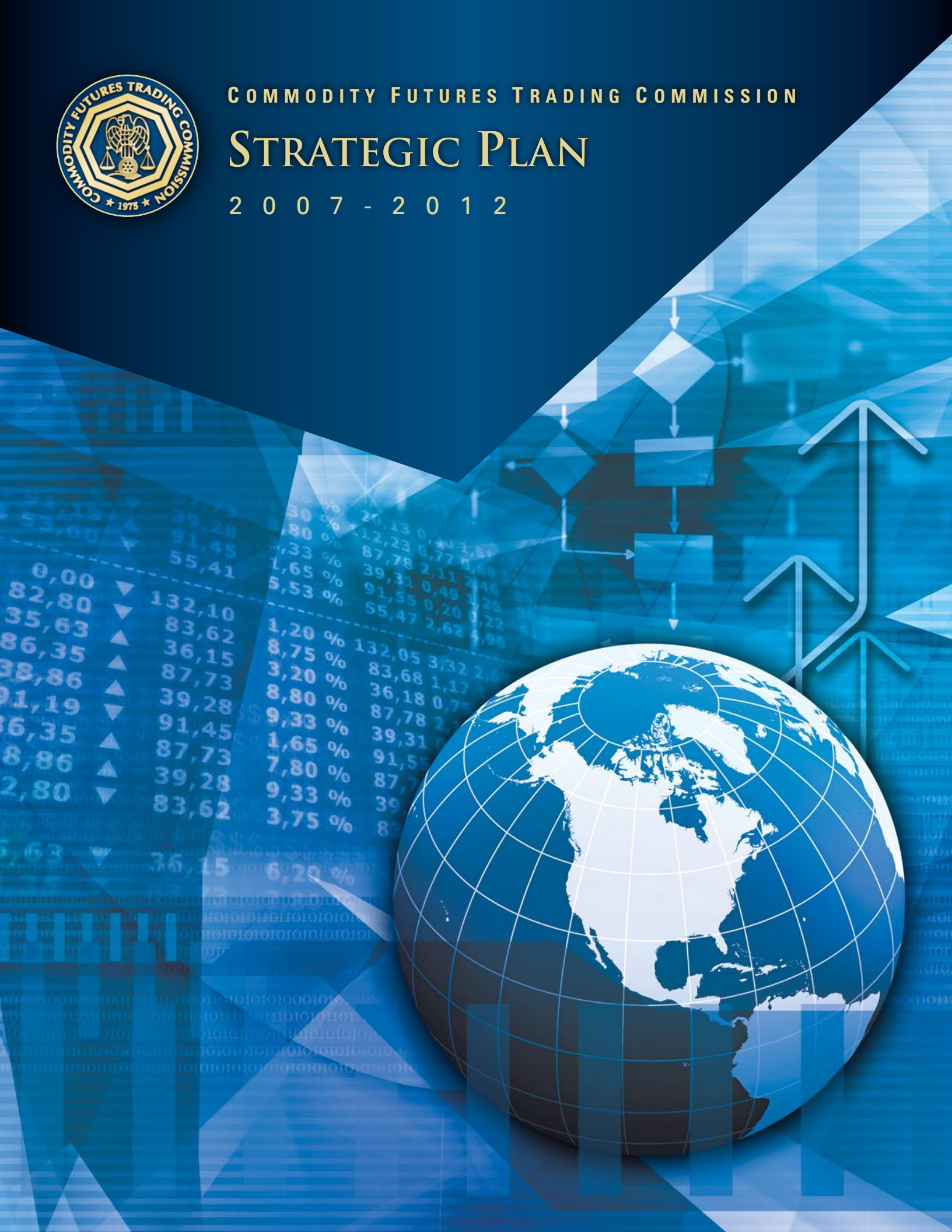




COMMODITY FUTURES TRADING COMMISSION

# STRATEGIC PLAN

2007 - 2012



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COMMODITY FUTURES TRADING COMMISSION

# STRATEGIC PLAN

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The background of the slide is a dark blue color with a complex, abstract geometric pattern of overlapping triangles and polygons in various shades of blue. A solid yellow horizontal bar runs across the middle of the slide, separating the top and bottom sections.

*Protecting market users and the public from fraud, manipulation,  
and abusive trading practices and fostering open, competitive,  
and financially sound markets.*



## A MESSAGE FROM THE ACTING CHAIRMAN

**B**eyond a doubt, the largest structural change affecting the oversight of financial markets in the last decade is global competition brought on by the cyber-revolution. Without leaving their desks, traders now have a variety of choices on where to trade financial instruments, regardless of physical borders. This competition has significantly lowered costs and spurred innovation. More than ever, commercial entities, traders, and consumers are using U.S. derivatives markets to manage risk and discover prices for the greater benefit of the economy.

Technology allows a world marketplace to exist but for the laws and regulations that limit its development. Unfortunately, regulation often lags behind these global market trends, and regulators frequently find themselves playing defense as problems unfold. Regulators may attempt to meet these challenges by adopting detailed rules, but the breakneck pace of innovation inevitably changes the landscape, making the rules outdated almost upon enactment.

Fortunately, Congress, during the Commodity Futures Trading Commission's (CFTC) reauthorization in 2000, anticipated this change and enacted a less prescriptive, principles-based regulatory regime in the Commodity Futures Modernization Act (CFMA). During the past 10 years, volume on U.S. futures exchanges has quintupled. In 2006, trading of U.S. futures and options accounted for 38 percent of global volume in these markets. By all measures, this industry has been enormously successful competing on a global scale.

As we submit our strategic plan for fiscal year (FY) 2007 through FY 2012, we recognize both the dramatic growth of the futures industry since the passage of the CFMA and the succeeding market developments that now shape the debate surrounding current CFTC reauthorization. In addressing these trends, the CFTC must continue to modernize its technological infrastructure and empower its employees to embrace the risk-based, flexible regulatory structure provided by Congress to meet these global developments.

The Commission is keenly aware of the importance of energy and agricultural prices and supplies to our Nation's consumers, producers, and economy in general. For that reason, the Commission continues to surveil closely all markets in our charge and commits to working closely with Congress, other regulators, and market participants to ensure that our regulatory structure keeps pace with the ever changing global marketplace.

A handwritten signature in black ink that reads "Walter Lukken". The signature is written in a cursive, flowing style.

Walter L. Lukken  
*Acting Chairman*

September 30, 2007



## INTRODUCTION

The CFTC was created as an independent agency by Congress in 1974 under the authorization of the Commodity Exchange Act (CEA or the Act) with the mandate to regulate commodity futures and option markets in the United States. The Agency's mandate was renewed and expanded under the Futures Trading Act of 1978, 1982, and 1986; the Futures Trading Practices Act of 1992; and the CFTC Reauthorization Act of 1995. The CFMA reauthorized the Commission through FY 2005.

Futures contracts for agricultural commodities have been traded in the United States for 150 years and have been under Federal regulation since the 1920s. In recent years, futures trading has expanded rapidly into many new markets, beyond the domain of traditional physical and agricultural commodities. Futures and option contracts are now offered on a vast array of financial instruments, including foreign currencies, U.S. and foreign government securities, and U.S. and foreign stock indices.

Today, as the futures industry experiences unprecedented growth and as trading instruments and mechanisms increase in complexity, the CFTC is responsible for overseeing the economic utility of futures markets by encouraging their competitiveness, efficiency, and integrity and by protecting market participants against manipulation, abusive trade practices, and fraud. Through effective oversight regulation, the CFTC enables the commodity futures markets to serve their important function in the Nation's economy by providing a mechanism for price discovery and a means of offsetting price risk. ■

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<sup>1</sup> Commodity Exchange Act, as amended (7 U.S.C., Section 1, *et seq.*)



# MISSION STATEMENT, STRATEGIC GOALS & OUTCOMES

## Mission Statement

In December 2000, the CFMA transformed the Commission from a front-line regulatory agency to an oversight regulator. Although the Commission's approach to regulation has consequently changed, its mission remains the same—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.

## Strategic Goals & Outcomes

Since the development of the Commission's first Strategic Plan in 1997, the mission of the CFTC has been expressed and measured through three strategic goals, each focusing on a vital area of regulatory responsibility. With this Strategic Plan for FY 2007 through FY 2012, the Commission has adopted a fourth strategic goal, which focuses on assessing and measuring organizational and management excellence.

Establishing this fourth strategic goal will allow the Commission to extend its performance and management framework—which requires the Agency to establish and measure its progress in achieving outcome objectives and strategic goals—beyond strictly program performance to the performance of the organization itself.

**Strategic Goal One—Ensure the economic vitality of the commodity futures and option markets.**

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. Through direct market 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, futures commission merchants (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 a customer may control more than one account, the Commission routinely collects information that enables its surveillance staff to aggregate information across FCMs and for related accounts.

Using these reports, the Commission's surveillance staff closely monitor 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 needed. At these meetings, surveillance staff brief 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 Act 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, 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, cease and desist orders, civil monetary penalties, and restitution orders. The Commission may seek Federal court injunctions, restraining orders, asset freezes, receiver appointments, and disgorgement orders. If evidence of criminal activity is found, matters may be referred to state authorities or the U.S. 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.

#### Outcomes for Strategic Goal One are:

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

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

#### Strategic Goal Two—Protect market users and the public.

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 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 required. The Commission also monitors compliance with those requirements and supervises the work of the exchanges and the National Futures Association (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 commodity professionals who engage in a wide variety of fraudulent sales practices against the public.

#### Outcomes for Strategic Goal Two are:

- Violations of Federal laws concerning futures and option contracts are detected and prevented.
- Commodity professionals meet high standards.
- Customer complaints against persons or firms registered under the Act are handled effectively and expeditiously.



**Strategic Goal Three—Ensure market integrity in order to foster open, competitive, and financially sound markets.**

In fostering open, competitive, and financially sound markets, the Commission's two main priorities are to avoid disruptions to the system for clearing and settling contract obligations and to protect the funds that customers entrust to FCMs. Clearing organizations and FCMs are 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 that help the Commission achieve this goal with respect to traders are: 1) requiring that market participants post margin to secure their ability to fulfill obligations; 2) requiring participants on the losing side of trades to meet their obligations, in cash, through daily (sometimes intraday) margin calls; and 3) requiring FCMs to segregate customer funds from their own funds.

The Commission works with the exchanges and the NFA to monitor closely the financial condition of the FCMs themselves, who must provide the Commission, exchanges, and NFA with various monthly, quarterly, and annual financial reports. The exchanges and NFA conduct annual audits and daily financial surveillance of their respective member FCMs. Part of this financial surveillance involves looking at each FCM's exposure to losses from large customer positions that it carries. As an oversight regulator, the Commission not only reviews the audit and financial surveillance work of the exchanges and NFA, but also monitors the health of FCMs directly, as appropriate. The Commission also periodically reviews clearing organization procedures for monitoring risks and protecting customer funds.

The Commission investigates and prosecutes 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 can 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 FCMs follow sound practices and 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.

**Outcomes for Strategic Goal Three are:**

- Clearing organizations and firms holding customer funds have sound financial practices.
- Commodity futures and option markets are effectively self-regulated.
- Markets are free of trade practice abuses.
- Regulatory environment is flexible and responsive to evolving market conditions.

**Strategic Goal Four—Facilitate Commission performance through organizational and management excellence, efficient use of resources, and effective mission support.**

The fulfillment of the Commission's mission and the achievement of its goals are tied to a foundation of sound management and organizational excellence. This foundation is essential to support the work of the Commission at the Washington D.C. headquarters and regional offices in Chicago, Kansas City, and New York. 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.

The Offices 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 CEA and amendments to that Act, including the CFMA. Passed by Congress and signed by President Clinton in December 2000, 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. To this end, the Commission's policy is designed to: 1) foster the financial integrity and economic utility of commodity futures and option markets for hedging and price discovery; 2) conduct market and financial surveillance; and 3) protect the public and market participants against manipulation, fraud, and other abuses.

In order for the Commission to carry out its mission successfully and to realize the first three strategic goals, the Office of the Executive Director (OED) provides critical administrative support through the effective and efficient management and utilization of key strategic resources, as follows:

**Human Resources.** In order for the United States to maintain its role as the world leader in setting the standard for ensuring market integrity and protection for market users, the Commission must attract, train, promote, and retain a workforce that is not only professional, but also knowledgeable, diverse, and productive. To support this effort, the Commission has embarked on a comprehensive Strategic Management of Human Capital Initiative with the overall goals of effectively managing the size, skills, and composition of the Commission's workforce.

**Information Technology.** The Commission's ability to fulfill its mission successfully depends on a secure modern information technology (IT) infrastructure that enables the collection, analysis, communication, and presentation of information in forms useful to the Commission and its stakeholders—including the industry it regulates, other Federal, state, and international agencies; the Congress; and the American public. The Commission continues to apply commercial best practices in its enhancements of two mission-critical information systems: the Integrated Surveillance System (ISS), which supports market surveillance; and the Exchange Database System (EDBS), which provides an efficient means of collecting market exchange data. Two new systems—the Filings and Actions System and Project eLaw—will support the Commission's market oversight objectives as well as its investigative, trial, and appellate work processes, respectively.

**Management Operations.** The Commission's logistical operations are supported by ensuring the timely delivery of products and services, ensuring safety and security of all employees, and maintaining the facilities at headquarters and the regional offices. Improvements in critical operational service areas will continue with the development of a property management system for non-capitalized, sensitive items; and the testing, training, and evaluation of all security programs—including the Occupant Emergency Plan, Shelter in Place, and Continuity of Operations Plan (COOP).

**Financial Management.** Ensuring that the Commission deploys judiciously and manages well its financial resources is achieved through effective financial management systems and services that facilitate Commission performance, improve its accountability, and earn unqualified audit opinions. The publication of the annual Performance and Accountability Report (PAR) informs the public about how well Commission programs perform and the costs incurred to achieve that performance. The Commission's PAR for the fiscal year ending September 30, 2006 received the prestigious *Certificate of Excellence in Accountability Reporting* from the Association of Government Accountants (AGA).

#### Outcomes for Strategic Goal Four are:

- A productive, technically competent, and diverse workforce that takes into account current and future technical and professional needs of the Commission.
- A modern and secure information portfolio that reflects the strategic priorities of the Commission.
- An organizational infrastructure that efficiently and effectively responds to and anticipates both routine and emergency business needs of the Commission.
- That financial resources are allocated, managed, and accounted for in accordance with the strategic priorities of the Commission.
- That the Commission's mission is fulfilled and goals are achieved through sound management and organizational excellence provided by executive leadership. ■



# KEEPING PACE WITH CHANGE: THEMES & PRIORITIES FOR 2007-2012

The Commission has identified the following strategic themes<sup>2</sup> and priorities, which will serve as key indicators of its success in its effort to keep pace with the many changes affecting the futures and option markets:

## Strategic Themes:

1. CFTC must act in real time to address how the markets are functioning and evolving.
2. CFTC must influence international approaches to overseeing/regulating the global commodity markets.
3. CFTC must effectively direct Commission resources to achieve its mission.
4. CFTC must employ best practices in business management.
5. CFTC must employ an assertive external communication and outreach program to articulate CFTC mission and strategic goals to inform legislative/regulatory policy.

**STRATEGIC THEME 1: CFTC must act in real time to address how the markets are functioning and evolving.**

*Strategic Priority 1.1:* Enhance technological capability and data standards to recognize, understand, and adapt to market changes early on.

Tasks:

- 1.1.1: Upgrade ISS to get real-time market position information.
- 1.1.2: Develop capability to provide real-time margin and settlement information.
- 1.1.3: Promote data standards.
- 1.1.4: Develop/implement trade surveillance system.
- 1.1.5: Develop automated capability to analyze and integrate off-exchange data as it relates to investigations.

*Strategic Priority 1.2:* Enhance in-house human analytical and decision-making capability to recognize, understand, and adapt to market changes early on.

Tasks:

- 1.2.1: Develop a recruitment plan to address required skills.
- 1.2.2: Identify needed competencies and develop training plan that empowers employees to react quickly in understanding and resolving regulatory matters.

<sup>2</sup> The priorities listed herein are also referred to as "general goals," which are described in Office of Management and Budget (OMB) Circular A-11 as those that allow a future assessment to be made on whether or not the goals were or are being achieved.

*Strategic Priority 1.3:* Systematically use stakeholders, such as the self-regulatory organizations (SROs), domestic and foreign entities, media, academia, and market participants, as extended sources of market intelligence.

Tasks:

1.3.1: Conduct regular multi-divisional meetings with targeted groups.

1.3.2: Develop business process to mobilize internal resources to capture external knowledge.

*Strategic Priority 1.4:* Foster meaningful, integrated, and timely communication across CFTC divisions and offices.

Tasks:

1.4.1: Develop internal communications plan.

1.4.2: Develop internal personnel mobility plan.

1.4.3: Develop standard operating procedures to ensure routine operational, cross-divisional coordination.

*Strategic Priority 1.5:* Foster a culture of creative problem solving to promote innovation in the marketplace.

Tasks:

1.5.1: Create inter-divisional, issue-specific teams to analyze high-level policy questions and make recommendations to the leadership group.

1.5.2: Host workshops with outside experts to keep staff knowledge at the cutting edge.

**STRATEGIC THEME 2: CFTC must influence international approaches to overseeing/regulating the global commodity markets.**

*Strategic Priority 2.1:* Enhance CFTC's international program capability.

Task:

2.1.1: Produce option paper for Commission on enhancement of the international program focusing on:

- organizational structure and function
- staff expertise required
- budgetary investment required

*Strategic Priority 2.2:* Sustain personal relationships with CFTC counterparts in nations with developed markets, and enhance relationships where new growth is likely to be concentrated.

Tasks:

2.2.1: Cultivate relationships with U.S.-based international aid organizations to leverage their resources so CFTC can provide technical assistance to foreign institutions.

2.2.2: Upgrade and expand role in the International Organization of Securities Commissions (IOSCO) and other targeted international organizations and conferences.

2.2.3: Expand relationships with international market authorities to develop interpersonal relationships in nations with priority markets through on-site visits.

*Strategic Priority 2.3:* Promote CFTC's flexible, principles-based regulatory philosophy with robust enforcement and global recognition capabilities.

Tasks:

2.3.1: Provide more technical training to foreign market regulators.

2.3.2: Develop and maintain a library of training and reference materials.

*Strategic Priority 2.4:* Improve U.S. access to global markets.

Tasks:

2.4.1: Identify and understand perceived obstacles to U.S. access to foreign markets.

2.4.2: Engage U.S. government and foreign market authorities to improve access to foreign markets.

**STRATEGIC THEME 3: CFTC must effectively direct Commission resources to achieve its mission.**

*Strategic Priority 3.1:* Formalize process for analyzing risk, setting priorities, and allocating resources.

Tasks:

- 3.1.1: Conduct regular divisional and inter-divisional meetings around risk to make informed resource allocation decisions.
- 3.1.2: Based on regular inter-divisional risk discussions, implement a multi-divisional targeted approach to selected market sectors/segments.

*Strategic Priority 3.2:* Seek cooperative external working relationships to leverage resources.

Task:

- 3.2.1: Develop plan for implementing cooperative external working relationships, emphasizing leveraging technology.

**STRATEGIC THEME 4: CFTC must employ best practices in business management.**

*Strategic Priority 4.1:* Formalize framework for management accountability, organizational performance, and control.

Tasks:

- 4.1.1: Develop internal policy and role definitions to implement a management framework for meeting statutory management requirements.
- 4.1.2: Develop additional outcome-related performance measures that more fully demonstrate the effectiveness of the Commission's enforcement activities in meeting its overall strategic goals.
- 4.1.3: Explore additional record-keeping options and procedures for documenting surveillance, anti-fraud, and anti-manipulation inquiries.

*Strategic Priority 4.2:* Implement multi-division process for technology investment decisions and acquisition planning.

Task:

- 4.2.1: Develop formal internal policy and role definitions to manage technology investments.

*Strategic Priority 4.3:* Align human capital management with strategic mission to recruit, develop, retain, and deploy staff with appropriate competencies.

Tasks:

- 4.3.1: Continue to develop and implement a total rewards program (pay, benefits, and quality of work-life initiatives) under the Agency's Pay Parity legislation.
- 4.3.2: Develop formal process to assess and plan for CFTC staff training needs.
- 4.3.3: Refine current management tools and formalize process to help managers implement succession planning.

*Strategic Priority 4.4:* Develop a systemic approach to knowledge management.

Tasks:

- 4.4.1: Establish CFTC alumni group.
- 4.4.2: Seek re-employed annuitant waiver of salary offset.
- 4.4.3: Develop a plan to recapture retiree knowledge.
- 4.4.4: Institutionalize a records management program.

**STRATEGIC THEME 5: CFTC must employ an assertive external communication and outreach program to articulate CFTC mission and strategic goals to inform legislative/regulatory policy.**

*Strategic Priority 5.1:* Educate the general public and other stakeholders on the importance of commodity markets and CFTC's role in regulating them.

Tasks:

- 5.1.1: Increase benefits derived from industry events by coordinating content of speeches, attendance, and participation.
- 5.1.2: Identify new media/business associations to address.

*Strategic Priority 5.2:* Take a leadership role in all legislative and public policy issues affecting the commodities and derivatives markets.

Tasks:

- 5.2.1: Develop and communicate CFTC legislative goals on policy issues.
- 5.2.2: Use roundtables, analytical products, and other CFTC expertise to engage stakeholder groups in policy discussions to inform the legislative process.

*Strategic Priority 5.3:* Use external communications to influence industry behavior to achieve desired outcomes.

Task:

- 5.3.1: Follow private communications with public expression of CFTC concern (speeches, Op-Ed pieces, press releases). ■



# ACHIEVING SUCCESS: BUSINESS PROCESSES, MEANS & STRATEGIES

## Business Processes

Commission staff perform key business processes—collections of specific activities and strategies—that provide the means for producing the desired outcomes and achieving the Commission’s strategic goals.

While each outcome of the Commission’s four strategic goals is supported by a specific set of business processes, there are instances in which the same business processes are executed in order to reach more than one outcome. For example, the business process, “Investigate, file, and prosecute cases,” is executed for the Goal Two outcome, “Commodity professionals meet high standards,” as well as for the Goal Three outcomes, “Clearing organizations and firms holding customer funds have sound financial practices,” and “Markets free of trade practice abuses.” Below are detailed explanations of each business process.

### Conduct Economic Research

- Maintain a current understanding of market functions and developments through studies and research.
- Collect data from futures and option large traders, intermediaries, and SROs and for all actively traded contracts to support dissemination of information to the public, and futures market studies and research by Commission staff and others.

### Conduct Financial Surveillance

- Monitor and address the financial effects of unusual or prolonged market moves on customers, firms, and clearing organizations.
- Identify possible violations of the Act and/or regulations involving record-keeping, financial, capitalization, and segregation requirements for investigation and possible prosecution.
- Collect data from futures and option large traders, intermediaries, and SROs and for all actively traded contracts to support financial surveillance by Commission staff and others.
- Conduct direct audits of clearing organizations and intermediaries to ensure compliance with capitalization, segregation, disclosure, record-keeping, and reporting rules.

### Conduct Market Surveillance

- Monitor the markets to detect and respond quickly to potentially disruptive situations, such as market congestion and/or potential price manipulation.
- Collect data from futures and option large traders, intermediaries, and SROs and for all actively traded contracts to support market surveillance, enforcement of speculative position limits, and dissemination of information to the public by Commission staff and others.

### Conduct Trade Practice Surveillance

- Monitor the markets to detect possible abusive trading practices.
- Collect data from futures and option large traders, intermediaries, and SROs and for all actively traded contracts to support trade practice surveillance by Commission staff and others.

### Cooperative Enforcement

- Cooperate with SROs, other Federal agencies, state governmental agencies, law enforcement entities, and foreign authorities to gain information for law enforcement purposes, coordinate prosecutions, share technical expertise, and provide enforcement assistance as necessary and appropriate.

### Coordinate with Domestic Regulators

- Participate in the President's Working Group on Financial Markets (PWG) to ensure coordination of information and efforts among U.S. financial regulators.

### Coordinate with Foreign and International Regulators

- Coordinate and cooperate with foreign financial services regulators to develop appropriate global standards and arrangements in the commodities industry as markets emerge and evolve, and to share vital information concerning markets, intermediaries, and regulatory structure.
- Participate in IOSCO and represent the Commission at international meetings concerning financial services regulation.

### Investigate Violations

- Identify and investigate possible instances of fraud, manipulation, and abusive trading practices, and other violations of the Act and or regulations, including those relating to registration, financial, capitalization, segregation, and supervision requirements.

### File and Prosecute Cases

- Bring administrative and injunctive cases involving fraud, manipulation, abusive trading practices, and other violations of the Act and/or regulations, including those relating to financial, registration, capitalization, segregation, and supervision requirements.
- Where appropriate, use "quick-strike" efforts to protect assets and to stop egregious conduct.
- Impose sanctions and collect civil monetary penalties against violators.

### Draft, Review, and Comment on Legislation

- Draft, review, and comment on pending legislation.

### Manage Reparations Program

- Manage a reparations program for commodity futures and option market users to make claims relating to violations of the Act.

### Regulate Business, Financial, and Sales Practices

- Promulgate regulations to ensure sound business, financial, and sales practices by persons participating in the commodity futures and option industry.

### Represent Commission in Litigation or Other Disputes

- Represent the Commission in disputes or litigation in which the Commission has an interest.

### Resolve Administrative Cases

- Hear and resolve administrative enforcement cases.

### Resolve Appeals

- Resolve appeals in administrative enforcement matters, SRO adjudicatory actions, and reparation cases.
- Inform the public and the industry of the reasons for the Commission's decisions concerning allegations of



wrongdoing through published opinions describing the alleged violations and the Commission's legal and policy analysis.

#### Review Exchange Applications, Contracts, and Rules

- Conduct timely reviews of applications for new contract markets, derivatives transaction execution facilities (DTEFs), and clearing organizations to determine if they comply with the Commission's approval criteria, core principles, and regulations.
- Conduct timely reviews of requests for approval of products and rules.
- Conduct reviews of submissions filed under certification procedures to determine if they comply with statutory and regulatory requirements and do not pose a likelihood of disruption of the cash, futures, or option markets.

#### Review SRO Enforcement

- Conduct rule enforcement reviews of SROs, including financial practices, sales practices, trade practices, market surveillance, arbitration programs, and audit trail.

#### Share Information Externally

- Manage requests for information from Congress and responses to those requests.
- Provide materials and information on the functions and utility of the markets to the public through public Commission meetings, public roundtables and panels, advisory committee meetings, symposia, U.S. Department of Agriculture (USDA) publications, routine reports on large trader activity, consumer advisories and alerts, news releases, and the Commission's Web site.

- Manage requests for information from the public and responses to those requests (includes Freedom of Information Act (FOIA) and Officer of the Day programs).

#### Take Appropriate Remedial or Punitive Action

- Utilize a broad range of tools and strategies for procuring compliance with the Act and regulations.
- Provide exemptive, interpretive, or other relief as appropriate to foster the development of innovative transactions, trading systems, and similar arrangements.

#### Plan for and Manage the Human, Financial, Informational, and Technological Needs and Resources of the Commission

- Allocate resources consistent with the Strategic Plan.
- Develop and employ strategies that will focus on achieving results.
- Evaluate and adjust management and strategic plans to ensure that potential problems or weaknesses are managed before they develop into crises.

#### Provide Executive Leadership

- Assess continually the external and internal issues and trends that may affect successful fulfillment of the Commission's mission, and develop and employ strategies to meet them successfully. ■



# FORWARD LOOKING—FUTURE BUSINESS TRENDS & CHALLENGES

Almost everything in the futures industry has fundamentally changed over the last 20 years—from the products that are trading to the platforms on which they are traded. As the Commission looks ahead, technology, globalization, and innovation are expected to continue to drive growth in the markets the Commission regulates.

During this time of rapid change, the Commission expects to lose most of its experienced career staff, primarily through retirement. During FY 2006, the Commission experienced its first large wave of these retirements.

From a performance perspective, the Commission has struggled to operate at the level needed to ensure that it has the resources necessary to do the job expected of it by Congress, the Administration, and the American people. The Commission must make difficult choices about how it will use its limited resources.

It is anticipated that Commission efforts will be scaled back to the extent increased productivity cannot offset anticipated resource reductions. The Commission attempts to balance its investment in four strategic goals, each focusing on a vital area of regulatory responsibility. To continue to be an effective regulator, the Commission will need to place greater reliance on risk management approaches to supervision. It will also continue to leverage needed systems and data maintained by other Federal agencies and, wherever possible, by SROs. Moving forward, the Commission will be required to confront the jurisdictional challenges created by innovation and the worldwide creation and expansion of futures and option markets. This, coupled with a wide array of new surveil-

lance issues, is expected to significantly change the way the Commission consumes and allocates resources across its performance goals. From an operational perspective, the Commission will continue to allocate and deploy its resources in less traditional ways, as described below. As this process accelerates, the Commission seeks to transform itself along the following dimensions.

## Performance Challenges

### Technology

- Technology continues to make it possible for market participants to trade globally, 24 hours a day, on newly designed platforms. This presents a challenge to the Commission to maintain a robust, yet flexible, regulatory framework as market participants have an increasing number of choices available to them as to where, when, and how to trade.
- The expansion of electronic trading continues to require an increase in Commission staff trained to carry out oversight of more technologically driven markets and self-regulatory systems.
- As electronic trading of commodity futures and option contracts on Commission-regulated exchanges becomes the norm, the Commission must continue to upgrade its own technology and infrastructure so that it may effectively discharge its statutory mandate of deterring and preventing price manipulation and any other disruptions to the integrity of the markets the Commission regulates.

- The continuing shift of market volume to the electronic trading environment poses new data processing challenges to the CFTC. Because this medium allows exchanges to gather and transmit much more information about trading activity, the CFTC must increase its overall capacity for processing and storage. In addition to the significant increase in the amount of information being made available to the CFTC, there has been a large increase in the number of contracts being traded. Therefore, to meet these challenges, the Office of Information Technology Services (OITS) will continue to improve its computational performance. A variety of projects are underway that address specific CFTC business needs using the data and market information the Commission receives.
- Commission work continued on Project eLaw, an effort that provides law office automation and modernization to the Commission's Division of Enforcement, Office of the General Counsel (OGC), and Office of Proceedings. Project eLaw is a Commission-wide initiative that seamlessly integrates technology and work processes to support managers and staff across the Commission in their investigation, trial, and appellate work. In FY 2007, Project eLaw became a major program supporting the Commission. The case management solution was further customized to best meet the needs and evolving requirements of the users. This year saw the program pursuing the area of computer forensics and audio analytics to further support the Division of Enforcement with their investigation and litigation work. Project eLaw will continue to support the Commission's legal practice in the areas of case planning, case management, litigation support, and document management.
- In FY 2008, the Commission will continue to maintain, support, and enhance the eLaw solution and consider expansion into other areas of the Commission that would benefit from the automated technology.
- Presently, the Commission is developing a new trade surveillance system (TSS) to replace its older trade surveillance system that was designed for open outcry trading and has not been significantly upgraded since its inception in the mid-1980s. TSS will give the

Commission the ability to accomplish its statutory mandate of deterring and preventing price manipulation and any other disruptions to the integrity of the markets the Commission regulates. Specifically, TSS will enhance staff ability to effectively detect and deter trade practice violations in a rapidly changing environment, especially with respect to electronic trading data, and will provide staff with greater efficiency and flexibility. Trade violation detection software will perform sophisticated pattern recognition and data mining to automate basic trade practice surveillance and detect novel and complex abusive practices in today's high-speed, high-volume global trading environment. TSS also will fill a vacuum in inter-market surveillance that only the Commission can address, *e.g.*, metals contracts traded on the New York Mercantile Exchange (NYMEX) and the Chicago Board of Trade (CBOT), and side-by-side trading, *e.g.*, simultaneous trading of a contract on a designated contract market's (DCM) floor and the DCM's electronic trading platform.

#### Globalization

- Additional experienced staff will be required to meet the demands of the continued globalization of the futures and option markets through electronic linkages, strategic alliances and mergers, as well as increasing requests for the Commission to: 1) participate in U.S. government initiatives with economically important jurisdictions; and 2) provide technical assistance to developing markets.
- In such an integrated global marketplace, the possibility of market disruptions caused by economic changes, terrorism, epidemics, natural disasters, or political developments could trigger global market systemic concerns. Because no one regulator will have all of the needed information or jurisdiction over markets, firms, and persons to ensure customer and market protections, the Commission's challenge will be to coordinate with global regulators.

#### Marketplace

- Development and growth of renewable energy sources (*i.e.*, biofuels) could impact existing energy markets.

- Disruption of oil exports to the United States may disrupt energy markets.
- A significant portion of the power grids may be disabled for an extended period of time, crippling markets.
- Changes in the structure of the futures and option industry, such as the conversion of exchanges from member-owned entities to publicly listed corporations, exchange mergers, and the introduction of new and novel contracts will mean that the Commission will require more staff to review increasingly complex legal and regulatory issues.
- Convergence of products and markets requires increased interagency coordination with the Securities and Exchange Commission (SEC) and the Federal Energy Regulatory Commission (FERC) to address areas of mutual interest related to cross-jurisdictional issues, such as those presented by credit card event products and commodity exchange-traded funds and potential manipulation in the energy markets, respectively.
- Expansion of these markets results in strong competition for employees with the skills the Commission requires to meet its mission, continually challenging the Agency to offer competitive compensation.

### Government

- Congress could pass new legislation of certain markets.
- Congress may require an investigation of certain markets.
- Congress may not appropriate adequate funds for the Commission to effectively discharge its mission-critical functions.
- Prompt implementation of enhanced e-government business processes is a continual challenge within limited staff and financial resources.

## Management Challenges

### Information Technology

- Technology improvements will continue to empower the Commission in the future by increasing the availability of one of its most critical resources— time. Through these improvements, executive management may spend additional time on policy analysis and decision-making rather than on the processing and compiling of key data. The Commission will increasingly leverage business processes, services, and systems of larger agencies for internal operations, while externally relying more on exchange databases when conducting reviews and investigations.

### Human Capital

- Human capital management with an enhanced strategic focus continues to emphasize building the staff resources necessary for core business lines, with support requirements met through the use of leveraged resources and competitive sources of service.
- Competition to hire and retain staff is intense in a job market where scarce mission-critical skills command premium compensation levels. Even at “pay parity” salaries, the Commission must continually seek to improve the work environment so it can continue to attract, engage, and retain a workforce that is equal to the evolving challenges of market oversight.

### Management

- Management challenges include compliance with the future demands and uncertainties of Homeland Security Presidential Directives 12 and 20, as well as pandemic influenza preparedness. ■



## EFFECTING SUCCESS: COORDINATION ON CROSS-CUTTING ISSUES

The Commission benefits from established inter-governmental partnerships, sharing information, and consulting on issues of importance to the Commission and other Federal organizations.

### President's Working Group on Financial Markets

The PWG is a forum for the coordination of Federal financial regulation across markets. It 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 Federal Reserve Board, the CFTC, and the SEC. In addition to the four primary financial regulators, regular staff meetings of the PWG also include staff members from the National Economic Council (NEC), the Council of Economic Advisors, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve Bank of New York, and the Office of Thrift Supervision (OTS).

Issues considered by the PWG and 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, security futures products (SFPs), portfolio margining, futures on security indexes, and contingency planning for market emergencies. Commission staff participate in PWG staff meetings on a regular basis to discuss ongoing issues.

In support of Goal One, Commission staff coordinate initiatives on contingency planning for market emergencies and participate in regular conference calls with the staff of the PWG. In support of Goal Three, the group: 1) coordinated initiatives concerning risk assessment, capital requirements, internal controls, disclosure, accounting, market practices relating to derivatives instruments, hedge funds, bankruptcy law revisions, and contingency planning for market emergencies; and 2) participated in the "Joint Report on Retail Swaps" issued in 2001. In 2007, the PWG issued "Principles and Guidelines Regarding Private Pools of Capital" to provide a framework for addressing risk management and other issues associated with hedge funds.

### The Securities and Exchange Commission

Title II of the CFMA repealed the longstanding ban on single-stock futures, and the CFTC and the SEC implemented a joint regulatory framework for SFPs, which include single-stock and narrow-based stock index futures. Trading of such futures products began during 2002. More recently, in 2006, the CFTC and the SEC together promulgated rules governing the trading of futures on debt indexes and debt securities on futures exchanges, subject to the exclusive jurisdiction of the CFTC, and in 2007 negotiated an agreement that allows credit event option products to trade on both securities and futures exchanges.

### The Federal Energy Regulatory Commission

The CFTC and the FERC have worked together to monitor trading activity in the natural gas and electricity cash and futures markets. During FY 2003, the CFTC and FERC issued a joint statement finding no evidence of manipulation as the cause of a spike in natural gas prices that occurred in late February 2003. The CFTC and FERC also jointly participated in three technical conferences concerning clearing and credit issues and price-reporting issues in the natural gas and electricity markets.

The CFTC and FERC cooperate under the terms of a Memorandum of Understanding (MOU) entered into in October 2005, as mandated by the Energy Policy Act of 2005, regarding the sharing of information and the confidential treatment of proprietary energy trading data. To that end, Commission staff maintain regular contact and meetings with FERC counterparts to coordinate their activities on issues and matters of mutual interest.

### U.S. Department of Agriculture

Consistent with the mandate of the Federal Agricultural Improvement and Reform (FAIR) Act of 1996, the Commission and its staff have been working with the USDA Risk Management Agency; the USDA Cooperative State Research, Education, and Extension Service; and the USDA Office of Outreach in an educational effort on risk management. The FAIR Act initiated a phase-out of the price support programs that had provided a safety net for U.S. agriculture since the 1930s. Recognizing that the disappearance of these programs would force producers to become more self-reliant in risk management, the FAIR Act required the Secretary of Agriculture, "in consultation with the Commodity Futures Trading Commission," to provide producers with appropriate ". . . education in management of the financial risks inherent in the production and marketing of agricultural commodities . . ."

This risk management educational effort has continued despite subsequent farm legislation that has partially reestablished an agricultural "safety net." The effort continues to be broad in scope and content, focusing on integrating basic information from all relevant sectors, including crop insurance, futures, and options. Recent

initiatives include development of educational materials and programs for ultimate delivery to farmers through the funding of a number of grants for risk management education projects as well as planning and conducting a number of regional risk management education conferences and seminars. Longer term strategies for the delivery of educational materials to producers currently are being developed and implemented and include the establishment of Web site tutorials, the use of television and radio infomercials, and local meetings and seminars. Acting Chairman Lukken serves as the Commission's principal contact point for this risk management education effort and periodically meets with the Administrators of the previously mentioned USDA offices in order to exchange information of relevance to the effort. In addition, Commission staff provide frequent assistance to those offices in carrying out risk management education initiatives.

### U.S. Department of Energy

In recent years, with the continued development of trading in energy-related derivatives, the Commission and its staff have established working relationships with the staff of the U.S. Department of Energy (DOE). For example, Commission staff assisted the Energy Information Administration of the DOE with a study of energy markets. The study generally described the structure and activity in the cash and derivative markets for oil, gas, and electricity and described the nature of Federal oversight of firms in these industries and the markets for these commodities.

### Corporate Fraud Task Force

By Executive Order signed by President Bush on July 9, 2002, the CFTC was named as a member of the Corporate Fraud Task Force. This task force was established with the objective of strengthening the efforts of the DOJ and Federal, state, and local agencies to investigate and prosecute significant financial crimes, recover the proceeds of such crimes, and ensure just and effective punishment of those who perpetrate financial crimes. Since 2002, the CFTC has been involved, together with the DOJ and other regulators, in dozens of corporate fraud enforcement cases through the cooperative sharing of information and mutual assistance. For example, in the energy area, since

2002, the CFTC has filed 37 enforcement actions; and CFTC-DOJ cooperation has resulted in 18 criminal energy cases filed by DOJ. In the commodity pool and hedge fund arena, the CFTC has filed 45 enforcement cases since June 2002.

#### Agricultural Advisory Committee

The Agricultural Advisory Committee (AAC) represents a vital link between the Commission, which regulates agricultural futures and option markets, and the agricultural community, which depends on those markets for hedging and price discovery. The 34 member organizations of the AAC represent a major portion of the U.S. agricultural community. Since 1985, the meetings of the AAC have fostered an ongoing dialogue between that community and the Commission. The AAC met in July 2004 and last met in August 2006. These meetings focused on topics such as: implementation of the CFMA of 2000; Federal speculative position limits; off-exchange risk management products for producers; the “Commitment of Trader” reports; and economic and market implications of thinly traded price discovery markets.

#### Technology Advisory Committee

The Technology Advisory Committee (TAC) advises the Commission on the impact and implications of technological innovation in the financial services and commodity markets. Its objectives include: 1) identifying new technologies utilized by financial services and commodity markets and their participants; 2) analyzing the application of new technologies in financial services and commodity markets as well as by market professionals and market users, particularly in the areas of system capacities and readiness, order flow practices, and clearing and payment activities; 3) reviewing the CEA, as amended by the CFMA, and the regulations promulgated thereunder in light of new technologies employed by market participants and ensuring the Commission’s ability to exercise appropriate fraud and manipulation authority; and 4) examining ways that the Commission may respond to the use of technology in financial services and commodity markets through appropriate legislative proposals and/or regulatory reform. The 27-member TAC met in October 2004 and last met in April 2005. These

meetings focused on matters such as: the surveillance of electronic trading; how exchanges deal with disruptions to market operations; industry-wide disaster recovery tests; the emerging significance of patent claims; piracy of data markets; and the questions of what is prior art in today’s environment and whether prices can be property.

#### Global Markets Advisory Committee

The Global Markets Advisory Committee (GMAC) was created by the Commission on February 25, 1998, for the purpose of obtaining input on international market issues that affect the integrity and competitiveness of U.S. markets and firms engaged in global business. As stated in GMAC’s charter, “[t]he objectives and scope of activities of [GMAC] shall be to conduct public meetings and to submit reports and recommendations on matters of concern to the exchanges, firms, market users, and the Commission regarding the regulatory challenges of a global marketplace . . . including . . . avoiding unnecessary regulatory or operational impediments faced by those doing global business.” Membership of GMAC consists of 24 individuals representing U.S. futures exchanges, self-regulators, financial and commodity intermediaries, market users, and traders. The GMAC met in January and December of 2005. These meetings focused on topics such as: developments regarding the currency regime of China; segregated/secured funds; CFTC reauthorization; market access issues between the United States and Europe; and regulatory reforms that might help facilitate trans-Atlantic business in financial services. ■



# MEASURING SUCCESS: PERFORMANCE STRUCTURE

The Commission continues to seek to determine the best measures of operational success. This process involves reexamining outdated output-based measures of past strategic plans in order to develop more outcome-based measures. The current performance structure, a combination of meaningful output and outcome measures listed below, reflects the Commission's best effort to date at measuring its effectiveness as an oversight regulator.

## **STRATEGIC GOAL ONE—Ensure the economic vitality of the commodity futures and option markets.**

**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.

### **Performance Measures:**

- Percentage growth in market volume
- 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
- Percentage increase in number of products traded

- Percentage of new exchange and clearinghouse applications completed within expedited review period
- Percentage of new contract certification reviews completed within three months to identify and correct deficiencies in contract terms that make contracts susceptible to manipulation
- 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

**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.

### **Performance Measures:**

- Percentage of derivatives clearing organizations (DCOs) applications demonstrating compliance with core principles
- Ratio of markets surveilled per economist
- Percentage of contract expirations without manipulation



**STRATEGIC GOAL TWO—Protect market users and the public.**

*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.

*Performance Measures:*

- Number of enforcement investigations opened during the fiscal year
- Number of enforcement cases filed during the fiscal year
- 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)
- Cases filed by other criminal and civil law enforcement authorities during the fiscal year that included cooperative assistance from the Commission

*Outcome 2.2:* Commodity professionals meet high standards.

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

*Performance Measures:*

- Percentage of SROs that comply with core principles
- Percentage of DCOs that comply with core principles
- Percentage of professionals compliant with standards regarding testing, licensing, and ethics training
- Percentage of SROs that comply with requirement to enforce their rules
- Percentage of total requests receiving CFTC responses for guidance and advice

*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:*

- Percentage of filed complaints resolved within one year of the filing date for voluntary proceedings
- Percentage of filed complaints resolved within one year and six months of the filing date for summary proceedings
- Percentage of filed complaints resolved within one year and six months of the filing date for formal proceedings
- Percentage of appeals resolved within six months

**STRATEGIC GOAL THREE—Ensure market integrity in order to foster open, competitive, and financially sound markets.**

*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.

*Annual Performance Measures:*

- Lost funds:
  - a) Number of customers who lost funds
  - b) Amount of funds lost
- Number of rulemakings to ensure market integrity and financially sound markets
- Percentage of SROs that comply with requirement to enforce rules

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

**Annual Performance Goal:** No loss of funds resulting from failure of SROs to ensure compliance with their rules.

**Annual Performance Measures:**

- Percentage of intermediaries who meet risk-based capital requirements
- Percentage of clearing organizations that comply with requirement to enforce their rules

**Outcome 3.3:** Markets are free of trade practice abuses.

**Annual Performance Goal:** Minimize trade practice abuses.

**Annual Performance Measures:**

- Percentage of exchanges deemed to have adequate systems for detecting trade practice abuses
- Percentage of exchanges that comply with requirement to enforce their rules

**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.

**Annual Performance Measures:**

- Percentage of CFMA Section 126(b) objectives implemented
- Number of rulemakings, studies, interpretations, and guidance to ensure market integrity and exchanges' compliance with regulatory requirements
- 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

- Percentage of total requests receiving CFTC responses for guidance and advice

**STRATEGIC GOAL FOUR: To facilitate Commission performance through organizational and management excellence, efficient use of resources, and effective mission support.**

**Outcome 4.1:** A productive, technically competent and diverse workforce 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.

**Annual Performance Measures:**

- Percentage of FY program development objectives met under agency pay for performance authority
- Average number of days between close of vacancy announcement and job offer, per Federal standard of 45 days or less
- Rate of employee turnover, exclusive of retirements
- Percentage of employees in mission-critical positions rating themselves at "extensive" or higher level of expertise on Strategic Workforce Planning Survey
- Percentage of underrepresented groups among new hires

**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.

**Annual Performance Measures:**

- Percentage of Commission IT resources directly tied to Agency resource priorities as stated in the Strategic Plan
- Percentage of major IT investments having undergone an investment review within the last three years
- Percentage of Customer Support Center inquiries resolved within established performance metrics
- Percentage of employees with network availability
- Percentage of employees who require remote network availability that have it
- Percentage of major systems and networks certified and accredited in accordance with guidance from the National Institute of Standards and Technology
- Percentage of IT e-government initiatives on target for compliance with implementation schedule
- Percentage of network users who have completed annual security and privacy training

**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.

**Annual Performance Measures:**

- Number of hours required to deploy staff and begin mission essential functions at the COOP site

**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.

**Annual Performance Measures:**

- Audit opinion of the Commission’s annual financial statements as reported by the Commission’s external auditors
- Number of material internal control weaknesses reported in the Performance and Accountability Report
- Number of non-compliance disclosures in audit report

**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 18 priorities established in the Commission Strategic Plan for FY 2007 through FY 2012.

**Annual Performance Measures:**

- Percentage of 18 Strategic Plan priorities that are on track to completion by FY 2012. ■



## PROGRAM EVALUATIONS: PAST, PRESENT & FUTURE

**P**rogram evaluations to determine how well the Commission is reaching its desired outcomes are necessary to measure the effectiveness and efficiency of its work. Many program priority and resource allocation decisions hinge on the knowledge of program successes and failures. For the first three years of this plan, the Commission will continue to use methods and processes already in place to evaluate its progress in achieving the strategic goals and outcomes as well as the priorities for FY 2007 through FY 2012 outlined in this Strategic Plan.

### Performance and Accountability Reports

The Commission has published annually since September 2004, a PAR that describes its progress in achieving annual performance measures. The most recent report is available on the Commission's Web site, <http://www.cftc.gov>. The Commission's report for the fiscal year ending FY 2006 received the prestigious *Certificate of Excellence in Accountability Reporting* from the AGA.

### Budget Program Activity Code System

During FY 2006, as part of the Commission's migration to a new financial management system, the mechanism that captured information regarding the distribution of labor was reengineered. The Management Accounting Structure Code system (MASC) was replaced by the new Budget Program Activity Code system (BPAC).

Like MASC, BPAC uses employee time and attendance data, which employees input bi-weekly using special codes that correspond to various activities and legal

matters. However, unlike MASC, BPAC codes now tie directly to: 1) the Commission's strategic planning structure, which includes the Commission's strategic goals, outcome objectives, and business processes; and 2) legal matters active within the Division of Enforcement. With this new alignment of work measurement and active Enforcement matters, BPAC has the potential to serve as an evaluation tool by enabling managers to assess distribution of labor costs and realign resources as needed to contribute to the successful achievement of Commission priorities.

### Government Accountability Office Reports

The Government Accountability Office (GAO) periodically conducts studies or investigations of Commission programs. In the recent past, the GAO has studied the Commission's oversight of energy futures trading. GAO has also reviewed the Commission's market surveillance program, enforcement actions against energy traders, market studies, and the Commission's capacity to protect market users from fraud and manipulative practices related to the sales of energy futures contracts.

### Office of the Inspector General

Finally, the Commission's Office of the Inspector General (OIG) evaluates the administration of the Agency, including audits of compliance with Federal laws, such as the Government Performance and Results Act (GPRA) of 1993. The OIG also contracts with an outside private accounting firm to render an opinion on Agency financial statements. ■



## APPENDIX

### U.S. Commodity Exchanges & Derivatives Clearing Organizations

There are 12 DCMs, which are boards of trade or exchanges that meet CFTC criteria and core principles for trading futures or options by both institutional and retail participants. There are 11 DCOs that provide clearing services for CFTC-regulated exchanges.

#### History

As the economy of the United States expanded during the early part of the nineteenth century, the commodity exchanges evolved from unorganized club-like associations into formalized exchanges. In 1848, the first formal exchange, the CBOT, was established with 82 members. And on March 13, 1851, the first contract was traded on this exchange, encouraged by the trading standards, inspections system, and weighing system prescribed by the board members.

Trading on the CBOT was considerable, and by 1870, futures trading also began on the New York Produce Exchange and the New York Cotton Exchange (NYCE). By 1885, the New York Coffee Exchange was actively trading futures contracts. Since the second half of the nineteenth century, the growth of these exchange institutions has been steady and continuous—evolving into the 12 U.S. commodity exchanges, designated as contract markets by the CFTC, that are used today.

The total volume of futures contract and option trading on all exchanges in the United States now has a notional value of billions of dollars per day. The commodity exchanges have become an indispensable financial tool for the world's markets. ■



# COMMODITY FUTURES TRADING

## Significant Dates in CFTC History — 1970s

**October 23-24, 1974**—Congress passes the Commodity Futures Trading Commission Act of 1974, and it is signed by President Gerald Ford. The bill overhauls the CEA and creates the CFTC, an independent agency with exclusive jurisdiction over futures.

**April 21, 1975**—Authority for the regulation of futures trading is transferred from the Commodity Exchange Authority, an agency in the USDA, to the CFTC.

**September 11, 1975**—The CFTC approves the first futures contract on a financial instrument—the CBOT Government National Mortgage Association (Ginnie Mae) certificates futures contract.

**April 28, 1977**—The CFTC asks the U.S. District Court in Chicago to order seven members of the Hunt family of Dallas, and a related company, to liquidate positions that exceed the three million bushel speculative position limit for soybean futures on the CBOT.

**June 1, 1978**—The CFTC suspends most commodity options transactions in the U.S. because of pervasive fraud in so-called "London options" and dealer options on physical commodities.

**March 16, 1979**—In an emergency action, the CFTC votes to prohibit further trading in the CBOT March wheat futures contract, the first time the Commission orders a market closed in the interest of preventing a price manipulation.

**September 12, 1979**—The Court of Appeals for the Seventh Circuit affirms the CFTC's authority to act during market emergencies.

## Significant Dates in CFTC History — 1980s

**January 6, 1980**—In an emergency action, the CFTC orders the suspension of futures trading for two days for wheat, corn, oats, soybean meal, and soybean oil on four exchanges after President Carter announces an embargo on the sale of certain agricultural goods to the Soviet Union that includes substantial amounts of grain.

**January 21, 1980**—COMEX orders trading for liquidation only in its silver futures contract.

**September 8, 1981**—The CFTC adopts a comprehensive set of regulations to govern exchange-trading of options on futures contracts under a controlled and monitored three-year pilot program.

**September 22, 1981**—The CFTC grants registration to the NFA as a self-regulatory futures association and approves its articles, bylaws, and rules. NFA begins to hire staff and commences operations on October 1, 1982.

**December 7, 1981**—The CFTC and the SEC jointly announce a basic jurisdictional agreement on the regulatory responsibility of each agency for a variety of financial instruments, in particular stock index futures. This agreement was known as the Shad-Johnson Accord and later became part of the CEA.

**February 16, 1982**—The CFTC approves the first futures contract based on a stock index, the Value Line Index Average traded on the KCBT.

**January 11, 1983**—President Reagan signs the Futures Trading Act of 1982, renewing the CFTC's mandate to regulate futures trading for four more years and clarifying Commission jurisdiction in a number of areas. Among other things, this act codified the Shad-Johnson Accord (which gave the CFTC jurisdiction over broad-based stock index futures and banned single-stock and narrow-based stock index futures), and required the CFTC to act on new contract proposals and rule amendments within specified time periods.

**August 29, 1984**—The CFTC approves amendments to CME rules that allow it to establish a trading link with the Singapore International Monetary Exchange, the first trading and clearing link between a domestic and a foreign exchange.

**September 28, 1984**—The CFTC submits "A Study of the Nature, Extent and Effects of Futures Trading by Persons Possessing Material, Nonpublic Information" to its Congressional oversight committees.

**February 28, 1985**—The CFTC concludes its silver investigation, alleging that Nelson Bunker Hunt, William Herbert Hunt, and other individuals and firms manipulated and attempted to manipulate silver prices in 1979 and 1980.

**March 20, 1985**—Volume Investors, Inc., a clearing member at COMEX, defaults on a margin call on options on gold futures. The funds of 100 customers, mostly local traders, are affected by the default. This default causes the Commission to



## APPROPRIATION AND EMPLOYMENT HISTORY FY 1975-1985

FY 1975	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985
502	533	495	474	482	465	485	484	493	500	520
\$7	\$10	\$13	\$13	\$15	\$16	\$18	\$20	\$23	\$26	\$27

LEGEND: Actual FTE  Approved Appropriation (in millions)



# COMMISSION HISTORY AT A GLANCE

## Significant Dates in CFTC History — 1990s

**November 1991**—The CFTC and the SEC concurrently approve proposed rule changes by the OCC and the CME intended to improve coordination in the clearance and settlement of futures and options. The rule changes expand the existing cross-margining programs between the OCC and CME to permit clearing members to include intermarket futures and option positions held in certain non-proprietary accounts.

**October 28, 1992**—President Bush signs the CFTC's reauthorization legislation, The Futures Trading Practices Act of 1992 (FTPA), expanding the CFTC's regulatory authority and reauthorizing the agency until October 1994. The FTPA, among other things, granted the Commission the authority to OTC derivative and other transactions for CFTC regulation and provided for registration of local traders.

**March 1993**—Futures trading in New York is disrupted and the CFTC's New York office is temporarily relocated due to the explosion of a bomb placed by terrorists in the basement of the World Trade Center.

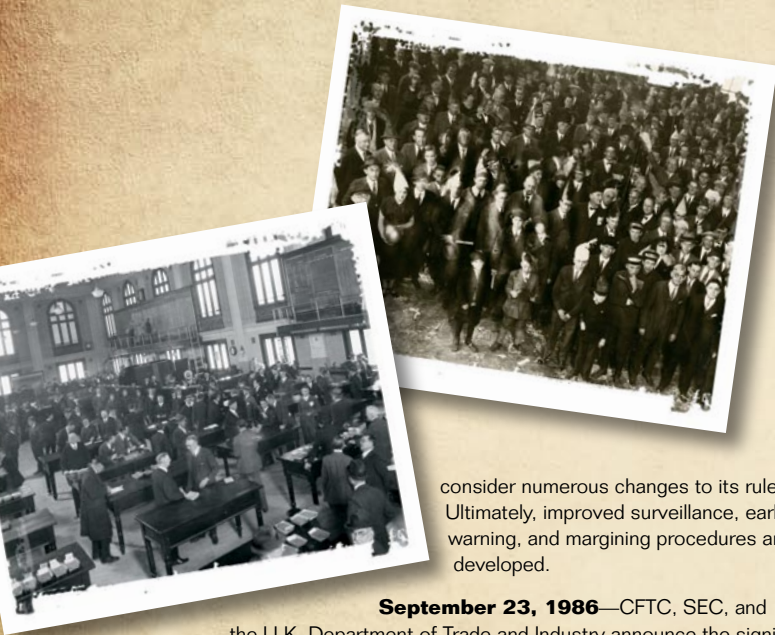
**April 9, 1993**—The CFTC adopts rules requiring the registration of FBs and ethics training for all individual registrants, as mandated by the FTPA. The Commission also adopts rules permitting the suspension of registrants charged with felonies under authority granted by the FTPA.

**January 10, 1994**—The CFTC files an administrative complaint against two former CBOT members, Anthony Catalfo, and Darrell Zimmerman, alleging that the respondents engaged in a scheme to manipulate Treasury bond futures and put options on the CBOT.

**June 28, 1994**—The CFTC approves final rules permitting registrants to provide to customers a "generic" risk disclosure statement that will satisfy risk disclosure requirements applicable to both domestic and foreign commodity futures and options transactions.

**December, 1994**—CFTC, in coordination with the SEC, files and simultaneously settles, for a fine of \$10 million, an administrative complaint against BT Securities, a subsidiary of Bankers Trust. The Commission's complaint alleges that BT Securities committed fraud in its OTC derivatives transactions with Gibson Greetings.

*Continued on next page*



consider numerous changes to its rules. Ultimately, improved surveillance, early warning, and margining procedures are developed.

**September 23, 1986**—CFTC, SEC, and the U.K. Department of Trade and Industry announce the signing of an MOU, which will enhance cooperation and mutual assistance in securing compliance with and enforcement of securities and commodities laws in both countries.

**October 19, 1987**—Biggest one-day price plunge in stock market history. No Commission-regulated systems fail, no firms default on obligations.

**May 16, 1988**—The President's Working Group (PWG) on Financial Markets, composed of CFTC, SEC, Treasury, and the Federal Reserve Board, presents its report on the October 1987 stock market break to President Reagan.

**October 18, 1988**—The CFTC approves proposals to amend daily price limits and trading halt provisions for stock index futures and option contracts traded on CME, CBOT, KCBT, and NYFE. These proposals were based on recommendations by the PWG.

**January 20, 1989**—The news media report the disclosure of a two-year undercover investigation of the Chicago trading pits conducted by the FBI in cooperation with CFTC and DOJ. The CFTC takes a number of market integrity actions in the following months.

**February 2, 1989**—The CFTC unanimously approves rules proposed by CME for the basic Globex system, the first international electronic trading system. Trading begins in June 1992.

**July 11, 1989**—The CBOT institutes an emergency action concerning the July 1989 CBOT soybean futures contract. CBOT requires all large traders to reduce their positions prior to the expiration of the July contract. The contract expires in an orderly manner.



## APPROPRIATION AND EMPLOYMENT HISTORY FY 1986-1996

FY 1986	FY 1987	FY 1988	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
489	497	510	535	527	551	592	568	543	542	541
\$28	\$30	\$33	\$35	\$39	\$44	\$47	\$47	\$47	\$49	\$54

LEGEND: Actual FTE  Approved Appropriation (in millions)



# COMMODITY FUTURES TRADING

Continued from previous page

**February 29, 1996**—The CFTC's Division of Trading & Markets issues a no-action letter to permit the Deutsche Terminborse (DTB) [predecessor to Eurex] to install and utilize DTB computer terminals in the United States in connection with the purchase and sale of certain futures and options contracts—the staff's first consideration of a request to place computer terminals of an off-shore exchange in the United States.

**July 10, 1996**—A CFTC order imposes a \$600,000 civil monetary penalty against Fenchurch Capital Management Inc. of Chicago, on charges of market manipulation and cornering of the cheapest-to-deliver note deliverable against the CBOT 10-year Treasury note futures contract.

**December 19, 1996**—The CFTC notifies the CBOT that the delivery terms of its corn and soybean futures contracts do not satisfy the statutory objectives of Section 5a(a)(10) of the CEA of "permit[ting] the delivery of any commodity . . . at such point or

points and at such quality and locational price differentials as will tend to prevent or diminish price manipulation, market congestion, or the abnormal movement of such commodity in interstate commerce" and gives the CBOT 75 days to respond.

**November 7, 1997**—The CFTC orders the CBOT to change the delivery specifications for

its corn and soybean futures contracts pursuant to Section 5a(a)(10) of the CEA. The Commission notes that the CBOT can propose alternate specifications that meet the requirements of the CEA.

**December 4, 1997**—The SEC vetoes the proposed CBOT's futures and futures options on the Dow Jones Transportation Average and the Dow Jones Utilities Average, stating that these contracts are too narrow-based to meet the requirements of the 1982 Shad-Johnson Accord.

This is the only time the SEC exercised its veto power under the Accord. A court decision subsequently overturns the SEC veto and the CFTC approves the contracts on October 27, 1999.

**May 7, 1998**—The CFTC approves the CBOT's new corn and soybean futures contracts with delivery specifications that supersede those ordered by the CFTC on November 7, 1997.

**May 11, 1998**—The CFTC enters into a settlement with Sumitomo Corporation to resolve allegations of manipulating the copper market in 1995 and 1996 that includes a civil monetary penalty of \$150 million.

**November 4, 1999**—The CFTC staff issues a report comparing the global competitiveness of U.S. futures and option markets to their counterparts abroad. The report, entitled *The Global Competitiveness of U.S. Futures Markets Revisited*, updates a 1994 CFTC study, using the same methodology as the earlier study.

**November 9, 1999**—The PWG issues a report unanimously calling for legislation creating greater legal certainty for OTC derivatives.

## Significant Dates in CFTC History — 2000s

**February 22, 2000**—The CFTC transmits to Congress a staff report, *A New Regulatory Framework*, which recommends changes to the CFTC's regulatory structure. The report details changes that will lessen the regulatory burdens on U.S. futures markets by creating a more flexible regulatory framework. At the same time, the framework provides the OTC markets with greater legal certainty. Much of this framework will be incorporated into the CFMA.

**September 14, 2000**—The CFTC and SEC announce an agreement providing for joint jurisdiction over security futures products, that is, single stock futures and futures on narrow-based stock indexes. Under the agreement, which will be incorporated into the CFMA, the CFTC retains exclusive jurisdiction over futures contracts on broad-based stock indexes.

**December 21, 2000**—President Clinton signs into law the CFMA, which, among other things, reauthorizes the Commission for five years, overhauls the CEA to create a flexible structure for the regulation of futures and options trading, clarifies Commission jurisdiction over certain retail foreign currency transactions, and repeals the 18-year-old ban on the trading of single stock futures.

**April 18, 2001**—For the first time since the passage of the CFMA, the CFTC uses its newly clarified authority to file a complaint charging fraud and the offering of illegal futures contracts against a firm soliciting retail investors to trade foreign currency contracts. Over the next several years, the CFTC filed similar complaints against dozens of firms that solicit retail investors to trade foreign currency.

**July 9, 2001**—The CFTC approves the application of EnergyClear Corporation for registration as a DCO under the CEA. This is the first new DCO that is not affiliated with a trading facility to be granted registration by the Commission since the passage of the



## APPROPRIATION AND EMPLOYMENT HISTORY FY 1997-2007

FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
553	560	567	556	546	509	521	517	487	493	437
\$55	\$58	\$61	\$63	\$71	\$88	\$85	\$90	\$94	\$97	\$98

LEGEND: Actual FTE  Approved Appropriation (in millions)



# COMMISSION HISTORY AT A GLANCE



CFMA. DCOs for the existing futures exchanges were grandfathered in under the CFMA.

**August 1, 2001**—The CFTC kicks off implementation of the CFMA by adopting new rules for the various types of exchanges (with different levels of regulatory oversight) that the CFMA created. These types of exchanges include designated contract markets, derivatives transaction execution facilities, exempt boards of trade, and exempt commercial markets.

**August 21, 2001**—The CFTC orders Avista Energy, Inc. to pay \$2.1 million to settle CFTC charges of manipulating electricity futures.

**August 22, 2001**—The CFTC adopts new rules for derivatives clearing organizations, further implementing the CFMA.

**September 11, 2001**—The CFTC New York office is destroyed during the terrorist attack against the World Trade Center. Commission staff escape without serious injury.

**July 1, 2002**—The CFTC restructures its staff organization to facilitate the implementation of the CFMA. Under the restructuring, the functions previously performed by the Division of Trading and Markets and the Division of Economic Analysis are performed by two new divisions and one new office: the Division of Market Oversight, the Division of Clearing and Intermediary Oversight, and the Office of the Chief Economist.

**November 8, 2002**—Trading in single stock futures is launched on two new exchanges: OneChicago and NQLX.

**March 12, 2003**—The CFTC charges the bankrupt Enron Corporation and a former Enron vice president with manipulating prices in the natural gas market. Enron also is charged with operating an illegal, undesignated futures exchange and offering illegal lumber futures contracts through Enron Online, its Internet trading platform. Enron settles in May 2004 and the trader settles in July 2004.

**July 15, 2003**—The CFTC approves exchange rules implementing a common clearing link between the CBOT and CME.

**Fiscal Year 2003**—The CFTC approves or (in most cases) accepts the exchange self-certification of a record 348 new futures and option contracts during fiscal year 2003.

While about 200 of these new contracts are single stock futures, the number of new non-single stock futures contracts easily exceeds the old record of 92 new contracts set in Fiscal Year 1996.

**November 18, 2003**—The CFTC joins other members of the President's Corporate Fraud Task Force in undercover "Operation Wooden Nickel" to prosecute individuals and companies allegedly stealing millions of dollars through sales of illegal foreign currency futures contracts.

**February 4, 2004**—The CFTC designates the USFE, also known as Eurex US, as a contract market for the automated trading of futures and options on futures contracts. This is the first designated contract market to be owned by a foreign futures exchange.

**October 13, 2005**—The CFTC issues a statement regarding the bankruptcy filing of Refco. Ultimately, customers holding position in futures contracts through the firms CFTC registered FCM subsidiary are repaid in full from funds in the segregated customer accounts.

**December 19, 2006**—15 defendants from "Operation Wooden Nickel" ordered by U.S. District Court (SDNY) to pay restitution return ill-gotten gains and pay fines totaling over \$25 million. Penalties were imposed subsequently on nine additional defendants. During this time period the investigation and litigation of fraud in retail forex is the largest area of the CFTC's anti-fraud enforcement program.

**July 12, 2007**—The CME and the CBOT announced the completion of their merger creating the world's largest exchange.

**July 25, 2007**—The CFTC charges hedge fund Amaranth with attempted manipulation in the price of natural gas. Since December 2002, the Commission has imposed over \$300 million in civil monetary penalties for manipulation, attempted manipulation and false price reporting in the energy markets.

**September 18, 2007**—The CFTC held a hearing to examine trading on regulated exchanges and ECMs as part of the Commission's on going review of energy futures trading.

**October 24, 2007**—The CFTC delivers to Congress a report that includes recommendations to increase the oversight of some trading activity on electronic trading facilities known as ECMs.

**October 25, 2007**—British Petroleum agrees to pay a total of \$303 million in sanctions to settle charges of manipulation and attempted manipulation in the propane market.



## Contract Markets Designated by the CFTC, 2002 – 2007

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 <sup>4</sup>	2002	2003	2004	2005	2006	2007
BTEX	●	●				
CBOT	●	●	●	●	●	●
CCFE			●	●	●	●
CFFE	●					
CFE		●	●	●	●	●
CME	●	●	●	●	●	●
CSCE	●	●	●			
EPFE			●			
HedgeStreet			●	●	●	●
INET	●					
KCBT	●	●	●	●	●	●
MACE	●	●				
ME	●	●	●			
MGE	●	●	●	●	●	●
NQLX	●	●	●	●		
NYBOT/ICE US			●	●	●	●
NYCE	●	●	●			
NYFE	●	●	●			
NYMEX (incl. COMEX)	●	●	●	●	●	●
OCX	●	●	●	●	●	●
PBOT	●	●	●	●	●	●
USFE			●	●	●	●
<b>TOTAL</b>	<b>16</b>	<b>15</b>	<b>18</b>	<b>13</b>	<b>12</b>	<b>12</b>

<sup>4</sup> For full names of commodity exchanges, refer to the List of Acronyms, beginning on page 45.

## Number of CFTC-Registered Derivatives Clearing Organizations, 2002 – 2007

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

DCOs <sup>5</sup>	2002	2003	2004	2005	2006	2007
AE				●	●	●
BTEX	●	●				
CBOT			●	●	●	●
CCorp	●	●	●	●	●	●
CME	●	●	●	●	●	●
EnergyClear	●	●				
FCOM	●	●				
GCC	●	●				
HedgeStreet			●	●	●	●
ICC	●	●				
KCBT	●	●	●	●	●	●
LCH	●	●	●	●	●	●
MGE	●	●	●	●	●	●
NYCC/ICE Clear	●	●	●	●	●	●
NYMEX	●	●	●	●	●	●
OCC	●	●	●	●	●	●
ONXCC	●	●				
<b>TOTAL</b>	<b>14</b>	<b>14</b>	<b>10</b>	<b>11</b>	<b>11</b>	<b>11</b>

<sup>5</sup> For full names of DCOs, refer to the List of Acronyms, beginning on page 45.

## Exempt Commercial Markets, 2002 – 2007

Electronic trading facilities providing for the execution of principal-to principal transactions between eligible commercial entities in exempt commodities may operate as exempt commercial markets (ECMs) as set forth under the CEA and the Commission's regulations. An ECM is subject to anti-fraud 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 information, record-keeping and other requirements. An ECM is prohibited from claiming that the facility is registered with, or recognized, designated, licensed or approved by, the Commission. A total of 21 ECMs have filed notices with the Commission and 19 were active in FY 2007.

Exempt Commercial Markets <sup>6</sup>	2002	2003	2004	2005	2006	2007
CCX		●	●	●	●	●
CDXchange	●	●	●	●	●	
ChemConnect					●	●
Flett						●
GFI						●
HSE	●	●	●	●	●	●
ICAP					●	●
ICAP ETC					●	●
ICAP HYDE					●	●
ICE	●	●	●	●	●	●
IMAREX	●	●	●	●	●	●
NGX	●	●	●	●	●	●
Nodel						●
NTP					●	●
OPEX	●	●	●	●	●	●
Options ATS						●
SL		●	●	●	●	●
TCX				●	●	●
TFS		●	●	●	●	●
TFSE		●	●	●	●	●
TS	●	●	●	●	●	
<b>TOTAL</b>	<b>7</b>	<b>11</b>	<b>11</b>	<b>12</b>	<b>17</b>	<b>19</b>

<sup>6</sup> For full names of ECMs, refer to the List of Acronyms, beginning on page 45.

## Exempt Boards of Trade, 2002 – 2007

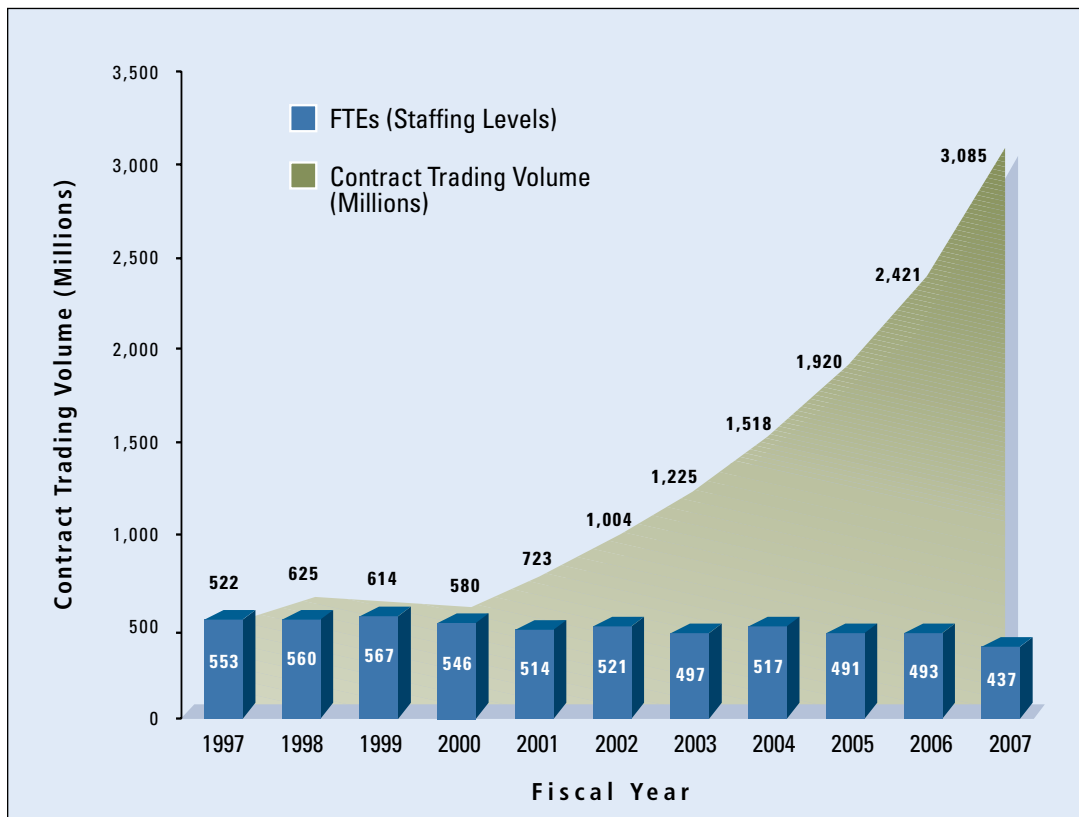
Transactions by eligible contract participants in selected commodities may be conducted on an exempt board of trade (XBOT) as set forth under the CEA and the Commission's regulations. XBOTs are subject only to the CEA's anti-fraud and anti-manipulation provisions. An XBOT is prohibited from claiming 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, 11 XBOTs have filed notices with the Commission.

Exempt Boards of Trade <sup>7</sup>	2002	2003	2004	2005	2006	2007
AE			●	●	●	●
CME AM				●	●	●
GFI ForexMatch						●
Intrade				●	●	●
Longitude						●
MATCHBOX ATS					●	
Storm					●	●
Swapstream					●	●
WBOT		●	●	●	●	
WXL	●	●	●	●	●	
Yellow Jacket						●
<b>TOTAL</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>5</b>	<b>8</b>	<b>8</b>

<sup>7</sup> For full names of XBOTs, refer to the List of Acronyms on page 45.

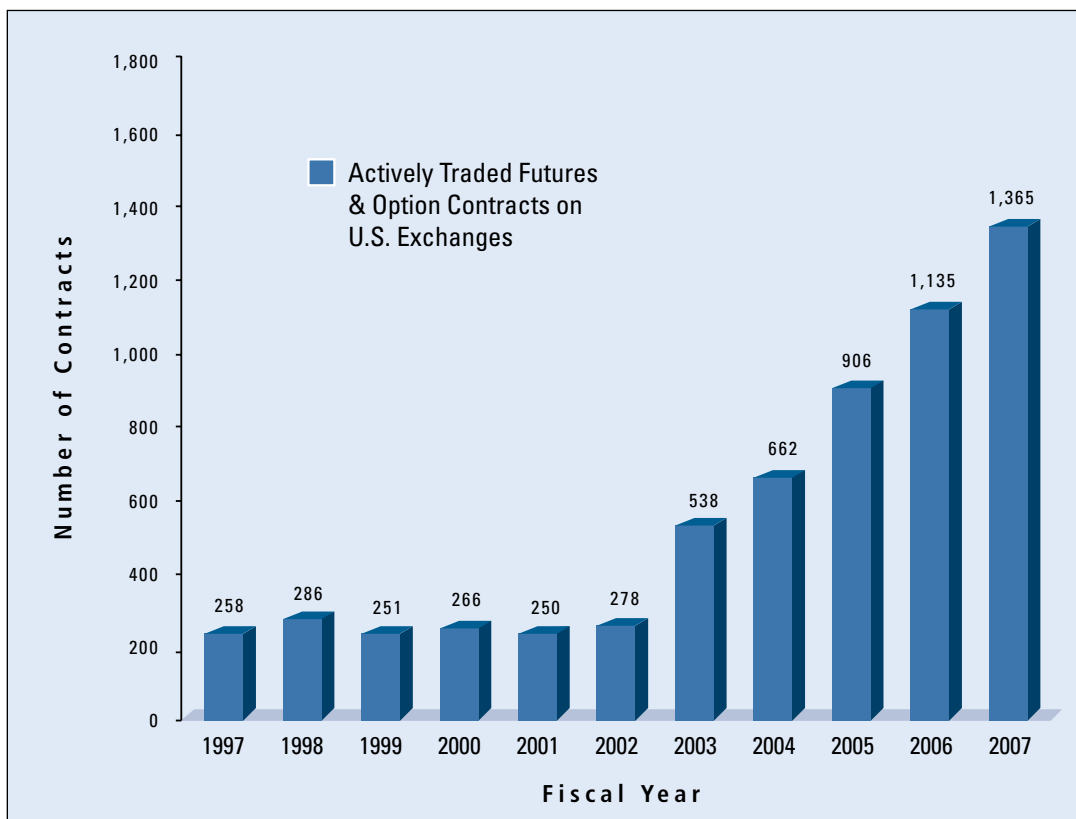
### Growth in Volume of Futures & Option Contracts Traded & CFTC Full-time Equivalents (FTEs), 1997 – 2007

Trading volume has increased six-fold in the last decade while staffing levels at the Commission have trended downward.



## Actively Traded Futures & Option Contracts, 1997 – 2007

The number of actively traded contracts on U.S. exchanges has more than quintupled in the last decade.



## Preservation of Market Integrity and Protection of Market Users

### Manipulation, Attempted Manipulation, and False Reporting

The CFTC has taken strong action utilizing every tool at its disposal to detect and deter against illegitimate market forces. The Commission uses enforcement action to preserve market integrity and protect market users, demonstrating that our authority is significant and that we intend to use it.

For example, our enforcement efforts in the energy arena from December 2001 through September 2007 have resulted in 38 enforcement actions charging 63 companies and individuals and the assessment of approximately \$308 million in penalties.

<b>Actions Taken Since December 2001 in Energy Markets</b>	<b>Energy Markets</b>
Number of Cases Filed or Enforcement Actions	38
Number of Entities/Persons Charged	63
Number of Dollars in Penalties Assessed	
<ul style="list-style-type: none"> <li>Civil Monetary Penalties</li> </ul>	\$ 308,198,500

### Commodity Pools, Hedge Funds, Commodity Pool Operators (CPOs), and Commodity Trading Advisors (CTAs)

Investors continue to fall prey to unscrupulous CPOs and CTAs, including CPOs and CTAs operating hedge funds. The majority of the Commission's pool/hedge fund fraud cases are brought against unregistered CPOs and/or CTAs. These cases tend to involve Ponzi schemes or outright misappropriation, as opposed to legitimate hedge fund operations. From October 2000 through September 2007, the Commission filed a total of 61 enforcement actions alleging misconduct in connection with commodity pools and hedge funds.

<b>Actions Taken Since October 2000</b>	<b>Pools/Hedge Funds</b>
Number of Cases Filed or Enforcement Actions	61
<ul style="list-style-type: none"> <li>Cases/Actions Charging Commission Registrants</li> </ul>	23
Number of Dollars in Penalties Assessed	\$ 231,027,883

### FOREX Fraud

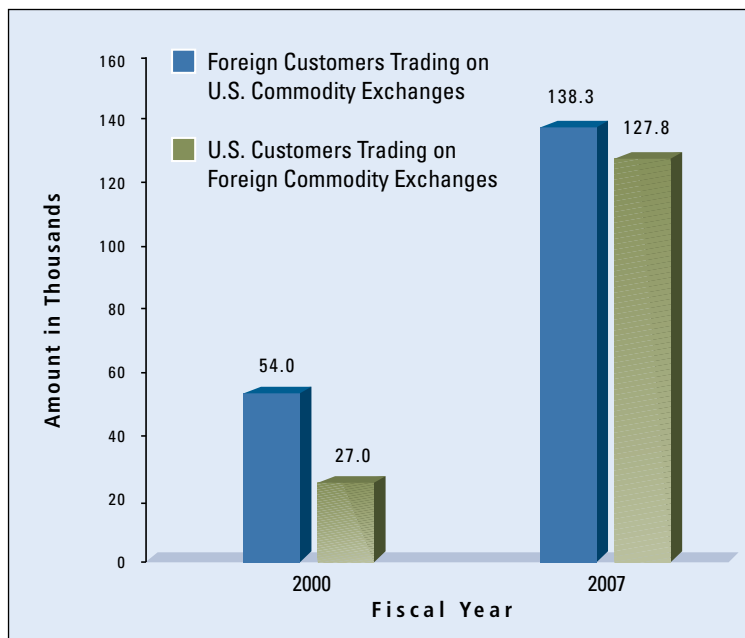
The Commission vigorously uses its enforcement authority to combat the problem of forex fraud. Since passage of the CFMA in December 2001 through September 2007, the Commission, on behalf of more than 25,000 customers, has filed 98 cases. Those efforts have thus far resulted in approximately \$453 million in restitution and \$551 million in civil monetary penalties.

<b>Actions Taken Since Passage of the CFMA in December 2000</b>	<b>Foreign Currency Markets</b>
Number of Cases Filed or Enforcement Actions	98
<ul style="list-style-type: none"> <li>Number of Entities/Persons Charged</li> </ul>	374
<ul style="list-style-type: none"> <li>Number of Customers Affected</li> </ul>	25,859
Number of Dollars in Penalties Assessed	
<ul style="list-style-type: none"> <li>Civil Monetary Penalties</li> </ul>	\$ 551,301,267
<ul style="list-style-type: none"> <li>Restitution</li> </ul>	\$ 453,173,819



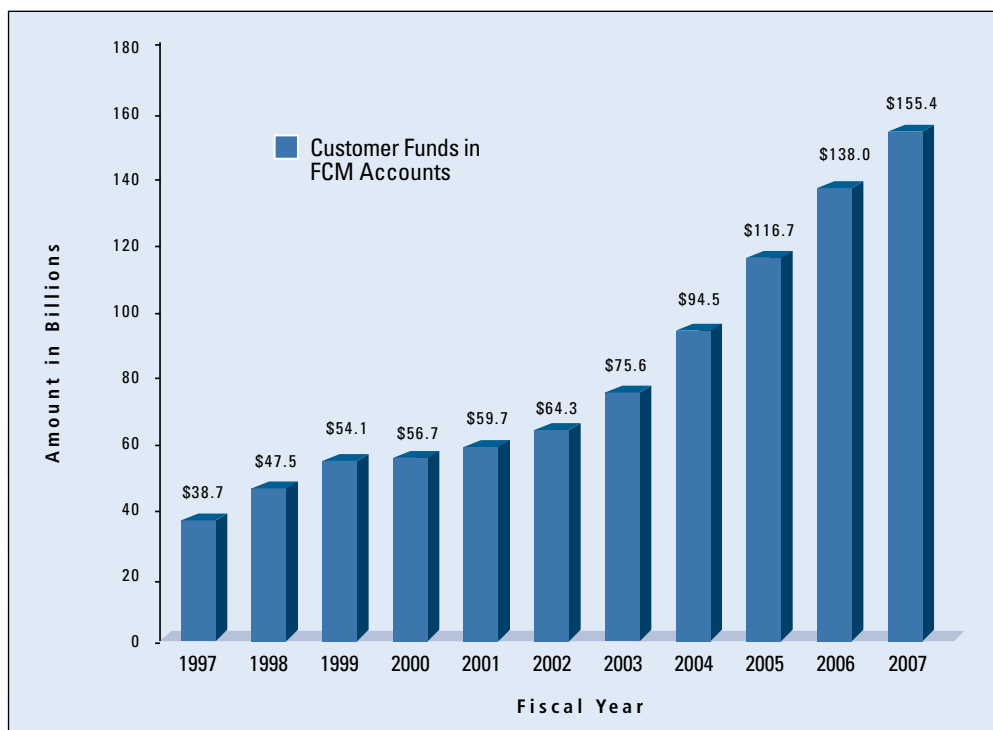
## Growth of Foreign Commodity Trading

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



## Customer Funds Held in Futures Commission Merchant Accounts, 1997-2007

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



## Number of Registrants

Companies and individuals who handle customer funds, solicit or accept orders, or give trained advice must apply for CFTC registration through the NFA, an SRO with delegated oversight authority from the Commission. The Commission regulates the activities of nearly 70,000 registrants.

Type of Registered Professional	Number as of September 30, 2007
Associated Persons (APs) (Salespersons)	53,844
Commodity Pool Operators (CPOs)	1,416
Commodity Trading Advisors (CTAs)	2,601
Floor Brokers (FBs)	8,038
Floor Traders (FTs)	1,506
Futures Commission Merchants (FCMs)	197 <sup>8</sup>
Introducing Brokers (IBs)	1,699 <sup>9</sup>
<b>TOTAL</b>	<b>69,301</b>

<sup>8</sup> Includes 16 notice-registered FCMs.

<sup>9</sup> Includes 42 notice-registered IBs.

## Outcomes & Business Processes by Strategic Goal

<b>GOAL ONE: Ensure the economic vitality of the commodity futures and option markets.</b>	
<b>Outcome</b>	<b>Business Processes</b>
<b>1.1 Markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.</b>	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
<b>1.2 Markets are effectively and efficiently monitored to ensure early warning of potential problems or issues that could adversely affect their economic vitality.</b>	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

<b>GOAL TWO: Protect market users and the public.</b>	
<b>Outcome</b>	<b>Business Processes</b>
<b>2.1 Violations of Federal commodities laws are detected and prevented.</b>	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
<b>2.2 Commodity professionals meet high standards.</b>	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
<b>2.3 Customer complaints against persons or firms registered under the Act are handled effectively and expeditiously.</b>	1. Manage reparations program
	2. Resolve appeals
	3. Represent Commission in litigation or other disputes

<b>GOAL THREE: Ensure market integrity in order to foster open, competitive, and financially sound markets.</b>	
<b>Outcome</b>	<b>Business Processes</b>
<b>3.1 Clearing organizations and firms holding customer funds have sound financial practices.</b>	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
<b>3.2 Commodity futures and option markets are effectively self-regulated.</b>	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
<b>3.3 Markets are free of trade practice abuses.</b>	1. Investigate violations
	2. File and prosecute cases
<b>3.4 Regulatory environment is flexible and responsive to evolving market conditions.</b>	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

<b>GOAL FOUR: Facilitate Commission performance through organizational and management excellence, efficient use of resources, and effective mission support.</b>	
<b>Outcome</b>	<b>Business Processes</b>
<b>4.1</b> Productive, technically competent, competitively compensated, and diverse workforce that takes into account current and future technical and professional needs of the Commission.	1. Plan for and manage the human needs and resources of the Commission
<b>4.2</b> Modern and secure information system that reflects the strategic priorities of the Commission.	1. Plan for and manage the information and technological needs and resources of the Commission
<b>4.3</b> Organizational infrastructure that efficiently and effectively responds to and anticipates both the routine and emergency business needs of the Commission.	1. Plan for and manage the security and infrastructure needs and resources of the Commission
<b>4.4</b> Financial resources are allocated, managed, and accounted for in accordance with the strategic priorities of the Commission.	1. Plan for and manage the financial needs and resources of the Commission
<b>4.5</b> Commission's mission is fulfilled and goals are achieved through sound management and organizational excellence provided by executive leadership.	1. Provide executive leadership

# LIST OF ACRONYMS

<b>AAC</b>	Agricultural Advisory Committee
<b>AE</b>	The Actuarials Exchange, LLC
<b>AGA</b>	Association of Government Accountants
<b>AP</b>	Associated Persons
<b>BTEX</b>	BrokerTec Futures Exchange
<b>BPAC</b>	Budget Program Activity Code
<b>CBOT</b>	Chicago Board of Trade
<b>CCORP</b>	The Clearing Corporation
<b>CCFE</b>	Chicago Climate Futures Exchange
<b>CCX</b>	Chicago Climate Exchange, Inc.
<b>CDXCHANGE</b>	Commodities Derivative Exchange, Inc.
<b>CEA</b>	Commodity Exchange Act
<b>CFE</b>	CBOE Futures Exchange
<b>CFFE</b>	Cantor Financial Futures Exchange
<b>CFTC</b>	Commodity Futures Trading Commission
<b>CFMA</b>	Commodity Futures Modernization Act of 2000
<b>CME</b>	Chicago Mercantile Exchange
<b>CME AM</b>	CME Alternative Marketplace, Inc.
<b>COMEX</b>	Commodity Exchange Division
<b>COOP</b>	Continuity of Operations Plan
<b>CPO</b>	Commodity Pool Operator
<b>CSCE</b>	Coffee Sugar and Cocoa Exchange
<b>CTA</b>	Commodity Trading Advisor
<b>DCM</b>	Designated Contract Market
<b>DCO</b>	Derivatives Clearing Organization
<b>DOE</b>	U.S. Department of Energy
<b>DOJ</b>	U.S. Department of Justice
<b>DTEF</b>	Derivatives Transaction Execution Facility
<b>ECM</b>	Exempt Commercial Market
<b>EDBS</b>	Exchange Database System
<b>EPFE</b>	Exchange Place Futures, LLC
<b>FAIR</b>	Federal Agricultural Improvement and Reform
<b>FB</b>	Floor Broker
<b>FCM</b>	Futures Commission Merchant
<b>FCOM</b>	FutureCom

<b>FDIC</b>	Federal Deposit Insurance Corporation
<b>FERC</b>	Federal Energy Regulatory Commission
<b>FLETT</b>	Flett Exchange
<b>FT</b>	Floor Trader
<b>FTE</b>	Full-time Equivalent
<b>FY</b>	Fiscal Year
<b>GAO</b>	Government Accountability Office
<b>GCC</b>	Guaranty Clearing Corporation
<b>GFI</b>	GFI Group, Inc.
<b>GFI FOREXMATCH</b>	GFI Group Inc., ForexMatch
<b>GMAC</b>	Global Markets Advisory Committee
<b>GPRA</b>	Government Performance and Results Act
<b>HSE</b>	HoustonStreet Exchange, Inc.
<b>IB</b>	Introducing Broker
<b>ICAP</b>	ICAP Commodity Derivatives Trading System
<b>ICAP ETC</b>	ICAP Electronic Trading Community
<b>ICAP HYDE</b>	ICAP HYDE Limited Trading System
<b>ICC</b>	Intermarket Clearing Corporation
<b>ICE</b>	Intercontinental Exchange, Inc.
<b>ICE US</b>	InterContinental Exchange US
<b>IMAREX</b>	International Maritime Exchange
<b>INET</b>	INET Futures Exchange
<b>INTRADE</b>	Intrade Board of Trade
<b>IOSCO</b>	International Organization of Securities Commissions
<b>ISS</b>	Integrated Surveillance System
<b>IT</b>	Information Technology
<b>KCBT</b>	Kansas City Board of Trade
<b>LCH</b>	London Clearing House
<b>LONGITUDE</b>	Longitude, LLC
<b>MACE</b>	MidAmerica Commodity Exchange
<b>MASC</b>	Management Accounting Structure Code
<b>MATCHBOXX ATS</b>	Matchboxx Alternate Trading System
<b>ME</b>	Merchants Exchange
<b>MGE</b>	Minneapolis Grain Exchange
<b>MOU</b>	Memorandum of Understanding
<b>NEC</b>	National Economic Council
<b>NFA</b>	National Futures Association
<b>NGX</b>	Natural Gas Exchange
<b>NODEL</b>	Nodel Exchange, LLC
<b>NQLX</b>	NQLX, LLC
<b>NTP</b>	NetThruPut



<b>NYBOT</b>	New York Board of Trade
<b>NYCC</b>	New York Clearing Corporation
<b>NYCE</b>	New York Cotton Exchange
<b>NYFE</b>	New York Futures Exchange
<b>NYMEX</b>	New York Mercantile Exchange
<b>OCC</b>	The Options Clearing Corporation
<b>OCX</b>	OneChicago Futures Exchange
<b>OED</b>	Office of the Executive Director (CFTC)
<b>OGC</b>	Office of the General Counsel (CFTC)
<b>OIG</b>	Office of the Inspector General
<b>OITS</b>	Office of Information and Technology Services (CFTC)
<b>OMB</b>	Office of Management and Budget
<b>ONXCC</b>	OnExchange Clearing Corporation
<b>OPEX</b>	Optionable, Inc.
<b>OPTIONS ATS</b>	Options ATS, LLC
<b>OTS</b>	Office of Thrift Supervision
<b>PAR</b>	Performance and Accountability Report
<b>PBOT</b>	Philadelphia Board of Trade
<b>PWG</b>	President's Working Group on Financial Markets
<b>SEC</b>	Securities and Exchange Commission
<b>SFP</b>	Security Futures Products
<b>SL</b>	Spectron Live.com Limited
<b>STORM</b>	Storm Exchange, Inc.
<b>SRO</b>	Self-Regulatory Organization
<b>SWAPSTREAM</b>	Swapstream Operating Services, Ltd.
<b>TAC</b>	Technology Advisory Committee
<b>TCX</b>	TradeCapture Exchange
<b>TFS</b>	Traditional Financial Services Pulp and Paper Division
<b>TFSE</b>	TFS Energy, LLC
<b>TS</b>	TradeSpark, LP
<b>TSS</b>	Trade Surveillance System
<b>USDA</b>	U.S. Department of Agriculture
<b>USFE</b>	US Futures Exchange
<b>WBOT</b>	Weather Board of Trade
<b>WXL</b>	WeatherXchange Limited
<b>XBOT</b>	Exempt Board of Trade
<b>YELLOW JACKET</b>	Yellow Jacket Software, Inc.

## Photo Credits:

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## History at a Glance Photo Credits:

### Page 28-31, Top of page, from left to right:

1. KCBT Trading Floor, 1930's. Photo provided by Kansas City Board of Trade
2. Trading Floor Board of Trade, Kansas City, January 9, 1925. Photo provided by Kansas City Board of Trade
3. KCBT Building, 1925 – 1966. Photo provided by Kansas City Board of Trade
4. CME Trading Floor, 1950's. Photo provided by Chicago Mercantile Exchange
5. Ticker Tape Parade with CBOT Building in the Background. Photo provided by Chicago Board of Trade.
6. CME, 1940's. Photo provided by Chicago Mercantile Exchange
7. KCBT 80th Anniversary, February 6, 1936. Photo provided by Kansas City Board of Trade
8. KCBT Building, 1877. Photo provided by Kansas City Board of Trade
9. CBOT Trading Floor. Photo provided by Chicago Board of Trade

### Individual Photos, Page 28 from left to right:

1. KCBT Trading Floor, July 19, 1932. Photo provided by Kansas City Board of Trade
2. CME Trading Floor Soon After 1928 Opening. Photo provided by Chicago Mercantile Exchange
3. KCBT Building, 1887 – 1924. Photo provided by Kansas City Board of Trade

### Individual Photos, Page 29 from left to right:

1. The last day in the old Board of Trade Building, January 1, 1925. Photo provided by Kansas City Board of Trade
2. Trading Floor Board of Trade, Kansas City, January 9, 1925. Photo provided by Kansas City Board of Trade
3. New KCBT Building on 48th Street. Photo provided by Kansas City Board of Trade

### Individual Photos, Page 30 from left to right:

1. CME Trading Floor, 2002. Photo provided by Chicago Mercantile Exchange
2. CME Trading Floor. Photo provided by Chicago Mercantile Exchange

### Individual Photos, Page 31 from left to right:

1. CBOT Trading Floor. Photo provided by Chicago Board of Trade
2. CBOT. Photo provided by Chicago Board of Trade
3. CME S&P Pit. CME-NYSE AP photo provided by Chicago Mercantile Exchange
4. CBOT Trading Floor, 2005. Photo provided by Chicago Board of Trade

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### Publications & Information

For a list of other CFTC publications or for more information on the CFTC, please visit the CFTC's home page on the World Wide Web. The Commission's Web address is <http://www.cftc.gov>.

Or, contact the Office of External Affairs, Commodity Futures Trading Commission at:

Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, D.C. 20581

(202) 418-5080



## **CFTC CONTACT INFORMATION**

### **HEADQUARTERS**

Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, D.C. 20581

Telephone: (202) 418-5000

### **EASTERN REGIONAL OFFICE**

140 Broadway  
19th Floor  
New York, NY 10005

Telephone: (646) 746-9700

### **CENTRAL REGIONAL OFFICE**

525 West Monroe Street  
Suite 1100  
Chicago, IL 60661

Telephone: (312) 596-0700

### **SOUTHWESTERN REGIONAL OFFICE**

Two Emanuel Cleaver II Blvd.  
Suite 300  
Kansas City, MO 64112

Telephone: (816) 960-7700



## COMMODITY FUTURES TRADING COMMISSION

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**HEADQUARTERS**  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, D.C. 20581

Telephone: (202) 418-5000