Performance and Accountability Report U.S. Securities and Exchange Commission 2008 Performance and Accountability Report U.S. Securities and Exchange Commission 2008 Performance

2008 Performance and Accountability Report

U.S. Securities and Exchange Commission

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Message from the Chairman

Christopher Cox
Chairman

Dear Investor,

The mortgage meltdown and ensuing global credit crisis during the past year have confronted our markets with unprecedented challenges. The government's response to the financial turmoil has been equally unprecedented: the Federal Reserve and the Department of the Treasury have together committed over one trillion dollars in taxpayer funds to support insurance companies, banks, thrifts, investment banks, and mortgage giants Fannie Mae and Freddie Mac.

The Emergency Economic Stabilization Act (EESA), signed into law in October 2008, gives the Chairman of the SEC a formal oversight role with respect to the Troubled Asset Relief Plan administered by the Department of the Treasury. In addition, the Housing and Economic Recovery Act of 2008 gives the SEC Chairman similar oversight and advisory responsibilities with respect to the conservatorship of Fannie Mae and Freddie Mac supervised by the Federal Housing Finance Agency. These duties come in addition to the new responsibilities the SEC is already discharging as the statutory regulator of credit rating agencies, and the mandate that the EESA has given the agency to report by January 1, 2009, on the results of a congressionally-mandated study of fair value accounting.

Response to the Credit Crisis

The agency has taken a number of other actions in recent months to address significant issues that have arisen in the credit crisis. When the auction rate securities market froze early in 2008, the Enforcement Division immediately commenced investigations of potential securities law violations by the largest sellers of these instruments. Preliminary settlements were reached in principle with six of the largest firms, which would return more than $50 billion to injured investors and make these settlements, when concluded, by far the largest in the agency's history. (While settlements in principle were reached during FY 2008, the amounts were not included in the enforcement statistics for this report because they were not finalized by the close of the fiscal year on September 30.)

As of the close of FY 2008, the Commission had over 50 pending subprime-related investigations involving lenders, investment banks, credit rating agencies, insurers, and broker-dealers. During the past year the SEC charged the managers of two Bear Stearns hedge funds in connection with last year's collapse of those funds. The Commission returned $356 million to investors harmed when Fannie Mae issued false and misleading financial statements. And the Division of Enforcement is currently in the midst of a nationwide investigation of potential fraud and manipulation of securities in some of the nation's largest financial institutions through abusive short selling and the intentional spreading of false information.

As part of this aggressive law enforcement investigation into potential manipulation during the subprime crisis, the Commission approved orders requiring hedge funds, broker-dealers and institutional investors to file statements under oath regarding trading and market activity in the securities of financial firms. The orders cover not only equities but also credit default swaps. To assist in analyzing this information, the SEC's Office of Information Technology is working with the Enforcement Division to create a common database of trading information, audit trail data, and credit default swaps clearing data. Our Office of Economic Analysis is also supporting this effort by helping to analyze the data across markets for possible manipulative patterns in both equity securities and derivatives.

During FY 2008, the Enforcement Division also brought the highest number of insider trading cases in the agency's history. In addition, the SEC brought a record-high number of enforcement actions against market manipulation in 2008, including a precedent-setting case against a Wall

Street short seller for spreading false rumors. Overall for the fiscal year just ended, the SEC completed the highest number of enforcement investigations in any year to date, by far. We also initiated the second-highest number of enforcement actions in agency history.

Not just in 2008, but in each of the last two years, the Commission set the record for the highest number of corporate penalty cases in the agency's history. And for the second year in a row, the SEC returned more than $1 billion to harmed investors using our Fair Funds authority under the Sarbanes-Oxley Act. To support this record level of law enforcement, the SEC now devotes more than one-third of the entire agency staff to our enforcement program. That is a higher percentage of the SEC's total staff than at any time in the past 20 years. The SEC's internal allocation of funds for enforcement in FY 2008 was the highest in the agency's history. In this past year, we also increased the number of enforcement personnel by 4 percent.

Other significant actions in connection with the credit crisis included proposed rulemakings using our new authority under the Credit Rating Agency Reform Act to address weaknesses and conflicts of interest in the ratings process and to develop strong additional new requirements for credit rating agencies. In July, we released the findings from extensive examinations of the three largest credit rating agencies: Moody's, Standard & Poor's, and Fitch. Our examinations included hundreds of thousands of pages of the rating agencies' internal records and emails relating to their ratings of subprime residential mortgage-backed securities and collateralized debt obligations. SEC staff also analyzed the ratings history of thousands of structured finance products.

The examinations uncovered serious shortcomings at these firms, including a lack of adequate disclosure to investors and the public, a lack of policies and procedures to manage the rating process, and insufficient attention to conflicts of interest. In response to the findings, the Commission proposed sweeping new rules to regulate the internal policies and business practices of credit rating agencies. The reforms addressed conflicts of interest and required new disclosures designed to increase the transparency, accountability, and competition in the credit rating industry.

In the last year, the Office of Compliance Inspections and Examination also conducted examinations of the effectiveness of broker-dealers' and investment advisers' controls on preventing the spread of false information—a particularly salient concern in the midst of the ongoing market turmoil.

The Office of the Chief Accountant and the Division of Corporation Finance acted on multiple occasions during FY 2008 to address questions regarding disclosure of fair value measurements of hard-to-value assets in inactive markets, consolidation of off-balance sheet entities, and the accounting treatment of bank support for money market funds. Staff from the SEC and the Financial Accounting Standards Board also worked together to assist preparers and auditors by providing clarifications of existing fair value measurement guidance in the current environment.

When money market funds faced serious pressure in the latter part of FY 2008, the Division of Investment Management worked closely with investors, fund managements, and independent directors of money market funds to ensure the protection of shareholders, including in particular investors in the Reserve Primary Fund, which suspended redemptions in late FY 2008. The division also worked closely with the Department of the Treasury in support of its Temporary Guarantee Program for Money Market Funds.

The Division of Trading and Markets worked to protect customers of Lehman Brothers' broker-dealer, investment advisory, and investment management subsidiaries following the firm's bankruptcy during the last month of the fiscal year. The division also coordinated numerous market regulation issues including the imposition of new restrictions and penalties for naked short selling. The division prepared recommendations during the height of the market turmoil in the final quarter of FY 2008, when the Commission used its emergency authority to temporarily restrict short selling. These temporary actions were taken in close consultation with other regulators around the world. The Commission also required disclosures to the SEC of significant short positions.

In coordination with the CFTC and the Federal Reserve, the SEC in FY 2008 worked with the financial services industry to develop one or more central counterparties, clearance and settlement systems, and trading platforms for credit default swaps, as an operational step toward bringing additional transparency to this $55 trillion unregulated market. We also entered into separate Memoranda of Understanding with the Federal Reserve and with the Commodity Futures Trading Commission to make sure that key federal financial regulators share information more efficiently and coordinate regulatory activities in important areas of common interest.

Future Regulatory Reform

On several occasions during FY 2008, I reported to the Congress on serious shortcomings in the regulatory structure that were exposed by the collapse of the mortgage market and the ensuing credit crisis. These include the fact that there was no statutory regulator for investment bank holding companies. The holding company in the case of Lehman Brothers, for example, consisted of more than 200 significant subsidiaries—including OTC derivatives businesses, trust companies, mortgage companies, offshore banks, and reinsurance companies. The SEC was not the statutory regulator for 193 of them.

I told the Congress that when SEC regulation is backed up with statutory authority, it is strong and successful—and that voluntary regulation of businesses the SEC does not regulate by statute does not work. For this reason, reforms are needed to address other regulatory gaps as well. There is no public disclosure nor any legal requirement for the $55 trillion market in credit default swaps to report to the SEC or any other agency. Congress needs to pass legislation that would not only make credit default swaps more transparent but also give regulators the power to rein in fraudulent or manipulative trading practices and help everyone better assess the risks involved.

Also in need of additional transparency are troubled Fannie Mae and Freddie Mac, both of which are now under government control. Although recent legislation required Fannie and Freddie to comply with some of the SEC's rules, it did not subject them to the full disclosure requirements that other public companies must follow. As Congress determines how Fannie and Freddie will emerge from government control, this is an omission that lawmakers must correct.

Still other regulatory gaps persist, including a statutory divide between the supervision of broker-dealers under the Securities Exchange Act of 1934 and that of investment advisers under the Investment Advisers Act of 1940. One of the agency's significant efforts to reconcile the supervision of these overlapping financial services was struck down by the courts last year. Congress has an important opportunity to modernize the more than half-century old legislation in this area in any comprehensive overhaul of the regulatory system, and the SEC stands ready to provide its expertise.

The multi-trillion dollar municipal securities market falls in yet another regulatory black hole. It entails many of the same risks, and is subject to the same abuses, as other parts of the capital markets. As the economic slowdown makes it increasingly difficult for many states and localities to meet their obligations, and as many municipalities continue to use interest rate swaps in ways that expose them to risk that the financial institution on the other side of the contract may fail, investors need to know more about what they own. In FY 2008, investors were facing what would have been the largest municipal bankruptcy in American history in Jefferson County, Alabama, while the multi-billion dollar fraud in the City of San Diego, in which the SEC charged five former city employees this past year, injured both investors and taxpayers alike.

Over the last two years, I have repeatedly asked Congress to give the SEC the authority to bring municipal finance disclosure at least up to par with corporate disclosure by repealing the Tower Amendment. Using the Commission's existing authorities, in FY 2008 the Commission proposed improving municipal disclosure by requiring that secondary market disclosure information be provided, in an electronic format, to a single repository. In addition, the Commission is considering rule changes by the Municipal Securities Rulemaking Board to expand its Electronic Municipal Market Access system, or EMMA, to accommodate secondary market disclosure information.

Beyond the significant issues raised by the ongoing market turmoil, and the several actions the SEC took during the past year to address them, the Commission made several important decisions in areas of ongoing interest to investors during FY 2008.

Improved Disclosure

During the past year, the SEC unveiled the successor to the agency's 1980s-era EDGAR database. The new system, called IDEA (Interactive Data Electronic Applications), will give investors faster and easier access to key financial information about public companies and mutual funds. IDEA will at first supplement and then eventually replace the EDGAR system, which will become an archive of SEC filings made prior to the new era of financial reporting in interactive data format. Companies and mutual funds could begin providing financial information using interactive data as early as next year.

The decision to replace EDGAR marks the SEC's transition from collecting government-prescribed forms and documents to making the information itself freely available to investors in a user-friendly format they can readily use. Instead of sifting through one form at a time in EDGAR and then re-keying the information to analyze it, investors will be able to utilize interactive data to instantly search and collate information to generate reports and analysis from thousands of companies and forms through IDEA.

During FY 2008 the SEC also launched the 21st Century Disclosure Initiative, a wide-ranging internal effort to fundamentally rethink public company disclosure. The Initiative is examining the basic purposes of disclosure from the perspectives of investors and markets, with a view to creating a comprehensive high-level plan for overhauling the current forms-based disclosure system. The Initiative is focused on using new technology to gather information from registrants in new ways that can generate more dynamic, accessible, and easier to use disclosure for investors. These same improvements would provide the Commission with tools to better analyze risk, be more productive with existing human resources, and better fulfill its mission of protecting investors, maintaining orderly markets, and facilitating the formation of capital.

This past fiscal year also saw final Commission action removing impediments for investors and companies to set up electronic shareholder forums, in which an unprecedented level of shareholder involvement and interaction might take place in the future. The Commission also gave investors access to searchable proxy statements on the Internet and required the electronic filing of Form D as well as electronic filing of applications under the Investment Company Act, and of other regulatory information. After overseeing vast improvements to the audit standard for internal control over financial reporting, the Commission scheduled the final phase-in for smaller public companies to comply with the audit requirements of the Sarbanes-Oxley Act for fiscal years ending after December 15, 2009.

International Coordination

The Commission's international work was more significant in FY 2008 than ever before. Over the last year, the SEC made 594 requests of foreign regulators for assistance with SEC investigations—more than one a day on average, and far higher than any previous year. Many of these investigations are linked to possible wrongdoing in the subprime area. At the same time, the SEC cooperated with 414 requests from foreign regulators for enforcement assistance. These international enforcement collaborations were made possible in substantial part by several bilateral and multilateral arrangements that the SEC has entered into in recent years, including agreements I executed with the College of Euronext Regulators; the German Federal Financial Supervisory Authority; the United Kingdom's Financial Services Authority; the UK Financial Reporting Council; and securities regulators in the European Union, India, Japan, China, Korea, the United Kingdom, France, Austria, Canada, Australia, Portugal, the Netherlands, and Israel.

Our international relationships were especially important this past year as the SEC worked closely with our counterparts overseas to deal with the fallout from the subprime crisis. As Chairman of the Technical Committee of the International Organization of Securities Commissions, and Co-Chair of its Subprime Task Force and of its Credit Rating Agency Task Force, I coordinated the SEC's regulatory responses with regulators from every major world market. This work provided essential analysis of how the domestic securitization of U.S. mortgages, and the rules governing U.S.-based rating agencies such as Moody's, Standard & Poor's, and Fitch, affected risk management by banks and institutional investors half a world away.

During FY 2008 the Commission also voted unanimously to propose a Roadmap that could lead to the mandatory use of International Financial Reporting Standards (IFRS) by U.S. issuers beginning in 2014 if the Commission believes it to be in the public interest and consistent with the protection of investors.

The United States' participation in the development of global accounting standards goes back many years. In 2002, Section 108(d) of the Sarbanes-Oxley Act of 2002 required the SEC to conduct a study and report to Congress on the adoption of a principles-based accounting system. The report noted, among many findings, that global accounting standardization would produce a myriad of benefits, including greater comparability for investors across firms and industries globally; more efficient allocation of scarce capital among investment alternatives; and lower costs of capital, since global accounting standards would eliminate the duplicative cost of preparing two sets of financial statements, and make it easier for companies to access capital in more markets.

Since that report was completed in 2003, over 100 countries, including all of Europe, have elected to require or permit IFRS reporting. Approximately 85 countries require IFRS reporting for all domestic, listed companies. The market capitalization of exchanges within those 85 countries requiring IFRS represented approximately 35 percent of global market capitalization in FY 2008, as compared to 28 percent for U.S. exchanges. The share of global market capitalization represented by IFRS markets is expected to grow still larger with the inclusion of the additional countries that have decided to adopt IFRS by 2011. Given that today two-thirds of U.S. investors own securities of foreign companies, the SEC has an abiding interest in determining what role IFRS should play in U.S. capital markets.

Conclusion

This annual report, in addition to describing the SEC's many accomplishments and performance results, also presents the Commission's financial picture for 2008, beginning on page 57. Our auditors, the U.S. Government Accountability Office, affirm that the SEC's financial statements are presented fairly in all material respects in conformity with U.S. generally accepted accounting principles (GAAP), and that the SEC had effective internal control over financial reporting and compliance with certain laws and regulations. Furthermore, we are pleased to confirm that the financial and performance data we present in this report are fundamentally complete, reliable, and conform to Office of Management and Budget guidance.

Throughout the 75-year history of the SEC, its core objectives have remained steady. Today our mission—to protect investors, maintain fair and orderly markets, and facilitate capital formation—is more important than ever before. As described in this annual report, the thousands of dedicated professionals at the SEC continue to work tirelessly towards these ends in behalf of the American people. Attracting and retaining the top-flight professionals that make the SEC what it is remains a top priority—which is why we are so proud that our agency has been rated in the top three best places to work in the federal government, our highest ranking ever. The men and women of the SEC are committed to doing everything they can, every day, to protect your investment in America's future.

Sincerely,

Chris Cox

Christopher Cox
Chairman
November 14, 2008

Management’s Discussion and Analysis

The Securities and Exchange Commission’s Management’s Discussion and Analysis (MD&A) serves as a brief overview of this entire report. It provides you with a concise description of the agency’s performance measures, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned. It should also provide you with a balanced assessment of our program and financial performance, and the efficiency and effectiveness of our operations.

Vision, Mission, Values, and Goals

Vision

The Securities and Exchange Commission (SEC) aims to be the standard against which federal agencies are measured. The SEC's vision is to strengthen the integrity and soundness of U.S. securities markets for the benefit of investors and other market participants, and to conduct its work in a manner that is as sophisticated, flexible, and dynamic as the securities markets it regulates.

Mission

The mission of the SEC is to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation.

Values

In managing the evolving needs of a complex marketplace and in pursuing its mission, the SEC embraces the following values:

- Integrity
- Accountability
- Fairness
- Resourcefulness
- Teamwork
- Commitment to Excellence

Goals

- **Enforce compliance with federal securities laws**
  The Commission seeks to detect problems in the securities markets, prevent and deter violations of federal securities laws, and alert investors to possible wrongdoing. When violations occur, the SEC aims to take prompt action to halt the misconduct, sanction wrongdoers effectively, and, where possible, return funds to harmed investors.

- **Promote healthy capital markets through an effective and flexible regulatory environment**
  The savings and investments of every American are dependent upon healthy capital markets. The Commission seeks to sustain an effective and flexible regulatory environment that will facilitate innovation, competition, and capital formation to ensure that our economy can continue to grow and create jobs for our nation's future. Enhancing the productivity of America is a key goal that the SEC works to achieve by increasing investor confidence in the capital markets.

- **Foster informed investment decision making**
  An educated investing public ultimately provides the best defense against fraud and costly mistakes. The Commission works to promote informed investment decisions through two main approaches: reviewing disclosures of companies and mutual funds to ensure that clear, complete, and accurate information is available to investors; and implementing a variety of investor education initiatives.

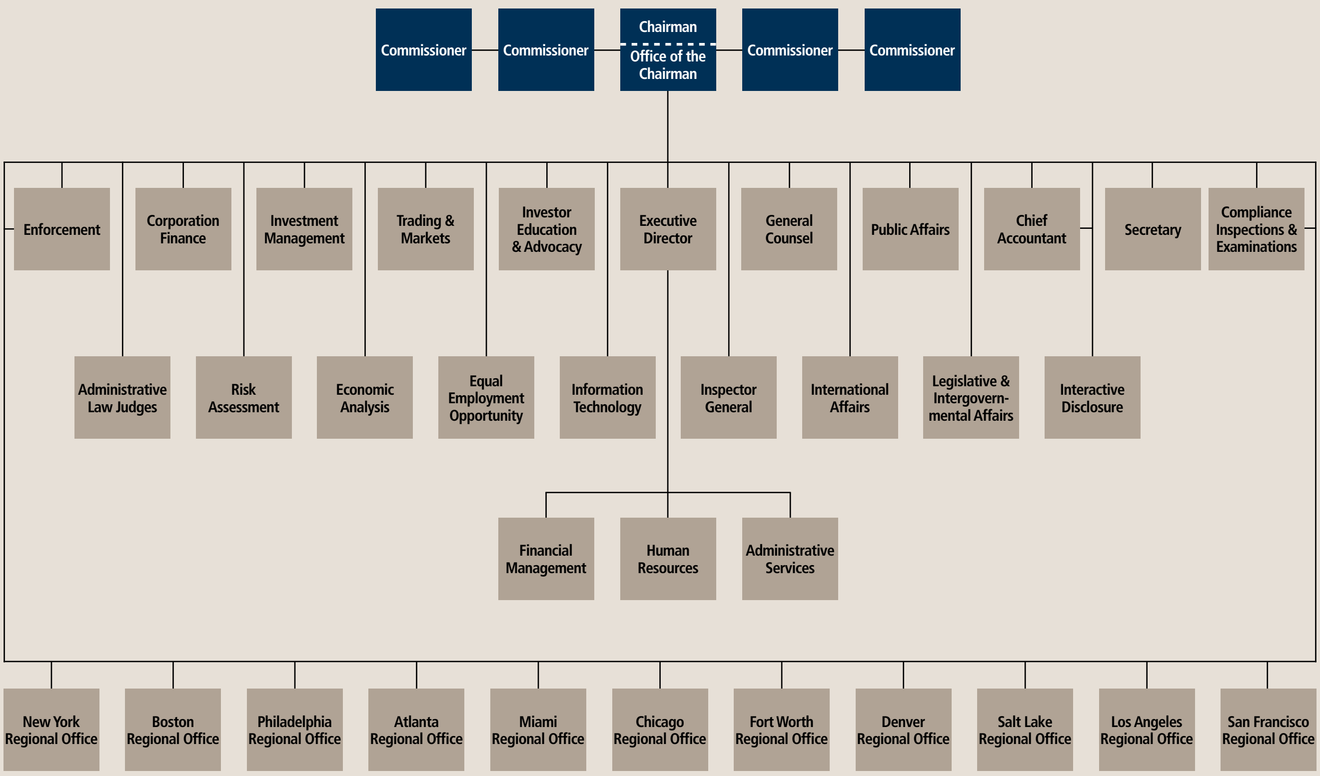
- **Maximize the use of SEC resources**
  The investing public and the securities markets are best served by an efficient, well-managed, and proactive SEC. The Commission strives to improve its organizational effectiveness by making sound investments in human capital and new technologies, and by enhancing internal controls.

Organizational Structure and Resources

The SEC is an independent federal agency established pursuant to the Securities Exchange Act of 1934 (Exchange Act). It is headed by a bipartisan five-member Commission, comprised of the Chairman and four Commissioners, who are appointed by the President and confirmed by the Senate (see *Appendix A: Chairman and Commissioners).* The Chairman serves as the chief executive officer (CEO). The SEC is organized into four main divisions: Corporation Finance, Enforcement, Investment Management, and Trading and Markets. The SEC's headquarters are in Washington, D.C., and it has 11 regional offices located throughout the country. In Fiscal Year (FY) 2008, the SEC received budget authority of $906 million consisting of current-year offsetting collections in the amount of $843 million plus $63 million in funds carried over from prior fiscal years. At September 30, 2008, the agency employed 3,511 Full-time Equivalents (FTE), including 3,442 permanent and 69 temporary FTE.

CHART 1.1

SEC Organization Chart



FY 2008 Highlights

Responses to Market Turmoil

In 2008, the subprime mortgage crisis and the resulting turmoil in the credit markets led to rapid and dramatic changes in U.S. financial markets. Once the crisis began with the deterioration of mortgage origination standards, the rise of abusive lending practices, and the spillover into the capital markets through securitization, the SEC used its law enforcement and regulatory powers to combat fraud and market manipulation and sustain orderly and liquid markets. During 2008 the agency moved aggressively in four main areas: investigating and prosecuting violations of the securities laws; releasing accounting and disclosure guidance to uncover hidden risk; using recent authority granted by Congress to regulate credit rating agencies; and using emergency and permanent rulemaking authority to maintain orderly markets. The SEC's work in these areas has been both national and international.

Among its many areas of focus, the SEC worked to oversee the financial markets and protect investors. The SEC continued to pursue those who would use hidden manipulation, illegal naked short selling, or illegitimate trading tactics to drive market behavior and undermine confidence. And the Commission used its regulatory authority to strengthen disclosure, provide needed accounting guidance, and prevent market manipulation.

Key examples of the agency's actions during the subprime mortgage crisis include:

Investigating fraud and market manipulation. The SEC devoted significant resources to hold accountable those whose violations of the law contributed to the subprime crisis and the loss of confidence in the markets. Led by the Division of Enforcement's subprime working group, which was formed in 2007, the agency aggressively investigated possible fraud, market manipulation, and breaches of fiduciary duty. For example, in 2008 the enforcement staff launched investigations into whether mortgage lenders properly accounted for the loans in their portfolios and established appropriate loan loss reserves. The division also began investigating the role of the various parties involved in the securitization of mortgage-backed securities and collateralized debt obligations. Enforcement staff also worked to determine whether investment banks and broker-dealers defrauded retail customers by making false representations, or by putting investors into unsuitable mortgage-backed investments. As of the end of FY 2008, the SEC had over 50 pending law enforcement investigations in the subprime area.

The Enforcement Division undertook a sweeping investigation into market manipulation of financial institutions, focusing on broker-dealers and institutional investors with significant trading activity in financial issuers and with positions in credit default swaps. The division reached the largest settlements in the SEC's history—over $50 billion—on behalf of investors in auction rate securities (ARS) from Merrill Lynch, Wachovia, UBS, Citigroup, Bank of America and RBC Capital Markets. The division also brought a landmark enforcement action against a trader who spread false rumors designed to drive down the price of stock, and charged two Wall Street brokers with defrauding their customers when making more than $1 billion in unauthorized purchases of subprime-related auction rate securities.

In July 2008, the Office of Compliance Inspections and Examinations (OCIE) conducted examinations to prevent the spread of false information intended to manipulate securities prices. Examiners focused on the supervisory and compliance controls of broker-dealers and investment advisers.

Penalties against naked short selling. The Commission adopted new rules that strictly enforce the ban on abusive naked short selling contained in Regulation SHO, and impose significant penalties for its violation. A broker-dealer that does not deliver securities by the close of business on the settlement date (three days after the sale transaction date, or T+3) is banned from any short sales in that issuer until the failure is cured. New antifraud Rule 10b-21 expressly targets fraudulent short selling transactions. The Commission unanimously approved an additional measure to make it easier for issuers to repurchase their own shares on the open market, in order to provide liquidity in fragile market conditions. The Commission also voted unanimously to require weekly reporting by hedge funds and other large investment managers of their daily short positions, as part of a comprehensive investigation of possible market manipulation.

Guidance to support money market funds. In September 2008, the Office of the Chief Accountant (OCA) provided guidance to clarify how banks should treat, for purposes of their balance sheets, the financial support they provide to money market funds within the same financial services complex. This helped clarify for banks the appropriate accounting treatment for any assistance they render to money market funds, helping to protect investors in these funds.

Guidance on fair value accounting. The credit market crisis that deepened in September 2008 made questions about the determination of fair value particularly challenging for preparers, auditors, and users of financial information, as the concept of fair value measurement assumes an orderly transaction between market participants. OCA and the Financial Accounting Standards Board (FASB) jointly provided timely clarification, based on the guidance issued by OCA and FASB staff in FASB Statement No. 157, *Fair Value Measurements.* The clarification addressed questions cited as most urgent while the FASB prepared to propose additional interpretative guidance on fair value measurement under U.S. generally accepted accounting principles (GAAP). Among other issues, OCA and FASB addressed the use of management's internal assumptions and broker quotes to measure fair value when an active market for a security does not exist.

Study on fair value accounting. The Emergency Economic Stabilization Act of 2008 called for the SEC to conduct a study of mark-to-market accounting standards, considering the effects of such standards on the balance sheets of financial institutions, on bank failures in 2008, and on the quality of financial information available to investors. The agency has dedicated substantial resources to this study.

Implementation of the Troubled Asset Relief Program. The Chairman serves as one of five members of the Financial Stability Oversight Board, which oversees the U.S. Department of the Treasury's (Treasury) implementation of the $700 billion Troubled Asset Relief Program. The SEC brings to this role its unique perspective on investor protection, the maintenance of orderly markets, and the promotion of capital formation.

Regulation of credit rating agencies. The Commission began regulating credit rating agencies in the last month of FY 2007. In FY 2008 the agency examined the three largest rating agencies. These examinations uncovered serious shortcomings at these firms, including a lack of disclosure to investors and the public, a lack of policies and procedures to manage the rating process, and insufficient attention to conflicts of interest. The rating agencies all agreed to implement broad reforms to address these problems. In addition, the Commission proposed sweeping new rules for rating agencies to bring increased transparency to the credit ratings process and curb practices that contributed to the turmoil in the credit markets. The rules are designed to improve investor understanding of credit ratings through enhanced disclosure of the agencies' methods and performance data, reduce undue reliance on credit ratings, and promote investor confidence in credit ratings by minimizing conflicts of interest.

Formal Cooperation with the Federal Reserve Board. In July 2008, the SEC signed a Memorandum of Understanding with the Federal Reserve Board to cooperate and share information related to anti-money laundering, bank brokerage activities under the Gramm-Leach-Bliley Act, clearance and settlement in the banking and securities industries, the regulation of transfer agents, and other key areas. In addition to giving both organizations continued insight during the deepening credit crisis, the memorandum also enhanced SEC oversight of the broker-dealer subsidiaries of bank holding companies. The information from the bank holding company level that the SEC now receives under the memorandum will strengthen the agency's ability to protect the customers of the broker-dealers and the integrity of the broker-dealer firms.

Ending the CSE Program. The Consolidated Supervised Entities (CSE) program was created in 2004 in an effort to fill a regulatory hole regarding the lack of oversight for major investment bank holding companies under the Gramm-Leach-Bliley Act of 1999. Due to the lack of statutory authority from Congress, however, the program was voluntary in nature. In addition, the program's use of the Basel standards for holding company capital and the Federal Reserve's 10 percent "well capitalized" standard was found inadequate when Bear Stearns nearly failed in March 2008. The SEC ended the voluntary CSE program in September 2008. Broker-dealer subsidiaries of former participants in the program continue to be monitored vigorously.

Enforcement and Examination

The SEC vigorously pursued potential violations of the federal securities laws, highlighted by the second-highest number of enforcement actions in agency history in FY 2008. The Commission brought 671 enforcement actions during the fiscal year, with the number of insider trading and market manipulation cases up more than 25 percent and 45 percent respectively over the previous year.

In addition to the cases described above, the Commission also brought major cases related to hedge fund fraud, insider trading, financial fraud, options backdating, and other areas. For example, the SEC successfully prosecuted the head of two Connecticut-based hedge funds, whose fraudulent actions caused investor losses of approximately $500 million. The Commission also charged the former Chairman and CEO of Enron Energy Services with selling Enron stock on the basis of material, nonpublic information, and he agreed to pay $32 million in disgorgement, penalties, and prejudgment interest. In a major financial fraud case, the former Chairman and CEO of DHB Industries, a major supplier of body armor to the U.S. military and law enforcement agencies, was charged with engaging in a pervasive accounting fraud between 2003 and 2005, violating insider trading laws in 2004, and using millions of dollars in corporate funds to pay personal expenses. The SEC filed options backdating cases against Broadcom, the Chairman and CEO of UnitedHealth Group, Brooks Automation, and executives with Monster Worldwide, among others. In all, the disgorgements and penalties ordered in SEC cases amounted to more than $1 billion in FY 2008.

Office of Collections and Distributions. In FY 2007, the SEC created the office to manage the collection of penalties and disgorgements and speed the process of returning funds back to harmed investors. The agency also continued to use the Phoenix system, deployed in 2007, which has significantly improved the tracking of dollars ordered to be paid to the SEC, courts, or other appointed trustees. Between FY 2004 and FY 2008, the total amount ordered was approximately $12.9 billion. About 75 percent of this total has been either collected or otherwise satisfied as of the end of FY 2008. The SEC also succeeded in distributing approximately $1 billion to injured investors in FY 2008, bringing total distributions since the passage of Sarbanes-Oxley to an estimated $4.3 billion. The SEC continues to streamline the process and return funds to investors as quickly as possible.[1]

Internet enforcement, microcap fraud, municipal fraud. In FY 2008, the SEC continued to fight fraudulent activity conducted via the Internet and in the sale of microcap and municipal securities. The SEC obtained an emergency court order freezing the assets of the alleged perpetrator of an Internet fraud scheme that reaped approximately $72 million from more than 3,000 investors in all 50 states and at least 30 foreign countries. In four separate enforcement actions, the Commission charged six microcap companies, four company officers, and several market professionals who, according to the Commission's allegations, engaged in a scheme to raise millions of dollars in capital through improperly registered stocks.

Additionally, the SEC charged the mayor of Birmingham, Alabama, and others with fraud related to municipal bond offerings and swap agreement transactions he directed. The Commission also filed a settled civil fraud action against the independent auditor of San Diego, California, in connection with the city's false and misleading financial statements in five 2002 and 2003 bond offerings.

Enhancing enforcement and examination systems. In FY 2008, the agency focused on improving and strengthening the agency's internal enforcement and examinations systems. The Division of Enforcement's new system, called "The Hub," gives all enforcement staff access to the entire inventory of investigations and provides senior managers with a wealth of data about those activities. As a result, enforcement leadership's ability to direct the resources of the entire national enforcement program quickly and effectively has been enhanced significantly.

The Risk Assessment Database for Analysis and Reporting (RADAR) automates OCIE's risk assessment and mapping process, which helps the office identify and respond quickly to new or resurgent forms of fraudulent, illegal, or questionable behavior or products. Using RADAR, examiners nationwide can identify and prioritize risks to investors, registrants, and markets, which the SEC analyzes to determine examination priorities and

1 *The figures reflect balances associated with amounts paid to the SEC, courts, or other appointed trustees, whereas the financial statements and notes reflect only amounts ordered or paid to the SEC.*

develop appropriate regulatory responses. In FY 2008, OCIE expanded the information it collects and analyzes using RADAR, and the office plans to enhance the system further in FY 2009.

In FY 2008, the agency began developing the Risk Assessment Documentation and Inspection Umbrella System (RADIUS), a new over-arching examination platform that will allow staff to conduct, plan, and coordinate examinations more easily and effectively. Ultimately, RADIUS will serve as the central platform for the examination program through which examiners will perform program-wide risk assessment, document management, data tracking and reporting, and program-wide planning.

***CCOutreach* Program.** During the year, the SEC fully implemented a new *CCOutreach* program for broker-dealers, with the SEC and Financial Industry Regulatory Authority (FINRA) conducting 14 regional seminars. The seminars focused on the SEC's examination priorities, FINRA's examination findings, and other important issues to assist chief compliance officers (CCO) in developing and enhancing effective compliance programs. Additionally, the SEC continued to host seminars for compliance officers at investment advisers and funds, and the agency issued a new *ComplianceAlert* letter identifying common deficiencies and weaknesses that SEC examiners found during their examinations of firms.

Enhanced Protection, Outreach, and Disclosure for Investors

Expanded SEC office focusing on investor protection. The SEC significantly improved and expanded its investor education and advocacy functions in 2007, establishing the Office of Investor Education and Advocacy (OIEA). With an expanded staff, OIEA undertook new initiatives in FY 2008, focusing on assessing the views and needs of retail investors, ensuring those views inform the SEC's regulatory policies and disclosure programs, improving financial literacy, and helping investors make informed investment decisions.

Protecting seniors from fraudulent activities and abusive sales practices. The SEC continued to focus on protecting the savings and investments of seniors, who hold the vast majority of the nation's savings, making them prime targets for fraud. The SEC, FINRA, and the North American Securities Administrators Association (NASAA) announced in 2006 a multi-year national initiative to protect seniors from investment fraud and sales of unsuitable securities. A key component of the initiative has been the Seniors Summit. The third annual summit, which was held in September, focused on helping older investors make difficult financial decisions and learn ways to protect their assets as they age. This year, the three regulators also launched an initiative to identify effective practices used by financial services firms in dealing with senior investors and to disseminate information about these best practices throughout the industry.

Additionally, the Commission proposed a new rule that would protect seniors from fraudulent and abusive sales of equity indexed annuities, which are often sold to seniors but may be unsuitable for them because of high early surrender charges that lock up investors' money for many years. The proposed rule establishes the standards for determining when the annuities are subject to the investor protections afforded by the securities laws.

Improved access to municipal securities information. In July 2008, the Commission proposed measures that would for the first time enable investors to access complete financial information about municipal bonds for free on the Internet. Approximately two-thirds of the $2.5 trillion in municipal securities are owned directly or indirectly by retail investors. Currently, issuers of municipal bonds submit their disclosures to a variety of for-profit information repositories that then sell the disclosures to the public, severely limiting the availability of this information to retail investors. The proposed amendments would designate the Municipal Securities Rulemaking Board as the central repository for ongoing disclosures by municipal issuers.

Enhancement of Global Accounting Standards. The increasing integration of the world's capital markets, which has resulted in two-thirds of U.S. investors directly or indirectly owning securities issued by foreign companies that report their financial information using International Financial Reporting Standards (IFRS), has made the establishment of a single set of high quality accounting standards a matter of growing importance. In 2008, the SEC took several major steps to encourage the development of IFRS as a uniform and high-quality global standard, which would help U.S. investors who own foreign securities better analyze and more readily compare their investments. The Commission aided the record number of U.S. investors who own the securities of foreign companies by approving rule amendments encouraging foreign private issuers in the U.S. to use the version of IFRS issued by the International Accounting Standards Board (IASB). The rule amendments eliminate the GAAP reconciliation requirement for foreign private issuers that use the version of IFRS issued by the IASB. In addition, the Commission voted on a proposed "roadmap" that could lead to the use of IFRS rather than GAAP by U.S. issuers beginning in 2014. The Commission will make a decision in 2011 on whether adoption of IFRS is in the public interest and would benefit investors. Finally, the SEC worked with other securities authorities to enhance the governance of the International Accounting Standards Committee Foundation, which oversees the IASB.

Report of the SEC's Advisory Committee on Improvements to Financial Reporting. In FY 2008, the Advisory Committee released its final report identifying ways to reduce complexity in the U.S. financial reporting system and make financial reports clearer to investors. The report has 25 recommendations for the SEC, FASB, and the Public Company Accounting Oversight Board (PCAOB). The SEC also considered how best to implement these recommendations in future rulemaking actions.

Proposals allowing summary prospectuses for mutual funds. In November 2007, the Commission proposed rule amendments that would allow all mutual fund investors to receive a clear, concise summary of key information needed to make an informed decision. The proposed rules are intended to enable investors to use and compare mutual fund information more effectively. The SEC published a prototype summary prospectus on its Web site and actively sought investor input.

Information sharing agreements. In FY 2008, the SEC entered into a MOU with the Commodity Futures Trading Commission (CFTC) to establish a permanent regulatory liaison between the two agencies and provide for enhanced information sharing. The agreement establishes a process to better address the regulatory issues that cross regulatory boundaries established decades ago. The SEC also signed protocols to share information on the application of IFRS, as issued by the IASB, with financial regulators in four European countries—Belgium, Bulgaria, Norway, and Portugal.

Small business cost and benefits study of Section 404. The SEC commenced a cost-benefit study of the auditor attestation requirement for smaller companies under Section 404(b) of the Sarbanes-Oxley Act of 2002. The study will collect and analyze extensive "real world" cost and benefit data from a broad array of companies currently complying with Section 404, under the new Auditing Standard by the PCAOB and the management guidance the agency provides. The new audit standard and management guidance were intended to reduce the compliance costs of Section 404, while strengthening its focus on material controls. In addition to assessing the Section 404 cost reductions resulting from the Commission's recent actions, the final report also will inform any decision to improve the efficiency and effectiveness of Section 404 implementation. To allow time for completion of the study, the Commission proposed a one-year extension of the Section 404(b) auditor attestation requirement for smaller public companies, with the requirement first applying to companies whose fiscal years end on or after December 15, 2009.

Electronic shareholder forums. In FY 2008, the Commission adopted amendments to facilitate the use of electronic shareholder forums. The amendments allow the use of technology to help shareholders communicate with each other and express their concerns to companies in more cost-effective ways, while removing legal concerns.

Information security. The Commission proposed new rules that provide more detailed standards for information security programs, including safeguarding information and responding to information security breaches. The proposed rules are intended to protect investor privacy and prevent security breaches at the financial institutions and other entities the SEC regulates.

Improving Transparency for Investors

Interactive Data Electronic Applications (IDEA). In FY 2008 the SEC unveiled a new system—IDEA—as the successor to the agency's 1980s-era Electronic Data Gathering Analysis, and Retrieval system (EDGAR) database. IDEA marks the SEC's transition from collecting and disseminating whole forms to making each item of information on the forms individually searchable. The Office of Interactive Disclosure also led the implementation of a new electronic data-based filing system and free Web-based analytical tools for investors.

Taxonomies for GAAP. In FY 2008, the SEC released for public comment the computer labels, or "tags," that will enable public companies to make financial reports available in interactive data form instead of text form. The financial reporting taxonomy is the resulting standardized list of computer codes used to represent GAAP. The Commission will use the initial financial statements prepared using the new taxonomy to develop IDEA to seamlessly accept and render the filings.

Financial Explorer, Mutual Fund Reader, and Executive Compensation Reader. The SEC launched Web-based applications that allow investors to find, view, download, and analyze financial and other information that public companies and mutual funds submit in interactive data format. Using these applications investors can compare key financial information about companies and mutual funds. In addition, one year of data on executives' compensation at 500 of the largest American companies is also available on the SEC's Web site.

Rule proposals requiring companies and mutual funds to use interactive data. The Commission proposed in May 2008 a requirement that U.S. reporting companies provide their financial statements and footnotes in interactive data. The Commission also proposed that mutual fund investors be given access to key information about fees, performance, and strategies through interactive data for more than 8,000 mutual funds.

Interactive data roundtables. As the SEC continued to make the transition from a data collection system that is form-based to one that is dynamic, accessible, and better organized around core company and mutual fund information, the agency continued its efforts to consult with outside organizations to learn from their efforts to use interactive data. The SEC hosted the International Roundtable on Interactive Data for Public Financial Reporting in June 2008. Topics included the experience in countries that have already adopted interactive data and the views of countries currently considering adopting interactive data. Another roundtable in October 2008 focused on the data, technology, and processes that companies use in satisfying their SEC disclosure obligations, as well as how the SEC could improve its disclosure system so that companies enjoy efficiencies and investors have better access to high-quality information, especially in light of the current credit crisis.

Financial and Performance Highlights

- In FY 2008, the SEC was authorized by Congress to spend $906 million, a 2.8 percent increase over the $881.6 million authorized in FY 2007. Funding was offset by fees collected by the SEC. Of the total authority, $843 million was new budgetary authority and the remaining $63 million was carried over from prior year unobligated balances, as illustrated in *Chart 1.2.*
- In FY 2008, the SEC reduced its year-end unobligated balance over previous levels through rigorous oversight and management of budgetary resources made possible by improvements in technology such as the agency's budget and performance tool.
- The SEC employed 3,511 FTE in FY 2008. This represents an increase of 46 FTE over FY 2007.
- In 2002, Congress set by law the aggregate amounts the SEC is to collect annually through fees. These target amounts generally exceed the level of funding appropriated to the SEC, and are used by Congress to offset SEC and other federal spending.
- In order to meet the offsetting collections target in FY 2008, the SEC lowered the rates of fees it collects on securities transactions on the exchanges and certain over-the-counter markets. Additional discussion of the fees collected by the SEC can be found in *Note 1.L. Accounts Receivable and Allowance for Uncollectible Accounts* on page 66, and *Note 1.S. Revenue and Other Financing Sources* on page 68.
- While the transaction fee rate was cut by more than half from this time last year, there was significantly more transactional volume compared to last year. Therefore, the total collections dropped only 36 percent. In accordance with law, the SEC collected fees in excess of its appropriations from Congress. However, the excess amount is declining, as illustrated in *Chart 1.3*.

CHART 1.2

Spending Authority by Source

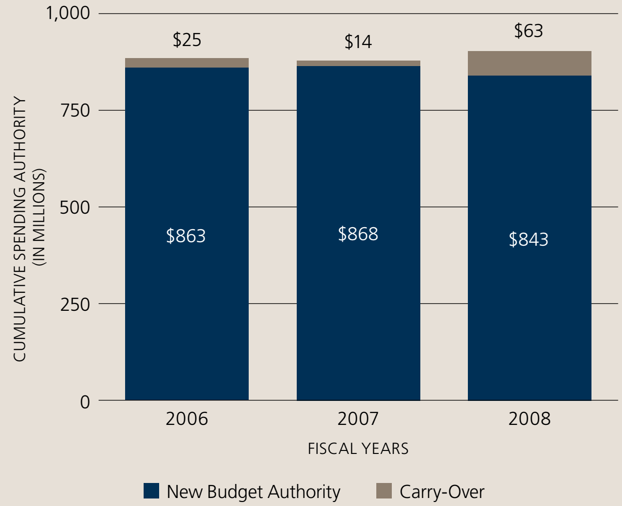
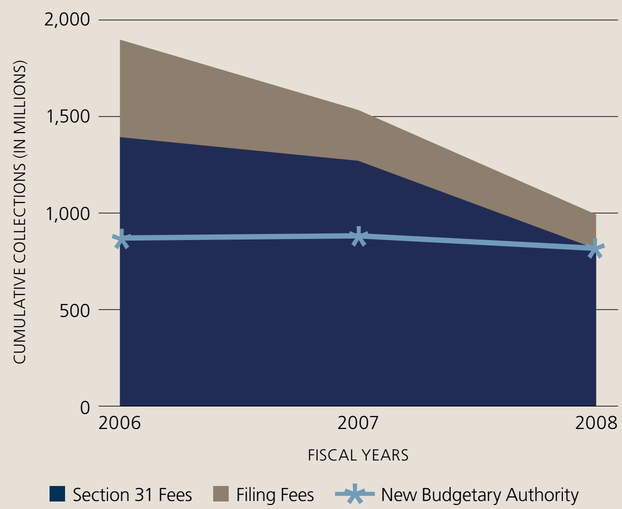


CHART 1.3

Offsetting Collections vs. New Budgetary Authority



- Decreases in the fee rates are reflected in line item variances from the prior year for: Accounts Receivable shown on the Balance Sheet on page 59; Earned Revenue per the Statement of Net Cost on page 60; and Spending Authority from Offsetting Collections and Temporarily not Available Pursuant to Public Law on the Statement of Budgetary Resources on page 62.
- The continued accumulation of offsetting collections is reflected in the increase to Fund Balance with Treasury (FBWT) and a corresponding increase in Cumulative Results of Operations as reported on the Balance Sheet on page 59.
- Due to the aggressive and sustained efforts of SEC staff, approximately 74 percent of the agency's planned performance levels were either met or exceeded in FY 2008 *(Chart 1.4)*. The FY 2008 performance level is approximately 18 percentage points greater than the FY 2007 performance level.
- The SEC dedicated a majority of its resources to *Goal 1: Enforce Compliance with Federal Securities Laws.* As reported in the Statement of Net Cost on page 60, nearly 64 percent of agency resources, including two-thirds of the agency's FTE, were focused on detecting and prosecuting securities violations *(Chart 1.5)*.
- In FY 2008, the SEC undertook the second highest number of enforcement actions in agency history. The Commission returned approximately $1 billion to harmed investors through Disgorgement and Fair Fund distributions, $738.5 million of which stemmed from 11 major cases *(Table 1.1)*.
- The market turmoil in FY 2008 required the Division of Investment Management to provide an extraordinary number of no-action responses on an emergency basis. Staff increased their efforts and significantly surpassed the FY 2008 timeliness goal for responding to no-action letter and interpretive requests for guidance about federal securities laws *(Performance Section, Table 2.21)*.
- The Divisions of Corporation Finance and Investment Management exceeded their performance targets for the review of Exchange Act reporting company disclosures in FY 2008 *(Performance Section, Table*

CHART 1.4

FY 2008 Results by Performance Level

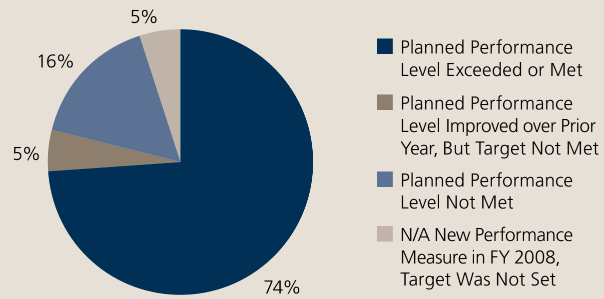


CHART 1.5

FY 2008 Cost by Goal

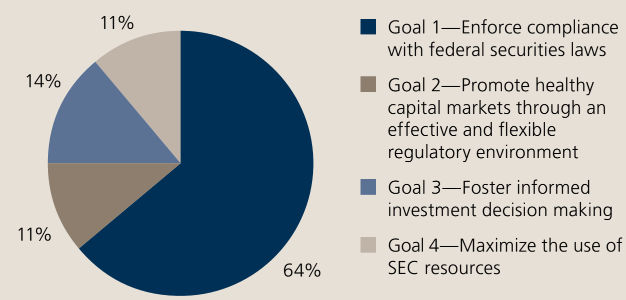


TABLE 1.1

Major SEC Distributions to Harmed Investors during FY 2008*

(DOLLARS IN THOUSANDS)	
Massachusetts Financial Services Company	$307,698
Banc of America Capital Management LLC	$147,169
Knight Securities	$ 53,217
Columbia Management Advisors, Inc.	$ 49,616
Franklin Advisors Inc.	$ 49,123
Janus Capital Corporation	$ 42,261
Ameriprise Financial Services	$ 31,771
RS Investment Management Inc. et al	$ 27,048
Bank of America Securities Distribution Fund	$ 26,619
International Equity Advisors	$ 3,420
Commonwealth Equity Services Fund	$ 537

*The SEC does not report on its financial statements any amounts another government entity such as a court, or a non-governmental entity, such as a receiver has collected or will collect and will subsequently disburse.

2.25). This level of review allows the SEC to continue to meet the requirements of the Sarbanes-Oxley Act by reviewing material financial and other information of all corporations and investment company portfolios at least once every three years.

- In FY 2008, the Commission proposed rules to respond to the market turmoil, as well as to improve the quality of disclosures for investors. For a discussion of key rules and other Commissions efforts, see the *FY 2008 Highlights* on page 10.
- In FY 2008, the OIEA met its targets for responding to new investment-related complaints and questions from investors who contact the SEC. Nearly 81,000 investor contacts were received during FY 2008, an almost 5 percent increase over FY 2007. OIEA is exploring process changes and improved information management (e.g., updating topical information on SEC.gov) in order to resolve investor matters even more quickly in the future *(Table 1.2* and *Performance Section, Table 2.31).*
- In FY 2008, the SEC upgraded its core financial management system and implemented an automated time and attendance system capable of collecting information on the activities staff performed in support of the SEC's mission.
- Outlays for property and equipment decreased this year from prior year highs related to Washington D.C. and New York office leasehold improvements, and the accumulated amortization on the prior balances contributed to the net decrease of Property and Equipment reported on the Balance Sheet on page 59. See *Table 1.3.*

TABLE 1.2

Percentage of investor complaints and inquiries completed within seven and thirty business days

	FY 2007	FY 2008
Closed within 7 days		
Phone calls	98%	99%
Other contacts	64%	70%
Total	82%	85%
Closed within 30 days		
Phone calls	99%	99%
Other contacts	88%	91%
Total	94%	95%

TABLE 1.3

Change in Property Balance

(IN THOUSANDS)	FY 2008	FY 2007
Total Property Acquisitions	$ 16,809	$ 31,511
Depreciation/Amortization	(29,626)	(35,912)
Disposals	(1,456)	(950)
Total Reductions in Property	(31,082)	(36,862)
Total Change	$(14,273)	$ (5,351)

Limitations of the Financial Statements

The principal financial statements included in this report have been prepared to report the financial position and results of operations of the SEC, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the SEC in accordance with U.S. GAAP for federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity.

Performance Results Summary

In FY 2008, the SEC exceeded or met 43 planned performance levels on 36 performance measures. A comparison of the SEC's performance levels for FY 2007 and FY 2008, organized by goal, is presented in *Table 1.4.* A discussion of the agency's program achievements and detailed performance results is located in the *Performance Section.*

TABLE 1.4
PERFORMANCE RESULTS SUMMARY

KEY: LEVEL OF PERFORMANCE ATTAINED

- \+ Performance level exceeded or met
- ✓ Performance level improved over prior year, but target not met
- – Performance level not met
- N/A New performance measure in FY 2008, target was not set

	PERFORMANCE LEVEL	
GOAL 1 ENFORCE COMPLIANCE WITH THE FEDERAL SECURITIES LAWS	FY07	FY08
1. Percentage of advisers deemed "high risk" examined during the year	+	+
2. Percentage of firms receiving deficiency letters that stated they took or would take corrective action in response to all exam findings	–	–
3. Percentage of registrant population examined during the year:		
Investment advisers	+	+
Investment companies	+	+
Broker-dealers	+	+
4. Percentage of (non-sweep) exams that are concluded within 120 days	–	–
5. Percentage of attendees at *CCOutreach* that rated the program as "Useful" or "Extremely Useful" in their compliance efforts	+	+
6. Percentage of exams with "significant" findings*		
7. Percentage of first enforcement cases filed within two years	–	+
8. Maintaining an effective distribution of cases across core enforcement areas	+	+
9. Percentage of enforcement cases successfully resolved	+	+
10. Percentage of debts where either a payment has been made, or a collection activity has been initiated within six months of the due date of the debt	N/A	+
11. Percentage of Fair Funds and disgorgement dollars designated for distribution that are distributed to investors within 12 months	N/A	N/A
12. Volume of enforcement activity: investigations opened, cases filed, and investigations closed*		
13. Assets frozen abroad in SEC cases through coordination with foreign regulators*		
GOAL 2 PROMOTE HEALTHY CAPITAL MARKETS THROUGH AN EFFECTIVE AND FLEXIBLE REGULATORY ENVIRONMENT		
14. Percentage of SRO rule filings closed in less than 60 days from filing	+	+
15. Average daily share volume (in billions of shares) on the NYSE and Nasdaq exchanges:		
NYSE	+	–
Nasdaq	–	+
16. Percentage of transaction dollars settled on time each year	N/A	+
17. Percentage of market outages at SROs and ECNs that are corrected within targeted timeframes:		
Within 2 hours	+	+
Within 4 hours	+	+
Within 24 hours	+	+
18. Equity portfolio holdings of U.S. investment companies as a percentage of total U.S. stock market capitalization	+	+
19. Number of new foreign private issuers and dollar amount of registered securities*		
20. Percentage of regulated entities representing a single point of failure that meet the continuity of operations standards of the White Paper, the Policy Statement, and the Automated Review Program:		
White Paper analysis	N/A	+
Policy Statement analysis	N/A	–

TABLE 1.4
PERFORMANCE RESULTS SUMMARY (CONTINUED)

	PERFORMANCE LEVEL	
GOAL 2 PROMOTE HEALTHY CAPITAL MARKETS THROUGH AN EFFECTIVE AND FLEXIBLE REGULATORY ENVIRONMENT (CONTINUED)		
21. Timeliness of SEC responses to written no-action letter, exemptive applications, and interpretive requests:		
Trading and Markets: No-action letter, exemptive, and interpretive requests (combined figure)	+	–
Investment Management: No-action letter and interpretive requests	+	+
Investment Management: Exemptive applications	N/A	+
Corporation Finance: No-action letter and interpretive requests	–	–
Corporation Finance: Shareholder proposals	+	+
22. Percentage of U.S. households owning mutual fund shares	+	+
23. Percentage of U.S. households investing in the securities market either through direct share ownership or ownership of mutual funds	N/A	N/A
24. Mutual fund share of total retirement assets	+	+
GOAL 3 FOSTER INFORMED INVESTMENT DECISION MAKING		
25. Percentage of Exchange Act reporting companies reviewed by the SEC:		
Corporations	+	+
Investment company portfolios	+	+
26. Average time to issue initial comments on Securities Act filings	+	+
27. Percentage of investment company disclosure reviews for which initial comments are completed within timeliness goals:		
Initial registration statements	+	+
Post-effective amendments	+	+
Preliminary proxy statements	+	+
28. Percentage of forms and submissions filed electronically and in a structured format:		
Forms: Total percentage in electronic format	–	+
Filings received: Total percentage in electronic format	–	+
29. Number of searches for EDGAR filings on www.sec.gov	+	–
30. Demand for investor education information, and average cost per thousand investors reached:		
Total number of investors reached (in millions, with Web visits)	N/A	N/A
Average cost per thousand investors reached (with Web visits)	N/A	N/A
31. Percentage of investor complaints and inquiries completed within 7 and 30 business days:		
Closed within 7 days	+	+
Closed within 30 days	N/A	+
32. Investor assistance and public information telephone inquiries:		
Investor assistance	N/A	+
Public information	N/A	+
33. Responses to Freedom of Information Act requests	N/A	+
GOAL 4 MAXIMIZE THE USE OF SEC RESOURCES		
34. Staff turnover rate	–	+
35. Maintain a top five ranking among the Best Places to Work in Government	+	+
36. Human resources productivity	Discontinued	
37. Percentage of the time that SEC.gov and EDGAR are operable:		
SEC.gov	+	+
EDGAR	+	+
38. Number of OIG and GAO information security-related recommendations outstanding for more than 18 months:		
GAO recommendations	–	✓
OIG recommendations	–	+
39. Percentage of major systems that have been certified and accredited, and given a privacy impact assessment, within required timeframes:		
Major systems certified and accredited	–	–
Major systems with privacy impact assessment completed	–	–
40. Financial audit results:		
Unqualified opinion	+	+
Material weaknesses	–	+
Significant deficiency	–	+

**Denotes an indicator and will not have performance targets.*

Note: Since the FY 2007 PAR, the SEC has adopted new performance measures. These new measures and corresponding data are included in the agency's FY 2009 Congressional Justification and the Performance Section *of this report.*

Management Assurances

Chairman's Assurance Statement

The management of the SEC is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA. Internal control is an integral component of the agency's management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. The SEC is able to provide reasonable assurance that the internal controls and financial management systems meet the objectives of FMFIA.

The SEC's Financial Management Oversight Committee (FMOC) assured prompt implementation and proper resolution of corrective actions addressing the previously identified material weakness in internal control over financial reporting. Based upon the results of the actions taken, the SEC can provide reasonable assurance that internal control over financial reporting as of September 30, 2008 was operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

The SEC conducted its evaluation of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123. In its review, the SEC found no material weakness or material non-conformance in the design or operation of its internal controls.

Chris Cox

Christopher Cox
Chairman
November 14, 2008

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 is implemented by the OMB Circular No. A-123, revised, *Management's Responsibility for Internal Control.*

Section 2 of the FMFIA requires federal agencies to report, on the basis of annual assessments, any material weaknesses that have been identified in connection with its internal and administrative controls. The reviews that took place during FY 2008 provide reasonable assurance that SEC systems and management controls comply with the requirements of the FMFIA.

Section 4 of the FMFIA requires that agencies annually evaluate and report on whether financial management systems conform to government-wide requirements. The SEC evaluated its financial management systems for the fiscal year ending September 30, 2008 in accordance with the FMFIA and OMB Circular No. A-127, *Financial Management Systems,* as applicable. The financial management systems are in substantial compliance with federal financial management system requirements.

Internal control over financial reporting was evaluated by the SEC's independent auditors, the Government Accountability Office (GAO). GAO concluded that although certain controls could be improved, SEC had effective internal control over financial reporting as of September 30, 2008.

The SEC conducted its annual assessment of the effectiveness of internal control in accordance with the requirement of OMB Circular No. A-123, *Management's Responsibility for Internal Control.*

In accordance with guidance issued by the SEC's Office of the Executive Director, 33 office heads conducted reviews of their financial, administrative, and program management controls in FY 2008. The offices range in size from 8 to 487 positions, with an average of 115 positions at the end of FY 2008. This segmentation ensures comprehensive coverage of SEC offices.

Each office head prepared an annual assurance statement that identified any control deficiencies meriting the attention of the Chairman. These statements were based on information gathered from various sources, including, among other things:

- Management's personal knowledge gained from the daily operation of the office;
- Internal management reviews and self-assessments;
- GAO and Office of Inspector General reports;
- Annual performance plans and reports;
- Audits of the agency's financial statements;
- Reports and other information from Congress or the Office of Management and Budget; and
- Additional reviews relating to the office's operations, including those discussed in the *Other Reviews* section below.

Each year, the agency's FMOC evaluates the Section 2 and 4 submissions, recommendations from the Office of the Inspector General (OIG), and other supplemental sources of information. Based on this review, the FMOC advises the Chairman as to whether the SEC had any internal control or system design deficiencies serious enough to be reported as a material weakness or non-conformance.

Other Reviews

Also during the year, the OIG and the Office of Information Technology (OIT) conducted a combined total of 21 additional reviews. The reviews covered 16 of the 33 assessable units (48 percent). Some components had multiple reviews.

Further, OIT, in conjunction with system owners, completed the certification and accreditation of 21 major systems in FY 2008. As a result, the SEC has now certified and accredited a total of 45 systems in accordance with the appropriate guidance from OMB and National Institute of Standards and Technology. OIT also completed contingency testing on the majority of the SEC's accredited systems in conjunction with several of its disaster recovery exercises.

Finally, GAO audited the Commission's financial statements. GAO's procedures included audits of the FY 2008 financial statements, internal control over financial reporting and compliance with selected laws and regulations material to SEC's financial statements, and actions taken in response to prior GAO audit recommendations.

Eliminating Material Weakness in Internal Controls over Financial Reporting

Description of FY 2007 Material Weakness. GAO's audit of the SEC's financial statements for FY 2007 found a material weakness in internal controls over financial reporting, stemming from the combination of four control deficiencies. These four deficiencies related to the SEC's period-end financial reporting process, disgorgements and penalties accounts receivable, accounting for transaction fee revenue, and preparing financial statement disclosures.

The first two deficiencies, related to the period-end financial reporting process and the disgorgements and penalties accounts receivable, were attributed to the same underlying condition: lack of an integrated financial system forcing reliance on manual processes. With manual processes, the risk of error is inherently greater. GAO found that SEC processes for recording transaction fee revenue and preparing financial statement disclosures were subject to error because the agency did not have documented procedures.

Corrective Actions Taken. The SEC was successful in eliminating in FY 2008 the material weakness in internal controls over financial reporting that was cited in the FY 2007 audit. Developing a fully integrated financial management system was the keystone of the SEC's FY 2008 Corrective Action Plan for remediation of the material weakness and system non-conformance. The first step toward full integration of the SEC's financial management systems was the upgrade of the agency's core financial system, Momentum, which was accomplished in FY 2008. The upgraded system provides full integration of accounts payable; accounts receivable, including disgorgements and penalties; purchasing; and property, plant, and equipment (PP&E) transactions with the general ledger. The system improvements eliminated a significant amount of manual data handling of material financial balances, resulting in enhanced timeliness, accuracy, and reliability of financial information, and greater transparency in financial processes.

To address the lack of documented procedures cited by GAO as the cause for deficiencies related to transaction fee revenues and preparing financial statement disclosures, the SEC improved process documentation for financial reporting and period-end closes. The SEC's first quarter 2008 financial statements were the first to be prepared using the newly documented methodologies.

In addition, beginning in the first quarter, the SEC eliminated the labor-intensive use of multiple spreadsheets by automating the generation of financial statements and analytical reports. Consistency and quality assurance checking and the identification of abnormalities or inconsistencies were automated through rule-based validation and data integrity checks.

Utilizing best practices, several other changes to SEC financial management business processes were made, improving the effectiveness and efficiency of internal control and increasing transparency. Foremost among these, disgorgement and penalty disbursements are now accomplished through Momentum using standard disbursement processes. Previously the disbursements were made using an exception process, bypassing the framework of controls available through both Momentum and the standard Treasury certification and disbursement processes.

These and other improvements substantially reduced the risks associated with the material weakness identified by GAO last year.

Additional Corrective Actions Planned. The SEC will continue to strengthen internal control and fully integrate its financial management systems, including addressing the three significant deficiencies identified by the GAO. Full integration will be achieved through automating the manual interfaces currently in place for accounts receivable and PP&E, and the manual process for investments and financial statements generation, and footnotes disclosure. Fully integrating these processes will increase control efficiency essential to ensure sustainable processes. The SEC will continue this effort as a top priority in FY 2009, and expects to complete this project in 2010.

Financial Management System Conformance

Although the SEC is not required to comply with the Federal Financial Management Improvement Act, the agency assesses its financial management systems annually for conformance with the requirements of OMB Circular A-127 and other federal financial system requirements.

Description of FY 2007 Non-conformance. In the past, SEC systems did not conform to the fundamental requirements for federal financial management systems to be fully integrated and comply with the U.S. Standard General Ledger (SGL) at the transaction level.

Corrective Actions Taken. As described above, the upgrade accomplished in FY 2008, was an essential step in moving toward full integration. The new system (including accounts receivable and fixed asset modules) is compliant with the standards established by the Financial System Integration Office (FSIO), which requires conformance with all federal financial system requirements. The SEC addressed the issue of non-compliance with the SGL at the transaction level through the data conversion process and deployment of accounts receivable and PP&E modules in FY 2008. Business processes were refined and a manual interface at the transaction level was implemented for disgorgement and penalty accounts receivable. All Commission enforcement receivables are now recorded at the transaction level in the SEC financial management system of record (Momentum), eliminating the past use of spreadsheet and summary level general ledger adjustments posted on a monthly basis. Previously, data was manually entered at a summary level, whereas compliance with SGL is required at the transaction, or detail, level. Similarly, in FY 2008 the SEC also implemented the fixed asset module to automate and integrate accounting processes related to PP&E using standard SGL compliant transactions.

Additional Corrective Actions Planned. As a result of the corrective actions taken over the past year, the SEC is in substantial compliance with federal financial management system requirements. However, additional improvements, mentioned above, are planned to achieve full integration of financial management systems resulting in greater efficiency, effectiveness, and risk mitigation by minimizing reliance on detective controls.

Federal Information Security Management Act (FISMA)

FISMA requires federal agencies to conduct an annual self-assessment of their IT security and privacy programs, to develop and implement remediation efforts for identified weaknesses and vulnerabilities, and to report compliance to OMB. The SEC's Inspector General, Chief Information Officer, and Privacy Officer performed a joint review of the agency's compliance with FISMA requirements during 2008, and submitted the report to OMB on October 1, 2008, as required. The report showed that the agency continued to make progress in mitigating information security risk and complying with FISMA requirements, and that no significant deficiencies were identified.

During the year, additional steps were taken to enhance the overall information security and privacy programs at the SEC, including developing a comprehensive set of policies and procedures related to information security management, conducting a review of 54 Privacy Act Systems of Record, and revising several privacy-related policies and procedures in accordance with requirements to reflect the importance of protecting personally identifiable information. The agency strengthened a range of technical controls including intrusion monitoring, password management, access control, patch management, system change control, and database security. The SEC also established a process designed to allow the security team to scan the systems for adherence to security requirements in lieu of self-assessments by system owners. This new process also enhanced physical security monitoring at the SEC primary data center and made improvements in the timeliness and accuracy of user access reports provided to system owners. The agency achieved 99 percent compliance with annual information security and privacy awareness training, and its OIT and regional offices completed tabletop exercises to train the regional disaster recovery teams.

Performance Section

This section provides performance information for each of the SEC's four strategic goals: (1) enforce compliance with federal securities laws, (2) promote healthy capital markets through an effective and flexible regulatory environment, (3) foster informed investment decision making, and (4) maximize the use of SEC resources. Through various program initiatives, the SEC strives to achieve its mission by meeting performance targets. Throughout the year, the performance results are analyzed to determine the success of program activities.

Organized by strategic goal, the following section discusses FY 2008 program achievements and progress toward reaching planned performance levels. For each performance measure, this section presents the actual performance level achieved, analysis of the performance results, and, when applicable, plans for improving performance. The end of the section discusses program assessments and evaluations conducted in FY 2008.

Performance Results by Strategic Goal

In FY 2008, the SEC budgeted more than $900 million to achieve its goals of enforcing compliance with the federal securities laws, promoting healthy capital markets, fostering informed investment decision making, and maximizing the use of agency resources. Overall, the agency exceeded or met approximately 74 percent of its planned performance levels. See *Performance Results Summary Table 1.4* in *Management's Discussion and Analysis.*

The *Performance Section* is organized by strategic goal. Each strategic goal chapter opens by reviewing the purpose of the goal, which is followed by a general discussion of program performance in FY 2008. Each strategic goal chapter closes with detailed performance measures that gauge the agency's progress in meeting its planned performance targets and fulfilling the agency's mission, as well as indicators that are useful in understanding the agency's activities.

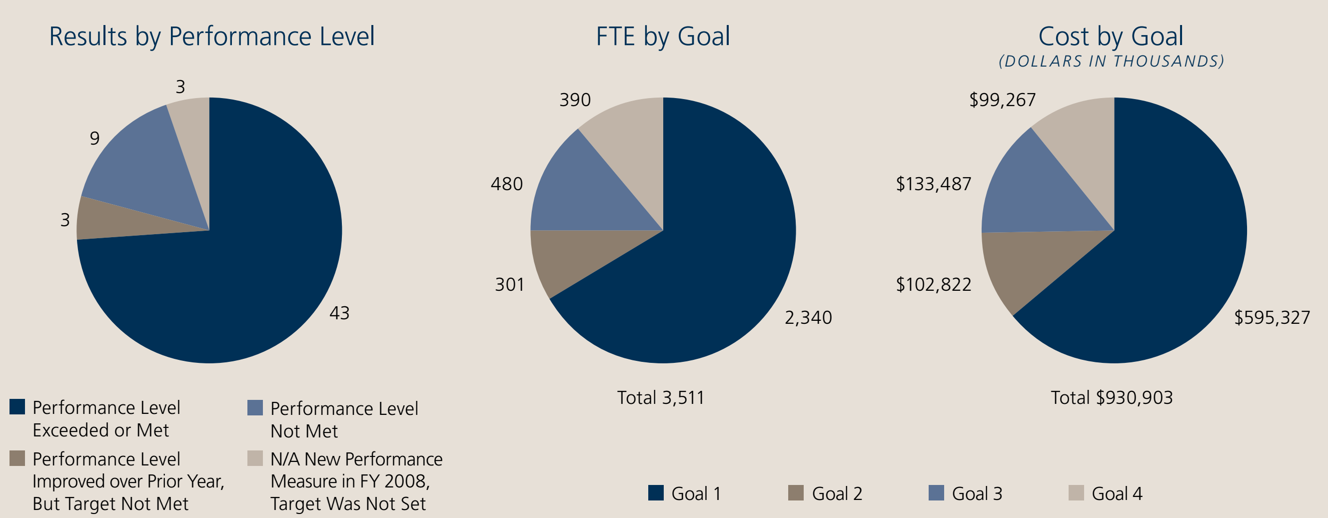
The performance measure presentations show comparisons between the planned and the actual performance levels for FY 2008. As required by OMB Circulars A-11 and A-136, FY 2008 performance is categorized as follows:

- Exceeded—actual performance levels achieved exceeded planned performance levels
- Met—actual performance levels achieved planned performance levels exactly
- Improved over prior year, but not met—actual performance levels achieved in FY 2008 exceeded FY 2007 performance levels, but did not meet FY 2008 planned performance levels
- Not met—actual performance levels achieved did not meet planned performance levels
- Data not yet available—data was not available at the time of publication

The performance indicators do not include planned performance targets that the SEC strives to achieve, but instead provide useful information for understanding the agency's activities. For some indicators, no targets are included because it would be inappropriate for the agency to conduct certain activities with an eye towards hitting predetermined targets rather than evaluating the evidence as presented.

All performance measures and indicators include an analysis of FY 2008 performance results and three years of historical data, where available. A plan for improving program performance is included for measures where non-achievement was significant.

CHART 2.1
FY 2008 PERFORMANCE RESULTS



Goal 1: Enforce Compliance with Federal Securities Laws

In enforcing the federal securities laws, the SEC focuses on early detection of potential problems or issues in the securities markets, preventing violations of securities laws, and sanctioning violators. In FY 2008, the agency focused more than half of its resources to achieving this goal. A total of 2,340 FTE and more than $595 million were dedicated to the programs in this area, resulting in the SEC meeting or exceeding its targets for nine of 12 performance targets.

CHART 2.2
GOAL 1 PERFORMANCE RESULTS

Results by Performance Level

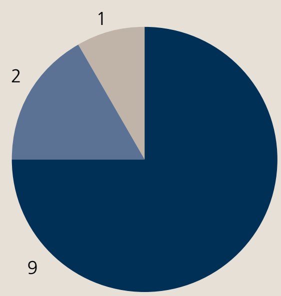
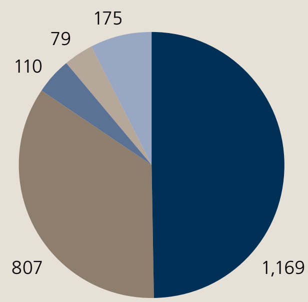


CHART 2.3
GOAL 1 PERFORMANCE RESULTS

FTE by Program



Program Achievements

In FY 2008, the SEC acted aggressively to enforce the federal securities laws. OCIE focused on issues that presented the most risk to investors and continued to implement the SEC's risk-based examination program. For example, in July 2008, OCIE began conducting examinations to determine whether broker-dealers and investment advisers had sufficient supervisory and compliance controls in place to prevent the intentional creation or spreading of false information to manipulate securities prices.

OCIE exceeded its targets for examinations of registered investment advisers, investment companies, and broker-dealers *(Table 2.3),* while maintaining its cycle of examining high-risk advisers at least once every three years *(Table 2.1).* Of the examinations OCIE conducted in FY 2008, a large portion resulted in significant findings. More than one-third of investment fund/adviser exams and nearly half of broker-dealer exams identified deficiencies that may cause harm to the firms' customers or that indicate repeated misconduct by the firms *(Table 2.6).*

Registrants continued to use the examination results and other information from OCIE to improve their operations. In FY 2008, of the firms notified of deficiencies in their books, records, or other aspects of their operations, the vast majority—93 percent—took action or stated they would take action to correct all of the problems and prevent them from recurring *(Table 2.2).* Meanwhile, OCIE continued to focus on helping firms avoid deficiencies by hosting its *CCOutreach* program for CCOs, which was rated as useful or extremely useful by over 90 percent of attendees *(Table 2.5).*

In FY 2008, the Commission brought 671 enforcement actions—the second-highest number of enforcement actions in agency history *(Table 2.12).* While financial disclosure cases continued to be the largest category of cases filed, securities offering cases were a significantly higher proportion of the caseload due to Enforcement's focus on the SEC's multi-year, national initiative with NASAA and FINRA in 2006 to protect seniors from investment fraud and sales of unsuitable securities *(Table 2.8).* Continuing a long-standing trend of high success ratios, the SEC successfully resolved 92 percent of its cases in FY 2008 *(Table 2.9).* For details about other significant cases brought by the Commission in FY 2008, see *Appendix B.*

The Division of Enforcement has more than 50 ongoing investigations relating to the subprime market.

Overall, the number of investigations opened in FY 2008 was 15 percent higher than the prior year. The division also focused its resources on closing outstanding investigations, closing 1,355 investigations in FY 2008, up 260 percent from FY 2007 *(Table 2.12).*

For the second year in a row, the Commission returned more than $1 billion to harmed investors through Disgorgement and Fair Fund distributions. Under the Sarbanes-Oxley Act, the SEC can use Fair Funds to redirect to harmed investors penalties collected from securities law violators. The SEC's Office of Collections and Distributions is focused on collecting and distributing as much of these funds as quickly as possible to compensate harmed investors for their losses *(Tables 2.10* and *2.11).*

Outcome 1.1: Potential problems or issues in the securities markets are detected early and violations of federal securities laws are prevented.

Performance Measures

TABLE 2.1

Percentage of advisers deemed "high risk" examined during the year

DESCRIPTION: To conduct oversight of investment advisers, the staff conducts a risk-based program of examinations. Advisers are identified as high risk at the beginning of every fiscal year, and then inspections are planned on a cyclical basis. The staff's goal is to inspect high risk advisers at least once every three years. This measure was developed in 2007 as part of the strategic planning process. FY 2005 data are not available.

FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
N/A	33%	33%	33%	33%

FY 2008 PERFORMANCE LEVEL ATTAINED: Met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: The SEC focuses its resources on those firms and activities presenting the most risk to investors. As planned, staff completed examinations of approximately one-third of the advisers deemed high risk at the beginning of FY 2008.

TABLE 2.2

Percentage of firms receiving deficiency letters that stated they took or would take corrective action in response to all exam findings

DESCRIPTION: At the conclusion of examinations, the staff communicates identified deficiencies to registrants in the form of a deficiency letter. Registrants are then given a chance to respond to staff findings and often take action to remedy any problems and potential risks. Most often, registrants respond that they have corrected the deficiencies and implemented measures to ensure that they do not recur. This measure was developed in 2007 as part of the strategic planning process. FY 2005 data are not available.

FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
N/A	95%	94%	95%	93%

FY 2008 PERFORMANCE LEVEL ATTAINED: Not Met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: During examinations in FY 2008, the staff identified a variety of areas where firms were not in compliance with federal securities laws. In response to examinations that identified deficiencies, over 90 percent of registrants stated they had taken or would take remedial action. Overall, the performance goal was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

TABLE 2.3

Percentage of registrant population examined during the year

DESCRIPTION: This measure indicates the number of registrants examined by the SEC or an SRO as a percentage of the total number of registrants. This measure includes all types of examinations: routine examinations, cause inspections to follow up on tips and complaints, limited-scope special inspections to probe emerging risk areas, and oversight examinations of broker-dealers to test compliance and the quality of the SROs' inspections. This measure was developed in 2007 as part of the strategic planning process. FY 2005 data are not available.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Investment Advisers	N/A	14%	13%	10%	14%

FY 2008 PERFORMANCE LEVEL ATTAINED: Exceeded

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: In FY 2008, the percentage of investment advisers examined was higher than planned partly due to the number of targeted risk assessment verification reviews that were completed during the year. The staff was able to maintain examination levels similar to FY 2007 despite increasing time spent on other related compliance efforts such as the *CCOutreach* program and *ComplianceAlerts,* which help CCOs learn more about common deficiencies and weaknesses that SEC examiners are finding during compliance examinations.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Investment Companies	N/A	27%	20%	15%	23%

FY 2008 PERFORMANCE LEVEL ATTAINED: Exceeded

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: In FY 2008, the percentage of investment company complexes examined was higher than planned despite increasing time spent on other related compliance efforts such as the *CCOutreach* program. The percentage examined in FY 2008 is lower than in FY 2006 due primarily to an increased focus on conducting routine examinations of high-risk target entities during the year which often take more time to complete because of the complexity of registrants' operations.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Broker-Dealers (exams by SEC and SROs)	N/A	49%	54%	55%	57%

FY 2008 PERFORMANCE LEVEL ATTAINED: Exceeded

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: The percentage of broker-dealers examined in FY 2008 was slightly higher than what was anticipated for the year, despite increasing time spent on other related compliance efforts such as the *CCOutreach* program.

TABLE 2.4

Percentage of (non-sweep) exams that are concluded within 120 days

DESCRIPTION: The staff conducts thousands of examinations each year of investment advisers, investment company complexes, transfer agents, and broker-dealers. The staff strives to complete its examinations in the most efficient and effective manner. When possible, the staff attempts to conclude its examinations within 120 days of the end of any field work completed. This measure was developed in 2007 as part of the strategic planning process. FY 2005 data are not available.

FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
N/A	83%	79%	80%	79%

FY 2008 PERFORMANCE LEVEL ATTAINED: Not Met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: The staff's goal is to identify and communicate potential issues to firms to ensure that compliance problems and issues are corrected quickly. Although slightly lower than planned, staff completed 79 percent of its (non-sweep) examinations within 120 days. There was no effect on overall program or activity performance.

TABLE 2.5

Percentage of attendees at *CCOutreach* that rated the program as "Useful" or "Extremely Useful" in their compliance efforts

DESCRIPTION: The *CCOutreach* program consists of several components that are designed to educate, inform, and alert chief compliance officers (CCOs) of pertinent information, including about effective compliance controls, that may assist them in administering compliance programs within registered firms. Improving compliance programs will reduce violative activity, resulting in increased protection for investors. At the conclusion of all *CCOutreach* events, CCOs are given the opportunity to rate the usefulness of the information provided in assisting them in their compliance efforts. This measure was developed in 2007 as part of the strategic planning process. FY 2005 data are not available.

FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
N/A	95%	97%	85%	92%

FY 2008 PERFORMANCE LEVEL ATTAINED: Exceeded

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: During FY 2008, the staff devoted a significant amount of time to this program in order to make it as relevant and beneficial as possible for registered entities. Overall, as expected, the program continued to improve and was well received by the majority of CCOs attending.

TABLE 2.6
INDICATOR

Percentage of exams with "significant" findings

DESCRIPTION: Examiners find a wide range of deficiencies during examinations. Some of these deficiencies are technical in nature, such as failing to include all information that is required to be in a record. Other deficiencies may cause harm to customers or clients of a firm, have a high potential to cause harm, or reflect recidivist misconduct. The latter deficiencies are among those categorized as "significant." This indicator was implemented in FY 2005, and the staff expects to continue to refine the factors that are used to measure the significance of examination findings. This indicator is useful for understanding the SEC's activities, but should not be considered a performance measure and does not include a target that the agency will strive to reach in future years.

	FY05	FY06	FY07	FY08 ACTUAL
Fund/Adviser Exams	37%	39%	35%	38%
Broker-Dealer Exams	48%	40%	37%	42%

DISCUSSION: Examiners continued to use risk-assessment techniques to focus examinations on areas most likely to reveal significant compliance issues. In FY 2008, 38 percent of fund/adviser exams and 42 percent of broker-dealer exams identified significant findings. Differences in percentages are expected from year to year, primarily due to the types of examinations conducted and the nature of the findings in a given year.

TABLE 2.7

Percentage of first enforcement cases filed within two years

DESCRIPTION: This measure identifies the percentage of first enforcement actions filed within two years of opening an investigation or inquiry. In conducting investigations, the Division of Enforcement continually strives to balance the need for complete, effective, and fair investigations with the need to file enforcement actions in as timely a manner as possible.

FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
65%	64%	54%	60%	62%

FY 2008 PERFORMANCE LEVEL ATTAINED: Exceeded

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: In FY 2008, the percentage of first enforcement actions filed within two years exceeded the planned level and is higher than FY 2007 results.

TABLE 2.8

Maintaining an effective distribution of cases across core enforcement areas

DESCRIPTION: Effective deterrence of securities fraud requires that the cases filed by the SEC have adequate reach across all core enforcement program areas. The mix and types of cases vary from year to year based upon the conditions of the markets and changes in financial instruments being used. The SEC's enforcement program seeks to maintain a presence and depth so that no single area dominates its case mix, nor is underrepresented.

	PERCENTAGE OF CASES BY CORE ENFORCEMENT PROGRAM AREA AND FISCAL YEAR				
	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Financial Disclosure	29%	24%	33%	<40%	23%
Investment Advisers and Investment Companies	16%	16%	12%	<40%	13%
Broker-Dealers	15%	13%	14%	<40%	9%
Securities Offerings	9%	11%	10%	<40%	18%
Insider Trading	8%	8%	7%	<40%	9%
Market Manipulation	7%	5%	5%	<40%	8%
Delinquent Filings	—	16%	8%	<40%	16%
Other	16%	7%	11%	<40%	4%
Total	100%	100%	100%	100%	100%

FY 2008 PERFORMANCE LEVEL ATTAINED: Met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: The SEC met the target of no category exceeding 40 percent of the total amount of cases brought in any one year. Financial disclosure cases continue to be the largest category of enforcement cases.

TABLE 2.9

Percentage of enforcement cases successfully resolved

DESCRIPTION: A case is considered "successfully resolved" if it results in a favorable outcome for the SEC, including through litigation, a settlement, or the issuance of a default judgment. In general, the SEC strives to successfully resolve as many cases as possible but, at the same time, aims to file large, difficult, or precedent-setting cases when appropriate, even if success is not assured. This measure does not include any cases in which the SEC awaits a final outcome. The measure is calculated on a per-defendant basis. Large cases may involve several defendants. (Percentages for FY 2005–FY 2006 have been recalculated to reflect a change in categorization; consequently, these numbers are slightly lower than those reported previously.)

FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
91%	94%	92%	85%	92%

FY 2008 PERFORMANCE LEVEL ATTAINED: Exceeded

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: A high success ratio depends on numerous factors, including the complexity of cases, the extent to which parties contest actions, and the availability of litigation and investigation resources. In FY 2008, the SEC successfully resolved 92 percent of cases, seven percentage points higher than expected.

TABLE 2.10

Percentage of debts where either a payment has been made, or a collection activity has been initiated within six months of the due date of the debt

DESCRIPTION: The SEC can seek a wide range of remedies for failure to comply with the securities laws. These remedies include civil monetary penalties and disgorgement. When the remedies are imposed by the Commission or the federal district court, payments must be made by a certain date. This measure identifies the percentage of debts where debtors have made payments, either to the SEC, federal district court or receivers, or the SEC has initiated a collection activity within 180 days of the due date. Such collection activities include, among other things, demand letters, negotiation of payment plans, enforcing the payment of the debt through the courts, or other judicial remedies. This measure was developed in 2007 as part of the strategic planning process. Prior year data are not available. The FY 2008 figure is based on review by the Office of Collections and Distributions. The Office of Collections and Distributions reviewed both collection activities and receipt dates for all debts that reached the six-month mark within the FY. Because the SEC uses the deposit date for debts payable to the agency for purposes of financial reporting, the SEC will review its methodology for reporting this measure in 2009.

FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
N/A	N/A	N/A	70%	88%

FY 2008 PERFORMANCE LEVEL ATTAINED: Exceeded

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: As shown above, the SEC successfully surpassed its target for FY 2008, in part due to the SEC's efforts to bolster its ongoing collections functions.

TABLE 2.11

Percentage of Fair Funds and disgorgement dollars designated for distribution that are distributed to investors within 12 months

DESCRIPTION: In addition to other types of relief, the Commission may seek orders requiring parties to disgorge any money obtained through wrongdoing. The Commission also is empowered to seek civil penalties for violations of the securities laws. Where appropriate, the Commission has sought to return disgorged funds to harmed investors and, as a result of the Fair Funds provision of the Sarbanes-Oxley Act, to use amounts paid as penalties to reduce losses to injured parties. The Commission seeks to return money to wronged investors as quickly as possible. This measure was developed in 2007 as part of the strategic planning process. Prior-year data are not available.

FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
N/A	N/A	N/A	55%	N/A

FY 2008 PERFORMANCE LEVEL ATTAINED: N/A

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: This measure is currently under review and may be adjusted in the near future. As a result, no data is available for FY 2008.

TABLE 2.12
INDICATOR

Volume of enforcement activity: investigations opened, cases filed, and investigations closed

DESCRIPTION: The volume of enforcement activity depends on a variety of factors, including the incidence of wrongdoing in a given fiscal year, the amount of staff resources available, and the timeframes imposed in court proceedings. This indicator captures the number of investigations and cases opened in a given fiscal year, as well as the number of investigations closed. An investigation may be closed without an enforcement action, because of a number of factors including insufficient evidence. An investigation also may be closed when all related cases have been adjudicated and all related penalties and disgorgements have been collected and dispersed, including to injured investors. This indicator is useful for understanding the SEC's activities, but should not be considered a performance measure and does not include a target that the agency will strive to reach in future years.

	FY05	FY06	FY07	FY08 ACTUAL
Investigations Pending as of Beginning of Fiscal Year*	3,770	4,097	4,146	4,545
Investigations Opened	947	914	776	890
Cases Filed	630	574	656	671
Investigations Closed	625	868	374	1,355

**The number of investigations pending at the beginning of the fiscal year may change from previously reported numbers due to investigations being reopened or because of delays in entering closed investigations in the case management system.*

DISCUSSION: The Division of Enforcement focused on closing a large number of outstanding investigations in FY 2008. The staff closed 1,355 investigations in FY 2008, 260 percent more than in FY 2007. The number of investigations opened in FY 2008 was about 15 percent higher than the FY 2007 level. The number of cases filed also increased slightly.

TABLE 2.13
INDICATOR

Assets frozen abroad in SEC cases through coordination with foreign regulators

DESCRIPTION: In order to effectively enforce compliance with federal securities laws and in support of enforcement cases filed domestically, the SEC works closely with foreign regulators, law enforcement agencies, and courts to locate ill-gotten proceeds that have been transferred overseas and freeze the accounts in which they are located. The SEC works to freeze such assets so that violators cannot benefit from their wrongdoing. This indicator is useful for understanding the SEC's activities, but should not be considered a performance measure and does not include a target that the agency will strive to reach in future years.

(DOLLARS IN MILLIONS)	FY05	FY06	FY07	FY08 ACTUAL
Assets Frozen Abroad	$15.3	$20.7	$11.0	$18.0

DISCUSSION: The SEC will continue its efforts to freeze assets obtained in violation of securities laws and transferred abroad. Although future estimates for the amount of frozen assets cannot be projected, the agency's efforts in this area will likely increase as international cooperation on enforcement matters continues to develop.

Goal 2: Promote Healthy Capital Markets through an Effective and Flexible Regulatory Environment

To achieve this goal, the agency develops regulations that strengthen corporate and fund governance and promote high-quality financial reporting standards worldwide. The agency seeks to ensure that regulations are clearly written and do not impose unnecessary financial or reporting burdens. 301 FTE worked diligently to achieve results in Goal 2 this fiscal year. In FY 2008, 13 of 18 planned performance targets were exceeded or met.

CHART 2.4
GOAL 2 PERFORMANCE RESULTS

Results by Performance Level

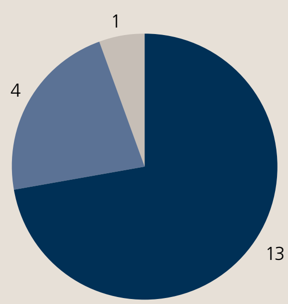
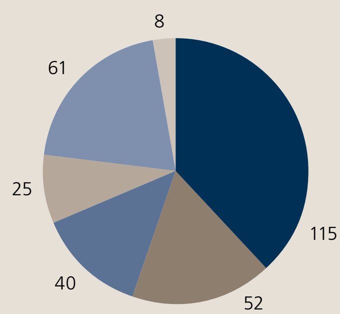


CHART 2.5
GOAL 2 PERFORMANCE RESULTS

FTE by Program



Program Achievements

During FY 2008, the securities markets and financial services sector were affected by significant volatility and uncertainty. During this period, the SEC worked to ensure that transactions were completed and markets operated in an orderly manner.

While the markets faced sudden and significant changes, the SEC continued to monitor the industry's efforts to provide stable trading platforms. In FY 2008, the New York Stock Exchange (NYSE) daily share volume remained consistent with previous years' levels, and the Nasdaq daily share volume reflected the steady rate of growth anticipated by the SEC *(Table 2.15)*. The SEC continued to assess the resiliency of market systems in FY 2008, reporting that market outages were corrected well within targeted timeframes *(Table 2.17)*.

Extraordinary market events also increased demands on the agency to provide responses to no-action letters, and exemptive and interpretive requests. The Division of Investment Management significantly improved its timeliness when providing initial comments on no-action and interpretive requests, completing 98 percent of the requests within the targeted timeframe. The Division of Trading and Markets received certain highly complex requests that required additional time to process, and as a result the division did not meet its target for the year. While the Division of Corporation Finance sustained its prior-year levels, the division fell short of its planned target for FY 2008. Both Corporation Finance and Trading and Markets are considering measures for improving their performance in FY 2009.

In FY 2008, the proportion of U.S. households owning mutual funds remained constant relative to the FY 2007 figure *(Table 2.22)*. Furthermore, the percentage of mutual fund shares of total retirement assets was considerably above the expected level, perhaps reflecting the growth of automatic enrollment and popularity of target maturity funds *(Table 2.24)*.

In order to fulfill its mission, the SEC plays a key role in maintaining the health of capital markets and promoting high-quality financial reporting standards across the globe. In July, the SEC and FASB staff jointly provided guidance to market participants on measuring fair value to help preparers, auditors, and users deal with the difficult questions arising from the market turmoil. In August, the Commission presented a roadmap for the use of financial statements prepared in accordance with IFRS by U.S. issuers. The roadmap spells out a series of critical milestones to be achieved before the Commission's 2011 decision on whether to move forward with IFRS for U.S. issuers. In addition, in FY 2008 the SEC hosted several roundtables on accounting standard topics such as the performance of IFRS and U.S. GAAP in light of recent pressures on the marketplace.

Performance Measures

TABLE 2.14

Percentage of SRO rule filings closed in less than 60 days from filing

DESCRIPTION: The SEC reviews SRO rule proposals for consistency with investor protection and market operation and structure rules that govern the operation of registered national securities exchanges, clearing agencies, the Financial Industry Regulatory Authority (FINRA) and the Municipal Securities Rulemaking Board. This measure gauges how quickly the SEC completes these reviews after each amendment is filed by the SRO.

FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
80%	84%	82%	75%	86%

FY 2008 PERFORMANCE LEVEL ATTAINED: Exceeded

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: Success in closing SRO rule filings in less than 60 days from filing is dependent on the number of filings and the complexity of filings submitted. In FY 2008, the SEC worked efficiently to review SRO rule proposals and closed 86 percent of filings in less than 60 days, exceeding both the FY 2008 goal of 75 percent and the FY 2007 actual of 82 percent.

TABLE 2.15

Average daily share volume (in billions of shares) on the NYSE and Nasdaq

DESCRIPTION: The average daily share volume (in billions of shares) is indicative of whether the markets have sufficient capacity to be able to handle effectively and efficiently the volume of message traffic that is directed to those markets. The source for the data is Bloomberg.

	AVERAGE DAILY SHARE VOLUME				
(IN BILLIONS OF SHARES)	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
NYSE	1.6	1.7	1.6	1.7	1.6

FY 2008 PERFORMANCE LEVEL ATTAINED: Not met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: In FY 2008, the NYSE daily share volume was slightly lower than the planned level because of the trend towards increased trading of listed securities on fully electronic exchanges. The performance goal was set at an approximate level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

	AVERAGE DAILY SHARE VOLUME				
(IN BILLIONS OF SHARES)	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Nasdaq	2.0	2.1	1.7	2.3	2.3

FY 2008 PERFORMANCE LEVEL ATTAINED: Met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: The FY 2008 Nasdaq daily share volume met the planned level and reflects the steady rate of growth anticipated by the SEC.

TABLE 2.16

Percentage of transaction dollars settled on time each year

DESCRIPTION: Efficient and timely settlement of securities transactions is indicative of a fair and orderly market. The percentage of dollar value of transactions settled on time indicates that the relative value of unsettled transactions is decreasing compared to the increasing value of transactions. The source of the data is The Depository Trust & Clearing Corporation's Annual Reports.

FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
98%	98%	98%	98%	99%

FY 2008 PERFORMANCE LEVEL ATTAINED: Exceeded

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: In FY 2008, 99 percent of transaction dollars were settled on time. The increase in the percentage of transaction dollars settled on time is due in part to an increase in the number and value of securities held in book-entry at The Depository Trust & Clearing Corporation.

TABLE 2.17

Percentage of market outages at SROs and ECNs that are corrected within targeted timeframes

DESCRIPTION: Market outages reflect problems in the systems underlying the securities markets that could have an adverse affect on the markets' ability to function as required. The SEC assesses the reliability and resiliency of these systems to minimize the number and duration of outages. This measure gauges how quickly outages are resolved, so that market activity can resume. This measure was developed in 2007 as part of the strategic planning process. Prior-year data are not available.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Within 2 Hours	N/A	N/A	81%	60%	84%

FY 2008 PERFORMANCE LEVEL ATTAINED: Exceeded

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: While it is difficult to project the rate at which the industry will resolve market outages, FY 2008 results exceeded the projected plan as market outages were corrected in a timely manner.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Within 4 Hours	N/A	N/A	91%	75%	96%

FY 2008 PERFORMANCE LEVEL ATTAINED: Exceeded

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: While it is difficult to project the rate at which the industry will resolve market outages, FY 2008 results exceeded the projected plan as market outages were corrected in a timely manner.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Within 24 Hours	N/A	N/A	100%	96%	100%

FY 2008 PERFORMANCE LEVEL ATTAINED: Exceeded

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: While it is difficult to project the rate at which the industry will resolve market outages, FY 2008 results exceeded the projected plan as market outages were corrected in a timely manner.

TABLE 2.18

Equity portfolio holdings of U.S. investment companies as a percentage of total U.S. stock market capitalization

DESCRIPTION: This measure may reflect, among other things, the effectiveness of investment companies as a vehicle for capital formation. Other factors that may influence short- and long-term changes in this metric include bull and bear markets, technological changes, investor perceptions of industry ethical standards, investor reaction to industry marketing efforts, and competition from other financial products and services. The future-year targets for this measure are calculated based on a rolling 10-year average.

FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
23.0%	24.7%	26.4%	21.6%	28.9%

FY 2008 PERFORMANCE LEVEL ATTAINED: Exceeded

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: FY 2008 saw a substantial increase in the percentage of U.S. stock market capitalization accounted for by the equity holdings of investment companies. Mutual funds have gained market share as assets held by defined contribution pension plans have grown and ownership of common stock by individual investors has declined.

TABLE 2.19
INDICATOR

Number of new foreign private issuers and dollar amount of registered securities

DESCRIPTION: The number of foreign companies registering securities in the United States and the amount of money they bring to the public markets can be viewed as an indicator of the integrity, liquidity, and fairness of the U.S. markets. This indicator is useful for understanding the SEC's activities, but should not be considered a performance measure and does not include a target that the agency will strive to reach in future years.

	FY05	FY06	FY07	FY08 ACTUAL
Foreign Companies	74	60	77	70
Amount of Registered Securities (in billions)	$250	$109	$121	$150

DISCUSSION: Historically, these trends have been difficult to predict, since the total dollar amount for foreign Initial Public Offerings varies greatly regardless of the number of new foreign private issuers.

TABLE 2.20

Percentage of regulated entities representing a single point of failure that meet the continuity of operations standards of the White Paper, the Policy Statement, and the Automated Review Program

DESCRIPTION: In 2003, the SEC and several other agencies jointly published the *Interagency Paper on Sound Practices to Strengthen the Resilience of the U.S. Financial System* (White Paper). It identifies sound practices to ensure the resilience of the U.S. financial system with a focus on minimizing the immediate system effects of a wide-scale disruption on critical financial markets. Subsequent to the release of the White Paper, the agency issued a policy statement, *Business Continuity Planning for Trading Markets,* which sets forth the Commission's view that SROs operating trading markets and electronic communications networks (ECN) should apply certain sound practices in their business continuity planning, specifically, that backup trading sites require geographic diversity and their operation should not be impaired by a wide-scale evacuation. A concern is that the failure of any one entity to adopt the sound practices would represent a single point of failure that could prevent trading in its securities in another venue, thus undermining the fairness and efficiency of the markets. This measure was developed in 2007 as part of the strategic planning process. Prior-year data are not available.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
White Paper Analysis	N/A	N/A	99.9%	100%	100%

FY 2008 PERFORMANCE LEVEL ATTAINED: Met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: In FY 2007, the SEC conducted a review of the core clearing and settlement organizations and significant firms covered by the White Paper. The review concluded that 100 percent of organizations met the sound practices objectives in the White Paper. In FY 2008, all organizations continued to meet the sound practices objectives in the White Paper.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Policy Statement Analysis	N/A	N/A	88%	100%	88%

FY 2008 PERFORMANCE LEVEL ATTAINED: Not met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: In FY 2008, two markets did not meet the Policy Statement standards. The SEC expects them to be compliant within the next two years. The SEC anticipates the industry will continue to undergo an evolutionary process in which new technologies are constantly being introduced, thereby permitting successful markets to meet industry standards.

PLAN FOR IMPROVING PROGRAM PERFORMANCE: One of the markets that did not meet the Policy Statement standards is an ECN that met the volume standard in FY 2007 requiring Policy Statement compliance. This ECN has two years to comply in accordance with Policy Statement timeframes. The other non-compliant market is compliant in all respects except that it has not conducted a full-scale capacity test. Once fully tested, that market will comply fully with the Policy Statement.

TABLE 2.21

Timeliness of SEC responses to written no-action letter, exemptive, and interpretive requests

DESCRIPTION: The SEC staff responds to requests for guidance from individuals and companies about specific provisions of the federal securities laws. These queries can ask for proper interpretations of the securities laws or regulations, or for assurances that no enforcement action will be taken in certain circumstances. The staff also reviews applications for exemptions from the securities laws. Written responses to such requests for guidance, when provided, generally are publicly available, as are applications and related notices and orders, when issued. This measure gauges whether the Division of Trading and Markets, the Division of Investment Management, and the Division of Corporation Finance are issuing initial comments on these requests on a timely basis. This measure was developed in 2007 as part of the strategic planning process. Prior-year data for exemptive applications processed by the Division of Investment Management are not available.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Trading and Markets					
No-Action Letter, Exemptive, and Interpretive Requests (combined figure)	92%	86%	91%	85%	63%

TARGET: Complete 85 percent of all responses within 60 days.

FY 2008 PERFORMANCE LEVEL ATTAINED: Not met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: While one office responded to all requests within targeted timeframes in FY 2008, two other offices received complex requests that required additional time to process. Therefore, the Division of Trading and Markets did not meet the target of completing 85 percent of all responses within 60 days.

PLAN FOR IMPROVING PROGRAM PERFORMANCE: The FY 2008 plan percentage was based on FY 2007 data that was extrapolated to continue the FY 2007 trend. While staff will continue to process requests as quickly as possible, the division anticipates complex requests will continue and planned response rates for future years are being revised.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Investment Management					
No-Action Letter and Interpretive Requests	78%	76%	91%	75%	98%

TARGET: Provide initial comments on at least 75 percent of interpretive and no action requests within three weeks of receipt of the letter request.

FY 2008 PERFORMANCE LEVEL ATTAINED: Exceeded

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: The Division of Investment Management significantly surpassed its FY 2008 target for the timely provision of initial comments in connection with the handling of no-action and interpretive letter requests. Extraordinary market events in FY 2008 required the division to provide an unprecedented number of no-action responses on an emergency, quick-turnaround basis, and staff redoubled its efforts in this area.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Investment Management					
Exemptive Applications	N/A	N/A	N/A	80%	81%

TARGET: Provide initial comments on at least 80 percent of exemptive applications within 120 days after receipt of an application.

FY 2008 PERFORMANCE LEVEL ATTAINED: Exceeded

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: The measure and target for exemptive applications are new for FY 2008. The Division of Investment Management exceeded its planned target for responding to exemptive applications.

TABLE 2.21 (CONTINUED)

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Corporation Finance					
No-Action Letter and Interpretive Requests	50%	65%	66%	90%	66%

TARGET: Complete 90 percent of initial comments on no-action letters within 30 days.

FY 2008 PERFORMANCE LEVEL ATTAINED: Not met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: The Division of Corporation Finance did not meet its target of completing 90 percent of initial comments on no-action letters within 30 days. The completion rate of 66 percent is consistent with previous year's performance.

PLAN FOR IMPROVING PROGRAM PERFORMANCE: The Division of Corporation Finance is reevaluating its historical goal to 90 percent of initial comments on no-action letters within 30 days by reviewing work processes and the volume and complexity of the no-action letters. The division will consider whether the 90 percent target is still appropriate.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Corporation Finance					
Shareholder Proposals	100%	100%	100%	100%	100%

TARGET: Complete 100 percent of initial comments on shareholder proposals by the company's planned proxy mailing date.

FY 2008 PERFORMANCE LEVEL ATTAINED: Met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: The Division of Corporation Finance continued to meet its goal of responding to all shareholder proposals prior to the companies' mailing dates.

TABLE 2.22

Percentage of U.S. households owning mutual fund shares

DESCRIPTION: The percentage of U.S. households that own mutual fund shares may reflect, among other things, the extent to which the regulatory regime allows for industry innovation and fosters investor confidence. Other factors that may influence short- and long-term changes in this metric include bull and bear markets, technological changes, investor perceptions of industry ethical standards, investor reaction to industry marketing efforts, and competition from other financial products and services. The future-year targets for this measure are calculated based on a rolling 10-year average.

FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
42.7%	43.0%	43.6%	43.6%	43.6%

FY 2008 PERFORMANCE LEVEL ATTAINED: Met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: The proportion of U.S. households owning mutual funds in FY 2008 remained stable compared to FY 2007.

TABLE 2.23

Percentage of U.S. households investing in the securities market either through direct share ownership or ownership of mutual funds

DESCRIPTION: The percentage and number of households that invest in the securities market reflect, among other things, the extent to which the regulatory regime provides a fair, orderly, and efficient market while fostering investor protection and confidence in the markets. The source of this data is the Investment Company Institute and the Securities Industry and Financial Markets Association's reports entitled "Equity Ownership in America," which are available once every three years. Targets are updated every three years and use a base period of 1983–1995.

FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
50.3%	N/A	N/A	50.8%	Data Not Yet Available

FY 2008 PERFORMANCE LEVEL ATTAINED: Data not yet available

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: The publication that contains this data, "Equity Ownership in America" will be published in November 2008.

TABLE 2.24

Mutual fund share of total retirement assets

DESCRIPTION: This measure reflects, among other things, investor confidence in mutual funds and a flexible regulatory scheme that allows funds to successfully compete in the market with other financial institutions. Other factors that may influence short- and long-term changes in this metric include bull and bear markets, technological changes, investor perceptions of industry ethical standards, investor reaction to industry marketing efforts, competition from other financial products and services, changes in tax law, legislation or rule changes that affect retirement accounts, and the pending transition of baby-boom generation retirement investments from the accumulation phase to the distribution phase. The future-year targets for this measure are calculated based on a rolling 10-year average.

FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
22.3%	23.2%	24.7%	22.0%	26.0%

FY 2008 PERFORMANCE LEVEL ATTAINED: Exceeded

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: FY 2008 results represent mutual fund assets held in IRA, 401(k), 403(b), and other retirement accounts divided by total IRA and defined contribution retirement assets on December 31, 2007, as reported in the Investment Company Institute retirement study. FY 2008 results are considerably above the expected percentage, perhaps reflecting the growth of automatic enrollment and popularity of target maturity funds.

Goal 3: Foster Informed Investment Decision Making

The SEC promotes informed investment decisions through two main approaches. The first is to ensure that investors have accurate, adequate, and timely public access to disclosure materials that are easily understood and analyzed. Secondly, the SEC's OIEA implements a variety of investor education initiatives, aimed to give investors a better understanding of the operations of the nation's securities markets. During FY 2008, the agency dedicated 480 FTE to this goal and met or exceeded 13 of its 16 targets for performance in this area.

CHART 2.6
GOAL 3 PERFORMANCE RESULTS

Results by Performance Level

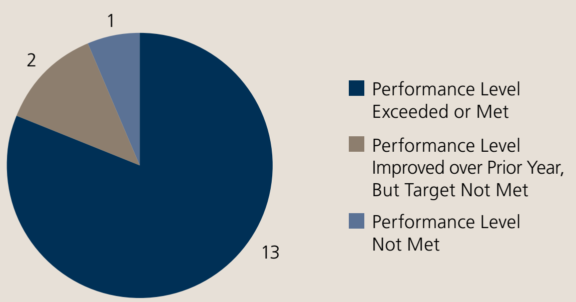
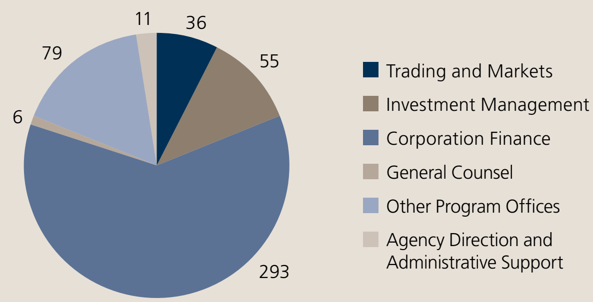


CHART 2.7
GOAL 3 PERFORMANCE RESULTS

FTE by Program



The federal securities laws place great emphasis on ensuring that issuers of securities provide investors with clear, complete, and truthful financial information. As part of its disclosure program, the SEC requires issuers to disclose material financial and other information to the public. In FY 2008, the SEC's reviews of disclosures from companies and investment company portfolios exceeded planned performance targets by several percentage points and satisfied the requirements of the Sarbanes-Oxley Act *(Table 2.25).* Agency staff continued to reduce the number of days to issue initial comments on Securities Act filings, averaging about 25 days in FY 2008 *(Table 2.26)* and exceeded timeliness targets for reviewing investment company disclosures *(Table 2.27).*

The SEC's 21st Century Disclosure Initiative, established by Chairman Cox in June 2008, is examining fundamental questions about the way the SEC acquires information from public companies, mutual funds, brokers, and other regulated entities, and makes that information available to investors and the markets. In FY 2008, the 21st Century Disclosure Initiative began a careful review of existing disclosure to determine how disclosure may be improved through the application of modern technology. The Initiative intends to recommend a follow-on advisory committee that would develop detailed recommendations through a public and consultative process.

Also in FY 2008, the SEC announced that it is developing a new platform, IDEA, to succeed EDGAR, the agency's existing disclosure system. When fully implemented, IDEA will help investors access and analyze disclosure information much more easily. During the year, the agency continued to emphasize electronic filing of financial information, and it increased the percentage of forms filed in a structured format *(Table 2.28).*

The number of investor complaints and requests for assistance received by OIEA increased over prior-year totals, largely due to the market turmoil during the last few months of the fiscal year. Nearly 81,000 investor contacts were received during FY 2008, an almost 5 percent increase over FY 2007. The staff moved to quickly respond to and complete 85 percent of these requests within the agency's timeliness goals. Through its Web site and other outreach programs, the SEC provides the public with a wide range of information on the basics of investing. Among other topics, these materials help educate retail investors, including senior citizens, about investments marketed to them and provide tips to detect and avoid potential scams. The SEC reached about 50 percent more investors in FY 2008 than in FY 2007, while reducing the average cost per thousand investors reached by roughly half *(Table 2.30).*

Performance Measures

TABLE 2.25

Percentage of Exchange Act reporting companies reviewed by the SEC

DESCRIPTION: The Sarbanes-Oxley Act requires that the SEC review the disclosures of all reporting companies and investment company portfolios at least once every three years. These reviews help improve the information available to investors and may uncover possible violations of the securities laws.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Corporations	50%	33%	36%	33%	38%

FY 2008 PERFORMANCE LEVEL ATTAINED: Exceeded

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: The SEC exceeded its planned level of review of corporations in FY 2008. This review level is expected to deter fraud in public securities transactions and should help ensure that investors receive material information about emerging and novel issues.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Investment Company Portfolios	37%	36%	38%	33%	36%

FY 2008 PERFORMANCE LEVEL ATTAINED: Exceeded

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: The SEC exceeded its planned review level for FY 2008. Investment company portfolios are on track to be reviewed once every three years.

TABLE 2.26

Average time to issue initial comments on Securities Act filings

DESCRIPTION: The target of 30 days or less has become a *de facto* industry standard for the maximum time to receive SEC comments. Companies often build this timeframe into their plans. The 30-day timeframe is considered aggressive given the other mandatory reviews the agency conducts and the fluctuation in filing volume that impacts workload plans.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Days	26.1	26.2	25.5	<30.0	25.2

FY 2008 PERFORMANCE LEVEL ATTAINED: Met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: In FY 2008, the SEC issued initial comments on Securities Act filings within an average of 25.2 days of filing. In addition, the agency continued to monitor the average duration between the date it received a company response to SEC's initial comments and final resolution.

TABLE 2.27

Percentage of investment company disclosure reviews for which initial comments are completed within timeliness goals

DESCRIPTION: For initial registration statements, the SEC's goal is to comment within 30 days after they are filed (60 days for registration statements of insurance product separate accounts). The SEC also aims to comment on post-effective amendments within 45 days and preliminary proxy statements within 10 days after they are filed.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Initial Registration Statements	90%	88%	87%	85%	95%

FY 2008 PERFORMANCE LEVEL ATTAINED: Exceeded

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: In addition to reviewing the filings of Exchange Act reporting companies, the SEC exceeded its FY 2008 target for timely review of registration statements.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Post-Effective Amendments	97%	96%	95%	90%	97%

FY 2008 PERFORMANCE LEVEL ATTAINED: Exceeded

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: The SEC surpassed both its FY 2008 target for timely review of post-effective amendments and the previous year's level.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Preliminary Proxy Statements	100%	99%	99%	99%	99%

FY 2008 PERFORMANCE LEVEL ATTAINED: Met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: The SEC reviewed 99 percent of preliminary proxy statements within 10 days of filing for the third year in a row, meeting its target for FY 2008.

TABLE 2.28

Percentage of forms and submissions filed electronically and in a structured format

DESCRIPTION: The SEC continues to emphasize electronic filing to make information available to the public in a format that can be easily obtained and analyzed. The SEC currently has over 100 forms that must be filed with the agency, which annually generate hundreds of thousands of filings with the agency. This measure identifies the percentage of forms that are in electronic format and the percentage of resulting filings that are received electronically by the SEC. In addition, the agency is redesigning its systems to allow additional forms to be filed using structured formats (e.g., information is captured in a comma delimited, XML, XBRL, or other format). This measure also gauges the percentage of forms that are available to be filed in a structured format and the percentage of resulting filings that are received in the structured format.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Forms					
Structured Format Percentage	5%	8%	8%	13%	13%
Another Electronic Format Percentage	67%	62%	62%	67%	67%
Total Percentage in Electronic Format	72%	70%	70%	80%	80%

FY 2008 PERFORMANCE LEVEL ATTAINED: Met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: In FY 2008, the SEC successfully achieved its aggressive target for increasing the percentage of forms that are in electronic format.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Filings Received					
Structured Format Percentage	35%	35%	35%	37%	37%
Another Electronic Format Percentage	54%	55%	53%	53%	53%
Total Percentage in Electronic Format	89%	90%	88%	90%	90%

FY 2008 PERFORMANCE LEVEL ATTAINED: Met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: In FY 2008, the SEC achieved the targets established for percentage of filings that are received electronically.

TABLE 2.29

Number of searches for filings on www.sec.gov

DESCRIPTION: Greater availability of market-sensitive information through the SEC's EDGAR system provides investors with the ability to make better-informed investment decisions. This measure gauges the demand for EDGAR data through the SEC's Web site.

(IN MILLIONS)	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Number of Searches	379	531	802	935	659

FY 2008 PERFORMANCE LEVEL ATTAINED: Not Met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: The FY 2008 target was calculated using an algorithm that uses percentage changes that occurred in previous years. Given the steady and large year-over-year increases from 2005 to 2007, the algorithm predicted another large increase in 2008.

PLAN FOR IMPROVING PROGRAM PERFORMANCE: There was no effect on overall program or activity performance in FY 2008. OIT will review the calculation of the algorithm to determine whether it needs to be revised.

TABLE 2.30

Demand for investor education information, and average cost per thousand investors reached

DESCRIPTION: The OIEA has developed an extensive collection of free information and investment education publications. These resources help investors to understand the basics of investing; the risks and rewards of various products and strategies; the importance of diversification; and ways to find information about brokers, advisers, and companies. Much of this information is posted on the SEC's Investor Education Web page, a key tool for informing and educating the investing public. In addition, OIEA publishes a dozen hard-copy educational brochures. The General Services Administration's (GSA's) Federal Citizen Information Center serves as one of the most important distribution channels for the SEC's most popular English and Spanish publications. OIEA staff members also attend investor fairs and participate in other outreach activities, as feasible. In order to help educate the largest number of investors, OIEA carefully considers the costs and potential reach of its investor education programs. This measure has been recast to reflect investors reached and average cost based on Web visits rather than Web hits, a more accurate, industry-accepted approach. Prior-year data are not available.

(IN MILLIONS, WITH WEB VISITS)	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Total Number of Investors Reached	N/A	N/A	5.9	N/A	9.0

FY 2008 PERFORMANCE LEVEL ATTAINED: Improved over prior year

(WITH WEB VISITS)	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Average Cost per Thousand Investors Reached	N/A	N/A	$61	N/A	$33

FY 2008 PERFORMANCE LEVEL ATTAINED: Improved over prior year

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: OIEA reached more investors in FY 2008 than in FY 2007, while reducing the average cost per thousand investors reached. OIEA staff attended fewer in-person events, which is the most expensive channel to reach investors on a per capita basis. However, the largest outreach gains came from direct mailings to more than 3 million investors. Through its various investor education initiatives, including electronic publications and online multimedia content, OIEA continues to seek the most cost-effective means of maximizing the number of investors it reaches. OIEA plans to increase the number of investors reached in FY 2009, while significantly lowering the cost per contact.

TABLE 2.31

Percentage of investor complaints and inquiries completed within 7 and 30 business days

DESCRIPTION: OIEA serves the tens of thousands of investors who contact the SEC each year with investment-related complaints and questions. The staff aims to close out investor assistance matters within seven business days. However, some complaints require responses from the entities involved, and may take more than 30 days to resolve.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Closed within 7 Days					
Phone Calls	99%	98%	98%	99%	90%
Other Contacts	62%	63%	64%	70%	70%
Total	81%	81%	82%	85%	85%

FY 2008 PERFORMANCE LEVEL ATTAINED: Met

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Closed within 30 Days					
Phone Calls	99%	99%	99%	99%	99%
Other Contacts	88%	88%	88%	89%	91%
Total	94%	94%	94%	95%	95%

FY 2008 PERFORMANCE LEVEL ATTAINED: Met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: OIEA met its seven-day and thirty-day targets for FY 2008. OIEA is exploring process changes and improved information management (e.g., updating topical information on SEC.gov) in order to resolve investor matters even more quickly.

TABLE 2.32

Investor assistance and public information telephone inquiries

DESCRIPTION: The SEC seeks to provide the investing public with timely and accurate responses to their telephone inquiries by maintaining service levels that meet or exceed industry standards. This measure was developed in 2007 as part of the strategic planning process. Prior-year data are not available.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Investor Assistance					
Abandoned Call Rate	N/A	N/A	0.93%	<1.00%	0.93%
Average Call Wait Time	N/A	N/A	12 sec.	<10 sec.	9 sec.

FY 2008 PERFORMANCE LEVEL ATTAINED: Met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: OIEA's management practices, including increased monitoring and the planned replacement of the office's Agency Complaint Tracking System (ACTS+), are focused on maintaining low abandoned call rates and reducing wait time.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Public Information					
Abandoned Call Rate	N/A	N/A	5.51%	<1.00%	0.98%
Average Call Wait Time	N/A	N/A	33 sec.	<13 sec.	13 sec.

FY 2008 PERFORMANCE LEVEL ATTAINED: Met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: OIEA's management practices, including increased monitoring and the planned replacement of the office's ACTS+ system, are focused on maintaining low abandoned call rates and reducing wait time.

TABLE 2.33

Responses to Freedom of Information Act requests

DESCRIPTION: The Freedom of Information Act (FOIA) establishes timeframes within which the agency must respond to requests for nonpublic information. The agency is working to improve its FOIA response time and reduce its pending workload, through efforts such as streamlining its internal processes for handling requests and posting correspondence related to its disclosure reviews on the SEC Web site.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Pending from Prior FYs*	8,520	9,915	10,648	7,080	7,078
Received during FY	9,084	9,381	9,213	10,000	9,799
Processed					
From Current FY	4,370	5,389	5,359		8,887
From Prior FYs	3,319	3,259	7,424		7,069
Total	7,689	8,648	12,783	12,000	15,956

**The pending requests for this measure reflect initial requests and appeals.*

FY 2008 PERFORMANCE LEVEL ATTAINED: Exceeded

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: In FY 2008, OIEA virtually eliminated its backlog of prior-year requests and processed more requests than in any prior year. As a result of process improvements, a greater percentage of requests are now processed in under 20 days.

Goal 4: Maximize the Use of SEC Resources

The investing public and the securities markets are best served by a well-managed SEC. The agency improved its organizational effectiveness by making sound investments in human capital and information technology and by enhancing internal controls. During FY 2008, the staff worked to maximize the use of SEC resources and met or exceeded eight of 11 planned performance targets. The agency dedicated 390 FTE to this goal, which is broken out by SEC organization in the table below.

CHART 2.8
GOAL 4 PERFORMANCE RESULTS

Results by Performance Level

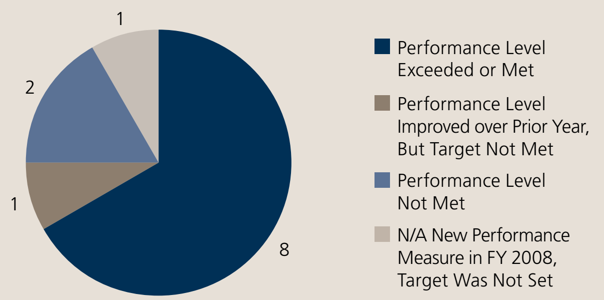
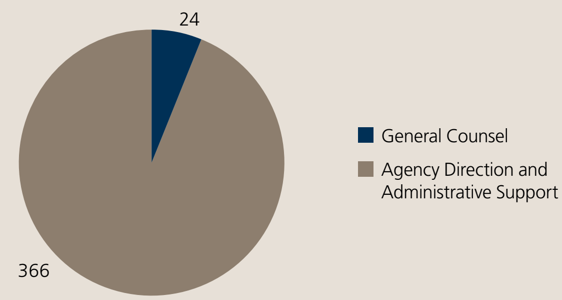


CHART 2.9
GOAL 4 PERFORMANCE RESULTS

FTE by Program



Program Achievements

The SEC recognizes that employee satisfaction plays a major role in recruitment, retention, and employee performance. In FY 2008, the agency was successful at keeping its turnover rate well below its target of 8 percent *(Table 2.34).* The SEC implemented the first phase of a new performance management system, and structured its recruitment efforts to attract new staff from a wide variety of demographic groups as part of its commitment to a diverse workforce.

Information technology also plays a crucial role in the mission of the SEC. With the size and complexity of the U.S. securities markets continuing to increase, the SEC sought to ensure that its technical infrastructure had the capacity required to support the information and systems used by staff in completing the work of the agency. As illustrated in *Table 2.37,* the agency met its targets for keeping its external Web site and electronic filing systems operable and accessible to the public with virtually no down time.

The agency also continued to devote resources to ensuring that its technical infrastructure is secure. In FY 2008, the SEC addressed all of the 11 pending information security-related GAO recommendations, five of which GAO closed by the end of the fiscal year. The remaining recommendations are pending GAO approval. The SEC also addressed the OIG's pending IT security recommendations, meeting its target for closing those information security-related recommendations in a timely fashion *(Table 2.38).*

Given the SEC's role in overseeing the securities markets, it is important that the agency maintain strong internal controls and sound financial management practices over its own operations. In FY 2008, the agency continued to improve processes and systems in its budgeting, accounting, and internal controls functions, receiving an unqualified audit opinion on its financial statements with no material weaknesses *(Table 2.40).* During the year, the SEC successfully completed an upgrade of its core financial system, Momentum; deployed a new Web-based time and attendance system; and implemented a new travel management system.

Performance Measures

TABLE 2.34

Staff turnover rate

DESCRIPTION: This rate is determined by dividing the number of employees that leave the agency during the fiscal year by the total number of permanent and term employees on board at the beginning of the fiscal year. The trend in recent years has been toward turnover significantly lower than it was in the previous decade. The turnover rates for FYs 2005–2007 reflect a change in methodology for calculating turnover, as well as corrections of previous errors. Therefore, these figures are different than shown in previous reports. A slight increase in FY 2006 and FY 2007 was due to a higher number of retirements three years after the implementation of the SEC's pay parity authority.

FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
8.3%	8.6%	8.4%	<8.0%	6.2%

FY 2008 PERFORMANCE LEVEL ATTAINED: Met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: The staff turnover rate for FY 2008 is significantly below the planned rate. This is an exceptionally positive indicator for staff morale and the agency's success in its mission to be an "employer of choice." The low turnover rate in FY 2008 is consistent with the SEC's ranking among the best places to work in government (see below).

TABLE 2.35

Maintain a top five ranking among the Best Places to Work in Government

DESCRIPTION: By offering competitive pay-for-performance and benefits systems that rival those offered by the private sector, the SEC aims to be an "employer of choice" in the federal government. The SEC aims to maintain a high ranking in this bi-annual survey conducted by the Partnership for Public Service and the Institute for the Study of Public Policy Implementation at American University. The SEC's ranking has risen consistently in the last three years.

FY05/FY06	FY07/FY08 PLAN	FY07/FY08 ACTUAL
Ranked #5	Top Five Ranking	Ranked #3

FY 2008 PERFORMANCE LEVEL ATTAINED: Exceeded

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: In FY 2007, the SEC ranked number three among the top places to work in the federal government. The agency expects to maintain its top-five ranking in the next bi-annual survey in FY 2009.

TABLE 2.36

Human resources productivity

DESCRIPTION: The SEC continually enhances its productivity through improvements in automation and streamlined personnel policies and procedures. As new technology and practices are adopted, the ratio of human resources staff to the agency total is one way the SEC gauges its improvements in productivity. The office is working to reduce the ratio of human resources staff to agency staff by 3 percent per year.

FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
5.0%	9.0%	5.8%	Discontinued	

FY 2008 PERFORMANCE LEVEL ATTAINED: N/A

JUSTIFICATION: The measure was defined as a ratio of the number of Office of Human Resources (OHR) staff to total SEC staff. During the period this measure was used, the agency was anticipating program staff growth, and OHR's objective was to make staff reductions where possible while providing service to a growing population of customers.

This was an effective measure during this time, but is no longer relevant. The number of SEC employees has stabilized and the OHR staff has been reduced to an appropriate operating level. To capture the agency's current priorities more accurately, the SEC plans to replace this measure with one that gauges the quality of OHR's service to its customers through improvements in a customer satisfaction index.

TABLE 2.37

Percentage of the time that sec.gov and EDGAR are operable

DESCRIPTION: The SEC is committed to disseminating useful information to investors and the financial community in a timely and efficient manner. The agency uses two primary tools for this purpose: its public Web site and the EDGAR system. This measure gauges the percentage of the time that these tools are operable and able to provide information to the public and the financial community. This measure was developed in 2007 as part of the strategic planning process. Prior-year data are not available.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
sec.gov	N/A	N/A	100%	100%	100%

FY 2008 PERFORMANCE LEVEL ATTAINED: Met

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
EDGAR	N/A	N/A	99%	99%	99%

FY 2008 PERFORMANCE LEVEL ATTAINED: Met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: In FY 2008, the SEC achieved the goal established for this measure.

TABLE 2.38

Number of OIG and GAO information security-related recommendations outstanding for more than 18 months

DESCRIPTION: The SEC is focused on establishing and maintaining sound and effective controls over the information systems that support the agency's business operations. This measure gauges the timeliness of the agency's corrective actions to substantially complete OIG and GAO recommendations related to information security. This measure was developed in 2007 as part of the strategic planning process. Prior-year data are not available.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
GAO Recommendations	N/A	N/A	11	2	6

FY 2008 PERFORMANCE LEVEL ATTAINED: Improved over prior year, but target not met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: In FY 2008, GAO closed 5 of the 11 information security-related recommendations. The remaining six recommendations are pending closure based on GAO's analysis and approval of the SEC's remediation actions to correct the security-related issues.

PLAN FOR IMPROVING PROGRAM PERFORMANCE: OIT will continue to work toward attaining its goal of implementing all security-related audit recommendations within an 18-month period.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
OIG Recommendations	N/A	N/A	5	2	2

FY 2008 PERFORMANCE LEVEL ATTAINED: Met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: In FY 2008, OIG closed three of the five recommendations related to information security. The remaining two recommendations are pending completion of (1) formal procedures for conducting security impact analyses and (2) enhancements to the current process for identifying and documenting applications.

TABLE 2.39

Percentage of major systems that have been certified and accredited, and given a privacy impact assessment (PIA), within required timeframes

DESCRIPTION: The SEC works to ensure the confidentiality and integrity of the agency's information and systems and to protect the privacy of any personal information contained in those systems. This measure gauges the percentage of the agency's major applications and systems that have been certified and accredited in accordance with the security mandates of the Federal Information Security Management Act; OMB Circular A-130, "Management of Federal Information Resources"; and National Institute of Standards and Technology security guidelines. In addition, this measure gauges the percentage of agency electronic information systems and collections that have undergone a privacy assessment to determine personally identifiable information and mitigate potential privacy risks, in accordance with the E-Government Act of 2002 and other applicable laws and regulations. This measure was developed in 2007 as part of the strategic planning process. Prior-year data are not available.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Major Systems Certified and Accredited	N/A	N/A	96%	100%	92%

FY 2008 PERFORMANCE LEVEL ATTAINED: Not Met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: In FY 2007, there were 25 agency systems identified that required certification and accreditation, of which 24 were certified and accredited. In FY 2008, an additional 24 systems were deployed or identified that required certification and accreditation, of which 21 were certified and accredited. Therefore, as of the end of FY 2008, the SEC identified a total of 49 systems requiring certification and accreditation, of which 45 were completed.

PLAN FOR IMPROVING PROGRAM PERFORMANCE: The remaining four systems are categorized as being low-impact systems. The SEC has documented its decision not to certify and accredit existing low-impact systems unless additional resources become available or a new process is developed for low-impact systems. All systems categorized as moderate or higher impact will continue to receive formal certification and accreditation. OIT will continue to work toward attaining its goal of 100 percent certification and accreditation for newly deployed systems.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Major Systems with Privacy Impact Assessment Completed	N/A	N/A	89%	100%	89%

FY 2008 PERFORMANCE LEVEL ATTAINED: Not Met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: In FY 2007, the SEC had 18 agency systems that required a PIA, of which 16 were completed. In FY 2008, the agency identified an additional 17 systems that required a PIA, of which 15 were completed. Therefore, as of the end of FY 2008, the SEC had a total of 35 systems requiring a PIA, of which 31 were completed.

PLAN FOR IMPROVING PROGRAM PERFORMANCE: System managers of all systems identified as requiring a PIA will continue to receive notice and guidance from OIT in an effort to complete the PIA. OIT will continue to work toward attaining its goal of 100 percent.

TABLE 2.40

Financial audit results

DESCRIPTION: Under the Accountability of Taxpayer Dollars Act of 2002, the agency is required to meet all proprietary accounting guidelines for federal agencies and to undergo annual audits. The SEC's audits are conducted by GAO.

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Unqualified Opinion	Yes	Yes	Yes	Yes	Yes

FY 2008 PERFORMANCE LEVEL ATTAINED: Met

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Material Weaknesses	4	0	1	0	0

FY 2008 PERFORMANCE LEVEL ATTAINED: Met

	FY05	FY06	FY07	FY08 PLAN	FY08 ACTUAL
Significant Deficiency	0	3	3	3	3

FY 2008 PERFORMANCE LEVEL ATTAINED: Met

ANALYSIS OF FY 2008 PLAN VS. ACTUAL LEVEL OF PERFORMANCE: In FY 2008, the SEC received an unqualified audit opinion on its financial statements for the fifth year in a row, and had no material weaknesses. As discussed in *Management Assurances* on page 21, the agency developed and executed a corrective action plan to remedy control deficiencies. In FY 2009 and FY 2010, the SEC will continue to evaluate and strengthen controls.

Program Assessments and Evaluations

The SEC uses external and internal assessments to improve agency operations. Through objective measurement and analysis, program managers are able to determine the extent to which programs are achieving the agency's mission.

Program Assessment Rating Tool (PART)

Since FY 2003, OMB has evaluated five SEC programs using the PART assessment tool. OMB uses PART to assess the effectiveness of federal programs, and to inform the public about how effectively tax dollars are being spent. Summaries of past SEC PART ratings are provided below in *Table 2.41.* Detailed information about OMB's PART and each program's progress in making improvements is available at www.ExpectMore.gov.

TABLE 2.41
PART RESULTS

PROGRAM	ASSESSMENT YEAR	RATING
Regulation of Major Securities Market Participants	2007	Effective
Regulation of the Investment Management Industry	2006	Effective
Examining Compliance with Securities Laws	2005	Moderately Effective
Enforcement	2004	Results Not Demonstrated
Full Disclosure Program (Corporate Review)	2003	Results Not Demonstrated

Office of Inspector General Audits and Evaluations

The OIG's primary functions are to perform audits of SEC operations, programs, activities, functions, and organizations, and conduct investigations of alleged staff and contractor misconduct. In FY 2008, the OIG produced 16 audit, examination, inspection or similar reports, covering a variety of SEC programs. OIG reports are located on the SEC Web site.

Internal Performance Management Assessments

During FY 2008, the SEC conducted a high-level risk assessment for each of its strategic performance measures and indicators as part of its ongoing work to document the completeness and reliability of performance data. The assessment included a survey completed by offices and divisions that report performance data covering methodology, data source validation, and internal control.

The agency also developed a strategy for implementing a validation and verification process consistent with requirements in OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget.*

Financial Section

This section of the Performance and Accountability Report contains the Agency's financial statements, required supplementary information and related Independent Auditor's Report, as well as other information on the Agency's financial management. Information presented here satisfies the reporting requirements of OMB Circular A-136, *Financial Reporting Requirements,* as well as the Accountability of Tax Dollars Act of 2002.

The first portion of this section contains Principal Financial Statements. The statements provide a comparison of FY 2008 and 2007 data. SEC prepares the following required statements:

- **Balance Sheet—**presents, as of a specific time, amounts of future economic benefits owned or managed by the reporting entity exclusive of items subject to stewardship reporting (assets), amounts owed by the entity (liabilities), and amounts which comprise the difference (net position).
- **Statement of Net Cost—**presents the gross cost incurred by the reporting entity less any exchange revenue earned from its activities. SEC also prepares a Statement of Net Cost by Goal to provide cost information at the strategic goal level.
- **Statement of Changes in Net Position—**reports the change in net position during the reporting period. Net position is affected by changes to Cumulative Results of Operations.
- **Statement of Budgetary Resources—**provides information about how budgetary resources were made available as well as their status at the end of the period.
- **Statement of Custodial Activity—**reports collection of non-exchange revenue for the General Fund of the Treasury. SEC, as the collecting entity, does not recognize these collections as revenue. Rather, the Agency accounts for sources and disposition of the collections as custodial activities on this statement.

The accompanying *Notes to Financial Statements* provide a description of significant accounting policies as well as detailed information on select statement lines. These notes and the principal statements are audited by the GAO.

Message from the Chief Financial Officer

Kristine M. Chadwick
Chief Financial Officer and Associate Executive Director, Finance

I am pleased to join Chairman Cox in presenting the Commission's FY 2008 PAR. I am grateful for the dedication and hard work of the SEC staff during the past year that resulted in an unqualified audit opinion with no material weaknesses. This accomplishment reflects the success of our continuous improvement strategy. During the past fiscal year, the SEC made significant progress in enhancing accountability and transparency by expanding the use of technology.

We resolved the material weakness in internal control over financial reporting found last year by taking targeted corrective actions to address the prior years' audit recommendations, enhancing both the effectiveness and efficiency of our framework of internal control. The SEC's lack of automated system integration was the underlying cause of the system non-conformance previously reported, as well as the deficiencies that contributed to the finding of a material weakness. Accordingly, integration of financial management systems was the cornerstone of the SEC's corrective action plan to remediate the deficiencies identified by the GAO.

As part of the SEC's commitment to implementing a fully integrated financial management system compliant with federal financial system requirements, we successfully upgraded our core financial management system to the current, FSIO-certified version. In July, we deployed the upgrade and implemented two fully integrated modules to record, track, process, and report PP&E and accounts receivable transactions. In addition, as part of the modernization and integration of financial management systems, we implemented a new travel system under the government-wide e-gov initiative and an automated time and attendance system capable of collecting information on the activities staff perform in support of the SEC's mission.

Concurrent with the financial system upgrades, we used technology to improve internal controls and streamline business processes. For example, now business rules relative to transactions, such as capitalization of fixed assets, are automatically enforced, which promotes consistency and minimizes the risk of errors. The system improvements also allowed us to achieve substantial compliance with SGL at the transaction level, a fundamental requirement for federal financial management systems. In doing so, we strengthened our ability to verify the completeness and accuracy of our balances, and established a formalized, disciplined basis to support balances reported to our stakeholders.

In 2008 the SEC received the Association of Government Accountants' Certificate of Excellence in Accountability Reporting award for our FY 2007 PAR. This is the second year that the Commission has received this prestigious award.

I am proud of the remarkable progress and success achieved this year. Though there is more to accomplish, I am confident that our objective to continually improve will successfully support us in meeting these challenges.

Sincerely,

Kristine M. Chadwick
Chief Financial Officer and
Associate Executive Director, Finance
November 14, 2008

Balance Sheet

As of September 30, 2008 and 2007

(DOLLARS IN THOUSANDS)	FY 2008	FY 2007
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$6,011,310	$5,888,039
Investments, Net (Notes 4 and 12)	2,982,542	3,602,666
Accounts Receivable (Note 5)	45	—
Advances and Prepayments	3,936	1,198
Total Intragovernmental	8,997,833	9,491,903
Accounts Receivable, Net (Note 5)	135,470	138,693
Advances and Prepayments	1,032	902
Property and Equipment, Net (Note 6)	84,007	98,280
Total Assets	$9,218,342	$9,729,778
LIABILITIES (Note 7)		
Intragovernmental:		
Accounts Payable	$ 15,588	$ 6,153
Employee Benefits	4,433	2,699
Unfunded FECA and Unemployment Liability	1,340	1,109
Custodial Liability, Net (Note 16)	2	4
Total Intragovernmental	21,363	9,965
Accounts Payable	39,122	43,096
Accrued Payroll and Benefits	22,970	18,176
Accrued Leave	38,829	35,296
Registrant Deposits	51,793	61,689
Actuarial FECA Liability (Note 8)	5,604	5,080
Liability for Disgorgement and Penalties (Note 12)	3,108,367	3,679,370
Other Accrued Liabilities (Note 9)	27,005	23,338
Total Liabilities	3,315,053	3,876,010
Commitments and Contingencies (Note 11)		
NET POSITION		
Cumulative Results of Operations—Earmarked Funds (Note 12)	5,903,289	5,853,768
Total Net Position	$5,903,289	$5,853,768
Total Liabilities and Net Position	$9,218,342	$9,729,778

The accompanying notes are an integral part of these financial statements.

Statement of Net Cost

For the years ended September 30, 2008 and 2007

(DOLLARS IN THOUSANDS)	FY 2008	FY 2007
COSTS BY STRATEGIC GOAL (Note 13)		
Enforce compliance with federal securities laws		
Total Gross Cost	$ 595,327	$ 529,454
Promote healthy capital markets through an effective and flexible regulatory environment		
Total Gross Cost	102,822	79,704
Foster informed investment decision making		
Total Gross Cost	133,487	135,917
Maximize the use of SEC resources		
Total Gross Cost	99,267	97,466
Total Entity		
Total Gross Program Cost	930,903	842,541
Less: Earned Revenue Not Attributed to Programs (Note 14)	956,317	1,507,750
Net (Income) from Operations (Note 17)	$ (25,414)	$ (665,209)

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Net Position

For the years ended September 30, 2008 and 2007

(DOLLARS IN THOUSANDS)	FY 2008	FY 2007
CUMULATIVE RESULTS OF OPERATIONS—EARMARKED FUNDS		
Beginning Balance	$5,853,768	$5,152,921
Budgetary Financing Sources:		
Appropriations Used	—	9,201
Other Financing Sources		
Imputed Financing (Note 10)	24,107	26,437
Total Financing Sources	24,107	35,638
Net Income from Operations	25,414	665,209
Net Change	49,521	700,847
Cumulative Results of Operations (Note 12)	$5,903,289	$5,853,768
UNEXPENDED APPROPRIATIONS		
Beginning Balance	$ —	$ 9,201
Budgetary Financing Sources:		
Appropriations Used	—	(9,201)
Total Unexpended Appropriations	—	—
Net Position, End of Period	$5,903,289	$5,853,768

The accompanying notes are an integral part of these financial statements.

Statement of Budgetary Resources

For the years ended September 30, 2008 and 2007

(DOLLARS IN THOUSANDS)	FY 2008	FY 2007
BUDGETARY RESOURCES		
Unobligated Balance, Brought Forward, October 1	$ 90,012	$ 186,669
Recoveries of Prior-Year Unpaid Obligations	38,384	23,030
Budget Authority:		
Spending Authority from Offsetting Collections		
Earned		
Collected	985,997	1,538,749
Change in Receivables from Federal Sources	45	(131)
Change in Unfilled Customer Orders without Advance Received	122	(663)
Subtotal	986,164	1,537,955
Temporarily Not Available Pursuant to Public Law	(141,039)	(781,047)
Total Budgetary Resources	$ 973,521	$ 966,607
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct (Note 15)	$ 915,422	$ 876,274
Reimbursable (Note 15)	403	321
Unobligated Balance Available:		
Realized and Apportioned for Current Period	687	6,068
Unobligated Balance Not Available	57,009	83,944
Total Status of Budgetary Resources	$ 973,521	$ 966,607
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1	$ 254,660	$ 230,102
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	—	(794)
Total Unpaid Obligated Balance, Net	254,660	229,308
Obligations Incurred Net	915,825	876,595
Gross Outlays	(881,127)	(829,006)
Recoveries of Prior-Year Unpaid Obligations, Actual	(38,384)	(23,030)
Change in Uncollected Customer Payments from Federal Sources	(167)	793
Obligated Balance, Net, End of Period		
Unpaid Obligations	250,974	254,660
Uncollected Customer Payments from Federal Sources	(167)	—
Total, Unpaid Obligated Balance, Net, End of Period (Note 11)	$ 250,807	$ 254,660
NET OUTLAYS		
Net Outlays:		
Gross Outlays	$ 881,127	$ 829,006
Offsetting Collections	(985,997)	(1,538,749)
Distributed Offsetting Receipts	(3,779)	(1,105)
Net Outlays/(Collections)	$(108,649)	$ (710,848)

The accompanying notes are an integral part of these financial statements.

Statement of Custodial Activity

For the years ended September 30, 2008 and 2007

(DOLLARS IN THOUSANDS)	FY 2008	FY 2007
REVENUE ACTIVITY		
Sources of Cash Collections:		
Disorgement and Penalties	$193,069	$496,524
Accrual Adjustments	(2)	(7,931)
Total Custodial Revenue (Note 16)	193,067	488,593
DISPOSITION OF COLLECTIONS		
Amounts Transferred to:		
Department of the Treasury	$193,069	$496,524
Change in Liability Accounts	(2)	(7,931)
Total Disposition of Collections	193,067	488,593
NET CUSTODIAL ACTIVITY	$ —	$ —

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

As of September 30, 2008 and 2007

NOTE 1. Summary of Significant Accounting Policies

A. Reporting Entity

The SEC is an independent agency of the United States government established pursuant to the Exchange Act. The SEC's mission is to protect investors; maintain fair, orderly, and efficient securities markets; and facilitate capital formation. The SEC works with Congress, other executive branch agencies, Self-Regulatory Organizations (SRO) (e.g., stock exchanges and FINRA), the PCAOB, state securities regulators, and many other organizations in support of the agency's mission.

These financial statements report on the SEC's strategic goals. The agency's programs promote the public interest by promoting compliance through examinations of regulated entities; facilitating capital formation through full disclosure; enforcing the federal securities laws; regulating investment companies and investment advisers; overseeing the operations of the nation's securities markets and participants; promoting technological innovation in the securities markets; encouraging international regulatory and enforcement cooperation; and educating and assisting investors.

B. Basis of Presentation and Accounting

The accompanying financial statements present the financial position, net cost of operations, changes in net position, budgetary resources, and custodial activities of the SEC's core business activities as required by the Accountability of Tax Dollars Act of 2002. They may differ from other financial reports submitted pursuant to the OMB directives for the purpose of monitoring and controlling the use of the SEC budgetary resources. The SEC's books and records serve as the source of the information presented in the accompanying financial statements. The agency classified assets, liabilities, revenues, and costs in these financial statements according to the type of entity associated with the transactions. Intragovernmental assets and liabilities are those due from or to other federal entities. Intragovernmental earned revenues are collections or accruals due from other federal entities. Intragovernmental costs are payments or accruals due to other federal entities.

The SEC's financial statements have been prepared on the accrual basis of accounting in conformity with GAAP for the federal government. Accordingly, revenues are recognized when earned and expenses are recognized when incurred, without regard to the receipt or payment of cash. These principles differ from budgetary accounting and reporting principles. The differences relate primarily to the capitalization and depreciation of property and equipment, as well as the recognition of other long-term assets and liabilities. The statements were also prepared in conformity with OMB Circular No. A-136, *Financial Reporting Requirements.*

C. Change in Methodology

Effective for FY 2008, the SEC changed its accounting methodology for bulk purchases of equipment. The SEC changed its capitalization threshold to $50,000 in order to be consistent with the policy in the SEC's Office of Administrative Services. In the prior year, the SEC's capitalization threshold was $500,000. Refer to *Note 6. Property and Equipment, Net.*

D. Changes in Presentation

The SEC receives collections from civil injunctive and administrative proceedings that order the disgorgement and pre-judgment interest of ill-gotten gains, payment of civil monetary penalties, and post-judgment interest against violators of federal securities laws.

The SEC changed its method of presentation for the receipt, accounting, and disposition of all disgorgement-related assets stemming from actions against violators of federal securities laws. Historically, the SEC treated disgorgement-related receivables as custodial activity and the collection and investment of disgorgements and penalties as fiduciary activity. Beginning in FY 2008, the SEC treated all activity related to disgorgement and penalties as non-entity assets under control of the SEC with an equal and offsetting liability on the balance sheet. Also effective in FY 2008, the SEC did not include receivables for amounts the SEC expects to distribute to the public or collections it expects to forward to the public in the Statement of Custodial Activity (SCA). The SCA only includes collections the SEC anticipates forwarding to the Treasury's general fund. As the current presentation reflects a change from one that was acceptable to another that is a preferred presentation, prior period financial statement and related information was presented as previously reported. Additional details regarding disgorgement and penalties and the SCA are presented in *Note 1.U. Disgorgement and Penalties, Note 12. Earmarked, Disgorgement and Penalties, and Non-Entity Funds, and Note 16. Custodial Revenues and Liabilities*.

In the SEC's FY 2007 Performance and Accountability Report, *Note 4. Investments* is presented differently to conform with reporting requirements in OMB Circular A-136.

E. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. These estimates and assumptions include the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

F. Intra- and Inter-Agency Relationships

The SEC does not have transactions among its own operating units, and therefore, intra-entity eliminations are not necessary. The SEC has certain oversight responsibilities with respect to the FASB, the Securities Investor Protection Corporation (SIPC) (refer to *Note 11. Commitments and Contingencies),* and PCAOB; however, these entities are not subject to consolidation.

G. Fund Accounting Structure

The SEC accounts for financial activities by Treasury Appropriation Fund Symbol (TAFS), summarized as follows:

- **General Fund—Salaries and Expenses** (0100 and X0100) consist of earmarked funds for use in carrying out the SEC's mission and functions and revenues collected by the SEC in excess of appropriated funds for FY 2003 through FY 2004 (0100) and FY 2005 through FY 2008 (X0100) (refer to *Note 1.H. Earmarked Funds, Note 3. Fund Balance with Treasury,* and *Note 12. Earmarked, Disgorgement and Penalties, and Non-Entity Funds).*

Other Funds:

- **Deposit and Suspense Funds** (X6563, X6561, F3875, and F3880) carry disgorgement, penalties, and interest collected and held on behalf of harmed investors, registrant monies held temporarily until earned by the SEC, and collections awaiting disposition or reclassification.
- **Miscellaneous Receipt Accounts** (1099 and 3220) hold non-entity receipts and accounts receivable from custodial activities that the SEC cannot deposit into funds under its control. These include amounts received pursuant to cases that the SEC will send to the Treasury.

The SEC does not have lending or borrowing authority, except as discussed in N*ote 11. Commitments and Contingencies.* The SEC has custodial responsibilities, as described in *Note 16. Custodial Revenues and Liabilities.*

H. Earmarked Funds

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. The SEC collects such funds, which statutes require the SEC to use for designated activities, benefits or purposes; and to account for them separately from the government's general revenues. The SEC accounts for these as offsetting collections and deposits amounts collected in TAFS 0100, Salaries and Expense as detailed in *Note 12. Earmarked, Disgorgement and Penalties, and Non-Entity Funds.*

I. Entity/Non-Entity Assets

Assets that an agency is authorized to use in its operations are entity assets. Assets that an agency holds on behalf of another federal agency or a third party and are not available for the agency's use are non-entity assets. The SEC's non-entity assets include the following: (i) disgorgement, penalties, and interest collected or to be collected and held or invested by the SEC pending distribution to harmed investors (disgorgement funds); (ii) custodial accounts receivable; and (iii) excess filing fees remitted by registrants (registrant deposits).

J. Fund Balance with Treasury

FBWT includes certain funds held on behalf of third parties. These include registrant deposits and uninvested disgorgement funds. FBWT also includes undisbursed account balances with Treasury and balances in excess of appropriated amounts that are unavailable to the SEC.

The SEC conducts all of its banking activity in accordance with directives issued by Treasury's Financial Management Service (FMS). The SEC deposits all revenue and receipts in commercial bank accounts maintained by the FMS or wires them directly to a Federal Reserve Bank. Treasury processes all disbursements made by the SEC. The Federal Reserve Bank transfers all monies maintained in commercial bank accounts on the business day following the day of deposit.

K. Investments

The SEC invests disgorgement funds in short-term Treasury securities, whenever practicable. Disgorgement funds may also include civil penalties collected under the "Fair Fund" provision of the Sarbanes-Oxley Act of 2002. As the funds are collected, the SEC holds them in a deposit fund account and may invest them in overnight and short-term market-based Treasury bills through a facility provided by the Bureau of the Public Debt, pending their distribution to investors. The SEC adds interest earned to the funds and these funds are subject to taxation under Treasury Regulation section 1.468B-2. Additional details regarding SEC investments are provided in *Note 4. Investments.*

L. Accounts Receivable and Allowance for Uncollectible Accounts

Both SEC's entity and non-entity accounts receivable consist primarily of amounts due from the public. Entity accounts receivable are amounts that the SEC will retain upon collection. These generally include claims arising from: (i) securities transaction fees paid by exchanges, (ii) filing fees paid by registrants, (iii) goods or services that the SEC has provided to another federal agency pursuant to an inter-agency agreement, (iv) host reimbursement of employee travel, and (v) employee-related debt. Entity accounts receivable represent a small volume of the SEC's business activities because agency fee legislation generally requires payment of filing fees at the time of filing, and SRO transaction fees are payable to the SEC twice a year: in March for the period September through December, and in September for the period January through August. Accordingly, the year-end accounts receivable accrual generally represents fees payable by the SROs to the SEC for activity during the month of September.

Non-entity accounts receivable are amounts that the SEC will not retain upon collection. These mainly include disgorgement, penalties, and interest assessments. The SEC recognizes these accounts receivable when an order of the Commission or a court designates it to collect the assessed disgorgement, penalties, and interest. The SEC does not recognize interest as accounts receivable, unless a court or administrative order specifies the amount of pre- and post-judgment interest.

The SEC is also party to orders directing violators of federal securities laws to pay the court or a receiver to collect the disgorgement, penalties, and interest assessed against them. These orders are not recognized as accounts receivable by the SEC because the debts are payable to another party. However, these debts are subject to change based on, for example, future orders issued by the presiding court that could result in the SEC recognizing a receivable. In the cases where the court order or other legally binding instrument requires the debtor to remit funds to the SEC, a receivable is recorded.

The SEC bases the allowance for uncollectible amounts and the related provision for estimated losses for disgorgement, penalties, and FOIA accounts receivable on a collectability analysis. The analysis consists of the evaluation of the individual account balances for the largest debts, allowing for historical collection data, to determine on a percentage basis the value of gross accounts receivable that are likely to be collected by the SEC. The SEC applies this percentage to the remaining disgorgement, penalties, and FOIA accounts receivable to reflect the balances at their estimated net realizable value.

The SEC bases the allowance for uncollectible amounts and the related provision for estimated losses for filing fees and other accounts receivable on analysis of historical collection data. No allowance for uncollectible amounts or related provision for estimated losses have been established for fees payable by SROs, as these gross accounts receivable are deemed to represent their net realizable value based on historical experience.

M. Advances and Prepayments

The SEC may prepay amounts in anticipation of receiving future benefits such as training and supplemental health benefits for SEC employees. The agency expenses these payments when the goods are received or services are performed. The SEC also may advance funds to its personnel for travel costs. The SEC expenses these amounts when the expense voucher is processed.

N. Property and Equipment, Net

The SEC's property and equipment consists of software, general-purpose equipment used by the agency, capital improvements made to buildings leased by the SEC for office space, and internal-use software development costs for projects in development. The SEC reports property and equipment purchases and additions at cost. The agency expenses property and equipment acquisitions that do not meet the capitalization criteria, normal repairs, and maintenance when received or incurred by the SEC.

The SEC depreciates property and equipment over their estimated useful lives using the straight-line method of depreciation. The agency removes property and equipment from its asset accounts in the period of disposal, retirement, or removal from service. The SEC recognizes the difference between the book value and the amount realized as a gain or loss in the same period that the asset is removed.

During FY 2008, the SEC discontinued recording a salvage value for capitalized personal property and removed the assigned salvage values from existing capitalized personal property. The reason for the change is that historically the SEC has not recovered any value from used property or equipment when removed or scrapped. As a result of this action the agency recorded additional accumulated depreciation and the related expense in FY 2008.

O. Liabilities

The SEC records liabilities for amounts that are likely to be paid as a result of events that have occurred as of the relevant balance sheet dates. The SEC's liabilities consist of routine operating accounts payable, accrued payroll and benefits, registrant deposit accounts, liabilities for disgorgement and penalties, and custodial liabilities for amounts held on behalf of Treasury.

Liabilities for distribution of disgorgement and penalties represent the largest portion of the SEC's liabilities. A liability for disgorgement and penalties arises when an order is issued for the SEC to collect disgorgement, penalties, and interest from securities law violators, which may be returned to harmed investors. When the Commission or court issues an order, the SEC establishes an account receivable due to the SEC. When collected, the SEC holds receipts in FBWT or invests in Treasury securities pending distribution to harmed investors. The SEC reports an equal and offsetting liability for assets held at Treasury as a non-entity liability on the balance sheet.

The SEC recognizes liabilities covered by three types of resources: realized budgetary resources, unrealized budgetary resources that become available without further congressional action, and amounts held that do not require the use of budgetary resources. Realized budgetary resources include obligated balances that fund existing liabilities and unobligated balances as of the relevant balance sheet dates. Unrealized budgetary resources represent fee collections in excess of amounts appropriated for current fiscal year spending. The SEC uses these resources to cover liabilities when appropriation language makes these unrealized budgetary resources available in the fiscal year without further congressional action.

P. Employee Retirement Systems and Benefits

The SEC's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), depending on when they start working for the federal government. Pursuant to Public Law 99-335, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees who are rehired after a break in service of more than one year and who had five years of federal civilian service prior to 1987 are eligible to participate in the CSRS offset retirement system or may elect to join FERS.

The SEC does not report CSRS or FERS assets or accumulated plan benefits that may be applicable to its employees in its financial statements. The U.S. Office of Personnel Management (OPM) reports them. Although the SEC reports no liability for future payments to employees under these programs, the federal government is liable for future payments to employees through the various agencies administering these programs. The SEC does not fund post-retirement benefits such as the Federal Employees Health Benefit Program (FEHB) and the Federal Employees Group Life Insurance Program (FEGLI). The SEC is also not required to fully fund CSRS pension liabilities. Instead, the financial statements of the SEC recognize an imputed financing source and corresponding expense that represent the SEC's share of the cost to the federal government of providing pension, post-retirement health, and life insurance benefits to all eligible SEC employees. For the fiscal year ended September 30, 2008, the SEC made contributions based on OPM cost factors equivalent to approximately 6.77 percent and 11.52 percent of the employee's basic pay for those employees covered by CSRS and FERS, respectively. For the fiscal year ended September 30, 2007, the SEC made contributions based on OPM cost factors equivalent to approximately 6.74 percent and 10.87 percent of the employee's basic pay for those employees covered by CSRS and FERS, respectively. All employees are eligible to contribute to a thrift savings plan. For those employees participating in FERS, a thrift savings plan is automatically established, and the SEC makes a mandatory one percent contribution to this plan. In addition, the SEC matches contributions ranging from one to four percent for FERS-eligible employees who contribute to their thrift savings plan. The SEC contributes a matching amount to the Social Security Administration under the Federal Insurance Contributions Act, which fully covers FERS participating employees. Employees participating in CSRS do not receive matching contributions to their thrift savings plans.

Q. Injury and Post-employment Compensation

The Federal Employees' Compensation Act (FECA), administered by the U.S. Department of Labor (DOL), addresses all claims brought by SEC employees for on-the-job injuries. The DOL bills each agency annually as its claims are paid, but payment on these bills is deferred for two years to allow for funding through the budget process. Similarly, employees that the SEC terminates without cause may receive unemployment compensation benefits under the unemployment insurance program also administered by the DOL, which bills each agency quarterly for paid claims.

R. Annual, Sick, and Other Leave

The SEC accrues annual leave and compensatory time as earned and reduces the accrual when leave is taken. Each month, the SEC makes an adjustment so that the balances in the accrued leave accounts reflect current leave balances and pay rates. No portion of this liability has been obligated. Future financing sources provide funding to the extent that current or prior year funding is not available to pay for leave earned but not taken. The SEC expenses sick leave and other types of non-vested leave as used.

S. Revenue and Other Financing Sources

Exchange revenue transactions and non-exchange revenues that arise from the government's ability to demand payment generate the SEC's revenue and financing sources. The SEC's exchange revenue mainly consists of fees collected from SROs and registrants.

The SEC's funding is primarily through the collection of securities transaction fees from SROs and securities registration, tender offer, merger, and other fees from registrants. The fee rates are established by the SEC in accordance with federal law and are applied to volumes of activity reported by SROs or to filings submitted by registrants. When received, the SEC records these fees as exchange revenue. The SEC is permitted by law to include these amounts in its obligational authority or to offset its expenditures and liabilities upon collection, up to authorized limits. The SEC records all amounts remitted by registrants in excess of the fees for specific filings as liabilities in deposit accounts until earned by the SEC from registrant filings or returned to the registrant pursuant to the SEC's policy, which calls for the return of registrant deposits when an account is dormant for six months.

The SEC also receives collections from proceedings that result in the assessment of disgorgement, penalties, and interest against violators of federal securities laws. When the SEC collects these funds, it transfers the funds to Treasury. The SEC reports an equal and offsetting liability for the disgorgement and penalties held by the SEC on the Balance Sheet. The SEC does not record amounts collected and held by another government entity, such as a court registry, or a non-government entity, such as a receiver.

T. Budgets and Budgetary Accounting

The SEC is subject to certain restrictions on its use of statutory fees. The SEC deposits all fee revenues in a designated account at Treasury. However, the SEC may use funds from this account only as authorized by Congress, made available by OMB apportionment, and upon issuance of a Treasury warrant. Revenue collected in excess of appropriated amounts is restricted for use by the SEC.

The SEC can use fees other than the restricted excess fees from its operations, subject to an annual congressional limitation of $842.7 million and $867.5 million for the budget FYs 2008 and 2007, respectively. In addition, Congress made available approximately $63 million and $14 million for fiscal years 2008 and 2007, respectively. Funds appropriated that the SEC does not use in a given fiscal year are maintained in a designated account for use in future periods, as appropriated by Congress.

Each fiscal year, the SEC receives Category A apportionments, which are quarterly distributions of budgetary resources made by OMB. The SEC also receives a small amount of Category B funds for reimbursable activity, which are exempt from quarterly apportionment.

U. Disgorgement and Penalties

The SEC maintains non-entity assets related to disgorgements and penalties ordered pursuant to civil injunctive and administrative proceedings and which, upon collection and further order, the SEC may distribute to harmed investors. The SEC also recognizes an equal and offsetting liability for these assets as discussed in *Note 1.O. Liabilities.*

These assets consist of disgorgement, penalties, and interest assessed against securities law violators where the Commission, administrative law judge, or in some cases, a court, has determined that the SEC should return such funds to harmed investors. The SEC holds such funds as non-entity assets pending distribution to harmed investors pursuant to an approved distribution plan. The SEC does not record on its financial statements any asset amounts another government entity such as a court, or a non-governmental entity, such as a receiver, has collected or will collect. Additional details regarding disgorgement and penalties are presented in *Note 1.D. Changes in Presentation* and *Note 12. Earmarked, Disgorgement and Penalties, and Non-Entity Funds.*

NOTE 2. Non-entity Assets

At September 30, non-entity assets of the SEC consisted of the following:

(DOLLARS IN THOUSANDS)	FY 2008	FY 2007
Registrant Deposits (Fund Balance with Treasury)	$ 51,793	$ 61,689
Disgorgement and Penalties		
Fund Balance with Treasury	37,707	13,094
Investments	2,982,542	3,602,666
Accounts Receivable	88,118	63,610
Custodial Assets (Accounts Receivable)	2	4
Total Non-entity Assets	3,160,162	3,741,063
Total Entity Assets	6,058,180	5,988,715
Total Assets (Note 12)	$9,218,342	$9,729,778

Effective in FY 2008, the SEC changed its method of presenting the receipt, accounting, and disposition of disgorgement and penalties-related assets stemming from actions against violators of federal securities laws. The SEC previously treated disgorgement and penalties-related receivables as custodial activity. Beginning in FY 2008, these receivables are treated as non-entity disgorgement and penalties assets; consequently, $63.6 million of accounts receivable that was treated as a custodial asset in FY 2007 is reported as a non-entity disgorgement and penalties asset in FY 2008. Refer to *Note 1.D. Changes in Presentation.*

NOTE 3. Fund Balance with Treasury

FBWT by type of fund as of September 30, are as follows:

(DOLLARS IN THOUSANDS)	FY 2008	FY 2007
Fund Balance:		
General Funds	$5,921,810	$5,813,256
Other Funds	89,500	74,783
Total Fund Balance with Treasury	6,011,310	5,888,039
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	687	6,068
Unavailable	57,009	83,944
Obligated Balance not yet Disbursed	250,807	254,660
Non-Budgetary Fund Balance with Treasury	5,702,807	5,543,367
Total Fund Balance with Treasury	$6,011,310	$5,888,039

NOTE 4. Investments

At September 30, 2008, investments consisted of the following:

(DOLLARS IN THOUSANDS)	COST	AMORTIZATION METHOD	AMORTIZED (PREMIUM) DISCOUNT	INTEREST RECEIVABLE	INVESTMENT NET	MARKET VALUE DISCLOSURE
Non-Marketable Market Based Securities	$2,976,912	S/L	$5,630	$ —	$2,982,542	$2,988,672

At September 30, 2007, investments consisted of the following:

(DOLLARS IN THOUSANDS)	COST	AMORTIZATION METHOD	AMORTIZED (PREMIUM) DISCOUNT	INTEREST RECEIVABLE	INVESTMENT NET	MARKET VALUE DISCLOSURE
Non-Marketable Market Based Securities	$3,588,309	S/L	$14,202	$155	$3,602,666	$3,605,239

The SEC invests these funds in overnight and short-term market-based Treasury bills. Treasury bills are securities traded in the primary and secondary U.S. Treasury market. Originally, the U.S. government auctions Treasury bills directly in the primary U.S. Treasury market and subsequently investors trade them in the secondary U.S. Treasury market. In accordance with GAAP, the SEC records the value of its investments in Treasury bills at cost and amortizes the discount on a straight-line basis through the maturity date of these securities. The market value is determined by the secondary U.S. Treasury market and represents the value an individual investor is willing to pay for these securities, at a given point in time.

Effective in FY 2008, the SEC disclosed its interest receivable related to investments in accordance with guidance provided by OMB Circular A-136. Previously, the SEC presented its disclosures regarding receivables related to interest on investments in *Note 5. Accounts Receivable,* in the non-entity intragovernmental accounts receivable section. Beginning in FY 2008, disclosures regarding the interest receivable are reported with the investments; consequently, $155,000 of interest receivable that was reported as accounts receivable in FY 2007 is reported in the table above. Refer to *Note 1.D. Changes in Presentation.*

NOTE 5. Accounts Receivable, Net

At September 30, 2008, accounts receivable consisted of the following:

(DOLLARS IN THOUSANDS)	GROSS RECEIVABLES	ALLOWANCE	NET RECEIVABLES
Entity Intragovernmental Assets:			
Reimbursable Activity	$ 45	$ —	$ 45
Subtotal Intragovernmental Assets	45	—	45
Entity Accounts Receivable:			
Exchange Fees	46,480	—	46,480
Filing Fees	569	66	503
Other	368	1	367
Non-entity Accounts Receivable:			
Disgorgement and Penalties	434,193	346,075	88,118
FOIA	2	—	2
Subtotal Non-Intragovernmental Assets	481,612	346,142	135,470
Total Accounts Receivable	$481,657	$346,142	$135,515

At September 30, 2007, accounts receivable consisted of the following:

(DOLLARS IN THOUSANDS)	GROSS RECEIVABLES	ALLOWANCE	NET RECEIVABLES
Entity Accounts Receivable:			
Exchange Fees	$ 74,422	$ —	$ 74,422
Filing Fees	355	11	344
Other	318	5	313
Non-entity Accounts Receivable:			
Disgorgement and Penalties	329,584	265,974	63,610
FOIA Fees	6	2	4
Total Accounts Receivable	$404,685	$265,992	$138,693

The SEC writes off debt aged two or more years by removing the debt amounts from the gross accounts receivable and any related allowance for uncollectible accounts. Refer to *Note 1.L. Accounts Receivable and Allowance for Uncollectible Accounts* for methods used to estimate allowances.

NOTE 6. Property and Equipment, Net

At September 30, 2008, property and equipment consisted of the following:

CLASS OF PROPERTY *(DOLLARS IN THOUSANDS)*	DEPRECIATION/ AMORTIZATION METHOD	CAPITALIZATION THRESHOLD FOR INDIVIDUAL PURCHASES	CAPITALIZATION THRESHOLD FOR BULK PURCHASES	SERVICE LIFE (YEARS)	ACQUISITION COST	ACCUMULATED DEPRECIATION/ AMORTIZATION	NET BOOK VALUE
Furniture	S/L	$ 15	$ 50	5	$ 10,844	$ 6,395	$ 4,449
Equipment	S/L	15	50	3	50,000	44,139	5,861
Software	S/L	300	300	3–5	76,069	57,046	19,023
Leasehold Improvements	S/L	300	N/A	10	76,700	22,026	54,674
Total					$213,613	$129,606	$84,007

At September 30, 2007, property and equipment consisted of the following:

CLASS OF PROPERTY *(DOLLARS IN THOUSANDS)*	DEPRECIATION/ AMORTIZATION METHOD	CAPITALIZATION THRESHOLD FOR INDIVIDUAL PURCHASES	CAPITALIZATION THRESHOLD FOR BULK PURCHASES	SERVICE LIFE (YEARS)	ACQUISITION COST	ACCUMULATED DEPRECIATION/ AMORTIZATION	NET BOOK VALUE
Furniture	S/L	$ 15	$ 50	5	$ 9,975	$ 4,227	$ 5,748
Equipment	S/L	15	500	3	48,509	37,866	10,643
Software	S/L	300	300	3–5	68,119	47,117	21,002
Leasehold Improvements	S/L	300	N/A	10	74,167	13,280	60,887
Total					$200,770	$102,490	$98,280

During FY 2008, the SEC recorded a software disposal for the Strategic Acquisition Manager system. The software was removed from production in September 2008. The net loss due to the disposal is $1.4 million. Effective FY 2008, the SEC changed its methodology of accounting for bulk purchases of equipment. In the prior year, the SEC's capitalization threshold was $500,000; this amount was changed to $50,000. Refer to *Note 1.C. Change in Methodology.*

NOTE 7. Liabilities Not Covered by Budgetary Resources

At September 30, liabilities consisted of the following:

(DOLLARS IN THOUSANDS)	FY 2008	FY 2007
Liabilities Not Covered by Budgetary Resources		
Intragovernmental		
Unfunded FECA and Unemployment Liability	$ 1,340	$ 1,109
Total Intragovernmental Liabilities	1,340	1,109
Accrued Leave	38,829	35,296
Actuarial Liability	5,604	5,080
Other Accrued Liabilities—Recognition of Lease Liability (Note 9)	15,768	16,865
Total Liabilities Not Covered by Budgetary Resources	61,541	58,350
Liabilities Not Requiring Budgetary Resources		
Intragovernmental		
Custodial Liability	2	4
Total Intragovernmental Liabilities	2	4
Registrant Deposits	51,793	61,689
Liability for Disgorgement and Penalties	3,108,367	3,679,370
Total Liabilities Not Requiring Budgetary Resources	3,160,162	3,741,063
Liabilities Covered by Budgetary Resources		
Intragovernmental		
Accounts Payable	15,588	6,153
Employee Benefits	4,433	2,699
Total Intragovernmental Liabilities	20,021	8,852
Accounts Payable	39,122	43,096
Accrued Payroll and Benefits	22,970	18,176
Other Accrued Liabilities	11,237	6,473
Total Liabilities Covered by Budgetary Resources	93,350	76,597
Total Liabilities	$3,315,053	$3,876,010

The SEC's liabilities include amounts that will never require the use of a budgetary resource. These liabilities consist of registrant deposit accounts; accounts receivable for disgorgement, penalties, and interest assessed against securities laws violators; and invested and uninvested assets held by the SEC on behalf of harmed investors.

NOTE 8. Actuarial FECA Liability

FECA provides income and medical cost protection to covered federal civilian employees harmed on the job or who have contracted an occupational disease, and dependents of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits under FECA for the SEC's employees are administered by the DOL and ultimately paid by the SEC when funding becomes available.

The SEC bases its estimate for FECA actuarial liability on the DOL's FECA model. The model considers the average amount of benefit payments incurred by the SEC for the past three fiscal years, multiplied by the medical and compensation liability to benefits paid (LBP) ratio for the whole FECA program, estimated at approximately 11 times the annual payments. To capture variability, the model estimates the liability using three sets of LBP ratios, summarized below.

For FY 2008, the LBP ratios were as follows:

LBP CATEGORY	MEDICAL	COMPENSATION
Highest	9.30%	12.50%
Overall Average	8.00%	11.70%
Lowest	7.10%	11.40%

For FY 2007, the LBP ratios were as follows:

LBP CATEGORY	MEDICAL	COMPENSATION
Highest	9.50%	12.20%
Overall Average	8.00%	11.80%
Lowest	7.20%	11.50%

For FY 2008 and FY 2007, the SEC used the overall average LBP ratios to calculate the $5.6 million and $5.1 million FECA actuarial liabilities for those years, respectively.

NOTE 9. Leases

The SEC has the authority to negotiate long-term leases for office space. At September 30, 2008, the SEC leased office space at 17 locations under operating lease agreements that expire between 2009 and 2021. The SEC paid $83 million and $85.5 million for rent for FY 2008 and 2007, respectively. In FY 2008, the SEC signed supplemental lease agreements that led to an increase in future lease payments. Under existing commitments, minimum lease payments through FY 2013 and thereafter are as follows:

FISCAL YEAR *(DOLLARS IN THOUSANDS)*	MINIMUM LEASE PAYMENTS
2009	$ 78,822
2010	76,984
2011	76,902
2012	67,813
2013	60,151
2014 and thereafter	343,532
Total Future Minimum Lease Payments	$704,204

The total future minimum lease payments summarized above include a liability the SEC has recognized for office space leased in New York.

FISCAL YEAR *(DOLLARS IN THOUSANDS)*	REQUIRED LEASE PAYMENTS NEW YORK
2009	$2,722
2010	2,722
2011	2,469
2012	1,192
Total Future Estimated Lease Payments	$9,105

During FY 2005, the SEC entered into a lease agreement for new office space in New York. The SEC and GSA entered into separate agreements with the lessor of the previously occupied space. GSA agreed to rent the office space from the lessor for the next five years of the SEC's lease, at which time GSA has the option to renew the agreement for the remaining 15 months of the SEC's lease. As part of the SEC's agreement with the lessor, the SEC was responsible for the estimated $18 million difference between its annual lease liability and the annual lease liability negotiated by GSA with the lessor. As of FY 2008, the SEC is responsible for two years of the lease and two option years. As of September 30, 2008, this liability amounts to $9.1 million of lease payments which end in FY 2012.

At September 30, 2008 and 2007, the SEC recognized an unfunded liability of $15.8 million and $16.9 million, respectively to cover the lease obligation. Refer to *Note 7. Liabilities Not Covered by Budgetary Resources.*

NOTE 10. Imputed Financing

The SEC recognizes an imputed financing source and corresponding expense to represent its share of the cost to the federal government of providing pension and post-retirement health and life insurance benefits (Pension/Other Retirements Benefits (ORB)) to all eligible SEC employees. For September 30, 2008 and 2007, the components of the imputed financing sources and corresponding expenses were as follows:

PENSION/ORB CATEGORY *(DOLLARS IN THOUSANDS)*	FY 2008	FY 2007
CSRS	$ 5,551	$ 6,113
FERS	1,188	1,386
FEHB	17,270	18,838
FEGLI	90	89
Other	8	11
Total Pension/ORB	$24,107	$26,437

NOTE 11. Commitments and Contingencies

A. Commitments

The Securities Investor Protection Act of 1970 (SIPA), as amended, created the SIPC to provide certain financial protections to customers of insolvent registered securities brokers, dealers, firms, and members of national securities exchanges for up to $500,000 per customer. SIPA authorizes the SIPC to create a fund to maintain all monies received and disbursed by the SIPC. SIPA also gives the SIPC the authority to borrow funds from the SEC in an amount not to exceed, in the aggregate, $1 billion in the event that the SIPC fund is or may appear insufficient for purposes of SIPA. If necessary, Treasury would make these funds available to the SEC through the purchase by Treasury of notes or other obligating instruments issued by the SEC. Such notes or other obligating instruments would bear interest at a rate determined by the Secretary of the Treasury. As of September 30, 2008, the SEC had not loaned any funds to the SIPC, and there are no outstanding notes or other obligating instruments issued by the SEC.

In addition to future lease commitments discussed in *Note 9. Leases,* the SEC is obligated for the purchase of goods and services that have been ordered, but not received. As of September 30, 2008, net obligations for all of SEC's activities were $250.8 million, of which $93.5 million was delivered and unpaid. As of September 30, 2007, net obligations for all of SEC's activities were $254.7 million, of which $80.7 million was delivered and unpaid.

B. Contingencies

The SEC recognizes contingent liabilities when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable.

The SEC is party to various routine administrative proceedings, legal actions, and claims brought against it, including threatened or pending litigation involving labor relations claims, some of which may ultimately result in settlements or decisions against the federal government. As of September 30, 2008, the SEC does not owe for any claims.

NOTE 12. Earmarked, Disgorgement and Penalties, and Non-Entity Funds

SEC's earmarked funds arise from offsetting collections from securities transaction fees, registration fees, and other fees authorized by the Securities Act of 1933 ("the Securities Act") and the Exchange Act. As such, the SEC identified and separately displayed activity in this fund on the Statement of Changes in Net Position and the Balance Sheet in accordance with the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 27, *Identifying and Reporting Earmarked Funds. Note 1.H. Earmarked Funds* displays additional details regarding SEC earmarked funds.

For FY 2008, the assets, liabilities, net position, and net income from operations relating to earmarked, disgorgement and penalties, and non-entity funds consisted of the following:

(DOLLARS IN THOUSANDS)	EARMARKED	DISGORGEMENT AND PENALTIES	NON-ENTITY FUNDS	TOTAL
Balance Sheet as of September 30, 2008				
ASSETS				
Fund Balance with Treasury	$5,921,810	$ 37,707	$51,793	$6,011,310
Investments	—	2,982,542	—	2,982,542
Accounts Receivable	47,395	88,118	2	135,515
Advances and Prepayments	4,968	—	—	4,968
Property and Equipment, Net	84,007	—	—	84,007
Total Assets (Note 2)	$6,058,180	$3,108,367	$51,795	$9,218,342
LIABILITIES				
Accounts Payable	$ 54,710	$ —	$ —	$ 54,710
Accrued Payroll and Benefits	27,403	—	—	27,403
FECA and Unemployment Liability	6,944	—	—	6,944
Accrued Leave	38,829	—	—	38,829
Custodial Liability	—	—	2	2
Registrant Deposits	—	—	51,793	51,793
Liability for Disgorgement and Penalties	—	3,108,367	—	3,108,367
Other Accrued Liabilities	27,005	—	—	27,005
Total Liabilities	$ 154,891	$3,108,367	$51,795	$3,315,053
NET POSITION				
Cumulative Results of Operations	$5,903,289	$ —	$ —	$5,903,289
Total Net Position	5,903,289	—	—	5,903,289
Total Liabilities and Net Position	$6,058,180	$3,108,367	$51,795	$9,218,342
Statement of Net Cost				
For the Year Ended September 30, 2008				
Gross Program Costs	$ 930,903	$ —	$ —	$ 930,903
Net Program Costs	930,903	—	—	930,903
Less Earned Revenues Not Attributable to Program Costs	956,317	—	—	956,317
Net (Income) from Operations	$ (25,414)	$ —	$ —	$ (25,414)
Statement of Changes in Net Position				
For the Year Ended September 30, 2008				
Net Position Beginning of Period	$5,853,768	$ —	$ —	$5,853,768
Imputed Financing	24,107	—	—	24,107
Net Income from Operations	25,414	—	—	25,414
Net Change	49,521	—	—	49,521
Net Position End of Period	$5,903,289	$ —	$ —	$5,903,289

For FY 2007, the assets, liabilities, net position, and net income from operations relating to earmarked, disgorgement and penalties, and non-entity funds consisted of the following:

(DOLLARS IN THOUSANDS)	EARMARKED	DISGORGEMENT AND PENALTIES	NON-ENTITY FUNDS	TOTAL
Balance Sheet as of September 30, 2007				
ASSETS				
Fund Balance with Treasury	$5,813,256	$ 13,094	$61,689	$5,888,039
Investments	—	3,602,666	—	3,602,666
Accounts Receivable	75,079	63,610	4	138,693
Advances and Prepayments	2,100	—	—	2,100
Property and Equipment, Net	98,280	—	—	98,280
Total Assets (Note 2)	$5,988,715	$3,679,370	$61,693	$9,729,778
LIABILITIES				
Accounts Payable	$ 49,249	$ —	$ —	$ 49,249
Accrued Payroll and Benefits	20,875	—	—	20,875
FECA and Unemployment Liability	6,189	—	—	6,189
Accrued Leave	35,296	—	—	35,296
Custodial Liability	—	—	4	4
Registrant Deposits	—	—	61,689	61,689
Liability for Disgorgement and Penalties	—	3,679,370	—	3,679,370
Other Accrued Liabilities	23,338	—	—	23,338
Total Liabilities	$ 134,947	$3,679,370	$61,693	$3,876,010
NET POSITION				
Cumulative Results of Operations	$5,853,768	$ —	$ —	$5,853,768
Total Net Position	5,853,768	—	—	5,853,768
Total Liabilities and Net Position	$5,988,715	$3,679,370	$61,693	$9,729,778
Statement of Net Cost				
For the Year Ended September 30, 2007				
Gross Program Costs	$ 842,541	$ —	$ —	$ 842,541
Net Program Costs	842,541	—	—	842,541
Less Earned Revenues Not Attributable to Program Costs	1,507,750	—	—	1,507,750
Net (Income) from Operations	$ (665,209)	$ —	$ —	$ (665,209)
Statement of Changes in Net Position				
For the Year Ended September 30, 2007				
Net Position Beginning of Period	$5,152,921	$ —	$ —	$5,152,921
Appropriations Used	9,201	—	—	9,201
Imputed Financing	26,437	—	—	26,437
Net Income from Operations	665,209	—	—	665,209
Net Change	700,847	—	—	700,847
Net Position End of Period	$5,853,768	$ —	$ —	$5,853,768

NOTE 13. Intragovernmental Costs and Exchange Revenue

The SEC assigned all costs incurred for FY 2008 and FY 2007 to specific goals, but exchange revenue is not directly assignable to a specific goal and is presented in total. Total intragovernmental and public costs for the years ended September 30, 2008 and 2007 are summarized below.

PROGRAM GOALS *(DOLLARS IN THOUSANDS)*	FY 2008	FY 2007
Enforce Compliance with Federal Securities Laws		
Intragovernmental Costs	$116,189	$ 82,118
Public costs	479,138	447,336
Subtotal—Enforce Compliance with Federal Securities Laws	595,327	529,454
Promote Healthy Capital Markets through an Effective and Flexible Regulatory Environment		
Intragovernmental Costs	20,068	12,362
Public Costs	82,754	67,342
Subtotal—Promote Healthy Capital Markets through an Effective and Flexible Regulatory Environment	102,822	79,704
Foster Informed Investment Decision Making		
Intragovernmental Costs	26,052	21,081
Public Costs	107,435	114,836
Subtotal—Promote Informed Investment Decision Making	133,487	135,917
Maximize the Use of SEC Resources		
Intragovernmental Costs	19,374	15,117
Public Costs	79,893	82,349
Subtotal—Maximize the Use of SEC Resources	99,267	97,466
Total Entity		
Intragovernmental Costs	181,683	130,678
Public Costs	749,220	711,863
Total Costs	930,903	842,541
Less: Exchange Revenues	956,317	1,507,750
Net (Income) from Operations	$ (25,414)	$ (665,209)

NOTE 14. Exchange Revenues

For the fiscal years ended September 30, exchange revenues consisted of the following:

(DOLLARS IN THOUSANDS)	FY 2008	FY 2007
Securities Transactions Fees	$794,672	$1,249,019
Securities Registration, Tender Offer, and Merger Fees	161,377	258,490
Other	268	241
Total Exchange Revenues	$956,317	$1,507,750

NOTE 15. Status of Budgetary Resources

A. Apportionment Categories of Obligations Incurred

The distinction between Category A and B funds is the time of apportionment. Category A funds are subject to quarterly apportionment by OMB. Category B funds represent budgetary resources distributed by a specified time period, activity, project, object, or a combination of these categories. The SEC's Category B funds represent amounts apportioned at the beginning of the fiscal year for the SEC's reimbursable activity. As of September 30, 2008 and 2007, obligations incurred as reported on the Statement of Budgetary Resources (SBR) consisted of the following:

OBLIGATIONS INCURRED *(DOLLARS IN THOUSANDS)*	FY 2008	FY 2007
Direct Obligations		
Category A	$915,422	$876,274
Total Direct Obligations	915,422	876,274
Reimbursable Obligations		
Category B	403	321
Total Reimbursable Obligations	403	321
Total Obligations Incurred	$915,825	$876,595

In addition, the amounts of budgetary resources obligated for undelivered orders include $157.5 million and $173.9 million as of September 30, 2008 and 2007, respectively.

B. Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

A comparison between the FY 2008 SBR and the actual FY 2008 data in the President's budget cannot be presented, as the FY 2010 President's budget is not yet available; the comparison will be presented in next year's financial statements. A comparison between the FY 2007 SBR and the FY 2007 data in the FY 2009 President's budget is as follows:

(DOLLARS IN MILLIONS)	BUDGETARY RESOURCES	OBLIGATIONS INCURRED	DISTRIBUTED OFFSETTING RECEIPTS	NET OUTLAYS
Combined Statement of Budgetary Resources	$967	$877	$ (1)	$(711)
Expired Accounts	(2)	(1)	—	—
Other			(1)	1
Budget of the U.S. Government	$965	$876	$ (2)	$(710)

The SBR reports on both expired and unexpired amounts while the budget excludes expired accounts that are no longer available for new obligations. Other differences are due to rounding.

NOTE 16. Custodial Revenues and Liabilities

As of September 30, 2008 and 2007 the source of custodial revenues is disgorgement and penalties which included the following amounts:

(DOLLARS IN THOUSANDS)	FY 2008	FY 2007
Cash Collections	$193,069	$496,524
Increase/(Decrease) in Amounts to Be Collected	(2)	(7,931)
Total Non-Exchange Revenues	$193,067	$488,593

Starting in FY 2008, the SEC changed its method of presenting the receipt, accounting, and disposition of disgorgement and penalties-related assets stemming from actions against violators of federal securities laws. In prior years, the SEC treated disgorgement and penalties-related receivables as custodial activity. Beginning in FY 2008, the SEC treats these receivables as disgorgement and penalties assets. Consequently, $63.6 million of custodial receivables that the SEC presented as custodial liabilities in FY 2007 are presented as disgorgement and penalties assets in FY 2008. Refer to *Note 1.D. Changes in Presentation* for additional disclosure for these receivables.

NOTE 17. Reconciliation of Net Cost of Operations (Proprietary) to Budget (formerly the Statement of Financing)

(DOLLARS IN THOUSANDS)	FY 2008	FY 2007
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated:		
Obligations Incurred (Note 15)	$ 915,825	$ 876,595
Less: Spending Authority from Offsetting Collections and Recoveries	(1,024,548)	(1,560,985)
Net Obligations	(108,723)	(684,390)
Other Resources:		
Imputed Financing from Cost Absorbed by Others (Note 10)	24,107	26,437
Total Resources Used to Finance Activities	(84,616)	(657,953)
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered But Not Yet Provided	13,721	(35,123)
Resources That Finance the Acquisition of Assets Capitalized on the Balance Sheet	(16,520)	(31,793)
Net Decrease in Revenue Receivables Not Generating Resources until Collected	27,678	30,855
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	24,879	(36,061)
Total Resources Used to Finance the Net Cost of Operations	(59,737)	(694,014)
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods:		
Costs That Will Be Funded by Resources in Future Periods	3,533	2,322
Change in Lease Liability	(1,097)	(10,776)
Change in Unfunded Liability	754	385
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	3,190	(8,069)
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	29,626	35,912
Revaluation of Assets or Liabilities	1,457	950
Other Costs That Will Not Require Resources	50	12
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in Future Periods	31,133	36,874
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	34,323	28,805
Net (Income) from Operations	$ (25,414)	$ (665,209)

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Washington, D.C. 20548

To the Chairman of the United States Securities and Exchange Commission

In our audits of the United States Securities and Exchange Commission (SEC) for fiscal years 2008 and 2007, we found

- the financial statements as of and for the fiscal years ended September 30, 2008, and 2007, including the accompanying notes, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- although internal controls could be improved, SEC had effective internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations as of September 30, 2008; and
- no reportable noncompliance with laws and regulations we tested.

The following sections discuss in more detail these conclusions as well as our conclusions on SEC's Management Discussion and Analysis and other supplementary information. They also present information on the objectives, scope, and methodology of our audit and our discussion of SEC management's comments on a draft of this report.

Opinion on Financial Statements

SEC's financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, SEC's assets, liabilities, net position, net costs, changes in net position, budgetary resources, and custodial activity as of, and for the fiscal years ended, September 30, 2008, and September 30, 2007.

As disclosed in footnote 1.D. to SEC's financial statements, in fiscal year 2008, SEC changed its method of presentation for the receipt, accounting, and disposition of all disgorgement-related assets stemming from actions against violators of federal securities laws and for investments.

Opinion on Internal Control

Although certain internal controls could be improved, SEC maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) and compliance as of September 30, 2008, that provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements would be prevented or detected on a timely basis. Our opinion on internal control is based on criteria established under 31 U.S.C. § 3512(c)(d), commonly referred to as the Federal Managers' Financial Integrity Act (FMFIA), and the Office of Management and Budget (OMB) Circular No. A-123, *Management Accountability and Control*.

During this year's audit, we identified three significant deficiencies[1] in internal control, which although not material weaknesses,[2] represent significant deficiencies in the design or operation of internal control that could adversely affect SEC's ability to meet its internal control objectives. These deficiencies, described in more detail later in this report, concern (1) information security controls, (2) controls over accounting for budgetary resources, and (3) property and equipment controls.

In our 2007 audit report,[3] we identified significant deficiencies in internal control in SEC's period-end financial reporting process, disgorgements and penalties accounts receivable,[4] accounting for transaction fee revenue, and preparation of financial statement disclosures. These significant deficiencies, taken collectively, constituted a material weakness in SEC's financial reporting process. Our fiscal year 2008 audit concluded that SEC has made sufficient improvements in internal controls over its financial reporting process such that we no longer consider these issues to be significant deficiencies or a material weakness. Specifically, in 2008, SEC upgraded its general ledger system, Momentum; implemented new system modules to automate and integrate accounts receivable and property and equipment transactions; and improved controls and documentation for its period-end financial reporting process. However, some of the new

[1] A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

[2] A material weakness is a significant deficiency or a combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

[3] GAO, *Financial Audit: Securities and Exchange Commission's Financial Statements for Fiscal Years 2007 and 2006*, GAO-08-167 (Washington, D.C.: Nov. 16, 2007).

[4]A disgorgement is the repayment of illegally gained profits (or avoided losses) for distribution to harmed investors whenever feasible. A penalty is a monetary payment from a violator of securities law that SEC obtains pursuant to statutory authority. A penalty is fundamentally a punitive measure, although penalties occasionally can be used to compensate harmed investors.

processes were not fully implemented as of September 30, 2008, and other system integration projects involving accounting for disgorgements and penalties and investments are not scheduled to be implemented until fiscal year 2009. As a result, SEC continues to rely heavily on manual compensating controls and detective controls to work around its financial systems' limitations. These compensating and detective measures were labor-intensive and required heroic efforts from SEC and contractor personnel to produce reliable financial reporting within mandated time frames. SEC's ability to sustain improvements over its financial reporting process remains at risk until SEC fully integrates its subsidiary systems for disgorgements and penalties and for investments and until its general ledger accounting system can readily produce financial reports, thus eliminating the need for manual reconciliations, manual data handling, and other time-consuming manual processes.

With regard to the current year significant deficiencies in internal control related to information security, accounting for budgetary resources, and property and equipment, we have reported on all of these deficiencies in prior audits and have provided SEC with recommendations to address these issues. SEC has taken actions to address these deficiencies; however, our work showed continuing deficiencies in the design and/or implementation of effective internal control for all of these areas as of September 30, 2008. Although the significant deficiencies in internal control did not materially affect the 2008 financial statements, misstatements may nevertheless occur in unaudited financial information reported by SEC, including performance information, as a result of these deficiencies.

We will be reporting additional details concerning these significant deficiencies separately to SEC management, along with recommendations for corrective actions. We will also be reporting less significant matters involving SEC's system of internal control separately to SEC management.

Significant Deficiencies

Information Security

SEC relies extensively on computerized information systems to process, account for, and report on its financial activities and to make payments. During fiscal year 2008, SEC made important progress in mitigating certain control weaknesses that were previously reported as unresolved at the time of our prior review. For example, it adequately validated electronic certificates from certain connections to its network, physically secured the perimeter of the operations center, put in place a process to monitor unusual and suspicious activities at its operations center, and implemented a policy on remedial action plans to help ensure that deficiencies are mitigated in an effective and timely manner. However, SEC has not yet fully implemented certain key information security controls to effectively safeguard the confidentiality, integrity, and availability of its information systems and financial and sensitive data. Therefore, SEC continues to be at risk and does not have adequate assurance that (1) computer resources (programs and data) are protected from unauthorized disclosure, modification, and destruction; (2) access to facilities by unauthorized individuals is controlled; and (3) computer resources are protected and controlled to ensure the continuity of data processing operations when unexpected interruptions occur.

Consistent with our previous audits, in fiscal year 2008, we continued to find that SEC (1) has not adequately documented access privileges for a major application SEC uses for processing fees paid by SEC-registered companies, (2) does not perform procedures for periodically reviewing application code to ensure that only authorized changes have been made, (3) does not restrict physical access to live network jacks in publicly accessible areas, and (4) has not yet completed annual testing of the general support system network that allows users to communicate with the database applications.

During this year's audit, we found new information security weaknesses concerning identification and authentication, authorization, audit and monitoring, physical security, segregation of duties, and configuration management. For example, we found (1) the use of a single shared application ID for the Momentum database, (2) the lack of access request forms for some individuals using Momentum, and (3) computer functions that were not adequately segregated. These weaknesses existed, in part, because SEC has not yet fully implemented its information security program.

Furthermore, during fiscal year 2008, SEC upgraded its Momentum financial reporting system and implemented two new automated interfaces in the Momentum application. These upgraded and new systems represent progress toward creating increased integration of SEC's financial management systems to address previously reported weaknesses associated with the manual processing of financial information. However, our review of the upgraded general ledger system and new system interfaces identified information security deficiencies that reduced SEC's ability to control data integrity and detect unauthorized user activity or system changes. Specifically, we found inadequate auditing and monitoring capabilities with respect to the upgraded Momentum database. In addition, the new system interface for recording accounts receivable transactions into Momentum was developed, tested, and placed into production without proper security monitoring. These deficiencies were due, in part, to a lack of communication and coordination among SEC offices regarding the information security control requirements needed in developing its upgraded and new financial systems.

Collectively, these continuing and newly identified weaknesses represent a significant deficiency in SEC's internal control over information systems and data SEC uses for financial reporting. Specifically, the weaknesses decrease assurances regarding the reliability of the data processed by the systems and increase the risk that unauthorized individuals could gain access to critical hardware and software and intentionally or inadvertently access, alter, or delete sensitive data or computer programs. Until SEC fully implements all key elements of its information security program, the information that is processed, stored, and transmitted on its systems will remain vulnerable, and management will not have sufficient assurance that financial information and financial assets are adequately safeguarded from inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction. Furthermore, adequate safeguarding of financial information will continue to be at risk until SEC strengthens its control environment to ensure effective communication and coordination among SEC offices to support information security needs of the various system applications used across SEC. We will be issuing a separate report on issues we identified regarding information security concerns at SEC.

Accounting for Budgetary Resources

For fiscal year 2008, SEC incurred approximately $916 million in obligations, which represent legal liabilities against funds available to SEC to pay for goods and services ordered. At September 30, 2008, SEC reported that the amount of budgetary resources obligated for undelivered orders was approximately $157 million, which reflects obligations for goods and services ordered but not yet delivered or received as of that date.

Similar to our last year's audit, during the course of testing fiscal year 2008 undelivered order transactions, we identified several concerns over SEC's accounting for obligations and undelivered orders. Specifically, we continued to find numerous instances in which SEC (1) recorded invalid obligation-related transactions due to incorrect posting logic configurations in SEC's general ledger, (2) recorded obligations prior to having documentary evidence of a binding agreement for the goods or services, and (3) did not maintain sufficient documentation of authorizations for downward adjustments to prior-year undelivered orders. During fiscal year 2008, SEC addressed some problems related to the incorrect posting logic configurations in its general ledger; however, several significant posting logic problems continue to exist. As a result, SEC had to correct transaction errors resulting from the incorrect posting configurations by making adjusting journal entries amounting to approximately $83.8 million in fiscal year 2008.

For fiscal year 2008, SEC's budgetary resources included amounts appropriated in the fiscal year 2008 appropriation for SEC and offsetting collections.[5] In 2008, SEC recorded approximately $986 million in offsetting collections, which primarily represent fees SEC collected from self-regulatory organizations (e.g., stock exchanges and the Financial Industry Regulatory Authority) and registrants. In our testing of offsetting collections for this year's audit, we identified issues concerning posting model configurations and insufficient documentation of procedures concerning processing of offsetting collections. Specifically, we identified (1) invalid revenue-related transactions due to additional incorrect posting configurations in SEC's general ledger and (2) incomplete procedures for general ledger entries necessary to properly account for returning appropriated funds to the U.S. Treasury.[6] As a result of the incorrect posting configurations in the general ledger, SEC made adjustments of

[5] Offsetting collections are amounts the SEC receives from businesslike transactions with the public (e.g., fees for filing registration statements), which SEC is authorized to credit to appropriations accounts for future obligation. The Securities Act of 1933 (15 U.S.C. § 77a et seq.) and the Securities Exchange Act of 1934 (15 U.S.C. § 78a et seq.) require SEC to assess certain fees and credit them as offsetting collections.

[6] The 2008 appropriation for SEC provided $906 million for SEC's necessary expenses and required SEC to use the offsetting collections it receives during the year to reduce amounts appropriated from the General Fund of the U.S. Treasury. See Financial Services and General Government Appropriations Act, 2008, Pub. L. No. 110-161, div. D, tit. V, 121 Stat. 1972, 2010 (Dec. 26, 2007).

approximately $983.7 million to record fees in the appropriate budgetary accounts.

Although SEC was able to identify most of the errors and make corresponding adjustments, the ineffective processes that caused these errors constitute a significant deficiency in SEC's internal control over recording and reporting obligations and revenue, and put SEC at risk that the amounts recorded in the general ledger and reported on SEC's Statement of Budgetary Resources could be misstated in the future if the necessary compensating adjustments are not identified and made. Specifically, SEC's general ledger is not configured to properly post undelivered order and offsetting collection transactions, thereby resulting in the need for SEC to routinely identify and correct these entries. Extensive reviews of the budgetary transactions, along with significant adjusting journal entries, are needed to compensate for the system limitations. An additional weakness in the area of budgetary accounting is SEC's lack of formal policies or effective internal controls to prevent recording of obligations that are not valid. Recording obligations prior to having sufficient documentary evidence of a binding agreement for the goods and services is a violation of the recording statute,[7] and may result in funds being reserved unnecessarily and, therefore, made unavailable for other uses should the agreement not materialize. In addition, early recording of obligations may result in the charging of incorrect fiscal year funds for an agreement executed in a later fiscal year.

Property and Equipment

SEC's property and equipment consists of general-purpose equipment used by the agency; capital improvements made to buildings leased by SEC for office space; and internal-use software development costs for projects in development and production. SEC acquired approximately $17 million in property and equipment during fiscal year 2008.

To address our previous audit findings concerning property and equipment, in fiscal year 2008, SEC developed a new property and equipment subsidiary ledger system that is integrated with its general ledger accounting system and new policies and procedures for recording property

[7] The recording statute provides that an amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of a binding agreement between an agency and another party that is in writing and establishes specific goods to be delivered or services to be provided. 31 U.S.C. § 1501(a)(1).

transactions. However, in our testing of property and equipment acquisitions processed under this new system, we found that the controls over the receipt and acceptance of assets were not operating effectively, which caused errors in SEC's recording of new property and equipment purchases. These control deficiencies resulted from (1) incorrect system design configurations and (2) a lack of training and experience on the use of the new system in conjunction with the new accounting processes for property and equipment purchases. A contributing factor to these internal control deficiencies was SEC's decision to implement the new property and equipment system in July, late into the fiscal year, without sufficient time to fully test the system configurations and train its users prior to the year's end. SEC corrected the design configurations in September, enabling the transactions to post to the proper accounts. However, SEC personnel continued to record property and equipment purchases incorrectly since they were still not familiar with the new system processes, resulting in ongoing asset capitalization errors. To compensate for the system configuration issues and the lack of user training on the new processes, SEC performed a labor-intensive reconciliation and review of property additions and made adjusting journal entries to correct capitalization errors and properly report related account balances at September 30, 2008.

In addition to the above issues, during the course of testing fiscal year 2008 property transactions, we continued to find inaccuracies in amounts capitalized for internal-use software projects, inaccuracies in recorded acquisition costs, and unrecorded property and equipment purchases. These issues are consistent with findings in our previous audits of SEC and indicate a need for improved oversight and review of accounting for property transactions. SEC corrected most of the substantive errors we identified through our interim and year-end testing. The remaining uncorrected errors did not materially affect the balances reported for property and equipment or the corresponding depreciation/amortization expense amounts in SEC's financial statements for fiscal year 2008. However, these continuing conditions, along with the issues we found this year with the new system implementation, evidence a significant deficiency in control over the recording of property and equipment that affects the reliability of SEC's reported balances for property and equipment. Although the system configuration issue has been addressed, until users are adequately trained in using the new property and equipment system and processes, and oversight and review processes over accounting for property and equipment transactions are strengthened, SEC does not have sufficient assurance that property and equipment transactions will be completely, consistently, or accurately recorded or reported.

Compliance with Laws and Regulations

Our tests of SEC's compliance with selected provisions of laws and regulations for fiscal year 2008 disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards or OMB audit guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Consistency of Other Information

SEC's Management Discussion and Analysis and other accompanying information contain a wide range of data, some of which are not directly related to the financial statements. We did not audit and do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with SEC officials. Based on this limited work, we found no material inconsistencies with the financial statements, U.S. generally accepted accounting principles, or OMB guidance. However, because of the internal control weaknesses noted in this report, misstatements may occur in related performance information.

Objectives, Scope, and Methodology

SEC management is responsible for (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of FMFIA are met; and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles; and (2) management maintained effective internal control, the objectives of which are the following:

- - Financial reporting: Transactions are properly recorded, processed, and summarized to permit the timely and reliable preparation of financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

- - Compliance with applicable laws and regulations: Transactions are executed in accordance with (1) laws governing the use of budgetary authority, (2) other laws and regulations that could have a direct and material effect on the financial statements, and (3) any other laws, regulations, or governmentwide policies identified by OMB audit guidance.

We are also responsible for (1) testing compliance with selected provisions of laws and regulations that could have a direct and material effect on the financial statements and for which OMB audit guidance requires testing and (2) performing limited procedures with respect to certain other information appearing in SEC's Performance and Accountability Report. To fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by SEC management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of SEC and its operations, including its internal control related to financial reporting (including safeguarding of assets) and compliance with laws and regulations (including execution of transactions in accordance with budget authority);
- obtained an understanding of the design of internal controls related to the existence and completeness assertions relating to performance measures as reported in SEC's Management Discussion and Analysis, and determined whether the internal controls have been placed in operation;
- tested relevant internal controls over financial reporting and compliance with applicable laws and regulations, and evaluated the design and operating effectiveness of internal control;
- considered SEC's process for evaluating and reporting on internal control and financial management systems under FMFIA; and
- tested compliance with selected provisions of the following laws and their related regulations:
    - the Securities Exchange Act of 1934, as amended;

- - the Securities Act of 1933, as amended;
- - the Antideficiency Act;
- - laws governing the pay and allowance system for SEC employees;
- - the Debt Collection Improvement Act;
- - the Prompt Payment Act;
- - the Federal Employees' Retirement System Act of 1986; and
- - the Financial Services and General Government Appropriations Act, 2008.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

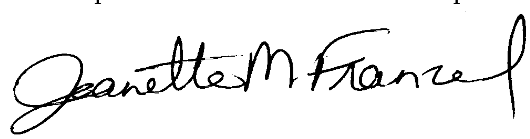
We did not test compliance with all laws and regulations applicable to SEC. We limited our tests of compliance to those required by OMB audit guidance and other laws and regulations that had a direct and material effect on, or that we deemed applicable to, SEC's financial statements for the fiscal year ended September 30, 2008. We caution that noncompliance may occur and not be detected by these tests, and that this testing may not be sufficient for other purposes.

We performed our work in accordance with U.S. generally accepted government auditing standards and OMB audit guidance.

SEC Comments and Our Evaluation

In commenting on a draft of this report, SEC's Chairman said that he was pleased to receive an unqualified opinion on SEC's financial statements, and that SEC had effective internal control over financial reporting. He referred to SEC's substantial progress it made in strengthening its internal controls during fiscal year 2008, and expressed his pleasure that several control deficiencies that last year were found to collectively constitute a material weakness had been remedied. He cited this result as testimony to SEC's commitment to improving its internal control environment and operational efficiencies to allow SEC to lead by example in financial reporting. SEC's Chairman expressed his appreciation for our diligent efforts to complete our audit of an essentially new framework of internal control over financial reporting put in place in the fourth quarter, in a very compressed time frame. He added that these accomplishments are as commendable as they are unprecedented.

The complete text of SEC's comments is reprinted in appendix I.



Jeanette M. Franzel
Director
Financial Management and Assurance

November 14, 2008

Management's Response to Audit Opinion

CHRISTOPHER COX
CHAIRMAN

HEADQUARTERS
100 F STREET, NE
WASHINGTON, DC 20549

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DENVER, FORT WORTH,
LOS ANGELES, MIAMI, NEW YORK,
PHILADELPHIA, SALT LAKE CITY,
SAN FRANCISCO

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

November 14, 2008

Jeanette M. Franzel
Director, Financial Management and Assurance
Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Ms. Franzel:

Thank you for the opportunity to respond to the Government Accountability Office's draft report on the SEC's fiscal year 2008 & 2007 Financial Statements (GAO-09-173). I would like to personally acknowledge and commend you and the GAO staff for your hard work and dedication in working with the SEC again this year to meet the reporting deadline for our audited financial statements.

I am pleased that the audit found that the statements and notes are presented fairly, in all material respects, and in conformity with U.S. generally accepted accounting principles; that the SEC had effective internal controls over financial reporting and compliance with laws and regulations; and that there were no instances of reportable noncompliance with laws and regulations tested by GAO.

The SEC made substantial progress in strengthening its internal controls over financial reporting during fiscal year 2008. I am pleased that GAO found that the SEC was successful in remedying several control deficiencies that last fiscal year were found to collectively constitute a material weakness in internal control over financial reporting.

This result is testimony to the SEC's commitment to constantly improving our internal control environment and operational efficiencies so that the agency can lead by example in financial reporting. In July of this fiscal year, we upgraded our core financial accounting system and deployed two new modules that laid the foundation for full financial system integration, supported implementation of U.S. Standard General Ledger (SGL) compliant posting models, and enhanced the efficiency and effectiveness of our internal controls. Our work is not yet done, but I am very proud of what the SEC was able to accomplish in such a short period of time. I am also very appreciative of GAO's diligent efforts to complete its review, in a very compressed timeframe, of an essentially new framework of internal control over financial reporting. These accomplishments are as commendable as they are unprecedented.

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Jeanette M. Franzel
Page 2

The SEC will continue working over the course of this fiscal year to enhance our internal controls and ensure the reliability of our financial reporting, soundness of operations, and public confidence in the agency's mission. I appreciate your support of these efforts and look forward to continuing our productive dialogue on the issues addressed in the 2008 audit.

If you have any questions relating to our response, please contact Kristine Chadwick, Chief Financial Officer, at (202) 551-7840.

Sincerely,

Christopher Cox
Chairman

Other Accompanying Information

This section provides additional information regarding to the SEC's financial and performance management. It includes a statement prepared by the agency's Inspector General (IG) summarizing what the IG considers to be the most serious management and performance challenges facing the agency. The section also includes a response from the SEC's Chairman to the IG's assessment of the agency's progress in addressing the challenges.

The Summary of Financial Statement Audit and Management Assurances clearly lists each material weakness and non-conformance found and/or resolved during the GAO's audit. Additionally, this section provides a detailed explanation of any significant erroneous payments, as required by the Improper Payments Information Act of 2002.

Inspector General's Statement on Management and Performance Challenges

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

OFFICE OF
INSPECTOR GENERAL

THE INSPECTOR GENERAL'S STATEMENT ON THE U.S. SECURITIES AND EXCHANGE COMMISSION'S MANAGEMENT AND PERFORMANCE CHALLENGES

As required by the Reports Consolidation Act of 2000 and Office of Management and Budget guidance, I am pleased to submit the following summarizing what I consider to be the most serious management challenges facing the Securities and Exchange Commission. This statement has been compiled based on Office of Inspector General (OIG) audits, investigations, evaluations, and the general knowledge of the agency's operations.

H. David Kotz
Inspector General
September 30, 2008

CHALLENGE **PROCUREMENT AND CONTRACTING**

The Office of Inspector General (OIG) has identified the Securities and Exchange Commission's (Commission or SEC) procurement and contracting function as a management challenge.

The OIG believes that while the Office of Administrative Services (OAS) has made progress in recent years to enhance service delivery through reorganizing the procurement and contracting functions, enhancing the skill level of current staff, recruiting additional skilled staff to better manage the workload, and pursuing efforts to implement an automated procurement system, significant challenges still remain.

An ongoing OIG review of the procurement and contracting function has identified the following key organizational issues:

- OAS's Office of Acquisitions (OA) is attempting to implement a new $4 million automated procurement system after two failed attempts to automate the procurement operation, costing more than $2.5 million.

- OA does not maintain a consolidated record of active, pending, completed and cancelled contracts, agreements, and purchase orders due to its manually-driven processes.

- Select individuals in the Commission's regional offices have been delegated the authority to execute contracts without adequate contracting training and experience. Additionally, contract activities in the regional offices are not reported in the Federal Procurement Data System (FPDS), which is a web-based tool used by agencies to report contract data to the President, Congress, the Government Accountability Office, Federal executive agencies and the general public.

- OA does not have direct authority and oversight over some individuals performing contract award and administrative functions at headquarters and the regional offices.

- OA still needs to develop comprehensive policies and procedures addressing key aspects of the procurement operation to ensure compliance with the Federal Acquisition Regulation and other applicable Office of Management and Budget guidance.

CHALLENGE INFORMATION TECHNOLOGY MANAGEMENT

Information technology (IT) management continues to be a management challenge, although significant improvements have been made in recent years.

In this reporting period, the OIG evaluated three areas of IT management:

Information Security - The OIG found that while the Commission's Office of Information Technology (OIT) generally has effective security controls in place and has addressed most of the major areas for a sound information security and privacy program, the SEC has not completed the security controls and contingency plan testing for all of its systems. OIT also has not taken the necessary steps to implement the Federal Desktop Core Configuration (FDCC) requirements.

Laptop Controls - The OIG concluded in a recent audit report that OIT did not have proper controls over its laptop computers. Specifically, OIT lacked an inventory of its laptops and was unable to trace ownership of laptops to specific individuals.

Enterprise Architecture (EA) - The OIG found that OIT had made progress in developing and documenting a comprehensive EA program, but that EA has not been satisfactorily integrated into the SEC's overall IT strategy. The EA program is intended as a management tool to ensure planning is aligned with the agency's strategic goals. The OIG found that the EA program performed well in certain areas, but poorly in the Results Capability Areas.

The integration of IT into Commission work processes and interactions with the public continues to be a management challenge. In addition to the issues described above, the OIG has identified challenges in several other key IT areas:

- IT capital investment;
- Administration and oversight of IT contracts;
- IT governance; and
- IT human capital.

Currently, OIT has vacancies in two of its most senior management positions - the Chief Information Officer (CIO) and Chief Information Security Officer (CISO). These positions are essential to the SEC's IT program and should be filled expeditiously. Despite those vacancies, OIT has still made considerable progress in strengthening the SEC's IT program in several areas, including:

- Supporting a major upgrade to the agency's core financial management system;
- Developing comprehensive information security management and privacy policies and procedures;
- Initiating a project expected to employ XBRL interactive data technology, which gives investors and analysts quicker and easier access to key financial information about public companies and mutual funds; and
- Competing and awarding a new contract for Infrastructure Support Services.

The OIG plans to continue its oversight of IT management and monitor progress in the key areas denoted above.

CHALLENGE FINANCIAL MANAGEMENT

The Government Accountability Office's (GAO) fiscal year 2007 audit of the Commission's financial statements found that they were fairly presented in all material respects. However, because of a material weakness and significant deficiencies in internal controls, the GAO found that the SEC did not maintain effective internal controls over financial reporting, and thus did not have reasonable assurance that misstatements would be prevented or detected on a timely basis.

GAO identified four significant control deficiencies in the Commission's financial reporting process, which, taken collectively, constitute a material weakness. These control deficiencies concerned the Commission's (1) period-end financial reporting process, (2) calculation of accounts receivable for disgorgements and penalties, (3) accounting for transaction fee revenue, and (4) preparation of financial statement disclosures.

In addition, GAO identified three significant (but not material) deficiencies in internal controls, which adversely affect the Commission's ability to meet financial reporting and other internal control objectives. These deficiencies concerned the Commission's (1) information security controls, (2) property and equipment, and (3) accounting for budgetary resources.

According to GAO, although certain compliance controls should be improved, the Commission maintained, in all material respects, effective internal controls over

3

compliance with laws and regulations. This provided reasonable assurances that noncompliance with laws and regulations that could have a direct and material effect on the financial statements would be prevented or detected on a timely basis.

CHALLENGE PERFORMANCE MANAGEMENT

In February 2007, the OIG issued an audit report on the Commission's performance management process. This audit found that the Commission did not consistently perform all parts of the performance appraisal process. In addition, the audit report found that the Commission's performance management process did not sufficiently contain policies and procedures with regard to managing employees with performance problems and implementing all phases of the performance review cycle.

The OIG also found that the Commission did not make meaningful distinctions between employees' performance since each employee was merely rated as "pass" or "fail." Further, the performance process was not aligned with the fiscal year, and did not timely reward employees for their significant, performance-based contributions.

The Commission, has, however, taken numerous steps to remedy this challenge. Beginning in Fiscal Year 2008, Commission employees will begin transitioning to a new performance management process, which includes a five-level rating system. All employees are expected to transition to the new process by Fiscal Year 2010. The OIG reviewed several drafts of the Commission's new written guidance and provided three separate sets of substantial written comments on those drafts. The Commission incorporated the OIG's comments into its guidance.

CHALLENGE PERSONAL SECURITIES TRADING

While conducting a comprehensive investigation of the securities trading activities of a few Commission employees, we have determined that the Commission's current system in place to report the ownership and trading of securities is insufficient to prevent and detect insider trading on the part of Commission employees or violations of the Commission's rules.

The OIG investigation has found that the reports that employees are required to file when they buy, sell or own securities are not meaningfully reviewed or sufficiently checked for conflicts of interest. Moreover, there is currently no system in place for the Commission to detect if an employee who has traded or owns a security failed to properly report such transaction.

The lack of a reliable oversight system of employee securities trading poses a significant management challenge to the Commission and may create an appearance of a conflict of interest in the matters on which Commission employees work.

The Ethics Counsel for the Commission is aware of this significant challenge and has indicated that he intends to take steps to correct the problem.

Management's Response to Inspector General's Statement

CHRISTOPHER COX
CHAIRMAN

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100 F STREET, NE
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REGIONAL OFFICES
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

November 14, 2008

Mr. H. David Kotz
Inspector General
U.S. Securities and Exchange Commission
Washington, D.C. 20549

Dear Mr. Kotz:

Thank you for your statement on the U.S. Securities and Exchange Commission's management and performance challenges. I welcome your views as they provide a unique perspective for the agency to carefully review and consider as we work to improve the agency's performance.

The SEC has achieved significant progress during the past year in addressing the management and performance challenges identified in your statement. Each challenge and the actions taken or planned to address the conditions are discussed below.

Procurement and Contracting

The SEC is pleased that your statement has recognized the agency's efforts to improve the effectiveness of its procurement and contracting function. SEC management anticipates that the results of the initiatives to strengthen this area should enable you to report even further progress in FY 2009.

Implementing a New Procurement System

The SEC recently awarded a $2.5 million contract for an automated procurement system called PRISM, which is in use in more than 75 federal agencies and is expected to interface successfully with the agency's financial system, Momentum. The SEC is incorporating measures in its deployment plan to ensure success. Unlike previous attempts, the agency has hired a support contractor to assist with managing the implementation of the new system. The new system is expected to roll out starting in March 2009. An integrated product team has been formed, consisting of representatives from the Offices of Acquisitions, Financial Management, and Information Technology and contractor personnel.

Records of Contracting Activities

The SEC is implementing a new procurement system, which will generate reports, to include a master list of contracts.

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Mr. H. David Kotz
Page 2

Training and Oversight of Regional Staff

As you note in your statement of management and performances challenges, select individuals in the SEC's regional offices have been delegated the authority to execute contracts. These individuals have limited procurement authority and can only purchase certain types of services and products. In FY 2009, the Office of Acquisitions (OA) will begin conducting assistance visits to the regional offices to train staff and to evaluate their contract execution. In doing so, OA will increase its involvement in the oversight of regional procurement activities.

Procurement Policies and Procedures

Your statement suggests that SEC management needs to develop comprehensive policies and procedures addressing key aspects of the procurement operation to ensure compliance with the Federal Acquisition Regulation (FAR) and other applicable Office of Management and Budget (OMB) guidance. The SEC follows the FAR and applicable OMB guidance. Given its size, the agency at this time does not intend to supplement that regulation as many of the larger federal agencies do. Nonetheless, the staff will be happy to work with your office as needed to address specific areas of compliance with government-wide requirements.

Information Technology Management

Information Security

I am pleased that your statement confirms that the SEC generally has effective security controls in place and has addressed most of the major areas for a sound information security and privacy program. The SEC has worked hard to achieve this accomplishment. For example, during FY 2008, the SEC completed the certification and accreditation of 24 new major IT systems. As a result, the SEC has now certified and accredited a total of 45 systems in accordance with the appropriate guidance from the OMB and National Institute of Standards and Technology, and continues to assess the agency's application portfolio and determine the appropriate risk of the systems based on NIST guidance. The agency completed contingency testing on the majority of our accredited systems in conjunction with several of the Office of Information Technology's (OIT) disaster recovery exercises, and completed tabletop disaster recovery exercises with regional offices to train their disaster recovery teams. The agency continued to successfully train and educate staff consistently achieving 99% compliance rates for annual cybersecurity and privacy training.

The agency strengthened a range of technical controls including intrusion monitoring, password management, access control, patch management, system change control, and database security. The SEC also established a process designed to allow systems to be scanned for adherence to security requirements by the security team in lieu of self-assessments by system owners, enhanced physical security monitoring at the SEC's primary data center, and made improvements in the timeliness and accuracy of user access reports provided to system owners.

As the SEC continues its focus on IT security in FY 2009, OIT will test the remainder of the security controls, continue to test contingency plans, and complete implementation of appropriate Federal Core Desktop Configuration settings. Final actions are expected to be completed in late calendar 2009.

Laptop Controls

The SEC recognizes the importance of protecting its assets. During the year, OIT completed an inventory of all laptop equipment. Efforts are underway to develop policy and procedures to address laptop security and controls. The new policy and procedures are expected to be available in early 2009. Additionally, the agency expects to use a variety of automated discovery tools to assist in determining the location of equipment between annual inventories.

Enterprise Architecture

I am pleased that the Office of Inspector General's Enterprise Architecture assessment found that "the SEC has developed and documented an excellent Enterprise Architecture program for the type and size of the organization." A strong Enterprise Architecture program is an invaluable tool in guiding and informing strategic IT investments. Consistent with this focus, the agency's IT Capital Planning and Investment Control Committee is working closely with OIT to underscore the importance of Enterprise Architecture in the decision-making processes that support the development and implementation of the SEC's strategy, budget, and program control processes.

Financial Management

The SEC takes its responsibility for financial management very seriously, and has given strengthening internal controls top priority. I am pleased that the Government Accountability Office found that the SEC was successful in remedying several control deficiencies with the result that the agency has no material weaknesses in internal control over financial reporting.

In FY 2008, the SEC built upon the improvements to the agency's financial reporting processes, documentation, and controls, including the manual processes and controls used to integrate subsidiary data sources with the general ledger, begun in FY 2007. As a result of the corrective actions taken over the past year, the deficiencies previously found in the aggregate to constitute a material weakness in internal control over financial reporting have been remedied.

Developing a fully integrated financial management system was the keystone of SEC's FY 2008 corrective action plan for remediation of the deficiencies and system non-conformances identified in the FY 2007 audit. Fully integrated financial management systems and compliance with the Standard General Ledger at the transaction level are fundamental requirements for federal financial management systems.

The first step toward full integration of the financial management systems was the upgrade of the SEC's core financial management system, Momentum Financials, which was completed in FY 2008 on time and within budget. The upgrade eliminated a significant amount of manual data handling of material financial balances, resulting in enhanced timeliness, accuracy and reliability. The upgraded solution provides full integration of accounts payable; accounts receivable (AR); purchasing; and property, plant and equipment (PP&E) transactions with the core accounting system. As a result, the SEC no longer needs to use Manual Journal Vouchers (JVs) for AR and PP&E transactions. Individual transactions are recorded and processed directly in the Momentum AR and PP&E modules, which then automatically populate the General Ledger with U.S. Standard General Ledger compliant entries at the transaction level. The new system (including the new modules) is fully compliant with the federal financial system requirements established by the Financial System Integration Office in the General Services Administration.

Concurrently with the deployment of system improvements, the SEC improved process documentation for financial reporting and period-end close. The SEC's first quarter 2008 financial statements were the first to be prepared using the newly documented methodologies. In addition, in FY 2008 the SEC eliminated much of the agency's manual data handling and use of multiple labor-intensive spreadsheets by automating the generation of financial statements and analytical reports.

With these improvements in place, the SEC believes the risks associated with the deficiencies found by GAO have been reduced significantly.

Performance Management

The SEC has made significant progress in implementing the new performance management system. To date, all project milestones have been met. A significant accomplishment was recently reached when the SEC and the National Treasury Employees Union reached an agreement to settle all outstanding grievances associated with the current performance management system. This development allows all of the agency's focus and energy to be applied to implementation of the new system, which is expected to occur agency-wide by FY 2010.

Personnel Securities Trading

The SEC's Office of the Ethics Counsel has been actively working for the past year with the U.S. Office of Government Ethics on revising the Commission's ethics rules. An integral part of that process has been an effort to upgrade the agency's current systems for reporting and tracking employee securities transactions and holdings. This past year the Ethics Office conducted market research into automated compliance systems. The Office identified several potential vendors, and three vendors provided demonstrations of systems that would provide significant improvements over the current processes. The Ethics Office presented its plan to OIT's Project Review Board and the agency's Information Officers' Council, both of which authorized the project to go forward. The Ethics Office is working with OIT and the Office of Acquisitions on a formal procurement request. The SEC expects to begin implementing the new system in FY 2009. The new system will automate employee reporting, permit certification of the information provided, allow for a pre-trade clearance process, provide exception reports, allow for the preparation of special reports, provide for real-time monitoring, and be subject to audit.

I am pleased with the progress the SEC has made this past year to strengthen internal controls and improve the agency's performance. Thank you for your role in the effort, and I look forward to working with you to implement your recommendations.

Sincerely,

Christopher Cox
Chairman

Summary of Financial Statement Audit and Management Assurances

TABLE 4.1
SUMMARY OF FINANCIAL STATEMENT AUDIT

AUDIT OPINION	UNQUALIFIED				
Restatement	No				
MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	ENDING BALANCE
Internal Controls over Financial Reporting	1	0	1	—	0
Total Material Weaknesses	1	0	1	—	0

TABLE 4.2
SUMMARY OF MANAGEMENT ASSURANCES

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA § 2)						
Statement of Assurance	Unqualified					
MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Internal Controls over Financial Reporting	1	0	1	—	—	0
Total Material Weaknesses	1	0	1	—	—	0

EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA § 2)						
Statement of Assurance	Unqualified					
MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Total Material Weaknesses	0	0	—	—	—	0

CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FMFIA § 4)						
Statement of Assurance	Systems conform to financial management system requirements.					
NON-CONFORMANCES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Federal Financial System Requirements	1	0	1	—	—	0
Total Non-Conformances	1	0	1	—	—	0

COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT		
OVERALL SUBSTANTIAL COMPLIANCE	AGENCY YES OR NO	AUDITOR YES OR NO
1. System Requirements	Yes	Yes
2. Accounting Standards	Yes	Yes
3. USSGL at Transaction Level	Yes	Yes

Improper Payments Information Act Reporting Details

The Improper Payments Information Act of 2002 (Public Law No. 107-300) (IPIA) requires agencies to review all programs and activities, identify those that are susceptible to significant erroneous payments, and determine an annual estimated amount of erroneous payments made in those programs. OMB guidance provided by Circular A-136 and Appendix C of Circular A-123 require detailed information related to IPIA, which is provided below.

Risk Assessment

In FY 2008, the SEC reviewed its programs to determine those which were susceptible to improper payments. Risk assessments were performed based on dollar volume, number of vendors or recipients, internal controls and management's institutional knowledge. Based on the results of those assessments, the SEC identified two programs that have a significant risk of improper payments: operational vendor payments and disgorgements and penalties.

Statistical Sampling

Monetary Unit Sampling (MUS) was used to calculate sample sizes of 102 vendor payments and 44 disgorgement and penalty payments. The statistical sample sizes were based on the minimum required to yield estimates with a 90 percent confidence level and a confidence interval of plus or minus 2.5 percent.

To estimate the annual amount of improper payments for each program, the MUS sampling method was used to select a statistically valid sample of payments from vendor and disgorgement payment transactions recorded during the first nine months of FY 2008. Test results only found improper payments in Operational Vendor Payments. The error rate calculation and projected amount of improper payments for the 12 month period ending September 30, 2008 is shown below:

TABLE 4.3

	PERIOD COVERED: (FIRST 9 MONTHS—FY 2008)				(ANNUALIZED—FY 2008)	
	TRANSACTIONS		DOLLARS			
PROGRAM	POPULATION	SAMPLE	POPULATION	SAMPLE	ERROR RATE	PROJECTED IMPROPER PAYMENTS
Operational Vendor Payments	51,288	102	$226,511,037	$ 46,157,410	0.0092%	$27,739
Disgorgement and Penalties	461	44	$565,950,774	$544,247,776	0.0000%	$ 0

Recovery Auditing

The Recovery Auditing Act, Section 831 of the Defense Authorization Act of FY 2002, requires agencies that enter into contracts with a total value of $500 million in a fiscal year to implement a program which identifies and recovers amounts erroneously paid to contractors. This requirement does not apply to the SEC because the agency does not have any contracts which exceed $500 million in a fiscal year.

Accountability and Information Systems Infrastructure

Although no improper payments were identified in the Disgorgement and Penalty program, the SEC has automated the payment of disgorgement disbursements transactions through Treasury from initiation through confirmation so that all disbursements are recorded directly through the SEC's core financial system at the detail level, eliminating the risk of errors, duplicate data entry, and overpayments. These enhancements also include the integration of data elements, such as court action numbers, with accounting transactions within the core financial management system to improve comparability between the core financial system and the Disgorgement and Penalty program system.

The SEC continues to strengthen its internal controls over the operational vendor payments processes, including manager and contracting officers' verification and approval of payments prior to disbursement. The operational vendor payments process was enhanced in fiscal year 2008 with the implementation of electronic receiving reports which provide evidence of contracting officers' review and acceptance of the receipt of goods and services. During testing of vendor payments, the SEC identified an immaterial amount of improper payments and remains committed to eliminating its error rate with newly enhanced controls over the disbursement process. The SEC will continue to review all programs and activities identified as having a risk of erroneous payments.

Statutory or Regulatory Barriers

There are currently no statutory or regulatory barriers that limit the SEC's ability to continue to maintain a low improper payment error rate.

TABLE 4.4
IMPROPER PAYMENT (IP) REDUCTION OUTLOOK

PROGRAM	FY07 OUTLAYS/ PAYMENTS	PROJECTED** FY07 IP %	PROJECTED** FY07 IP $	FY08 OUTLAYS/ PAYMENTS	PROJECTED** FY08 IP %	PROJECTED** FY08 IP $
Operational Vendor Payments	$222,979,881	0.0019%	$4,092	$233,248,150	0.0092%	$27,739
Disgorgements and Penalties*	$580,491,065	0.0000%	$ 0	$685,335,525	0.0000%	$ 0

PROGRAM	FY09 EST. OUTLAYS	FY09 EST. IP %	FY09 EST. IP $	FY10 EST. OUTLAYS	FY10 EST. IP %	FY10 EST. IP $	FY11 EST. OUTLAYS	FY11 EST. IP %	FY11 EST. IP $
Operational Vendor Payments	$293,000,000	0.0047%	$13,771	$278,000,000	0.0023%	$6,394	$284,000,000	0.0012%	$3,408
Disgorgements and Penalties*	Not Available*	0.0000%	$ 0	Not Available*	0.0000%	$ 0	Not Available*	0.0000%	$ 0

**Disgorgements and penalties represent Fair Fund distributions to harmed investors. It is not possible to estimate the amount of payments that may result from future court orders.*

***Projected IP % and IP $ amounts for FY 2007 and FY 2008 are calculated based on annualized populations of payment transactions recorded during the first nine months of each fiscal year.*

Appendix A: Chairman and Commissioners

Christopher Cox
Chairman

Christopher Cox is the 28th Chairman of the Securities and Exchange Commission. He was appointed by President George W. Bush, and sworn in on August 3, 2005.

During his tenure at the SEC, Chairman Cox has made vigorous enforcement of the securities laws the agency's top priority, bringing ground-breaking cases against a variety of market abuses including hedge fund insider trading, stock options backdating, fraud aimed at senior citizens, municipal securities fraud, and securities scams on the Internet.

Chairman Cox led the SEC's work to protect investors from the subprime crisis, implementing new policies to limit the impact of false rumors, stopping naked short sales of securities subject to federal intervention, increasing disclosure of off-balance sheet arrangements, and launching more than 50 crisis-related investigations. Under his leadership, the Commission charged Fannie Mae with accounting fraud in 2006 and charged Freddie Mac with accounting fraud in 2007. In 2008, the SEC announced agreements in principle for what will become, when finalized, the largest recoveries in the SEC's history, providing the opportunity for investors who purchased tens of billions of dollars in auction rate securities threatened by the crisis to get their money back.

Chairman Cox has assumed leadership of the international effort to more closely integrate U.S. and overseas regulation in an era of global capital markets and international securities exchanges. He has also championed transforming the SEC's system of mandated disclosure from a static, form-based approach to one that taps the power of interactive data to give investors qualitatively better information about companies, mutual funds, and investments of all kinds. In addition, as part of an overall focus on the needs of individual investors, Chairman Cox has reinvigorated the agency's initiative to provide important investor information in plain English.

For 10 of his 17 years in Congress, Chairman Cox served in the Majority Leadership of the U.S. House of Representatives. He was Chairman of the House Policy Committee; Chairman of the Committee on Homeland Security; Chairman of the Select Committee on U.S. National Security; Chairman of the Select Committee on Homeland Security; Chairman of the Task Force on Capital Markets; and Chairman of the Task Force on Budget Process Reform.

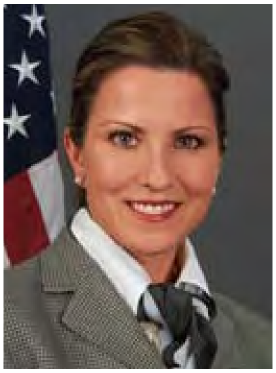
In addition, he served in a leadership capacity as a senior Member of every committee with jurisdiction over investor protection and U.S. capital markets, including the House Energy and Commerce Committee; the Financial Services Committee; the Government Reform Committee; the Joint Economic Committee; and the Budget Committee.

Among the significant laws he authored were the Private Securities Litigation Reform Act, which protects investors from fraudulent lawsuits, and the Internet Tax Freedom Act, which protects Internet users from multiple and discriminatory taxation. His legislative efforts to eliminate the double tax on shareholder dividends—the subject of a thesis he authored at Harvard University in 1977—led to the enactment in May 2003 of legislation that cut the double tax by more than half.

Chairman Cox Co-Chaired the Bipartisan Study Group on Enhancing Multilateral Export Controls, which published a unanimous report in 2001, and was appointed by President Clinton to the Bipartisan Commission on Entitlement and Tax Reform, which published its unanimous report in 1995. From 1986 until 1988, he was Senior Associate Counsel to President Reagan, advising the President on the nomination of three U.S. Supreme Court Justices, federal budget process reform, and the 1987 stock market crash. From 1978 to 1986, he specialized in venture capital and corporate finance with Latham & Watkins, where he was the partner in charge of the Corporate Department in Orange County and a member of the firm's national management.

In 1982–83, Chairman Cox took a leave of absence from Latham & Watkins to teach federal income tax at Harvard Business School. He also co-founded Context Corporation, publisher of the English translation of the Soviet Union's daily newspaper, *Pravda.* In 1977–78, he was law clerk to U.S. Court of Appeals Judge Herbert Choy.

In 1977, Chairman Cox simultaneously received an M.B.A. from Harvard Business School and a J.D. from Harvard Law School, where he was an Editor of the *Harvard Law Review.* He received a B.A. from the University of Southern California in 1973.



Kathleen L. Casey
Commissioner

Kathleen L. Casey was appointed by President George W. Bush to the U.S. Securities and Exchange Commission and sworn in on July 17, 2006.

Prior to being appointed Commissioner, Ms. Casey spent 13 years on Capitol Hill serving as Staff Director and Counsel of the U.S. Senate Banking, Housing, and Urban Affairs Committee. Significant issues the Committee considered under Ms. Casey's direction include: reform of Government Sponsored Enterprises, reauthorization of the Terrorism Risk Insurance Act, deposit insurance reform, insurance regulation, the Committee on Foreign Investment in the United States, Sarbanes-Oxley Act implementation, and oversight of credit rating agencies.

Commissioner Casey served as Legislative Director and Chief of Staff for U.S. Senator Richard Shelby (R-AL). In her capacity as Chief of Staff from 2002–2003, Ms. Casey acted as a key advisor on all policy and political matters. As Legislative Director from 1996–2002, Commissioner Casey was instrumental in the drafting and passage of several laws.

From 1994–1996, Ms. Casey served as Staff Director of the Subcommittee on Financial Institutions and Regulatory Relief of the Senate Banking Committee. She was responsible for advising and staffing the Senator on all committee issues, including the Private Securities Litigation Reform Act, Whitewater special investigation, and financial services regulatory relief legislation. Commissioner Casey also served Senator Shelby as Legislative Assistant from 1993–1994.

A member of the State of Virginia and District of Columbia bars, Commissioner Casey received her J.D. from George Mason University School of Law in 1993. She received her B.A. in international politics from Pennsylvania State University in 1988.

Elisse B. Walter
Commissioner

Elisse B. Walter was appointed by President George W. Bush to the U.S. Securities and Exchange Commission and sworn in on July 9, 2008.

Prior to her appointment as an SEC Commissioner, Ms. Walter served as Senior Executive Vice President, Regulatory Policy & Programs, for FINRA. She held the same position at NASD before its 2007 consolidation with NYSE Member Regulation.

Ms. Walter coordinated policy issues across FINRA and oversaw a number of departments including Investment Company Regulation, Member Education and Training, Investor Education, and Emerging Regulatory Issues. She also served on the Board of Directors of the FINRA Investor Education Foundation.

Prior to joining NASD, Ms. Walter served as the General Counsel of the Commodity Futures Trading Commission (CFTC). Before joining the CFTC in 1994, Ms. Walter was the Deputy Director of the SEC's Division of Corporation Finance. She served on the SEC's staff beginning in 1977, both in that division and in the Office of the General Counsel.

Ms. Walter is a member of the Academy of Women Achievers of the YWCA of the City of New York and the inaugural class of the American Bar Association's DirectWomen Institute. She also has received, among other honors, the Presidential Rank Award (Distinguished), the SEC Chairman's Award for Excellence, the SEC's Distinguished Service Award, and the Federal Bar Association's Philip Loomis and Manuel F. Cohen Younger Lawyer Awards.

She graduated from Yale University with a B.A., cum laude, in mathematics and received her J.D. degree, cum laude, from Harvard Law School.

Luis A. Aguilar
Commissioner

Troy A. Paredes
Commissioner

Luis A. Aguilar was appointed by President George W. Bush to the U.S. Securities and Exchange Commission and sworn in on July 31, 2008.

Prior to his appointment as an SEC Commissioner, Mr. Aguilar was a partner with the international law firm of McKenna Long & Aldridge, LLP, specializing in securities law.

Commissioner Aguilar's previous experience includes serving as the General Counsel, Executive Vice President, and Corporate Secretary of INVESCO. He also was INVESCO's Managing Director for Latin America in the late 1990s. His career also includes tenure as a partner at several prominent national law firms and as an attorney at the U.S. Securities and Exchange Commission.

Commissioner Aguilar has been listed in the 2005, 2006, 2007, and 2008 editions of the *Best Lawyers in America* and was named by *Hispanic Business Magazine* in 2006 as one of the "100 Influential" Hispanics in the United States. Additionally, he was named Member of the Year in 2005 and the Atlanta Hispanic Businessman of the Year in 1994 by Georgia Hispanic Chamber of Commerce. He received the Mexican American Legal Defense and Educational Fund's "Excellence in Leadership" Award in April 2005. He was also named the 2005 Latino Attorney of the Year by the Hispanic National Bar Association.

He has been active in numerous civic and business associations. From May 2005 to May 2007, he chaired the Latin American Association. He has served on various Boards, including the Mexican American Legal Defense and Education Fund, Girl Scouts Council of Northwest Georgia, Inc., Georgia Hispanic Bar Association, United States Fund for UNICEF Southeast Regional Chapter, and CIFAL Atlanta, Inc.

Commissioner Aguilar is a graduate of the University of Georgia School of Law, and also received a master of laws degree in taxation from Emory University.

Commissioner Paredes was appointed by President George W. Bush to the U.S. Securities and Exchange Commission and was sworn in on August 1, 2008.

Before joining the SEC, Commissioner Paredes was a tenured professor at Washington University School of Law in St. Louis, Missouri. He also held a courtesy appointment at Washington University's Olin Business School.

While a professor, Commissioner Paredes made presentations around the country on securities law and corporate governance, and he served as an expert on various legal matters. In addition, he has researched numerous topics such as executive compensation; hedge funds; private placements; the allocation of control within firms among directors, officers, and shareholders; the psychology of corporate and regulatory decision making; behavioral finance; alternative methods of regulation and market-based approaches to corporate accountability and securities regulation; comparative corporate governance, including the development of corporate governance and securities law systems in emerging markets; and the law and business of commercializing innovation. His scholarly work, among other things, has advocated for rigorous cost-benefit analysis when regulating and emphasized the need for accessible and understandable disclosures that investors can use effectively.

As a professor, Commissioner Paredes has authored many articles, and he is also a co-author (beginning with the 4th edition) of a multi-volume securities regulation treatise with Louis Loss and Joel Seligman entitled *Securities Regulation.*

Before joining the Washington University faculty in 2001, Commissioner Paredes practiced law at prominent national law firms. As a practicing lawyer, he worked on a variety of transactions and legal matters involving financings, mergers and acquisitions, and corporate governance.

He graduated from the University of California at Berkeley with a bachelor's degree in economics in 1992. He went on to graduate from Yale Law School in 1996.

Appendix B: Major Enforcement Cases

Actions Involving Financial Fraud, Issuer Disclosure, and Backdating of Options

The Commission brought numerous cases in FY 2008 involving financial fraud, issuer disclosure, and reporting violations at public companies. The Commission alleged that United Rentals, Inc., executed a series of fraudulent interlocking three-party sale-leaseback transactions to meet earnings forecasts and analyst expectations. Without admitting or denying the allegations, United Rentals, Inc., agreed to settle the Commission's enforcement action and, in addition to other sanctions, pay a $14 million penalty, which the Commission intends to place in a Fair Fund for distribution to affected investors.

The Commission also filed an action against four current or former executives of Biovail Corporation, alleging, among other things, that they fraudulently overstated earnings and hid losses to create the appearance of achieving earnings goals. Biovail settled with the Commission, without admitting or denying the allegations, and paid a $10 million penalty.

In addition, the Commission filed civil fraud charges against eight former executives of AOL Time Warner, Inc., for their roles in fraudulent round-trip transactions that caused the company to overstate its advertising revenue by more than $1 billion. Four of the eight defendants have agreed to settle the action, while litigation continues against the others.

In options backdating matters, the Commission filed an action against Broadcom Corporation, and two other actions against its former CEO, chairman, former chief financial officer, general counsel, and vice president of human resources, for fraudulently backdating stock option grants to virtually all officers and employees and failing to record billions of dollars of compensation expenses, resulting in a $2 billion restatement. Without admitting or denying the allegations in the Commission's complaint, Broadcom settled the charges by agreeing to pay a $12 million penalty, as well as other sanctions. The vice president of human resources also settled with the Commission, without admitting or denying the allegations in the Commission's complaint, by paying a penalty of $100,000, among other things.

The Commission filed another settled case action against William W. McGuire, M.D., the former CEO and chairman of UnitedHealth Group, Inc., alleging that McGuire signed and approved backdated documents falsely indicating that option dates had coincided with historically low quarterly closing prices for the company's stock, resulting in a $1.5 billion restatement over 11 years. McGuire, without admitting or denying the allegations, agreed to a settlement barring him from serving as an officer or director of a public company for 10 years, and ordering him to pay a $7 million penalty. In addition, the settlement with McGuire was the first to implement Section 304 of the Sarbanes-Oxley Act of 2002, requiring that McGuire reimburse UnitedHealth for equity-based compensation received from 2003 through 2006.

In enforcement of the anti-bribery provisions of the Foreign Corrupt Practices Act, the Commission alleged that former Kellogg, Brown, & Root, Inc., executive Albert Jackson Stanley participated in a scheme to bribe Nigerian government officials in order to obtain construction contracts worth more than $6 billion. Without admitting or denying the allegations in the complaint, Stanley consented to the entry of a final judgment against him. The Commission also charged the former chairman and CEO of Schnitzer Steel Industries, Inc., with approving cash payments and other gifts to officials at Chinese government-owned steel mills to solicit their business. Without admitting or denying the allegations, Robert W. Philip also agreed to settle the charges, paying a $75,000 penalty and disgorging $169,853 in bonuses.

Actions Involving Broker-Dealers

The Commission brought multiple actions against broker-dealers in FY 2008. The Commission charged Scottrade, Inc., for fraudulent misrepresentations it made to customers relating to the firm's execution of their Nasdaq pre-open orders, which are placed after the day's market close to be executed at the next market opening. Without admitting or denying the Commission's findings, Scottrade agreed to pay a $950,000 penalty to settle the Commission's charges.

In August 2008, the Division of Enforcement entered into preliminary settlements in principle with Citigroup, Merrill Lynch, UBS, and Wachovia to restore liquidity to investors that were hurt by the collapse of the auction rate securities market. Broker-dealers marketed ARS as highly liquid investments that were comparable to cash or money market investments. However, these companies failed to disclose that the promised liquidity was premised upon the broker-dealers' continued support for the auction in the event that there was not sufficient customer demand. When the ARS market collapsed in February 2008, various institutions stopped supporting the auctions and investors collectively lost tens of billions of dollars of liquidity. Among other requirements, the preliminary settlements provide a timeline for returning liquidity to injured retail and institutional investors, interim no-cost loans, further dispute resolution between the investor and broker-dealer, and the possibility of the Commission imposing a financial penalty after the broker-dealer has complied with its obligations under the settlement. Furthermore, these broker-dealers will all be permanently enjoined from violating the provisions of the Exchange Act, prohibiting broker-dealers from using manipulative or deceptive devices.

Cases Involving Subprime-Related Securities

In the wake of the subprime mortgage crisis, the SEC has stepped up enforcement in cases related to subprime securities. The Commission charged two Wall Street brokers with defrauding their customers when making more than $1 billion in unauthorized purchases of subprime-related ARS. The complaint alleged that Julian Tzolov and Eric Butler misled customers into believing that ARS being purchased in their accounts were backed by federally guaranteed student loans and were a safe and liquid alternative to bank deposits or money market funds. Instead, the securities that Tzolov and Butler purchased for their customers were backed by subprime mortgages, collateralized debt obligations, and other non-student loan collateral. The Commission's investigation into this matter is ongoing.

The Commission also charged two former Bear Stearns Asset Management portfolio managers, Ralph Cioffi and Matthew Tannin, with fraudulently misleading investors about the financial state of the firm's two largest hedge funds and their exposure to subprime mortgage-backed securities before the collapse of the funds in June 2007. Investors lost approximately $1.8 billion when these hedge funds collapsed. In addition to the ongoing litigation with the Commission, Cioffi and Tannin are also facing criminal charges of conspiracy and fraud.

Actions Involving Municipal Bonds

In its first enforcement action involving security-based swap agreements, the Commission brought an enforcement action against the mayor of Birmingham, Alabama, a local broker-dealer, and a local lobbyist, alleging that Mayor Larry Langford accepted more than $156,000 in undisclosed cash and benefits over the course of two years while he served as president of the County Commission of Jefferson County, Alabama. The Commission alleged that Langford selected Blount Parrish, a broker-dealer based in Montgomery, Alabama, to participate in every Jefferson County municipal bond offering and security-based swap agreement transaction during 2003 and 2004, earning Blount Parrish over $6.7 million in fees. In another case involving municipal bonds, the Commission filed fraud charges against five former San Diego city officials in connection with the City's false and misleading financial statements in five 2002 and 2003 bond offerings. The Commission alleged that these five former officials knew the city had been intentionally under-funding its pension obligations so that it could increase pension benefits but defer the costs. Litigation is ongoing in both matters.

Cases Involving Mutual Funds and Investment Advisers

The Commission took a variety of actions against mutual funds and investment advisers in FY 2008. For example, in a settled action against Pax World Management, the Commission charged Pax World with violating investment restrictions in socially responsible mutual funds that investors were told would not contain securities issued by companies involved with producing weapons, alcohol, tobacco, or gambling products. Without admitting or denying the findings, Pax World agreed to settle and to pay a penalty of $500,000. The Commission also took enforcement action against LPL Financial Corporation for failing to adopt policies and procedures to safeguard its customers' personal information, leaving at least 10,000 customers vulnerable to identity theft following a series of hacking incidents. The firm agreed to pay a $275,000 penalty and to settle the action without admitting or denying the findings.

The Commission also made distributions stemming from several earlier actions. In August 2008, the Commission announced a distribution of more than $40 million to investors harmed by undisclosed market timing and excessive short-term trading in certain mutual funds managed by Putnam Investment Management, LLC. This was the first in a series of Fair Fund distributions that will ultimately return a total of more than $150 million to more than 1.5 million affected Putnam mutual fund investors. Also, as of September 2008, the Commission distributed over $42 million to investors harmed by the undisclosed market timing in mutual funds managed by Janus Capital Management, LLC, also the first of a series of distributions that will total approximately $100 million.

Actions Involving Insider Trading

The SEC had many significant insider trading cases in FY 2008. The Commission charged Lou Pai, the former chairman and CEO of Enron Energy Services, with selling Enron stock on the basis of material, nonpublic information. Pai simultaneously settled the action without admitting or denying the allegations in the complaint, and agreed to pay $30 million in disgorgement and prejudgment interest (subject to a $6 million offset based on his prior waiver of insurance coverage for the benefit of Enron investors), plus a $1.5 million civil money penalty. In another case, the Commission obtained a $24 million settlement with a former Dow Jones & Company board member and three other Hong Kong residents accused of illegal tipping and insider trading ahead of news of an unsolicited buyout offer from News Corporation that sent Dow Jones shares soaring in the spring of 2007. In addition to settling the action, the Commission kept the defendants from making approximately $8 million in illicit profits by obtaining an emergency court order within days of the News Corporation offer, freezing the account.

Appendix C: SEC Divisions and Offices

Headquarters Offices

Division of Corporation Finance
John W. White, Director
(202) 551-3110

Division of Enforcement
Linda C. Thomsen, Director
(202) 551-4500

Division of Investment Management
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Division of Trading and Markets
Erik R. Sirri, Director
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Office of the Executive Director
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(202) 551-4300

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Lori A. Richards, Director
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Office of General Counsel
Brian G. Cartwright,
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Chief Accountant
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Office of International Affairs
Ethiopis Tafara, Director
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Freedom of Information and Privacy Act
Celia Winter, FOIA Officer
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Office of Risk Assessment
Jonathan S. Sokobin, Director
(202) 551-6640

Office of Administrative Law Judges
Brenda P. Murray,
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Office of Legislative and Intergovernmental Affairs
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(202) 551-2010

Office of Public Affairs
John Nester, Director
(202) 551-4120

Office of the Secretary
Florence Harmon, Acting Secretary
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Appendix D: Acronyms

Agency Complaint Tracking System	ACTS+
Auction Rate Securities	ARS
Chief Compliance Officer	CCO
Chief Executive Officer	CEO
Chief Financial Officer	CFO
Civil Service Retirement System	CSRS
Commodity Futures Trading Commission	CFTC
Consolidated Supervised Entities	CSE
Electronic Communications Network	ECN
Electronic Data Gathering, Analysis, and Retrieval system	EDGAR
Extensible Business Reporting Language	XBRL
Federal Employees Group Life Insurance program	FEGLI
Federal Employees Health Benefit program	FEHB
Federal Employees Retirement System	FERS
Federal Employees' Compensation Act	FECA
Federal Information Security Management Act	FISMA
Federal Insurance Contributions Act	FICA
Federal Managers' Financial Integrity Act	FMFIA
Financial Accounting Standards Board	FASB
Financial Industry Regulatory Authority	FINRA
Financial Management Oversight Committee	FMOC
Financial Management Service	FMS
Financial System Integration Office	FSIO
Fiscal Year	FY
Freedom of Information Act	FOIA
Full-Time Equivalents	FTE
Fund Balance with Treasury	FBWT
Generally Accepted Accounting Principles	GAAP
Government Accountability Office	GAO
Improper Payment	IP
Improper Payments Information Act of 2002	IPIA
Interactive Data Electronic Applications	IDEA
International Accounting Standards Board	IASB
International Financial Reporting Standards	IFRS
Juris Doctor	JD
Liability to Benefits Paid	LBP
Limited Liability Corporation	LLC
Management's Discussion and Analysis	MD&A
Monetary Unit Sampling	MUS
National Association of Securities Dealers	NASD
New York Stock Exchange	NYSE
North American Securities Administrators Association	NASAA
Not Applicable	N/A
Office of Chief Accountant	OCA
Office of Compliance Inspections and Examinations	OCIE
Office of Human Resources	OHR
Office of Information Technology	OIT
Office of Investor Education and Advocacy	OIEA
Office of Management and Budget	OMB
Office of the Inspector General	OIG
Other Retirements Benefits	ORB
Over-the-Counter	OTC
Privacy Impact Assessment	PIA
Program Assessment Rating Tool	PART
Property, Plant, and Equipment	PP&E
Public Company Accounting Oversight Board	PCAOB
Risk Assessment Database for Analysis and Reporting	RADAR
Risk Assessment Documentation and Inspection Umbrella System	RADIUS
Securities Investor Protection Act	SIPA
Securities Investor Protection Corporation	SIPC
Self-Regulatory Organization	SRO
Statement of Budgetary Resources	SBR
Statement of Custodial Activity	SCA
Statements of Federal Financial Accounting Standards	SFFAS
Straight Line Basis	S/L
Treasury Appropriation Fund Symbol	TAFS
U.S. Department of Labor	DOL
U.S. Department of the Treasury	Treasury
U.S. General Services Administration	GSA
U.S. Government Accountability Office	GAO
U.S. Office of Personnel Management	OPM
U.S. Securities and Exchange Commission	SEC
U.S. Standard General Ledger	SGL

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To comment on, or obtain additional copies of the SEC s FY 2008 Performance and Accountability Report, please send an e mail to: SECPAR@sec.gov.

U.S. Securities and Exchange Commission

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