided by executive leadership.	7,780	37.00	8,860	37.00	1,070	0
TOTAL	**$21,915**	**105.05**	**$24,980**	**105.05**	**$2,939**	**0**

Table 35: Breakout of Goal Four by Outcome

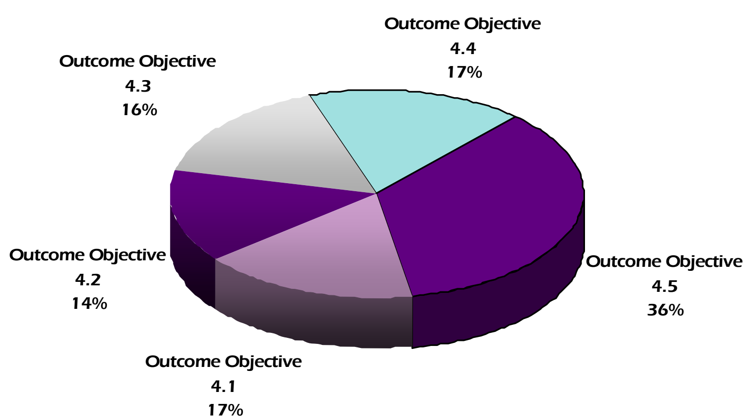

Figure 42: Breakout of Goal Four Request by Outcome Objective

[12] Represents Office of Information Technology Services dollars and staff resources not otherwise allocated to Goals 1, 2, or 3.

APPENDIX 5

Privacy Policy for the CFTC Web Site

The purpose of this policy statement is to describe how the CFTC handles information which we learn about you when you visit our Web site. The information we receive depends on how you use the Web site. You are not required to give us personal information to visit our Web site.

If you visit the CFTC Web site to read or download information, such as press releases or publications, we will collect and store the following information:

- the name of the domain (the machine or Web site) 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 Web site.
- the name and IP address of the CFTC server that received and logged the request.
- the date and time the request was received.
- the information which you are accessing (for example, which page or image you choose to read or download).
- the name and version of the Web browser used to access the Web page.

We use the information collected to measure the number of visitors to the different sections of our Web site and to help us make the Web site more useful to visitors.

We do not enable "cookies." A "cookie" is a text file placed on your hard drive by a Web site that can be used to monitor your use of the site.

If you complete a form or send a comment or e-mail, you may be choosing to send us information which personally identifies you. This information is used generally to respond to your request but may have other uses ***which are identified on each form.*** For example, if you send us a comment letter on a proposed regulation, that letter becomes part of the comment file and is available to the public. The comments are used to help CFTC and other members of the public evaluate proposed Commission actions. Other forms which you may choose to submit, such as Freedom of Information Act requests or requests for correction of information, contain information which is used by CFTC employees to track and respond to your request. Information provided on the enforcement questionnaire may be shared with other law enforcement agencies, if appropriate.

If you have questions about CFTC's privacy policy and information practices you can e-mail webmaster@cftc.gov.

Information on the Commission's systems of records maintained under the Privacy Act can be found under Section D of the CFTC Federal Register Notices.

APPENDIX 6

Table of Acronyms

AE	The Actuarials Exchange, LLC
ALJ	Administrative Law Judge
AML	Anti-Money Laundering
AP	Associated Persons
BTEX	BrokerTex Futures Exchange
CBT	Chicago Board of Trade
CCORP	The Clearing Corporation
CCFE	Chicago Climate Futures Exchange
CCX	Chicago Climate Exchange, Inc.
CDXCHANGE	Commodities Derivative Exchange, Inc.
CEA	Commodity Exchange Act
CFE	CBOE Futures Exchange
CFFE	Cantor Financial Futures Exchange
CFTC	Commodity Futures Trading Commission
CFMA	Commodity Futures Modernization Act of 2000
CIP	Customer Identification and Verification Program
CME	Chicago Mercantile Exchange
CME AM	CME Alternative Marketplace, Inc.
COMEX	Commodity Exchange Division
COOP	Continuity of Operations Plan
CPO	Commodity Pool Operator
CSCE	Coffee Sugar and Cocoa Exchange
CTA	Commodity Trading Advisor
DCIO	Division of Clearing and Intermediary Oversight (CFTC)
DCO	Derivatives Clearing Organization
DOJ	Department of Justice
DTEF	Derivatives Transaction Execution Facility
DSRO	Designated Self-Regulatory Organization
ECM	Exempt Commercial Markets
EOPF	Electronic Office Personnel Folders
EPFE	Exchange Place Futures, LLC
EUREX US	U.S. Futures Exchange, LLC
FB	Floor Broker
FCA	Farm Credit Administration
FCM	Futures Commission Merchant
FCOM	FutureCom
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act
FMHA	Farmers Home Administration
FT	Floor Trader
FTE	Full-time Equivalent
FSIS	Financial Surveillance Information Service
FY	Fiscal Year
GAO	Government Accountability Office
GCC	Guaranty Clearing Corporation
GMAC	Global Markets Advisory Committee
GSA	General Services Administration
HSE	HoustonStreet Exchange, Inc.
IB	Introducing Broker

ICAP	ICAP Commodity Derivatives Trading System
ICAP ETC	ICAP Electronic Trading Community
ICAP HYDE	ICAP HYDE, Ltd.
ICC	Intermarket Clearing Corporation
ICE	IntercontinentalExchange, Inc.
IMAREX	International Maritime Exchange
INET	INET Futures Exchange
INTRADE	Intrade Board of Trade
IOSCO	International Organization of Securities Commissions
IT	Information Technology
JO	Judgment Officer
KCBT	Kansas City Board of Trade
LCH	London Clearing House
MACE	MidAmerica Commodity Exchange
MATCHBOXX ATS	Matchboxx Alternate Trading System
ME	Merchants Exchange
MGE	Minneapolis Grain Exchange
NFA	National Futures Association
NGX	Natural Gas Exchange
NQLX	NQLX LLC
NTP	NetThruPut
NYBOT	New York Board of Trade
NYCC	New York Clearing Corporation
NYCE	New York Cotton Exchange
NYFE	New York Futures Exchange
NYMEX	New York Mercantile Exchange
OCC	The Options Clearing Corporation
OCX	OneChicago Futures Exchange
OED	Office of the Executive Director (CFTC)
OFM	Office of Financial Management (CFTC)
OGC	Office of the General Counsel (CFTC)
OHR	Office of Human Resources (CFTC)
OITS	Office of Information and Technology Services (CFTC)
OMB	Office of Management and Budget
OMO	Office of Management Operations (CFTC)
ONXCC	OnExchange Clearing Corporation
OPEX	Optionable, Inc.
OPM	Office of Personnel Management
OTC	Other-the-Counter
PBOT	Philadelphia Board of Trade
PMA	President's Management Agenda
PPGC	Pay Parity Governance Committee
RSR	Regulatory Statement Review
RWG	Registration Working Group
SEC	Securities and Exchange Commission
SFP	Security Futures Products
SL	Spectron Live.com Limited
SPARK	Stress Positions at Risk
SRO	Self-Regulatory Organization
SWG	Strategic Workforce Planning
TCX	TradeCapture Exchange

TFS	Traditional Financial Services Pulp and Paper Division
TFSE	TFS Energy, LLC
TS	TradeSpark, LP
US	United States
USA PATRIOT	Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism
USDA	United States Department of Agriculture
UK	United Kingdom
WBOT	Weather Board of Trade
WXL	WeatherXchange Limited
XBOT	Exempt Boards of Trade

APPENDIX 7

CFTC Mandatory Proposal: Futures & Options Transaction Fee

Funding Summary

(In millions of dollars)

	2008	2009	2010	2011	2012	2008-12	2008-17
Proposed change from current law……….	-86	-89	-92	-95	-99	-461	-1,008

Administration Proposal and Impact

The Administration will propose to collect a fee on all commodity futures and options contracts traded on approved futures and options exchanges. The Commodity Futures Trading Commission (CFTC) is the only Federal financial regulator that does not derive its funding from the specialized entities it regulates. The fees would be set at a level to equal the costs to the taxpayer of funding CFTC's Market Oversight and Clearing & Intermediary Oversight functions, about $86 million during 2008. Such fees are already imposed on futures exchanges to fund the programs of the futures industry's self-regulatory organization. The proceeds from the fees will be returned to the general fund of the Treasury, to be used to offset the deficit impact of funding the CFTC's operations through direct appropriations.

Background

The CFTC ensures the integrity and effectiveness of the U.S. futures and options markets through administration of the Commodity Exchange Act of 1936 (CEA), as amended. Fees would facilitate increases in CFTC's proposed oversight activities, which have been held generally constant while trading volume has quadrupled over the last decade.