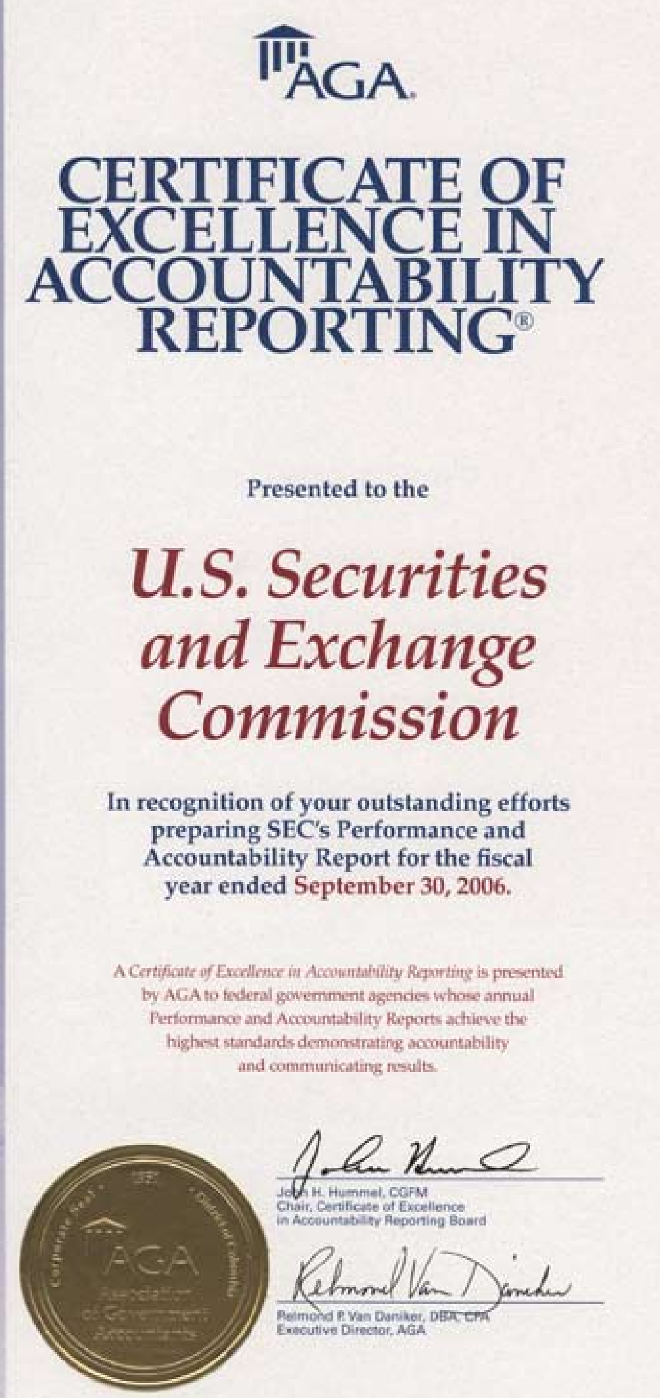
U.S. Securities and Exchange Commission

2007 Performance and Accountability Report


AGA

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U.S. Securities and Exchange Commission

2007 Performance and Accountability Report

Available on the Web at http://www.sec.gov/about/secpar2007.shtml

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The U.S. Securities and Exchange Commission serves you by working to secure the trust in our markets that undergirds our nation's continuing prosperity in an increasingly global economy. The level of trust in our markets has enormous economic consequences—affecting everything from the affordability of food, clothing, and shelter to the creation of new jobs, increases in wages, and the protection of our retirement security.

This Performance and Accountability Report helps explain how the SEC works to sustain trust in our markets.

Message from the Chairman

Dear Investor,

The continued rapid integration of the world's capital markets is requiring a much deeper level of coordination with other national regulators than ever before. As America's investors increasingly look abroad to diversify their portfolios, both regulation and enforcement are necessarily becoming more international in terms of both outlook and responsibilities.

Today, two-thirds of America's investors own securities of non-U.S. companies. That's a 30 percent increase from just five years ago. Globally active investors have more choices; they often enjoy lower transaction costs; and they have greater opportunities to diversify risk than ever before. But they also face new dangers. Investor protection in an era of global markets is a far more complex undertaking for the SEC. For our law enforcement and regulatory missions to succeed, during 2007 we turned to our overseas counterparts for assistance with far greater frequency. And we're stepping up our efforts to extend U.S. domestic assistance to them.

During the last year, I executed agreements with the College of Euronext Regulators, the German Federal Financial Supervisory Authority, and the UK Financial Services Authority and UK Financial Reporting Council, all directed to enhancing information-sharing to strengthen our enforcement and supervisory responsibilities. At our Washington headquarters and in market capitals around the world, the SEC conducted securities regulatory training sessions for more than 1,000 foreign regulators from over 100 countries in 2007. For the 12 months ended September 30, 2007, we brought more than 50 enforcement cases involving individuals, firms, markets, or assistance from abroad.

The Internet is a splendid tool for making information available to investors and for facilitating financial transactions around the world. But it is also a boon to crooks and thieves committing identity theft, "phishing" scams, and spam e-mail campaigns promoting questionable investments. These are problems that were virtually unheard of just 15 years ago. Today, boiler-room operators no longer need phone banks in the same jurisdiction as the investors they seek to defraud. Technology permits criminals to slip ill-gotten funds across borders with ease, completely escaping the sovereign laws that governments so assiduously defend. The only way to combat this is for all of the affected countries to cooperate.

That's why the SEC is working so intently with our foreign counterparts to make our oversight and enforcement systems seamless. Through our Office of International Affairs and our extensive participation in multinational fora, we are redoubling the agency's support for international regulatory harmonization—including cooperation with the International Accounting Standards Board, and authorities in nearly 100 nations, on International Financial Reporting Standards. The same energy animates our support for the IOSCO International Disclosure Standards, which the SEC has adopted as our own. Also during 2007, we inaugurated the PAUSE Program to help investors in the United States and around the world detect financial frauds, including individuals impersonating U.S. registered securities firms, by posting on our Web site specific information about unregistered soliciting entities that have been the subject of complaints. Many of these fraudulent solicitations are made via e-mail from overseas.

In the past year, the agency also took several steps on the regulatory front to help our markets to better integrate with the rest of the world. We opened a public dialogue on the subject of mutual recognition by high-standards countries. We proposed a rule that would permit foreign private issuers to submit to the SEC the same financial statements prepared in accordance with International Financial Reporting Standards that they file in their home country. We invested in a thorough remodeling of the Commission's financial reporting database, EDGAR, to make it interactive and compatible with similar systems under development in leading markets around the world. And we overhauled the auditing standard under Section 404 of the Sarbanes-Oxley Act, which had been a source of complaint from other national regulators. The new standard is risk-based, materiality focused, top-down,

Christopher Cox
Chairman

and scalable to company size and complexity. Investors will benefit from reduced compliance costs and more focused control audits.

In 2007, the SEC and the Federal Reserve broke an eight-year logjam and published final rules implementing the Gramm-Leach-Bliley Act, a critical step in modernizing our markets. The new rules, which will take effect starting in late 2008, spell out when banks need to register as broker-dealers. The much-needed clarity will improve investor choice in U.S. markets at a time of increasing international competitiveness. We also modernized our proxy rules by providing for electronic delivery, which will make global access for investors far easier. And we worked closely with the Euronext College of Regulators in Europe to ensure that the merged NYSE Euronext can offer services to U.S. and global investors with a seamless application of several nations' rules.

Investors want a global market. We can see that all around the world. But more than anything they want an honest market. In 2007, the SEC quickened the pace of our enforcement to ensure that despite the stress from increasingly complex international transactions, the U.S. will maintain our accustomed high levels of investor protection. In the past year, the Commission targeted hedge fund fraud and brought the most significant insider trading case in 20 years. We conducted a major program to protect older Americans from investment fraud and abusive sales practices. We saw a 30 percent drop in financial spam after highly-publicized suspensions of trading in the securities of several companies whose securities had been subject to spam stock promotions.

Our work in modernizing and internationalizing the Commission's programs to protect investors, promote healthy markets, and encourage capital formation will continue in 2008. In the coming year, we'll receive the results of a blue-ribbon study of the U.S. financial reporting system, focused on reducing unnecessary complexity and making information more useful and understandable for investors in a global market. We'll move forward on our initiatives to integrate the U.S. market with International Financial Reporting Standards, to make interactive data a reality, and to establish a process for negotiating mutual recognition agreements with other countries.

You'll find more details on these and other important Commission initiatives in the pages that follow. Our reporting on the results of the Commission's work includes a full presentation of our financial results and performance measurements. Since 2004, the SEC has published audited annual financial statements. Our financial statements for the year just ended are presented at pages 46–50 of this report. In the opinion of the U.S. Government Accountability Office, the 2007 statements are presented fairly in all material respects in conformity with U.S. generally accepted accounting principles (GAAP). In 2008, the agency will introduce several new technology upgrades designed to support the preparation of reliable audited financial statements. The phase-in of these new software systems is designed to eliminate a material weakness in the SEC's internal controls stemming primarily from the lack of integration and compatibility in the agency's legacy automated systems. A full discussion of these initiatives is on pages 19–23.

As we have for 74 years, the SEC will continue waging battle in favor of investors and markets—and we will never lose sight of our objective of high-quality standards tailored to the new, global marketplace. The SEC will continue to lead a global conversation with our counterparts around the world to increase investor confidence, make regulation more effective and efficient, and safeguard the integrity of our markets. Our objective is as ambitious as it is important: to make the lives of every one of our citizens better, and to make the world a better place.

Sincerely,

Christopher Cox
Chairman
November 15, 2007

Section 1: Management's Discussion and Analysis

The Securities and Exchange Commission (SEC) administers the federal laws governing the U.S. securities markets. As such, the SEC plays a fundamental role in maintaining the integrity and vitality of America's markets and protecting the interests of investors. The following section provides highlights of the agency's efforts during fiscal year (FY) 2007. It contains information on the agency's mission and strategic goals, notable achievements, performance results, financial highlights, and management assurances.

The Securities and Exchange Commission 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.

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

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

- **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**

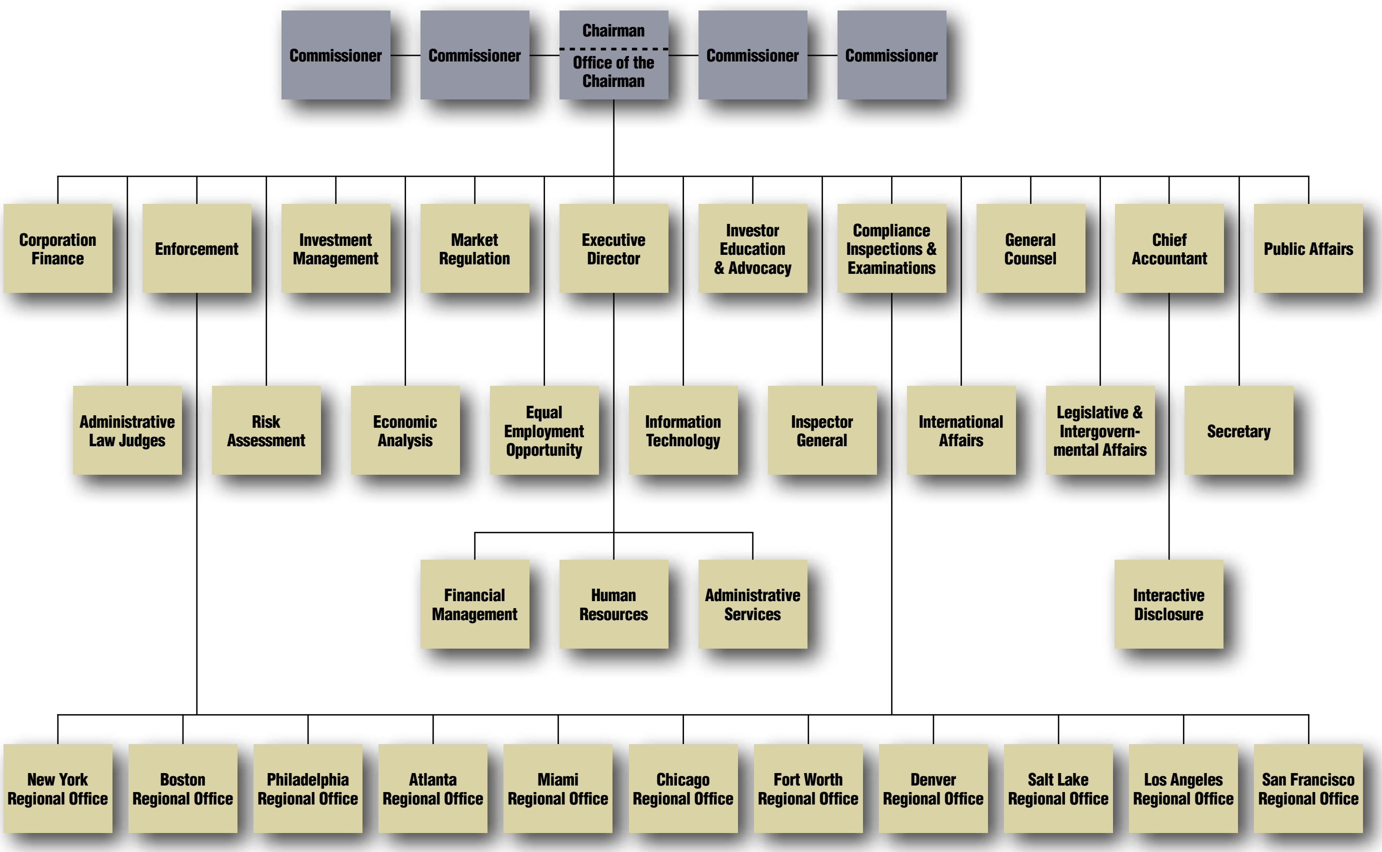
The investing public and the securities markets are best served by an efficient, well-managed, and proactive SEC. The Commission strives to improve its organizational effectiveness by making sound investments in human capital and new technologies, and by enhancing internal controls.

Organizational Structure and Resources

The SEC is an independent federal agency established pursuant to the Securities Exchange Act of 1934. 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: Commissioners).* The Chairman serves as the chief executive officer. The SEC is organized into four main divisions: Corporation Finance, Enforcement, Investment Management, and Market Regulation. It also has 18 functional offices. The Commission's headquarters are in Washington, D.C., and it has 11 regional offices throughout the country. In FY 2007, SEC received budget authority of $882 million. At September 30, 2007, the SEC had utilized 3,470 Full-time Equivalents (FTE), including 3,431 permanent and 39 temporary FTE.

TABLE 1.1

SEC Organization Chart



FY 2007 Highlights

The following are highlights of the SEC's activities during fiscal year 2007:

Enforcing Compliance with Securities Laws

Increased Protection for Investors in Hedge Funds. During the past year, the SEC created a hedge fund working group within the Division of Enforcement. Working with other federal law enforcement agencies and self-regulatory organizations, the group leads agency efforts to combat hedge fund insider trading. In the most significant insider trading case in 20 years, the SEC filed charges against 14 defendants in a scheme involving hedge funds that netted more than $15 million in illegal profits on thousands of trades, using information stolen from UBS Securities LLC and Morgan Stanley.

Combating Senior Fraud. In 2007 the SEC maintained its significant enforcement, examination, and investor education initiatives designed to prevent and punish fraud aimed at seniors. We partnered with other regulators and law enforcement agencies in several significant enforcement actions and examination sweeps, and we joined with the North American Securities Administrators Association, the Financial Industry Regulatory Authority, and consumer organizations including AARP to sponsor events to educate senior investors across the U.S. Through this initiative, the Commission is targeting fraudulent investment schemes and aggressive sales tactics, including abusive "free lunch" sales seminars, and working to arm older Americans with information they can use to identify and avoid them. These efforts are targeted not only at seniors but also their caregivers, as well as pre-retirement workers, who are encouraged to plan for contingencies later in life.

Anti-Spam Initiative. In March 2007, the SEC launched an initiative to combat spam-driven stock market manipulations, which resulted in the trading suspension of 39 companies susceptible to spam stock promotions. This stepped-up SEC effort to protect investors from potentially fraudulent e-mail solicitations hyping small company stocks also brought several spam-related enforcement actions. The agency's effort was credited for a significant reduction in financial spam in a report by a major private-sector Internet security firm, which stated that a 30 percent decrease in stock market spam "was triggered by actions taken by the U.S. Securities and Exchange Commission, which limited the profitability of this type of spam." In addition, spam-related complaints to the SEC's Online Complaint Center were cut in half.

Alerting Investors to Marketplace Impostors. The SEC introduced a new Web site to alert investors worldwide about unregistered entities engaged in solicitations of securities transactions. Through the "Public Alert: Unregistered Soliciting Entities" (PAUSE) program, the Commission publishes factual information on our Web site about unregistered soliciting entities that have been the subject of complaints forwarded by investors and others around the globe, including foreign securities regulators. By immediately alerting the public to information we receive in complaints, the SEC aims to help retail investors discover the true nature of questionable investment solicitations before they invest.

Internet Enforcement. In 2007, the Commission and its Office of Internet Enforcement concentrated significant efforts to combat the growing threats of identity theft and account intrusions. One case resulted in the capture of $3 million in a Latvian bank account—one of the largest asset freezes in agency history. Another landmark case, brought in conjunction with the Omaha U.S. Attorney's Office, marked the first joint criminal and civil prosecution of an account intrusion.

Micro-Cap Fraud. In 2007, in addition to bringing several important cases in the area, the Commission announced the creation of a new group within the Division of Enforcement to lead the SEC's efforts against micro-cap fraud. The Commission created the unit in response to the growing threat of fraud involving small issuers whose securities are not traded on registered exchanges. The new group will primarily focus on market manipulation and offering frauds, as well as other market violations. It also will act as an expert within the SEC and a liaison with domestic and foreign authorities regarding micro-cap fraud issues.

Improving Disclosure for Investors

Interactive Data. In 2007, the SEC created the Office of Interactive Disclosure to lead the agency's global efforts to transform the nature of financial reporting by public companies. Nearly 100 countries are involved in the development of eXtensible Business Reporting Language, or XBRL. The use of XBRL can make the information in financial reports completely interactive, so that investors, analysts, journalists, and preparers of financial statements can use the information in ways never before possible. If public companies in many nations file financial reports using interactive data, users of those statements would be able to make immediate comparisons of a wide range of industry peers. The new Office is working with key public and private sector stakeholders in the United States and around the world to advance the use of interactive data in financial reporting. It is also working with the SEC's Office of Information Technology to transform the agency's financial reporting database, EDGAR, into an interactive data platform.

Over the last few years, the SEC has encouraged public companies to file their financial reports with the agency using interactive data as part of a voluntary pilot program. During the year, the SEC's interactive data initiative continued to grow, with the market capitalization of companies participating in the program topping $2 trillion. In 2007, NYSE Euronext became the first stock exchange to submit financial reporting information in the U.S. using interactive data.

The Commission also adopted rules permitting mutual funds to submit risk/return summary information from their prospectuses using interactive data under the voluntary program. In the near future, investors will find it far easier to access information about a participating fund's investment objectives and strategies, risks, costs, and historical performance via the agency's Web site.

During 2007, the Commission also announced the completion of all work on developing interactive data tags for the entire system of U.S. generally accepted accounting principles (GAAP).

Protecting Investors in Municipal Securities. The Commission is redoubling its efforts to improve disclosure and accounting practices in this sizable market affecting millions of individual investors. The Commission entered an order sanctioning the City of San Diego for committing securities fraud by failing to disclose billions of dollars in pension and retiree health care obligations in its sale of its municipal bonds. The agency delivered a white paper to Congress outlining our recent enforcement actions and highlighting areas of possible legislative reform, in light of the growing size and importance of the municipal securities market and the significant ways in which it has changed over time. The white paper proposed, among other things, that offering documents and periodic reports provided to investors contain information similar to what is required for all other securities offerings, that information on municipal securities be made available on a more timely basis, and that municipal issuers be required to use generally accepted governmental accounting standards.

Understandable Disclosure of Executive Compensation. The Commission's new rules governing executive compensation disclosure took effect in fiscal 2007. These rules have significantly improved the quality and clarity of public company information about how, and how much, top executives are paid. To gauge the effectiveness of the new disclosures, the Commission conducted an across-the-board review of the first year's experience under the new rules. The review determined that investors are in fact receiving more comprehensive information on executive compensation under the new rules than has been available in the past—and that for the first time, investors can quickly see each executive's total compensation from all sources, and compare these figures from company to company.

Reducing Complexity in Financial Reporting. The SEC created an advisory committee to examine the causes of, and remedies for, excessive complexity in the U.S. financial reporting system. The committee will provide recommendations about how to improve the usefulness of financial information to investors, reduce unnecessary complexity for U.S. companies, and better utilize advances in technology to enhance all aspects of financial reporting.

Promoting an Effective and Flexible Regulatory Environment

Rationalizing Implementation of the Sarbanes-Oxley Act. The SEC voted to repeal the Public Company Accounting Oversight Board's (PCAOB) audit standard under Section 404 of the Sarbanes-Oxley Act, and to replace it with a new standard that is risk-based, materiality focused, top-down, and scalable to company size and complexity. As a result, investors will benefit from reduced compliance costs and more focused audits of internal controls. The Commission also voted to approve new interpretive guidance to help public companies strengthen their internal controls over financial reporting while reducing unnecessary costs, particularly at smaller companies. In writing this guidance, the Commission worked closely with the PCAOB to align the interpretive guidance and the new audit standard. Together, the new interpretive guidance and the new audit standard will help focus discussions between managers and auditors on what matters most to investors—the risk that material misstatements in the company's financials will not be prevented or detected in a timely manner.

Improving Competition in Securities Brokerage. The SEC and the Board of Governors of the Federal Reserve System announced the adoption of final joint rules to define when banks have to register as securities broker-dealers under the Gramm-Leach-Bliley Act. The rules will foster greater competition in the financial services industry to the benefit of investors.

Establishment of FINRA. The Commission approved the creation of the Financial Industry Regulatory Authority (FINRA), which is now responsible for regulatory oversight of all securities firms that do business with the public. The new entity replaces the National Association of Securities Dealers and the New York Stock Exchange's member regulation operations. The creation of FINRA will enable the establishment of a single set of rules that can operate across markets, eliminating regulatory "seams" that often made enforcement difficult.

Protecting Investors in Expanding Markets

Global Affiliation of Exchanges. The Commission approved the consolidation of the businesses of NYSE Group, Inc., the publicly-traded company that owns the New York Stock Exchange and NYSE Arca, and Euronext N.V., a company organized under the laws of the Netherlands and owner of five European exchanges. NYSE Group and Euronext are now wholly-owned subsidiaries of a new publicly-traded holding company, NYSE Euronext. The combination was conditioned on a number of important regulatory improvements for the benefit of investors.

International Regulatory Cooperation. The Commission entered into an information-sharing arrangement with the College of Euronext Regulators (comprised of the five European authorities overseeing the Euronext markets). The agreement provides a framework for coordination and consultation in connection with the oversight of NYSE Euronext and its markets.

The SEC also increased efforts to formalize regulatory information-sharing arrangements with other international counterparts. These allow confidential sharing of issuer-specific information, with the ultimate goal of encouraging high-quality and consistent application of accounting standards. Additionally, the SEC finalized cooperative arrangements related to the supervision and oversight of markets and market participants, and handled over 800 requests related to enforcement investigations and cases.

International Financial Reporting Standards. The Commission announced a series of actions in connection with its consideration of the effect of international financial reporting standards on U.S. markets, including a proposal to accept financial statements from foreign private issuers prepared in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) without requiring reconciliation to GAAP.

The Commission also issued a concept release seeking comment on whether U.S. issuers should have the option of preparing financial statements in accordance with IFRS. Under the SEC's current rules, U.S. issuers are required to prepare financial statements in accordance with GAAP. Nearly 100 countries require or allow the use of IFRS.

Foreign Private Issuer Exchange Act Deregistration. In March 2007, the Commission approved changes to rules for foreign private issuer deregistration eliminating conditions that had been considered a barrier to entry. The rules provide foreign private issuers with greater flexibility in accessing and exiting U.S. capital markets, encouraging participation in U.S. markets and providing increased investor choice.

Performance Results Summary

This fiscal year, the Commission worked diligently to meet or exceed performance targets. Of the 24 performance measures the Commission is reporting on in FY 2007, the SEC met or exceeded 21 of 28 planned performance levels. The agency also is reporting four indicators which provide further context for understanding the agency's activities. The indicators are not included in the following table, because it is inappropriate for the agency to conduct these activities with an eye towards hitting predetermined targets.

A summary of the SEC's performance levels for FYs 2006 and 2007, organized by goal, is presented in *Table 1.2*. A discussion of the agency's program achievements and specific performance results is located in *Section 2: Performance Section.*

TABLE 1.2

Performance Results Summary

KEY: LEVEL OF PERFORMANCE ATTAINED

+ Performance Level Exceeded
✓ Performance Level Met
– Performance Level Not Met

	PERFORMANCE LEVEL	
GOAL 1 ENFORCE COMPLIANCE WITH THE FEDERAL SECURITIES LAWS	FY06	FY07
1. Distribution of cases across core enforcement areas	✓	✓
2. Enforcement cases successfully resolved	+	+
3. Percentage of first enforcement cases filed within two years	–	–
4. Number of requests to and by foreign regulators for enforcement assistance	+	+
5. Investment advisers and investment companies examined		
a. Investment advisers	–	+
b. Investment companies	–	–
GOAL 2 PROMOTE HEALTHY CAPITAL MARKETS THROUGH AN EFFECTIVE AND FLEXIBLE REGULATORY ENVIRONMENT		
1. Percentage of responses to exemptive, no-action letter, and interpretive requests issued within six months	+	+
2. Percentage of U.S. households owning mutual funds	+	✓
3. Mutual fund share of total retirement assets	+	+
4. Equity portfolio holdings of U.S. investment companies as a percentage of total U.S. stock market capitalization	+	+
5. Percentage of SRO rule filings closed in less than 60 days	+	+
6. Global access to U.S. markets		
a. Number of new foreign private issuers registering	+	+
b. Dollar amount of securities registered by foreign private issuers	–	–
7. Milestones for international regulatory cooperation	✓	✓
GOAL 3 FOSTER INFORMED INVESTMENT DECISION MAKING		
1. Number and percentage of investor complaints, questions, and requests completed by the Office of Investor Education and Advocacy (OIEA) within seven calendar days	–	✓
2. OIEA publications distributed by the General Services Administration (GSA)	–	+
3. Annual number of on-line searches for EDGAR filings	+	+
4. Percentage of reporting corporations and investment companies with disclosures reviewed by the SEC		
a. Corporations	–	+
b. Investment companies	+	+
5. Percentage of investment adviser and investment company transactional reviews completed within timeliness goals	+	+
6. Average time to issue initial comments on Securities Act filings	✓	✓
7. Percentage of forms and submissions filed electronically and in a structured format	✓	–
GOAL 4 MAXIMIZE THE USE OF SEC RESOURCES		
1. Percentage of IT projects that adhere to the agency's capital planning investment control process	–	+
2. Milestones for major IT projects	✓	✓
3. Receive an unqualified audit opinion on the SEC's audited financial statements with no material weaknesses noted in internal controls over financial reporting ICFR		
a. Audit opinion	✓	✓
b. Material weaknesses	✓	–
4. Staff turnover rate	–	–
5. Milestones achieved on major human capital initiatives	✓	–

Limitations of the Financial Statements

The principal financial statements included in *Section 3: Financial Section* 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 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 realization that they are for a component of the U.S. Government, a sovereign entity.

Improper Payments Information Act Reporting

The Improper Payments Information Act (IPIA) of 2002 requires federal agencies to review all programs and activities, identify those that are susceptible to significant erroneous payments, determine an annual estimated amount of erroneous payments made in those programs, and report the actions it is taking to reduce erroneous payments. In FY 2007, the SEC identified and reviewed two programs that had a potential high risk for improper payments. For IPIA reporting purposes, significant erroneous payments are defined as annual payments exceeding both 2.5 percent of program payments and $10 million. SEC projections are well below both thresholds. IPIA reporting details are provided in *Section 4: Other Accompanying Information.*

Financial Statement Highlights

Overview

The SEC's financial statements were prepared in conformity with U.S. GAAP and OMB Circular A-136, *Financial Reporting Requirements.* The financial statements, footnotes, and auditor's opinion appear in Section 3 of this Performance and Accountability Report. A summary of the SEC's major financial activities in FY 2007 and FY 2006 is presented below.

Balance Sheet and Net Position

Presented below is a condensed Balance Sheet for comparison and analysis.

TABLE 1.3

Condensed Balance Sheet

As of September 30, 2007 and September 30, 2006

(IN THOUSANDS)	FY 2007	FY 2006	$ CHANGE	% CHANGE
Fund Balance with Treasury	$5,888,039	$5,178,893	$ 709,146	14
Investments	3,602,511	3,674,528	(72,017)	-2
Accounts Receivable—Federal Agencies	155	154,506	(154,351)	-100
Accounts Receivable—Public	138,693	177,491	(38,798)	-22
Advances and Prepayments	2,100	974	1,126	116
Property, Plant and Equipment	98,280	103,631	(5,351)	-5
Total Assets	9,729,778	9,290,023	439,755	5
Accounts Payable	49,249	62,135	(12,886)	-21
Accrued Payroll, Benefits & Leave	62,360	59,615	2,745	5
Registrants' Deposit Accounts	61,689	57,464	4,225	7
Fiduciary Liability	3,615,760	3,834,662	(218,902)	-6
Custodial Liability	63,614	71,545	(7,931)	-11
Capital Lease Liability	16,865	27,641	(10,776)	-39
Other Accrued Liabilities	6,473	14,839	(8,366)	-56
Total Liabilities	3,876,010	4,127,901	(251,891)	-6
Unexpended Appropriations	—	9,201	(9,201)	-100
Cumulative Results of Operations	5,853,768	5,152,921	700,847	14
Total Net Position	5,853,768	5,162,122	691,646	13
Total Liabilities and Net Position	$ 9,729,778	$9,290,023	$ 439,755	5

Assets

Fund Balance with Treasury

In FY 2007, *Fund Balance with Treasury* increased to 60.5 percent of total assets from 55.7 percent of total assets in FY 2006. The increase in funds held by the SEC is attributed to collections in excess of the current year's appropriated funding. The revenues collected include securities transaction fees, securities registration fees and other fees as described below under "Net Cost of Operations."

Investments

The SEC's *Investments* balance consists entirely of disgorgement and penalties collected from securities law violators plus related interest earned. These funds are held by the SEC pending future distribution to harmed investors. The SEC invests these funds in overnight and short-term market-based Treasury bills issued through the Treasury Department's Bureau of Public Debt. Investments held by the SEC have increased dramatically since FY 2005. This increase is the result of provisions in the Sarbanes-Oxley Act of 2002 which allowed for the distribution of penalties to harmed investors augmented by certain unusually large disgorgement collections in FY 2006. The investment balance is expected to decrease as fund distributions accelerate. In FY 2007, new collections transferred to investments of $314.5 million were offset by distributions to harmed investors of $580.5 million.

Accounts Receivable

At September 30, 2007 and 2006, the SEC's *Accounts Receivable* from the public is $404.7 million and $353.6 million, respectively, offset by an estimated allowance for doubtful accounts of $266.0 million and $176.1 million, respectively. The $38.8 million decrease in net Accounts Receivables from the public is related to a decrease in receivables established from enforcement-related actions and a decrease in securities-related receivables as a result of the reduction in fee rates in FY 2007.

The $154.3 million decrease in Federal Receivables is due to a receivable at the end of 2006 relating to an order to transfer funds from a Federal court late in September 2006.

Liabilities

The SEC's liabilities consist of routine operating accounts payable, accrued payroll and benefits, registrant deposit accounts, and fiduciary and custodial liabilities associated with disgorgement and penalties assessed against securities law violators.

Custodial Liability

The *Custodial Liability* relates to disgorgement and penalty receivables assessed against securities law violators. The SEC records a custodial liability for the net amount of such receivables, after taking into account the estimated allowance for doubtful accounts. Upon collection, these amounts will either be transferred to the fiduciary accounts or transferred to the General Fund of the Treasury. The net decrease is due to a lower volume of high penalty financial fraud cases in FY 2007.

Fiduciary Liability

The SEC's largest liability is the *Fiduciary Liability.* This liability reflects amounts collected by the SEC in enforcement proceedings that are held for future distribution to harmed investors. When collected, these receipts are held as fiduciary assets in *Fund Balance with Treasury* or *Investments,* pending distribution to investors, and this equal and offsetting liability is reported on the Balance Sheet. The net decrease of $218.9 million in Fiduciary Liability is due to efforts by the SEC to accelerate the process of distributing funds to harmed investors.

Net Position

The increase in Net Position of $691.6 million in FY 2007 is the result of collections of securities transaction, registration and other fees in excess of program costs for current year operations.

Net Cost of Operations

The Statement of Net Cost of Operations represents the gross cost incurred by the SEC less exchange revenue earned.

TABLE 1.4

Condensed Statement of Net Cost

For the years ended September 30, 2007 and September 30, 2006

(IN THOUSANDS)	FY 2007	FY 2006	$ CHANGE	% CHANGE
Enforce compliance with federal securities laws	$ 529,454	$ 579,076	$ (49,622)	-9
Promote healthy capital markets through an effective and flexible regulatory environment	79,704	77,263	2,441	3
Foster informed investment decision making	135,917	135,856	61	0
Maximize the use of SEC resources	97,466	96,728	738	1
Total Gross Program Cost	842,541	888,923	(46,382)	-5
Less: Earned Revenue Not Attributed to Programs	1,507,750	1,882,619	(374,869)	-20
Net (Income) from Operations	$ (665,209)	$ (993,696)	$ 328,487	-33

For FY 2007 and 2006, the SEC's net income from operations totaled $665.2 million and $993.7 million, respectively.

The SEC's Earned Revenue Not Attributed to Programs consists of revenues from fees paid pursuant to the Securities Act of 1933 and the Securities Exchange Act of 1934. These fees consist of securities transaction fees paid by securities exchanges, and securities registration, tender offer, merger, and other fees paid by issuers. The fees are used to fund SEC programs and operations up to the limits established through the annual appropriation process. The SEC reports this revenue as "not attributed to programs" since the fees are generated by the operations of the SEC as a whole, rather than the efforts of one program or operating activity.

Exchange revenue decreased by $374.9 million due to a decrease in the exchange fee rates in 2007. The rates changed as follows: (i) proxy solicitations and statements in corporate control transactions fees decreased to $30.70 per million from $107.00 per million; (ii) securities transaction fees on the exchange and in the over-the-counter markets decreased to $15.30 per million from $30.70 per million; and (iii) the assessment on security futures transactions decreased to $0.0042 for each round turn transaction from the rate of $0.009 for each such transaction.

The 5 percent decrease in program costs reflects the fact that the SEC and most other government agencies operated on a continuing resolution appropriation in FY 2007. In addition, FY 2006 included certain non-recurring costs related to the occupancy of new operating locations in Washington D.C. and New York.

Budgetary Resources and Outlays

The Statement of Budgetary Resources provides information on the budgetary resources that were made available to the SEC during the fiscal year and the status of those resources at the end of the fiscal year. The SEC receives its funding from fee revenue earned, which must be appropriated by Congress before it can be used by the Commission.

TABLE 1.5

Selected Budgetary Resources

For the years ended September 30, 2007 and September 30, 2006

(IN THOUSANDS)	FY 2007	FY 2006	$ CHANGE	% CHANGE
Budgetary Resources	$ 966,607	$5,775,491	$(4,808,884)	-83
Collections	1,538,749	1,903,648	(364,899)	-19
Non-Reimbursable Obligations	876,274	896,911	(20,637)	-2
Net Outlays/(Collections)	710,848	981,734	(270,886)	-28

Budgetary Resources consist of the resources available to the SEC at the beginning of the year, plus the appropriations, spending authority from offsetting collections, and other budgetary resources received during the year. Total resources decreased by $4.8 billion in FY 2007. This decrease is primarily due to a change in accounting principle related to prior year collections in excess of budgetary authority. As a result of this change, the financial statement line, *Unobligated Balance, Brought Forward, October 1,* decreased to $186.7 million from the reported $4,878 million FY 2006 ending balances of unobligated funds. The prior year collections previously reported in this line continue to be reported on the Balance Sheet in *Fund Balance with Treasury* and *Cumulative Results of Operations*. However, these amounts are no longer reported as budgetary resources of the SEC. See Note 1.C *Change in Accounting Principle* in the Financial Section for additional discussion of this accounting change. The reduction in collections of $364.9 million is a direct result of the reduction in rates, as referred to in the Net Cost of Operations.

Obligations and Outlays

The decrease of $20.6 million in non-reimbursable obligations for FY 2007 reflects the fact that the SEC and most other government agencies operated on a continuing resolution appropriation in FY 2007.

Net Outlays reflect disbursements net of offsetting collections and distributed offsetting receipts. The decrease in Net Collections was primarily due to the FY 2007 reduction in exchange fee rates as mentioned above.

Custodial Activity

The Statement of Custodial Activity reports the collections by the SEC of disgorgement and penalty amounts from securities laws violators. These collections constitute non-exchange revenue, as they arise from the SEC's authority to demand payment from violators of the law.

TABLE 1.6

Condensed Statement of Custodial Activity

For the years ended September 30, 2007 and September 30, 2006

(IN THOUSANDS)	FY 2007	FY 2006	$ CHANGE	% CHANGE
Sources of Collections: Disgorgement & Penalties	$496,386	$1,804,043	$(1,307,657)	-72
Sources of Collections: Other	138	90	48	53
Accrual Adjustment	(7,931)	(23,967)	16,036	67
Total Custodial Revenue	488,593	1,780,166	(1,291,573)	-73
Disbursed to: Department of Treasury	176,761	122,030	54,731	45
Disbursed to: Other	319,763	1,682,103	(1,362,340)	-81
Change in Liability Accounts	(7,931)	(23,967)	16,036	67
Total Disposition of Collections	$ 488,593	$1,780,166	$(1,291,573)	-73

Collections

The variance in collection activity is due to a reduction in fair funds collections of $1,307.6 million for 2007, due to a lower volume of financial fraud cases with large settlements. In FY 2006, the SEC won fines and penalties in several large cases. These collections are expected to be distributed to harmed investors in subsequent years.

Distributions

FY 2007 distributions included $176.8 million transferred to the General Fund of the Treasury, $580.5 million distributed to harmed investors, with $260.7 million of that total transferred from the Fiduciary Fund to cover distributions to the public. FY 2006 distributions included $122.0 million transferred to the General Fund of the Treasury, $108.5 million distributed to investors, and $1,573.6 million held pending future distribution. The decrease in amounts transferred to the fiduciary fund is directly related to the total decrease in collections discussed above. The $54.7 million increase in funds transferred to the General Fund of the Treasury is due to an increased ability to collect on fines and penalties.

In FY 2007, the current year distributions exceeded the current year collections due to a significant decrease in collections relative to prior years. In addition to the decrease in collections, the SEC undertook an initiative to distribute more funds to harmed investors relative to prior years.

Management Assurances

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 is implemented by the Office of Management and Budget (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 2007 provide qualified assurance that SEC systems and management controls comply with the requirements of the FMFIA, with the exception of a material weakness in internal control over financial reporting.

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, 2007 in accordance with the FMFIA and OMB Circular No. A-127, *Financial Management Systems,* as applicable. This evaluation identified system non-conformances.

Internal controls were also evaluated by the SEC's independent auditors, the Government Accountability Office (GAO).

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 Commission'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 Commission is able to provide a qualified statement of assurance that the internal controls and financial management systems meet the objectives of FMFIA, with the exception of a material weakness and system non-conformances as discussed below.

The Commission 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. A material weakness in internal controls over financial reporting and system non-conformances surfaced in FY 2007 as a result of this evaluation. Other than the exceptions noted, the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal controls.

Chris Cox

Christopher Cox
Chairman
November 15, 2007

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, 32 office heads conducted reviews of their financial, administrative, and program management controls in FY 2007. The offices range in size from 8 to 486 positions, with an average of 117 positions at the end of FY 2007. This segmentation ensures comprehensive coverage of all SEC offices.

Each office head prepared an annual assurance statement that identified any control deficiencies that merit 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;
- Management reviews and dashboard reports (which are monthly reports used to track the progress on operational, budgetary, and staffing objectives, and to adjust processes and resources as necessary);
- GAO and Office of Inspector General reports;
- Self-assessments;
- 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 Financial Management Oversight Committee (FMOC) evaluates the Section 2 and 4 submissions, recommendations from the Office of the Inspector General, 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 Office of Inspector General and the Office of Information Technology conducted a combined total of 21 alternative reviews. The reviews covered 18 of the 32 assessable units (56 percent). Some components had multiple reviews.

Further, the Office of Information Technology certified and accredited 26 major applications; recertified the agency's accounting and general support systems because of major upgrades; and completed 16 electronic authentication risk assessments. E-authentication is a review process at the transaction level designed to help agencies ensure that authentication processes provide the appropriate level of assurance.

Finally, GAO audited the Commission's financial statements. GAO's procedures included audits of the FY 2007 financial statements, internal control over financial reporting and compliance with laws and regulations, the SEC's compliance with selected provisions of law and regulations applicable to the management of financial resources, and actions taken in response to prior GAO audit recommendations.

Internal Controls over Financial Reporting

During FY 2007, increased rigor was applied to further compliance with laws and regulations over the past years' standard. Overall, greater discipline was instilled over the financial reporting process, increasing transparency, reliability, and integrity. In FY 2008, Office of Financial Management (OFM) will continue to improve compensating controls. However, transitioning from manual interfaces to full integration of core and feeder financial systems will be critical to improving efficiency and effectiveness of controls over financial reporting. The need is clear for integrating data with the core accounting system in order to reduce the amount of manual calculations and data entry currently required. Efficiencies will be put into practice to ensure sustainable processes.

Description. In FY 2007, due to changes in key personnel including the Chief Financial Officer and Chief of the Financial Statements and Policy Branch, certain processes were subjected to internal review revealing deficiencies in internal control and instances of non-conformance with federal financial system requirements. The GAO identified a material weakness in the SEC's internal controls over its financial reporting process, with specific deficiencies cited concerning the period-end financial reporting process, disgorgements and penalties accounts receivable, accounting for transaction fee revenue, and preparing financial statement disclosures.

Corrective Actions Taken. Improved oversight processes were implemented to ensure compliance with GAAP and OMB requirements relative to period-end financial reporting process and preparation of footnote disclosures.

The SEC is dedicated to proactively identifying and correcting control deficiencies such as those manifested in the use of manual journal entries, and improper posting models and processes as cited by GAO in the FY 2007 audit report. Financial information integrity improvements are evidenced by significant advances in many areas. The SEC increased the transparency of the financial reporting process. Process and control documentation was improved or developed, as necessary, over the past year. Position papers have been developed articulating SEC policy. Standard Operating Procedures have been drafted for the preparation of financial statements. Through the documentation and review process, inadequate controls over several of the SEC's business processes were identified. As a short-term solution, incremental improvements were made to compensating controls. As a long-term solution, improvements to financial management systems are planned. The improvements made this year have set the stage for the upgrade of the SEC's financial systems, created efficiencies, and begun the institution of sustainable processes.

- Monthly financial reporting and review processes were instituted
- Ongoing monitoring processes were established to ensure data integrity
- Quarterly certification processes were strengthened
- An undelivered order review process was instituted
- A process was put in place to accomplish bulk loading of manual journal entries, eliminating duplicative data entry

In the 4th quarter, OFM established a monthly cycle for General Ledger close and preparation of financial reports. The monthly generation and review of balances and reports, previously only performed quarterly, are expected to result in more timely and useful information that will facilitate the use of financial information in management decision making.

In addition, the SEC implemented the use of standard analytical reports to highlight key operational risk. These reports include, but are not limited to, Abnormal Balances, Variance Analysis, Suspense Aging, Reporting Consistency Checks, and the early implementation of U.S. Treasury Tie-Point Project analytics. These analytic reviews of financial data were conducted to ensure the quality of financial data, and used to proactively detect and correct data anomalies. Through the use of these standard reports, OFM was able to capture and remedy several process deficiencies throughout the year.

Control over manual data entry has been improved. The Branch Chief, Financial Statements and Policy, approves all entries manually posted to the General Ledger and posting models established by Branch staff.

In FY 2006, the SEC had a reportable condition related to its recording and reporting of disgorgement and penalties ordered as a result of SEC enforcement actions. During FY 2007, the SEC took a number of important steps to ensure the integrity of enforcement-related disgorgement and penalty data. The agency implemented a new financial management system (Phoenix) as part of a multi-year effort to replace its existing case tracking database. Phoenix provides enhanced management, administrative, and monitoring controls that reasonably ensure that (a) the initial recording of disgorgement and penalties ordered as a result of enforcement actions is accurate and timely, (b) ongoing activities such as payments, termination of collection activity, and amended orders are documented and reported, and (c) disgorgement and penalty data are consistently reviewed for reliability, timeliness and completeness. In addition, the system provides for enhanced audit trail capabilities, increased transparency of information which allows management to monitor the activities within the system, the ability to attach the documentation supporting all transactions within the system itself, and increased management reporting functions. The SEC also implemented new policies and procedures as well as mandatory computer-based training modules for mid- and senior-level managers. Nonetheless, integration of disgorgement and penalty receivable amounts from Phoenix is through manual processes and significant analysis is performed outside the system to determine the general ledger postings of transactions, as addressed in the next section.

Based on an internal review of compliance with required form and content, changes were made this year to the presentation of the financial statements and footnote disclosures. Examples of the changes made to more closely conform to OMB A-136 guidance include presentation of costs on the Statement of Net Cost by strategic goal, and improved footnote disclosures related to valuation of marketable securities, segregation of entity/non-entity asset balances and differences between the Statement of Budgetary Resources and the President's Budget. A change in accounting principle this year eliminated material prior year differences between the Statement of Budgetary Resources and the Budget of the United States Government.

A more rigorous methodology to achieve compliance with the Improper Payments Information Act (IPIA) of 2002 was deployed in FY 2007, following the guidance prescribed by OMB for implementation.[1] Methodology and results were both fully documented and made available to the auditors.

The Prompt Payment Final Rule (formerly OMB Circular A-125, "Prompt Payment") requires payment of commercial obligations within certain time periods and interest penalties when payments are late. In fiscal year 2007, the SEC improved the timeliness of vendor invoice payments and corrected a system problem with the calculation of the interest for returned vendor invoices. This resulted in a significant reduction of late payments and interest paid. The number of late payments was reduced by 38 percent and the dollar amount of interest paid was reduced by 36 percent from the previous fiscal year.

Corrective Actions Planned. Corrective actions will be taken in the short term to mitigate the control deficiencies cited by GAO. Plans are under development to implement short-term solutions to reduce intermediary information processing steps, including extensive use of spreadsheets, manipulation of data, and manual journal entries, in FY 2008. The process will be reviewed and SEC will tighten compensating controls supporting the calculation of receivable balances until automated integration is achieved. SEC will continue to replace routine manual entries and adjustments with approved posting models when feasible. For example, pro-forma SGL compliant entries for operating under a continuing resolution were recently implemented to replace manual journal entries made in the first quarter of FY 2007.

Process and control documentation efforts are on-going. A project plan has been developed to document each significant activity recorded in the general ledger, including the closing process and the preparation of the financial statements. The anticipated delivery date for the initial draft procedural manual to the SEC is March 31, 2008, with the final delivery and completion date being June 30, 2008. Nonetheless, the risks cited are mitigated by managerial review of consistency reports and other review processes put in place in the last quarter of this fiscal year.

Financial Management System Non-conformance

Although the SEC is not required to comply with the FFMIA, the agency assesses its financial management systems annually for conformance with the requirements of OMB Circular A-127 and other Federal financial system requirements. The agency also makes continuous efforts to strengthen and integrate its financial management systems.

Description. SEC systems supporting Receivables, Property and Equipment, and Investments balances do not conform to financial management system requirements. Moreover, subsystems are integrated with the SEC's core accounting system through manual processes in which summary level data is posted to the core accounting system on a periodic basis. With manual data entry, the inherent risk of error increases. Associated with the system non-conformances are risks due to use of unconventional posting models, inference of certain data attributes (rather than maintaining at a transaction level consistent with the SGL) and the inability to readily trace certain adjusting summary level

1 *Appendix C, Part I to OMB Circular A-123,* Management's Responsibility for Internal Controls, *issued through OMB Memorandum M-06-23 dated August 10, 2006*

entries to source documents. To illustrate, a major limitation of Phoenix is its inability to capture the related accounting impact of each financial event.

Corrective Actions Taken. In 2007, the SEC put a variety of controls in place to compensate for this non-conformance as previously discussed.

The SEC has begun an upgrade of its core financial system. System requirement development is underway for automated interfaces to the core financial system related to Receivables, Investments, and Property and Equipment.

Corrective Actions Planned. System integration will eliminate the need for the bulk of the manual journal entries currently being used, which will enhance the timeliness, accuracy and reliability of the data while reducing the need to maintain redundant schedules. The upgrade of the core financial system will incorporate accurate configuration for the SEC's business processes, development of pro-forma entries validated against the SGL, replacement of the routine use of manual entries with pro-forma entries, and integration of appropriate preventative edits for pro-forma entries. The upgrade is expected to be completed in FY 2008.

Most accounts receivable data is captured in Phoenix, the SEC's system for managing disgorgements and penalties resulting from the agency's enforcement cases. The SEC is developing system requirements for an automated interface for Phoenix to ensure that receivable transactions posted to the core accounting system are compliant with the SGL at the transaction level. In addition, the SEC is reviewing alternatives for automating, upgrading or replacing subsidiary systems for Investments and Property and Equipment, along with the associated interfaces. As a short-term, stopgap measure, the SEC will utilize database solutions to minimize manual intervention and increase compensating controls over the financial reporting process.

Federal Information Security Management Act (FISMA)

FISMA requires federal agencies to conduct an annual self-assessment of their IT security programs, to develop and implement remediation efforts for identified security weaknesses and vulnerabilities, and to report compliance to OMB. The SEC's Inspector General and Chief Information Officer performed a joint review of the agency's compliance with FISMA requirements, and submitted the report to OMB in late September. The report showed that the agency has continued to make progress in mitigating information security risk and complying with FISMA requirements, and no significant deficiencies were identified. In particular, the SEC has completed the implementation of its incident response program, successfully reaccredited its "general support system" (the agency's foundational IT infrastructure), and achieved over 99 percent compliance with security and privacy awareness training. The review also identified some additional opportunities for improvement, in particular with respect to the documentation associated with the certification and accreditation process; these findings will be addressed in the coming year.

Section 2: Performance Section

The mission of the SEC is accomplished through four strategic goals focused on efforts to enforce compliance with the federal securities laws; promote healthy capital markets; foster informed investment decision making; and maximize the use of agency resources. Through various activities, SEC programs strive to achieve the four strategic goals by meeting performance targets. Annually, the performance results are analyzed to determine the success of program activities.

Organized by strategic goal, the following section discusses FY 2007 program achievements and progress toward reaching FY 2007 performance targets. Actual performance levels achieved for FY 2007 and analysis of the performance results are included for each performance measure.

The SEC's 2004–2009 strategic plan established four goals and 10 supporting outcomes that the agency seeks to achieve in carrying out its mission. The SEC uses a variety of performance measures to ascertain its progress in achieving these desired outcomes. In FY 2007, the SEC met or exceeded planned performance levels for 21 of 24 total performance measures. See Performance Results Summary *Table 1.2* in *Section 1: Management's Discussion and Analysis.*

This section also presents four indicators which provide further context for understanding the agency's activities. The indicators do not include targets 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 at least three years of historical data.

In FY 2007, the SEC's Market Regulation program was evaluated by the Office of Management and Budget using its Program Assessment Rating Tool (PART). The evaluation assessed the program's purpose and design, strategic planning, management, and results. For the second consecutive year, the SEC received the highest rating possible, "Effective." The agency plans to use the results of PART reviews to further enhance and strengthen program performance.

SEC managers use performance data to improve the quality of program management and to demonstrate accountability in achieving program results. The performance data presented in this report are complete and reliable, and are as of September 30, 2007.

Goal 1: Enforce Compliance with Federal Securities Laws

In order to enforce compliance with federal securities laws, in FY 2007 the SEC focused on detecting potential problems or issues in the securities markets early, preventing violations of federal securities laws, and sanctioning violators of federal securities laws. The agency's Enforcement and Examination programs are primarily responsible for these outcomes.

Program Achievements

Enforcement Program

In FY 2007, the SEC initiated 776 investigations, 262 civil actions, and 394 administrative proceedings covering a wide range of issues, including financial fraud, abusive backdating of stock options, insider trading, violations by broker-dealers, and fraud related to mutual funds. The Commission prevailed in the great majority of the enforcement actions. The SEC's enforcement cases in FY 2007 resulted in a total of approximately $1.6 billion in disgorgement and penalties ordered against securities law violators. Notable enforcement actions taken by the SEC in FY 2007 can be found in *Appendix B: Major Enforcement Cases.*

The SEC also invested in technologies to increase the effectiveness of the Enforcement program. The agency developed a new case management system which will enhance the information available to program managers to monitor their caseload and shift resources as necessary. In addition, the Division of Enforcement's Forensic Lab continued to employ new scientific, mathematical, and engineering techniques to uncover potential digital evidence such as e-mail, financial records, transaction data, and Internet activity.

Improved Management of Disgorgements and Penalties and Fair Funds Distribution. As a result of SEC enforcement cases, approximately $13.8 billion in disgorgement and penalties from FY 2003 through FY 2007 were ordered to be paid to the SEC, courts, or other appointed trustees. More than 75 percent of the total amounts ordered had been collected by the end of FY 2007. With the deployment of the new Phoenix system, the SEC improved management of the disgorgements and penalties that arise from the Commission's actions and significantly enhanced the agency's internal controls over these financial transactions. In FY 2007, the SEC announced the creation of a dedicated office that will specialize in this area.

Cross Border Enforcement. The SEC was involved in numerous cases with significant international components. The Office of International Affairs used the Multilateral Memorandum of Understanding of the International Organization of Securities Commissions (IOSCO) and other avenues to obtain information relevant to SEC investigations and litigation from foreign regulators.

Examination Program

The SEC's examination program works to detect violations of the securities laws and to encourage firms to implement strong compliance programs for the protection of investors. In FY 2007, the Office of Compliance Inspections and Examinations (OCIE) continued to refine and implement risk assessment techniques to identify firms and activities that present the greatest compliance risks.

In an effort to improve the effectiveness and efficiencies of its examinations, OCIE explored new technologies and initiatives throughout the year to enhance its examinations. For example, extensive effort was devoted to the development of a new tool for examiners to use in performing quantitative analysis of trade data and other large data sources obtained from registrants, a key component of how the agency identifies compliance issues within regulated entities. In addition, OCIE substantially enhanced training for examiners with respect to new rules applicable to securities firms and current trends in the securities industry, including broker-dealers providing investment advisory services and the activities of hedge fund advisers.

Risk-Based Examinations. In FY 2007, OCIE conducted more than 2,400 examinations of investment advisers and companies, broker-dealers, transfer agents, and self-regulatory organizations (SRO). SEC examiners continued to conduct routine inspections of higher-risk advisers and fund groups on a three-year cycle and lower-risk advisers through random sampling. Broker-dealer exams focused on compliance and risk management of select large and complex brokerage firms, and staff continued their oversight of SRO's regulation of trading and member firm activity. OCIE also conducted inspections of SRO programs, and together with the SEC's Office of the Chief Accountant, OCIE initiated an inspection of the Public Company Accounting Oversight Board (PCAOB).

Overall, 75 percent of investment adviser and investment company examinations and almost 82 percent of broker-dealer inspections revealed some type of deficiency or control weakness. Where appropriate, OCIE referred inspection results to enforcement staff or SRO for further review. Importantly, most examinations resulted in improvements in the firms' compliance programs.

Fostering Improvements in Compliance. SEC staff sought to improve compliance with the federal securities laws by providing additional information and resources to registered financial firms. OCIE and the Division of Investment Management jointly conducted the Chief Compliance Officers (CCO) *CCOutreach* Program, which seeks to encourage strong industry compliance practices. In FY 2007, SEC staff conducted 27 regional seminars and one national seminar focusing on fund and adviser compliance issues. The SEC also conducted a CCO *CCOutreach* seminar for over 50 European-based investment advisers registered with the SEC. The program, hosted in Luxembourg, was the first *CCOutreach* event in Europe for foreign-based, SEC-registered investment advisers. In addition, OCIE enhanced communications with industry firms by publishing the first in a planned series of *"ComplianceAlerts."* These publications provide firms with information on key exam findings regarding compliance issues that may assist firms in avoiding the occurrence of compliance breaches.

Performance Measures

TABLE 2.1
PERFORMANCE MEASURE

Distribution of Cases across Core Enforcement Areas (Target met)

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. This measure evaluates whether the Commission maintains an effective distribution of cases so that no category exceeds 40 percent of the total.

CORE ENFORCEMENT PROGRAM AREAS	PERCENTAGE OF CASES FY03	FY04	FY05	FY06	FY07 PLAN	FY07 ACTUAL
Financial Disclosure	29%	28%	29%	24%	<40%	33%
Investment Advisers/ Investment Companies	11	14	16	16	<40	12
Broker-Dealers	20	22	15	13	<40	14
Securities Offerings	16	15	9	11	<40	10
Insider Trading	7	7	8	8	<40	7
Market Manipulation	5	6	7	5	<40	5
Other	12	8	16	23	<40	19
Total	100%	100%	100%	100%	100%	100%

ANALYSIS OF RESULTS: The agency will continue to maintain a presence in all program areas with no category exceeding 40 percent of the total amount of cases brought in any one year. The exact percentage may vary depending on the circumstances and priorities unique to that year.

TABLE 2.2
PERFORMANCE MEASURE

Enforcement Cases Successfully Resolved (Target exceeded)

DESCRIPTION: A case is considered "successfully resolved" if it results in a favorable judgment for the SEC, a settlement, or the issuance of a default judgment. In general, the SEC strives to resolve successfully as many cases as possible, but at the same time, it aims to file large, difficult, or precedent-setting cases when appropriate, even if success is not assured.

FY04	FY05	FY06	FY07 PLAN	FY07 ACTUAL
90%	91%	94%	85%	92%

ANALYSIS OF RESULTS: The SEC exceeded its target for FY 2007, although a continued 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. Note: The percentages for FY 2004 through FY 2006 have been recalculated to reflect a change in categorization; consequently, these numbers are slightly lower than reported previously.

TABLE 2.3
PERFORMANCE MEASURE

Percentage of First Enforcement Cases Filed within Two Years (Target not met)

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.

FY03	FY04	FY05	FY06	FY07 PLAN	FY 07 ACTUAL
62%	69%	65%	64%	66%	54%

ANALYSIS OF RESULTS: The SEC attributes the lower percentage of cases filed within two years in FY 2007 to two factors. First, the percentage of what have been historically the most complex cases, issuer reporting and disclosure cases, made up a larger percentage of the cases brought in FY 2007 than in prior fiscal years. Secondly, significant resources were devoted to the SEC's responsibility to distribute Fair Funds to injured investors under Sarbanes-Oxley, as well as to establish and support an accounting and recordkeeping system to appropriately track these distributions.

TABLE 2.4
PERFORMANCE MEASURE

Number of Requests to and by Foreign Regulators for Enforcement Assistance (Target exceeded)

DESCRIPTION: Each year, the SEC makes hundreds of requests to foreign regulators for enforcement assistance, while responding to hundreds of requests from other nations. To facilitate this type of assistance and encourage other countries to enact laws necessary to cooperate with the SEC and other foreign counterparts, the SEC has entered into more than 30 bilateral information-sharing agreements, as well as the IOSCO MMOU. These agreements create a framework for information sharing and expedite international cooperation among regulators.

	FY02	FY03	FY04	FY05	FY06	FY07 PLAN	FY07 ACTUAL
Requests to foreign regulators	448	309	380	438	561	460	556
Requests from foreign regulators	353	344	372	315	353	371	454

ANALYSIS OF RESULTS: The increased number of requests to and from foreign regulators in recent years reflects considerable growth in the number of SEC investigations that have international components.

TABLE 2.5
PERFORMANCE MEASURE

Investment Advisers and Investment Companies Examined (One target exceeded, one target not met)

DESCRIPTION: To oversee investment companies and advisers, the staff conducts a risk-based program of routine examinations, cause inspections to follow up on tips and complaints, and special inspections that probe emerging risk areas. Rapid growth in the industry, coupled with serious compliance violations, led to changes in the SEC's oversight methodologies for investment companies and advisers in FY 2003 and FY 2004. These changes included concentrating examination resources on firms and practices that pose the greatest risk to investors and the securities markets.

	FY02	FY03	FY04	FY05	FY06	FY07 PLAN	FY07 ACTUAL
Investment Advisers	1,570	1,556	1,543	1,530	1,346	1,300	1,379
Investment Companies	304	318	783	582	344	250	246

ANALYSIS OF RESULTS: The number of adviser and investment company examinations completed during FY 2007 are at or above expectations set at the beginning of the year. Figures are generally lower than in previous years due to a variety of reasons, including: increased complexity of registrant operations (including the need to review private fund activity in conjunction with examinations of the funds' advisers); for routine exams, an increase in the amount of time devoted to evaluating the effectiveness of compliance programs that registrants have been required to maintain since FY 2005; the need to review compliance with other new regulatory requirements; a decrease in the number of targeted special examinations conducted (which are generally of shorter duration than routine exams); and a dedication of staff resources to new proactive compliance initiatives designed to improve compliance, including *CCOutreach* and monitoring large advisory groups.

TABLE 2.6
INDICATOR

Number and Percentage of Examinations Finding "Significant" Deficiencies

DESCRIPTION: Examiners find a wide range of deficiencies during examinations. Some of these deficiencies are more technical in nature, such as failing to include all information that is required to be in a record. Other deficiencies may have caused harm to customers or clients of a firm, had a high potential to cause harm, or reflected recidivist misconduct. These latter deficiencies are among those categorized as "significant." This indicator was first implemented in FY 2005 and data is not available for prior years. 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
Fund/adviser exam significant findings			
Number	769	651	574
Percent	37%	39%	35%
Broker/dealer exam significant findings			
Number	351	296	249
Percent	48%	40%	37%

ANALYSIS OF RESULTS: Examiners continued to use risk-assessment techniques to focus examinations on areas most likely to reveal significant compliance issues. Examples of significant deficiencies include violations that were the same as those found in a previous exam, resulted in a referral to an SRO or the Division of Enforcement for investigation, or resulted in certain corrective actions taken by the firm, such as funds being reimbursed to affected investors.

TABLE 2.7
INDICATOR

Referrals to the Division of Enforcement from the Office of Compliance Inspections and Examinations or the Division of Corporation Finance

DESCRIPTION: The SEC's Division of Enforcement receives referrals from a variety of sources. For example, the examination staff and the Division of Corporation Finance's disclosure review program strive to uncover serious potential violations of the federal securities laws, among other objectives. When possible violations are found, they are referred to the Division of Enforcement for further investigation. This indicator measures the number of enforcement referrals from the examination staff and the Division of Corporation Finance within each fiscal year. 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.

	FY03	FY04	FY05	FY06	FY07
Examination staff	171	482	399	223	203
Corporation Finance	231	415	640	537	682

ANALYSIS OF RESULTS: Compared with FY 2006, in FY 2007 examination staff uncovered slightly fewer potential violations that warranted further investigation by the Enforcement program. However, as a percentage, examinations resulting in enforcement referrals were similar to FY 2006. The Division of Corporation Finance continued to refer matters when issuers failed to file required reports and when deficiencies resulted from careless disregard of Commission regulations and rules or deliberate attempts to conceal or mislead.

TABLE 2.8
INDICATOR

Monetary Disgorgements and Penalties Ordered to Be Paid to the SEC and the Amounts and Percentages Collected by the SEC

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 penalties to reduce losses to injured parties. Funds not returned to investors are sent to the U.S. Treasury; neither disgorgements nor penalties go to the SEC. This chart lists the disgorgements and penalties ordered to be paid to the SEC and the amounts and percentages collected by the SEC resulting from SEC cases. The chart does not include the disgorgements and penalties ordered to be paid to a court, receiver, or others resulting from SEC cases. 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 BILLIONS)

	FY03	FY04	FY05	FY06	FY07
Ordered	$0.35	$1.68	$1.95	$1.15	$0.52
Collected	$0.14	$1.43	$1.82	$1.02	$0.29
Percentage	40%	86%	94%	88%	55%

ANALYSIS OF RESULTS: The SEC made significant systemic improvements during FY 2007 to the tracking and reporting of these funds. The amount of penalties and disgorgements may vary widely from year to year, and the collection success rates depend on numerous variables, including the financial status and size of the parties sued. Collection amounts from prior years are continually updated on a rolling basis.

TABLE 2.9
INDICATOR

Assets Frozen Abroad as a Result of SEC 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. 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
$15.3	$20.7	$11.0

ANALYSIS OF RESULTS: The SEC will continue to participate in IOSCO's work to develop a multilateral approach for preserving and returning assets, and continue efforts in specific cases to freeze assets that were obtained in violation of U.S. securities laws and transferred abroad. Although future estimates for the amount of frozen assets cannot be projected, the Office of International Affair's efforts in this area will likely increase as international cooperation on enforcement matters develops. The agency cannot project future estimates for this indicator because it is impossible to predict the extent to which violators will move their ill-gotten gains to foreign jurisdictions.

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

The agency promoted confidence in the capital markets by protecting investors from abusive practices and inadequate disclosures and by addressing conflicts of interest among securities industry participants. To achieve its goal, the agency developed regulations that strengthen corporate and fund governance and promote high-quality financial reporting standards worldwide, supported industry efforts to provide innovative and competitive products and trading platforms while ensuring the markets remain fair and financially sound, and ensured that regulations are clearly written and do not impose unnecessary financial or reporting burdens. Several SEC divisions and offices are responsible for these outcomes.

Program Achievements

Modernization of Smaller Company Capital Raising and Reporting Requirements. The Commission proposed a new system of securities regulation for smaller public companies, a modification of eligibility requirements, and shortened holding periods for restricted securities. In addition, the Commission put forth new exemptions for compensatory employee stock options, so Exchange Act registration requirements would not be triggered solely by a company's compensation decisions. Finally, the Commission proposed electronic filing of Form D to ease burdens for filers and make the filed information more readily available. Form D is filed by companies making private or limited offerings.

Rulemaking Related to Hedge Funds. The Commission adopted a new rule under the Investment Advisers Act to make it a fraudulent practice for an investment adviser to a pooled investment vehicle to make false or misleading statements or otherwise defraud investors or prospective investors in that pool. The rule applies to all investment advisers to pooled investment vehicles, regardless of whether the adviser is registered under the Advisers Act.

Analysis of 12b-1 Fees. In FY 2007, the agency conducted a roundtable on Rule 12b-1 to assess the rule's history, current role in fund distribution practices, and costs and benefits, as well as potential options for reforming or rescinding the rule. The 12b-1 fees were created in 1980 to stem the problem of net redemptions and spur fund growth. Since that time, as the investment management industry has thrived, the primary purpose of these fees has shifted. IM reconsidered both this rule and the factors that fund boards must consider when considering approval or renewal of a Rule 12b-1 plan.

Nationally Recognized Statistical Rating Organizations. In FY 2007, the Commission implemented the Credit Rating Agency Reform Act of 2006. The Commission proposed rules detailing the requirements for credit rating agencies that register as nationally recognized statistical rating organizations (NRSROs). After reviewing public comments on the proposed rules, the Commission issued final rules that became effective in June. In September, the SEC issued orders granting the registrations of seven credit rating agencies as NRSROs. The staff also began inspections of a number of NRSROs.

Tender Offer Best Price Rule. In FY 2007, the Commission approved rule changes to reinforce that compensation for services paid to a shareholder does not count as part of the price for his or her shares. To protect investors and uphold the fundamental purpose of the rule, the rules exempt compensatory arrangements that satisfy certain standards. The provisions also include a safe harbor that hinges upon approval of independent members of the board of directors.

Short Sales and Regulation M. The Division of Market Regulation and the Office of Economic Analysis conducted extensive analysis to monitor the effects of the delivery requirement under Regulation SHO. Staff evaluated the pilot program to determine whether the price test remains appropriate for short sales in certain securities. As a result of this pilot, the Commission approved the elimination of the short sale price test. In addition, the Commission approved amendments to strengthen Rule 105 of Regulation M. Rule 105 helps prevent abusive short selling and market manipulation by ensuring that offering prices are set by natural forces of supply and demand.

Complex Structured Finance Transactions. After receiving two rounds of public comment, the Commission and the federal banking agencies issued a joint Interagency Statement on Sound Practices Concerning Elevated Risk Complex Structured Finance Transactions (CSFTs). The statement was prepared to respond to abuses identified in connection with the collapse of Enron, assist financial institutions in managing legal risks, and prevent abusive practices related to transactions in CSFTs. The statement takes a balanced, principles-based approach to addressing the risks CSFTs may pose to financial institutions, with particular focus on those CSFTs that may present greater legal or reputational risk.

Mutual Recognition of Foreign Securities Regimes. The SEC conducted a roundtable on selective mutual recognition of foreign securities regimes in June 2007. Selective mutual recognition would involve the SEC permitting certain types of foreign financial intermediaries to provide services to U.S. investors under an abbreviated registration system, provided those entities are supervised in a foreign jurisdiction under a securities regulatory regime substantially comparable (but not necessarily identical) to that in the United States.

Information-Sharing Agreements. The SEC increased efforts to formalize information-sharing arrangements for regulatory cooperation with international counterparts. The SEC entered into an arrangement with authorities in the United Kingdom, and developed a model information-sharing arrangement for additional European regulators with the Committee of European Securities Regulators. Additionally, in FY 2007, the SEC finalized information-sharing arrangements that relate to the supervision and oversight of markets and market participants. The SEC entered into an arrangement with the German Federal Financial Supervisory Authority with respect to registrants operating in both jurisdictions, as well as the arrangement with the College of Euronext Regulators in connection with the oversight of NYSE Euronext.

International Technical Assistance Training. International training programs provide a unique opportunity for SEC staff and foreign regulators to share views on challenges and potential solutions to securities enforcement and oversight issues in light of local perspectives and developments. In FY 2007, the SEC conducted training programs in the Middle East, East Africa, and India, and conducted its largest Annual International Institute for Securities Market Development with attendance from 74 foreign jurisdictions.

Performance Measures

TABLE 2.10
PERFORMANCE MEASURE

Percentage of Responses to Exemptive, No-Action Letter, and Interpretive Requests Issued Within Six Months (Target exceeded)

DESCRIPTION: The SEC responds to inquiries from individuals or companies about whether an activity undertaken in a specified manner would violate the securities laws. The inquiries take the form of written requests that the staff not recommend enforcement or other action to the Commission if the activity is completed as specified. The originators of "no-action" requests submit their inquiries privately, but the SEC publicly releases both the request and its response upon completion. SEC staff also responds to requests to interpret specific provisions of the securities rules and review applications for exemptions from the securities laws.

FY04	FY05	FY06	FY07 PLAN	FY07 ACTUAL
84%	89%	89%	85%	88%

ANALYSIS OF RESULTS: The Divisions of Market Regulation, Investment Management, and Corporation Finance have collectively exceeded their FY 2007 target, due to management-initiated efficiencies and increased reliance on IT advances that assist in the analysis of requests. However, success in achieving this goal is somewhat dependent upon the complexity of the requests received in a given year. Note: The percentage value for FY 2006 was updated to account for an error in last year's Report.

TABLE 2.11
PERFORMANCE MEASURE

Percentage of U.S. Households Owning Mutual Funds (Target met)

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/services.

FY02	FY03	FY04	FY05	FY06	FY07 PLAN	FY07 ACTUAL
49.6%	47.9%	48.1%	47.5%	48.0%	48.2%	48.2%

ANALYSIS OF RESULTS: The proportion of households owning mutual funds has increased modestly since FY 2006.

TABLE 2.12
PERFORMANCE MEASURE

Mutual Fund Share of Total Retirement Assets (Target exceeded)

DESCRIPTION: The share of total retirement assets held by mutual funds more than tripled during the 1990s. Mutual fund share of total retirement assets may indicate investor confidence in mutual funds and a flexible regulatory scheme that allows funds to successfully compete in the market with other financial institutions. In addition to the factors identified for Performance Measure *Table 2.11* (Percentage of U.S. Households Owning Mutual Funds), other factors that may influence short- and long-term changes in this metric include 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. It is not the goal of the Investment Management program to promote the sale of fund shares. The SEC's strategic goals focus on promoting legal compliance, flexible regulation and informed investors. With these goals in mind, the Investment Management program monitors significant changes in the mutual fund share of total retirement assets metric and considers whether such changes may signal the need for action to better attain one or more strategic goals. The source of these data is the Investment Company Institute, and the results for each fiscal year reflect data as of December 31 of the previous calendar year.

FY02	FY03	FY04	FY05	FY06	FY07 PLAN	FY07 ACTUAL
20.9%	19.8%	21.3%	22.4%	23.5%	21.2%	24.9%

ANALYSIS OF RESULTS*:* In FY 2007, the percentage of retirement assets held by mutual funds reached another new high. For this measure, historical numbers are sometimes revised by the data provider to reflect data revisions made by their sources. To keep SEC numbers consistent with the data provider's numbers, our policy is to revise SEC data to reflect revisions made by outside data providers (Federal Reserve, Investment Company Institute, etc.) In this table, the numbers reflect minor revisions made by the Investment Company Institute to their data for FY 2003–2006.

TABLE 2.13
PERFORMANCE MEASURE

Equity Portfolio Holdings of U.S. Investment Companies as a Percentage of Total U.S. Stock Market Capitalization (Target exceeded)

DESCRIPTION: Investment company holdings of common and preferred stock have accounted for an increasing proportion of total U.S. stock market capitalization in recent years. Investment company equity holdings now exceed the equity holdings of pension funds. The equity portfolio holdings of U.S. investment companies as a percentage of total U.S. stock market capitalization may reflect the effectiveness of investment companies as a vehicle for capital formation.

FY04	FY05	FY06	FY07 PLAN	FY07 ACTUAL
20.8%	23.0%	25.1%	20.1%	26.9%

ANALYSIS OF RESULTS: Investment company equity holdings as a percentage of U.S. stock market capitalization again increased significantly in FY 2007.

TABLE 2.14
PERFORMANCE MEASURE

Percentage of SRO Rule Filings Closed in Less Than 60 Days (Target exceeded)

DESCRIPTION: SRO rule changes are reviewed for consistency with investor protection and market operation and structure rules that govern the operation of registered national securities exchanges, clearing agencies, and the automated quotation systems operated by FINRA and the Municipal Securities Rulemaking Board. The figures below represent the percentage of proposed SRO rule changes reviewed (i.e., approved or disapproved) within 60 days from receipt of the last amendment filed by the SRO.

FY03	FY04	FY05	FY06	FY07 PLAN	FY07 ACTUAL
74%	78%	80%	84%	75%	83%

ANALYSIS OF RESULTS: In 2007, the Division of Market Regulation exceeded the FY 2007 target and continued improving its communications with SRO staff and expediting its reviews of SRO rule changes.

TABLE 2.15
PERFORMANCE MEASURE

Global Access to U.S. Markets: Number of New Foreign Private Issuers Registering Securities with the SEC and the Dollar Amount of Securities Registered by Foreign Private Issuers (One target exceeded, one target not met)

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.

(DOLLARS IN BILLIONS)

	FY02	FY03	FY04	FY05	FY06	FY07 PLAN	FY07 ACTUAL
Companies	70	50	63	74	60	70	77
Dollar value	$147	$163	$146	$250	$109	$150	$120

ANALYSIS OF RESULTS: The increase in the number of new foreign companies registering their securities under the 1933 and 1934 Acts may reflect an easing of concerns from some non-U.S. issuers about the impact and costs of compliance with the Sarbanes-Oxley Act when they register in the U.S. In FY 2007 and earlier, the Commission took a number of actions designed to address particular concerns of foreign registrants, in particular the implementation of new rules facilitating the ability of foreign registrants to deregister their securities under the Exchange Act. Over half of these new registrants are incorporated in two jurisdictions (Canada and the Cayman Islands); the former has historically close ties to the U.S. capital markets and the latter is used by many Asia-based businesses that seek to raise capital in the U.S.

TABLE 2.16
PERFORMANCE MEASURE

Milestones for International Regulatory Cooperation (Target met)

DESCRIPTION: In order to sustain an effective and flexible regulatory environment in the face of increasingly global financial markets, the SEC works with many securities regulators and international organizations, including the International Organization of Securities Commissions, to improve global transparency and disclosure, strengthen the supervision of global firms and markets, reinforce regulatory standards, and enhance cross-border enforcement cooperation. SEC staff also engaged in bilateral regulatory dialogues with foreign authorities in order to explore common approaches for regulating market participants that operate on a cross-border basis.

INITIATIVE:	Eliminating the Generally Accepted Accounting Principles (GAAP) reconciliation requirement for foreign issuers using International Financial Reporting Standards (IFRS) as published by IASB
FY 2005	"Road map" published by SEC staff.
FY 2006	Began reviewing the consistency of foreign private issuers' FY 2005 IFRS financial statements and accompanying reconciliations; agreed to cooperate with the Committee of European Securities Regulators (CESR) with respect to the application by internationally active companies of IFRS and GAAP in the United States and the European Union.
FY 2007 Plan	Discuss implications of review with public constituencies; continue reviewing the faithfulness and consistency of foreign private issuers' financial statements prepared in accordance with IFRS and accompanying reconciliations; identify changes to SEC rules that will be necessary upon elimination of reconciliation requirements; continue to cooperate closely with CESR and IOSCO members on the development of high quality accounting standards and consistent application of IFRS; fully consider international counterparts' positions regarding application and enforcement; avoid conflicting regulatory decisions on the application of IFRS and U.S. GAAP; and meet with CESR at least semi-annually.
FY 2007 Actual	Obtained views of U.S. market participants on the quality and integrity of IFRS in advance of a rule proposal to eliminate the reconciliation requirement and a concept release concerning allowing U.S. issuers to use IFRS in financial statements filed with the Commission; furthered the SEC-CESR workplan by creating a template for sharing confidential, non-public issuer-specific information regarding the application of IFRS by dually-listed companies and entering into the first such protocol with the UK Financial Services Authority and the UK Financial Reporting Council; and continued cooperation with IOSCO members.

INITIATIVE:	Bilateral regulatory dialogues
FY 2005	Launched dialogues with the China Securities Regulatory Commission and Japan Financial Services Agency; conducted ongoing dialogues with the European Commission and CESR.
FY 2006	Launched a dialogue with the Korea Financial Supervisory Commission; adopted the joint work plan with CESR focusing on consistent application of IFRS, modernization of disclosure technology, and regulatory platforms for risk management.
FY 2007 Plan	Ongoing.
FY 2007 Actual	Ongoing. Implemented aspects of SEC-CESR workplan relating to consistent application of IFRS.

INITIATIVE:	All IOSCO jurisdictions to be accepted as signatories or to express a commitment to seek legal authority to become signatories to the Multilateral Memorandum of Understanding on Enforcement Cooperation and Information-Sharing
FY 2005	Total of 28 jurisdictions accepted as signatories; agreed on target date of 2010 for 80 more jurisdictions.
FY 2006	Total of 34 jurisdictions accepted as signatories.
FY 2007 Plan	Additional jurisdictions accepted, with progress towards goal of adding 74 more jurisdictions by 2010.
FY 2007 Actual	Total of 41 jurisdictions accepted, with progress towards goal of adding 74 more jurisdictions by 2010.

INITIATIVE:	IOSCO initiative on preservation and repatriation of property in cross-border cases
FY 2005	Analyzed powers available to regulators and other authorities within a jurisdiction to freeze and repatriate assets.
FY 2006	Supported a resolution by IOSCO calling for jurisdictions to examine their legal frameworks and strive to develop mechanisms, including legislative reform, to freeze assets on behalf of a foreign regulator; contributed to guidance for IOSCO members on procedural and substantive issues related to implementation.
FY 2007 Plan	Issue guidance concerning areas that may affect the design and implementation of regulators' and other authorities' mechanisms to freeze assets on behalf of a foreign regulator.
FY 2007 Actual	Continued drafting and refining guidance.

INITIATIVE: IOSCO initiative to strengthen global capital markets against financial fraud

FY 2005	Established a dialogue with regulators in priority jurisdictions to develop a mutual understanding of their willingness and ability to share information.
FY 2006	Ongoing dialogue with regulators in priority jurisdictions; worked on identifying a second group of priority jurisdictions.
FY 2007 Plan	To be determined upon receipt and analysis of commitments from priority jurisdictions; continue work on identifying a second group of priority jurisdictions.
FY 2007 Actual	Completed dialogue with one jurisdiction; conducted ongoing discussions with several others; and identified second group of priority jurisdictions.

INITIATIVE: IOSCO initiative to strengthen global capital markets against financial fraud

FY 2005	Initiated work to identify trends with regard to recent audit failures.
FY 2006	Contributed to reports on global auditor standards and to development of work on audit quality and contingency planning of audit firm failures.
FY 2007 Plan	Contribute to planning a roundtable exploring issues of audit quality from securities regulators' perspective. Contribute to a report on the potential implications of a major auditing firm leaving the market.
FY 2007 Actual	Contributed to a roundtable that explored issues of audit quality from securities regulators' perspective. Contributed to a proposed report on the potential implications of a major auditing firm leaving the market.

INITIATIVE: IOSCO initiative to strengthen global capital markets against financial fraud

FY 2005	Undertook study of issuer internal control requirements in specified jurisdictions.
FY 2006	Contributed to fact-finding report regarding issuer internal control requirements in specified jurisdictions.
FY 2007 Plan	Continue implementation of recommendations contained in the report and consider further work, as appropriate.
FY 2007 Actual	Completed further work, including publishing a summary survey of issuer internal control requirements.

INITIATIVE: IOSCO initiative to strengthen global capital markets against financial fraud

FY 2005	Identified best practices for improving bond market transparency.
FY 2006	Undertook a study of bond market practices and arrived at a preliminary assessment of areas for improvement.
FY 2007 Plan	Contribute to a report on best practices for improving bond market transparency.
FY 2007 Actual	Contributions made, and information assessed by IOSCO members. Determination made that no further changes to the Action Plan are needed; work project completed.

INITIATIVE: IOSCO initiative to strengthen global capital markets against financial fraud

FY 2005	Reviewed the role played by market intermediaries in recent financial scandals.
FY 2006	Completed review of the role played by market intermediaries in recent financial scandals; initiated additional work on the topic of information management in the context of conflict; and contributed to a discussion paper on addressing conflicts of interest.
FY 2007 Plan	Continue work on a discussion paper on addressing conflicts of interest.
FY 2007 Actual	Published consultation report and began seeking public comment.

ANALYSIS OF RESULTS: The Commission and staff took additional steps with foreign counterparts to improve investor protection and strengthen global capital markets. For FY 2007, these included continuing dialogues with the Japan Financial Services Authority, as well as the European Commission and CESR, and implementation of the joint work program with CESR. Work related to the IOSCO action plan to strengthen global capital markets also progressed, including the resolution of studies of bond market transparency, publication of a survey of internal controls, dialogue with securities regulators in priority jurisdictions to raise standards of cross-border cooperation, and work on trends related to audit quality and contingency planning for audit failures. In addition, several new initiatives were undertaken to address other international trends, including cross-border market affiliations and increasing access to U.S. capital markets.

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 Office of Investor Education and Advocacy (OIEA) implements a variety of investor education initiatives, aimed to give investors a better understanding of the operations of the nation's securities markets. The Divisions of Corporation Finance and Investment Management and OIEA are primarily responsible for meeting these objectives.

Program Achievements

Enhancing Disclosure. The Divisions of Corporation Finance and Investment Management exceeded the requirements of the Sarbanes-Oxley Act to review the disclosures of at least 33 percent of all reporting companies and investment company portfolios per year. These disclosure reviews helped deter fraud in public securities transactions and helped provide relevant information about emerging and novel issues to investors.

Proxy Matters. Following three roundtable discussions in May 2007 regarding the proxy process, the Commission proposed rule amendments that would enable shareholders to include in company proxy materials their proposals to amend bylaws for nominating candidates to the board of directors. The Commission also proposed disclosure requirements that would provide shareholders with additional information about the proponents of proxy proposals, as well as any shareholders that nominate a candidate.

In June 2007, the Commission adopted rule amendments to allow all shareholders to choose the means through which they access their proxy materials: either through the Internet or paper copies. The new requirements will be phased in over two years.

Reinvigorating the SEC's Focus on Retail Investors. In FY 2007, the agency announced plans to significantly expand the OIEA's responsibilities and form two new organizational units: the Office of Policy and Investor Outreach and the Office of Investor Education. The Office of Policy and Investor Outreach will focus on assessing the views and needs of retail investors and ensuring that those views inform the Commission's regulatory policies and disclosure programs. The Office of Investor Education will be devoted to improving financial literacy and helping investors make informed investment decisions.

As part of its effort to reach individuals in new, innovative ways, OIEA communicated critical investor education messages through an SEC podcast and a new question and answer column. In total, the SEC's investor education Web pages received approximately 12.8 million hits. With a focus on improving the usefulness of disclosure documents, OIEA also continued to consult with other SEC staff on proposed rulemakings and their possible effects on individual investors.

Performance Measures

TABLE 2.17
PERFORMANCE MEASURE

Number and Percentage of Investor Complaints, Questions, and Requests Completed by the Office of Investor Education and Advocacy within Seven Calendar Days (Target met)

DESCRIPTION: OIEA serves the tens of thousands of investors who contact the SEC each year with investment-related complaints and questions. A substantial portion of the complaints received require input from the entities involved and therefore can take significantly longer than seven calendar days. Nevertheless, the staff aims to close out as many new matters as possible within that timeframe.

	FY03	FY04	FY05	FY06	FY07 PLAN	FY07 ACTUAL
Contacts received	70,574	73,481	76,221	77,274	77,000	77,174
Unique files opened	71,373	73,415	71,737	69,628	70,000	68,439
Unique files closed	n/a	n/a	71,879	69,507	69,000	67,692
Closed within seven calendar days	58,133	60,688	58,443	56,268	56,500	55,487
Percentage	81%	83%	81%	81%	82%	82%

ANALYSIS OF RESULTS: OIEA met its targets for the percentage of investor complaints, questions, and requests completed with seven calendar days in FY 2007.

TABLE 2.18
PERFORMANCE MEASURE

OIEA Publications Distributed by the General Services Administration (GSA) (Target exceeded)

DESCRIPTION: OIEA has developed an extensive collection of free information to help investors understand the basics of investing; the risks and rewards of various products and strategies; the importance of diversification; and ways to obtain information about companies, brokers, and advisers. In addition to posting these materials on the SEC's Web site, OIEA publishes a dozen hard-copy educational brochures. The GSA's Federal Citizen Information Center (FCIC) serves as one of the most important distribution channels for the SEC's most popular English and Spanish publications.

FY02	FY03	FY04	FY05	FY06	FY07 PLAN	FY07 ACTUAL
81,917	89,095	300,530	476,095	300,136	300,000	665,595

ANALYSIS OF RESULTS: OIEA exceeded its target in FY 2007, by continuing to create timely, relevant, and accessible educational materials and working closely with FCIC to distribute hard copies at lower costs. Note: Approximately 160,000 printed publications intended for distribution in FY 2006 were distributed in the beginning of FY 2007.

TABLE 2.19
PERFORMANCE MEASURE

Annual Number of On-Line Searches for EDGAR Filings (Target exceeded)

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 (figures in millions).

FY02	FY03	FY04	FY05	FY06	FY07 PLAN	FY07 ACTUAL
97	142	284	379	531	637	802

ANALYSIS OF RESULTS: The demand for disclosure data through EDGAR continued to increase in FY 2007, as the SEC continued making the system more user-friendly for investors. Improvements to the system through the interactive data, EDGAR ticker, and full-text search initiatives are among the drivers of this increased demand. Note: During FY 2007, the SEC refined its methodology for computing this metric. Therefore, the results for FY 2004 through FY 2006 have been recalculated.

TABLE 2.20
PERFORMANCE MEASURE

Percentage of Reporting Companies and Investment Companies with Disclosures Reviewed by the SEC (Both targets exceeded)

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 can uncover serious violations of the securities laws.

	FY03	FY04	FY05	FY06	FY07 PLAN	FY07 ACTUAL
Corporations	23%	22%	50%	33%	33%	36%
Investment Companies	10%	54%	37%	36%	33%	38%

ANALYSIS OF RESULTS: FY 2007 targets were exceeded for this measure. The Divisions of Corporation Finance and Investment Management were both on track to continue reviewing entities once every three years as required. 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.

TABLE 2.21
PERFORMANCE MEASURE

Percentage of Investment Adviser and Investment Company Transactional Reviews Completed within Timeliness Goals (Target exceeded—two planned performance levels exceeded, one planned performance level met)

DESCRIPTION: For initial registration statements, the SEC's goal is to comment within 30 days after they are filed. (The agency's goal is 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.

	FY03	FY04	FY05	FY06	FY07 PLAN	FY07 ACTUAL
Initial Registration Statements	81%	88%	90%	88%	85%	87%
Post-Effective Amendments	86%	98%	97%	96%	90%	95%
Preliminary Proxy Statements	100%	100%	100%	99%	99%	99%

ANALYSIS OF RESULTS: The SEC met or exceeded all of its FY 2007 goals for timeliness, reviewing 87 percent of initial registration statements, 95 percent of post-effective amendments, and 99 percent of preliminary proxy statements within the agency's targeted timeframes.

TABLE 2.22
PERFORMANCE MEASURE

Average Time to Issue Initial Comments on Securities Act Filings (Target met)

DESCRIPTION: The target of 30 days 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 Commission conducts and the fluctuation in filing volume that impacts workload plans.

FY03	FY04	FY05	FY06	FY07 PLAN	FY07 ACTUAL
27.7 days	27.8 days	26.1 days	26.2 days	<30 days	25.5 days

ANALYSIS OF RESULTS: In FY 2007, the SEC issued initial comments on registration statements under the Securities Act of 1933 and the Securities Exchange Act of 1934 within an average of 25.5 days of filing, significantly less than its target goal of 30 days. In addition, the agency continued to monitor the average duration between the date it receives a company response to SEC's initial comments and final resolution.

TABLE 2.23
PERFORMANCE MEASURE

Percentage of Forms and Submissions Filed Electronically and in a Structured Format (Target not met)

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. The agency is redesigning its form filing capabilities to rely on more structured formats (*e.g.,* information is captured in a comma delimited, XML, XBRL, or other format). This measure 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. In addition, this measure identifies the overall percentage of forms that are in electronic format and the overall percentage of resulting filings that are received electronically by the SEC.

	FY03	FY04	FY05	FY06	FY07 PLAN	FY07 ACTUAL
Forms						
Percentage in a structured format	4%	4%	5%	8%	9%	8%
Percentage in another electronic format	68%	68%	67%	62%	67%	62%
Total percentage in electronic format	72%	72%	72%	70%	76%	70%
Filings Received						
Percentage in a structured format	21%	36%	35%	35%	36%	35%
Percentage in another electronic format	55%	52%	54%	55%	54%	53%
Total percentage in electronic format	76%	88%	89%	90%	90%	88%

ANALYSIS OF RESULTS: Although the SEC added eight new form types, they were in an unstructured electronic format; and other initiatives intended to add forms in other electronic formats were not completed. As a result, the SEC did not achieve its goals for increasing both the percentage of electronic forms and the percentage of forms in a structured format. However, it is expected that the SEC will complete additional electronic forms initiatives in FY 2008.

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 new technologies and human capital, and by enhancing internal controls. The Offices of the Executive Director, Information Technology, Human Resources, Financial Management, and Administrative Services are the primary contributors to these objectives.

Program Achievements

Security/Disaster Recovery. The SEC continued to take significant steps to manage information security risks and resolve specific issues identified by the Government Accountability Office and the Inspector General. Specific areas of improvement included logical and physical access control, data security, and remedial action management. In addition, the SEC began the first phase of a new identity management system, which provides centralized management over access privileges to agency systems.

The SEC also progressed with implementing OMB's directives for the protection of personally identifiable data. The agency implemented new methods to mask sensitive data in its IT environment so that developers and other technical staff are not able to access or compromise the information. The agency continued to emphasize disaster recovery readiness at its regional offices, conducting training exercises at 5 of 11 regional offices. Training will continue in FY 2008.

Financial Management Systems. During the year, the SEC initiated upgrades to a Web-based version of Momentum, a financial management software application. The SEC continued to install an E-Travel Service that will provide for significant improvements and efficiencies for processing travel requests. Implementation of E-Travel will transform the SEC's primarily paper-based process to a paperless electronic process. The agency also initiated the rollout of the Strategic Acquisition Manager system to better manage and control the complex sets of activities involved in federal procurement.

For the first time, the Office of Financial Management used its activity-based costing and performance-based budgeting system, called the Budget and Program Performance Analysis System, to produce the agency's Statement of Net Cost. This system will provide greater detail on the agency's costs by goal and the resources required to make progress towards the agency's goals.

Employee Performance Management. In FY 2007, the SEC developed and began implementing a new performance management program for all staff, which is scheduled to be rolled out to the entire agency by FY 2009. The new program will emphasize the need for clear criteria when evaluating individual performance and determining merit pay increases, and is based on equity and transparency. The new program will comply with the Office of Personnel Management's Performance Appraisal Assessment Tool, make greater distinctions in performance to support the agency's pay-for-performance system, and govern the performance of senior officers as well as all other personnel.

Performance Measures

TABLE 2.24
PERFORMANCE MEASURE

Percentage of IT Projects That Adhere to the SEC's Capital Planning and Investment Control (CPIC) Process (Target exceeded)

DESCRIPTION: The SEC has information technology capital planning committees designed to ensure that IT projects are appropriately evaluated and considered. A corresponding CPIC process is being refined to ensure that IT projects are effectively managed, on time, and within budget. This measure identifies the percentage of IT projects that adhere to the agency's CPIC process.

FY04	FY05	FY06	FY07 PLAN	FY07 ACTUAL
100% of all IT projects	90% of all IT projects	97% of all IT projects	90% of all IT projects	98% of all IT projects

ANALYSIS OF RESULTS: During FY 2007, the SEC exceeded its CPIC compliance goal of 90 percent for this measure; meanwhile, we continue to look for improvement opportunities. During the year, 63 of 103 approved projects (61 percent) complied fully with the SEC's CPIC process and 38 projects (37 percent) received waivers by the CIO from compliance with some portion of the CPIC select phase requirements. All projects are subject to the CPIC control and evaluation phase requirements. The agency expects compliance to improve as its CPIC process evolves and matures.

TABLE 2.25
PERFORMANCE MEASURE

Milestones for Major IT Projects (Target met)

DESCRIPTION: The following chart presents the SEC's major information technology initiatives, as well as the major milestones on those initiatives that were planned and achieved in FY 2007.

	FY05	FY06	FY07 PLAN	FY07 ACTUAL
(EDGAR)/DISCLOSURE				
Modify EDGAR to accommodate interactive data in XBRL format for financial reports	Initiated	In progress	Implement	Implement
Transition EDGAR system management to new contract	Initiated	In progress	Complete	Complete
Enhance SEC.gov to improve EDGAR data searches and accessibility for investors	Initiated	In progress	Implement	Implement
ENFORCEMENT/EXAMINATION ACTIVITIES				
Image backlog of paper-based discovery documents	In progress	In progress	Complete	Complete
Provide fully automated processing of options trade records in support of enforcement investigations	In progress	Complete		
Redesign the enforcement case tracking system to improve management of disgorgement and penalties	Initiated	In progress	Complete	Complete
Upgrade analytical tools available to examiners	Initiated	In progress	Complete	Complete
INTERNAL PRODUCTIVITY				
Implement new systems to support expansion of telework	In progress	Complete		
Implement new procurement and budgeting/performance management systems	Initiated	In progress	Implement	Implement
SECURITY/DISASTER RECOVERY				
Certify and accredit major systems for information security risk	In progress	Complete		
Implement Homeland Security Presidential Directive 12 for personnel identity verification and access control	Initiated	In progress	In progress	In progress
ELECTRONIC GOVERNMENT (E-GOV)/ENTERPRISE ARCHITECTURE AND CAPITAL PLANNING INVESTMENT CONTROL				
Redesign capital planning and project management processes	In progress	Complete		
Institute enterprise architecture (EA) program	In progress	In progress	Implement	Implement
Upgrade core financial management capabilities systems	Initiate	Initiate	In progress	In progress

ANALYSIS OF RESULTS: During FY 2007, the SEC continued to make marked progress in implementing and completing major information technology initiatives in all five major areas. As program effectiveness is enhanced and operational efficiency is improved, the SEC's IT priorities will continue to evolve in the coming years.

TABLE 2.26
PERFORMANCE MEASURE

Receive an Unqualified Audit Opinion on the SEC's Audited Financial Statements with No Material Weaknesses Noted in Internal Controls over Financial Reporting (ICFR) (One target met, one target not met)

DESCRIPTION: Under the Accountability of Tax Dollars Act of 2002, the Commission is required to meet all proprietary accounting guidelines for federal agencies and to undergo annual audits, conducted by the U.S. Government Accountability Office (GAO).

	FY04	FY05	FY06	FY07 PLAN	FY07 ACTUAL
Audit Opinion	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Material Weaknesses in ICFR	3	3	0	0	1

ANALYSIS OF RESULTS: In FY 2007, the SEC received an unqualified audit opinion on its financial statements for the fourth year in a row. GAO identified a material weakness in the SEC's internal controls over its financial reporting process. The SEC will develop and execute a corrective action plan to remedy the control design deficiencies in FY 2008 and continue to evaluate and strengthen controls throughout the year.

TABLE 2.27
PERFORMANCE MEASURE

Staff Turnover Rate (Target not met)

DESCRIPTION: This measure 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 year.

FY02	FY03	FY04	FY05	FY06	FY07 PLAN	FY07 ACTUAL
5.8%	5.9%	6.3%	7.5%	9.1%	<7%	8.6%

ANALYSIS OF RESULTS: The SEC is committed to reducing staff turnover, yet it still encounters the challenges of continuing retirements and competition from the private sector, primarily for accountants and attorneys. However, the agency did lower its turnover rate from FY 2006 levels despite those factors. The SEC will continue to closely monitor turnover and seek to maintain its ranking among the five best places to work in the federal government (according to the Partnership for Public Service and American University).

TABLE 2.28
PERFORMANCE MEASURE

Milestones Achieved on Major Human Capital Initiatives (Target not met)

DESCRIPTION: This chart outlines the SEC's progress in implementing initiatives to support integration of human capital systems and improve human resources policy development and oversight.

	FY05	FY06	FY07 PLAN	FY07 ACTUAL
INTEGRATED HUMAN CAPITAL SYSTEMS				
Competency-based performance management system		Implemented	Implement, Evaluate, & Revise	Implemented
Pay for performance and performance improvement planning	Evaluated & Expanded	Evaluated & Revised	Implement, Evaluate, & Revise	Implemented
Negotiate a new collective bargaining agreement		Negotiated (impasse panel)	Negotiate & Implement	Negotiations complete
SEC University (classroom and online courses)	Expanded	Revised & Expanded	Expand, Evaluate, & Revise	Implemented
Leadership and management development system		Developed	Develop, Implement, & Evaluate	Delayed
Improve OHR human capital readiness		Implemented	Implement & Evaluate	Implemented
Knowledge management framework		Developed	Continue Development	Delayed
Marketing of OHR programs		Developed	Implement & Evaluate	Implemented
Workforce planning system		Developed	Continue Development & Implement	Developed
Human capital measurement model		Developed	Implement	Implemented
National recruitment plan		Developed	Evaluate & Revise	Delayed
HR POLICY DEVELOPMENT AND OVERSIGHT				
Optimize the use of AVUE	Evaluated	Evaluated & Expanded	Expand & Evaluate	Expanded/ Continued Evaluation
Employee Benefits Information System (EBIS)		Implemented	Evaluate	Implemented
Pay and benefits revisions	Evaluated	Evaluated & Expanded	Evaluate & Expand	Evaluated/ Proposed Expansion
Administrative Officers' professional development		Implemented	Continue Implementation & Expand	Implemented
Enterprise telework program	Evaluated	Expanded	Expand & Evaluate	Expanded
Intranet program guidance		Developed	Implement, Evaluate, & Revise	Implemented
Process improvement and quality control system		Developed	Implement & Evaluate	Implemented

ANALYSIS OF RESULTS: In FY 2007, the SEC implemented ten of the above initiatives, meeting or exceeding targets as part of aggressive efforts to meet requirements set by the President's Management Agenda for Strategic Management of Human Capital. Progress on three initiatives was delayed due to limited resources.

Section 3: Financial Section

The following financial statements present the financial position, net cost of operations, changes in net position, budgetary resources, and custodial and fiduciary activities of the SEC's core business activities as required by the Accountability of Tax Dollars Act of 2002.

These financial statements and accompanying notes are prepared in conformity with U.S. generally accepted accounting principles (GAAP) and presented in accordance with the form and content guidelines established by OMB Circular A-136.

Message from the Chief Financial Officer

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

I am delighted to join Chairman Cox in presenting the Commission's FY 2007 Performance and Accountability Report (PAR). The PAR summarizes the agency's annual accomplishments, in addition to providing financial and performance information. I am pleased that the SEC sustained an unqualified audit opinion on the financial statements this year. This performance benchmark validates our efforts to ensure that the financial statements of the agency, and of the funds for which we are stewards, are fairly presented. This achievement is also a testament to the hard work and dedication of SEC staff.

In 2006, the SEC received the Association of Government Accountants' Certificate for Excellence in Accountability Reporting (CEAR) award for our FY 2006 Performance and Accountability Report. The SEC also received an industry-based award for its efforts in automating and integrating the agency's budget and performance processes. Our activity-based costing and performance-based budgeting system was used this year to produce the agency's budget submissions and Statement of Net Cost, and to provide greater detail on the agency's costs by strategic goal.

The SEC is committed to effective and efficient management of its resources. During FY 2007, the SEC took a number of important steps to ensure the integrity of enforcement-related disgorgements and penalties data; held extensive training sessions on internal control issues with process owners; and drafted documentation of key processes, risks and controls.

The agency undertook a comprehensive review of the financial reporting process, and overlaid identified deficiencies with compensating controls. A material weakness in internal control, and system non-conformances were identified. The SEC will develop and execute a corrective action plan to remedy the control design deficiencies in FY 2008 and continue to evaluate and strengthen controls throughout the year. We will also develop a plan to achieve greater integration of budget, performance and financial management systems, addressing the system non-conformances as well as facilitating better performance management and decision making. I look forward to another productive year in FY 2008 to continue the same high level of financial management that resulted in our past successes.

Sincerely,

Kristine M. Chadwick
Chief Financial Officer and
Associate Executive Director, Finance
November 15, 2007

Balance Sheet

As of September 30, 2007 and 2006

(DOLLARS IN THOUSANDS)	FY 2007	FY 2006
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Notes 1.H, 2, 3 and 16)	$5,888,039	$5,178,893
Investments (Notes 1.I, 2, 4 and 16)	3,602,511	3,674,528
Accounts Receivable (Notes 1.J, 2, 5 and 16)	155	154,506
Advances and Prepayments (Note 1.K)	1,198	—
Total Intragovernmental	9,491,903	9,007,927
Accounts Receivable, Net (Notes 1.J and 5)	138,693	177,491
Advances and Prepayments (Note 1.K)	902	974
Property and Equipment, Net (Notes 1.L and 6)	98,280	103,631
Total Assets	$9,729,778	$9,290,023
LIABILITIES		
Intragovernmental:		
Accounts Payable (Notes 1.M and 7)	$ 6,153	$ 14,527
Employee Benefits (Notes 1.N and 7)	2,699	2,687
Unfunded FECA and Unemployment Liability (Notes 1.O and 7)	1,109	992
Total Intragovernmental	9,961	18,206
Accounts Payable (Notes 1.M and 7)	43,096	47,608
Accrued Payroll and Benefits (Notes 1.M and 7)	18,176	18,149
Accrued Leave (Notes 1.P and 7)	35,296	32,974
Registrant Deposits (Notes 1.Q, 2 and 7)	61,689	57,464
Actuarial FECA Liability (Notes 1.O, 7 and 8)	5,080	4,813
Fiduciary Liability (Notes 1.T, 2, 7 and 16)	3,615,760	3,834,662
Custodial Liability (Notes 1.S, 2, 7 and 15)	63,614	71,545
Other Accrued Liabilities (Notes 7 and 9)	23,338	42,480
Total Liabilities	$3,876,010	$4,127,901
Commitments and Contingencies (Notes 7 and 11)		
NET POSITION		
Unexpended Appropriations—Other Funds	—	9,201
Cumulative Results of Operations—Other Funds	5,853,768	5,152,921
Total Net Position	$5,853,768	$5,162,122
Total Liabilities and Net Position	$9,729,778	$9,290,023

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

Statement of Net Cost

For the fiscal years ended September 30, 2007 and 2006

(DOLLARS IN THOUSANDS)	FY 2007	FY 2006
COSTS BY STRATEGIC GOAL AND OBJECTIVE (Notes 1.B and 12)		
Enforce compliance with federal securities laws		
Total Gross Cost	$ 529,454	$ 579,076
Promote healthy capital markets through an effective and flexible regulatory environment		
Total Gross Cost	79,704	77,263
Foster informed investment decision making		
Total Gross Cost	135,917	135,856
Maximize the use of SEC resources		
Total Gross Cost	97,466	96,728
Total Entity		
Total Gross Program Cost	842,541	888,923
Less: Earned Revenue Not Attributed to Programs (Note 13)	1,507,750	1,882,619
Net (Income) from Operations (Note 17)	$ (665,209)	$ (993,696)

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

Statement of Changes in Net Position

For the years ended September 30, 2007 and 2006

(DOLLARS IN THOUSANDS)	FY 2007	FY 2006
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balance	$5,152,921	$4,133,526
Budgetary Financing Sources:		
Appropriations Used	9,201	—
Appropriations Not Available	—	(1,151)
Other Financing Sources:		
Imputed Financing (Note 10)	26,437	26,850
Total Financing Sources	35,638	25,699
Net Income from Operations—Other Funds	665,209	993,696
Net Change—Other Funds	700,847	1,019,395
Cumulative Results of Operations	5,853,768	5,152,921
UNEXPENDED APPROPRIATIONS		
Beginning Balance	9,201	9,791
Budgetary Financing Sources:		
Unexpended Appropriations—Used	(9,201)	—
Appropriations Not Available	—	(590)
Total Unexpended Appropriations	—	9,201
Net Position, End of Period—Other Funds	$5,853,768	$5,162,122

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

Statement of Budgetary Resources

For the years ended September 30, 2007 and 2006

(DOLLARS IN THOUSANDS)	FY 2007	FY 2006
BUDGETARY RESOURCES		
Unobligated Balance, Brought Forward, October 1	$ 4,878,061	$ 3,840,573
Change in Accounting Principle (Note 1.C)	(4,691,392)	—
Unobligated Balance, Brought Forward, October 1, Revised (Note 1.C)	186,669	3,840,573
Recoveries of Prior Year Unpaid Obligations	23,030	32,410
Budget Authority:		
Spending Authority from Offsetting Collections:		
Earned		
Collected	1,538,749	1,903,648
Change in Receivables from Federal Sources	(131)	(63)
Change in Unfilled Customer Orders without Advance Received	(663)	663
Subtotal	1,537,955	1,904,248
Temporarily Not Available Pursuant to Public Law	(781,047)	—
Permanently Not Available	—	(1,740)
Total Budgetary Resources	$ 966,607	$ 5,775,491
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct (Note 14)	$ 876,274	$ 896,911
Reimbursable (Note 14)	321	519
Unobligated Balance Available:		
Realized and Apportioned for Current Period	6,068	14,978
Unobligated Balance Not Available	83,944	4,863,083
Total Status of Budgetary Resources	$ 966,607	$ 5,775,491
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1	$ 230,102	$ 235,702
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(794)	(194)
Total Unpaid Obligated Balance, Net	229,308	235,508
Obligations Incurred, Net	876,595	897,430
Less: Gross Outlays	(829,006)	(870,620)
Less: Recoveries of Prior Year Unpaid, Obligations, Actual	(23,030)	(32,410)
Change in Uncollected Customer Payments from Federal Sources	793	(600)
Obligated Balance, Net, End of Period		
Unpaid Obligations	254,660	230,102
Less: Uncollected Customer Payments from Federal Sources	—	(794)
Total Unpaid Obligated Balance, Net, End of Period (Note 11)	$ 254,660	$ 229,308
NET OUTLAYS		
Net Outlays:		
Gross Outlays	$ 829,006	$ 870,620
Offsetting Collections	(1,538,749)	(1,903,648)
Distributed Offsetting Receipts	(1,105)	51,294
Net Outlays/(Net Collections)	$ (710,848)	$ (981,734)

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

Statement of Custodial Activity

For the years ended September 30, 2007 and 2006

(DOLLARS IN THOUSANDS)	FY 2007	FY 2006
REVENUE ACTIVITY		
Sources of Cash Collections:		
Disgorgement and Penalties	$496,386	$1,804,043
Other	138	90
Net Collections	496,524	1,804,133
Accrual Adjustments	(7,931)	(23,967)
Total Custodial Revenue (Notes 1S, 15 and 16)	$488,593	$1,780,166
DISPOSITION OF COLLECTIONS		
Amounts Transferred to:		
Department of the Treasury	$176,761	$ 122,030
Other	319,763	1,682,103
Net Disbursements	496,524	1,804,133
Change in Liability Accounts	(7,931)	(23,967)
Total Disposition of Collections (Notes 1S, 15 and 16)	$488,593	$1,780,166
NET CUSTODIAL ACTIVITY	$ —	$ —

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

NOTE 1. Summary of Significant Accounting Policies

A. Reporting Entity

The United States Securities and Exchange Commission (SEC) is an independent agency of the United States established pursuant to the Securities Exchange Act of 1934. The SEC's mission is to protect investors; maintain fair, orderly, and efficient securities markets; and facilitate capital formation. The SEC works with the Congress, other Executive Branch departments and agencies, self-regulatory organizations (SROs) (e.g., stock exchanges and the Financial Industry Regulatory Authority (FINRA)), the Public Company Accounting Oversight Board (PCAOB), state securities regulators, and many other organizations in support of the agency's mission.

These financial statements report on the SEC's four strategic goals as performed by six major program areas: Compliance Inspections and Examinations; Corporation Finance; Enforcement; Investment Management; Market Regulation; and Other Offices. These programs promote the public interest by, among other activities: promoting compliance through inspections and examinations of regulated entities; facilitating capital formation through full disclosure; enforcing the federal securities laws; regulating investment companies and investment advisors; 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 and fiduciary 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 Office of Management and Budget (OMB) directives for the purpose of monitoring and controlling the use of SEC budgetary resources. The SEC's books and records serve as the source of the information presented in the accompanying financial statements. Assets, liabilities, revenues, and costs have been classified in these financial statements according to the type of entity associated with the transactions. Intragovernmental assets and liabilities are those from or to other federal entities. Intragovernmental earned revenues are collections or accruals of revenue from other federal entities, and intragovernmental costs are payments or accruals to other federal entities.

The financial statements and accompanying notes are prepared in conformity with U.S. generally accepted accounting principles (GAAP) and presented in accordance with the form and content guidelines established by OMB in Circular A-136, *Financial Reporting Requirements*. Certain information, including the Statement of Net Cost (SNC) and *Note 4. Investments*, is presented differently than the SEC's FY 2006 Performance and Accountability Report to conform with reporting requirements in OMB A-136. The format used to present the SNC has changed to better align costs by major program as prescribed by OMB A-136. The new format presents strategic goals that align directly with the major goal(s) and output(s) described in the SEC's strategic and performance budgets required by Government Performance Results Act (GPRA).

Effective for FY 2007, the Statement of Financing (SOF) is presented as a note per OMB's authority under SFFAS No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, and will no longer be considered a Basic Statement. The Statement of Financing will now be displayed in Note 17 and referred to as "Reconciliation of Net Cost of Operations (proprietary) to Budget." The FY 2006 Statement of Financing is also shown in this note.

Transactions are recorded on the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

C. Change in Accounting Principle

The SEC changed its method of accounting for user fees collected in excess of current-year appropriations. This change is reflected in external reports resulting in a change in the Unobligated Balance, Brought Forward in the Statement of Budgetary Resources (SBR).

Starting in FY 2007, the current year offsetting collections that are not available for immediate obligation, but may be available for future use, will be reflected as Temporarily Not Available Pursuant to Public Law. An adjustment was made to the Unobligated Balance, Brought Forward from October 1 to reflect the cumulative effect on the historical offsetting collections. The offset to this adjustment is reflected in the Unobligated Balance Not Available line item.

D. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 will invariably differ from those estimates.

E. 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 Financial Accounting Standards Board (FASB); the Securities Investor Protection Corporation (SIPC) (See *Note 11. Commitments and Contingencies*); and the PCAOB; however, these entities are not subject to consolidation.

F. Fund Accounting Structure

The SEC's financial activities are accounted for by Treasury Account Fund symbol, summarized as follows:

- ***General Fund*** (X0100) includes the appropriated general funds used to carry out the SEC's missions and functions and revenues collected by the SEC in excess of appropriated funds for FY 2005 through 2007 (See *Note 3. Fund Balance with Treasury*).
- ***Salaries and Expenses*** (0100) includes the appropriated general funds used to carry out the SEC's missions and functions for FY 2002 through 2004.
- ***Deposit and Suspense Funds*** (X6563, 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 SEC custodial and fiduciary activities that cannot be deposited into funds under SEC control. These include amounts received pursuant to enforcement cases that are to be sent to the Treasury.

The SEC does not have lending or borrowing authority, except as discussed in *Note 11. Commitments and Contingencies*. The SEC has custodial and fiduciary responsibilities, as described in *Note 15. Custodial Revenues and Liabilities* and *Note 16. Fiduciary Assets and Liabilities.*

G. Entity/Non-Entity Assets

Assets that an agency is authorized to use in its operations are entity assets. Assets that are held by the SEC 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) fiduciary assets, representing disgorgement, penalties, and interest collected and held or invested by the SEC pending distribution to harmed investors; (ii) custodial accounts receivable in respect of disgorgement, penalties, and interest owed by securities law violators; and (iii) registrant deposits, representing excess filing fees remitted by registrants.

H. Fund Balance with Treasury

Fund Balance with Treasury includes certain funds held on behalf of third parties. These include registrant deposits, representing excess filing fees remitted by registrants, and uninvested fiduciary assets, representing disgorgement, penalties, and interest held by the SEC pending distribution to harmed investors.

All SEC banking activity is conducted in accordance with directives issued by the Treasury, Financial Management Service (FMS). All revenue and receipts are deposited in commercial bank accounts maintained by the FMS or wired directly to a Federal Reserve Bank. The Treasury processes all disbursements made by the SEC. All monies maintained in commercial bank accounts are transferred to the Federal Reserve Bank on the next business day following the day of deposit.

I. Investments

The SEC invests fiduciary assets in short-term Treasury securities, whenever practicable. Once these funds are collected, they are generally transferred to the SEC's deposit fund account and invested in short-term market-based Treasury bills through a facility provided by the Treasury, Bureau of the Public Debt (BPD), pending their distribution to investors. Interest earned is added to the funds available for distribution to investors.

J. Accounts Receivable and Allowance for Uncollectible Accounts

Both entity and non-entity accounts receivable consist of amounts due primarily from the public. Entity accounts receivable are amounts that will be retained by the SEC 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 SEC employee travel, (v) requests pertaining to Freedom of Information Act (FOIA), and (vi) employee-related debt. Entity accounts receivable represent a small portion 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 only fees payable by the SROs to the SEC for activity during the month of September.

Non-entity accounts receivable are amounts that will not be retained by the SEC upon collection. These mainly include disgorgement, penalties, and interest assessments. These accounts receivable are recognized when the SEC is designated in an order of the Commission or a court to collect the assessed disgorgement, penalties, and interest. SEC maintains a custodial responsibility over these non-entity accounts receivable. When collected, these funds are either transferred to the Treasury, or they are held for future distribution to harmed investors.

The SEC is also party to orders directing the court or a receiver to collect the disgorgement, penalties, and interest assessed against violators of federal securities laws. 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 future orders issued by the presiding court that could result in the SEC recognizing a receivable at a later date. The SEC's policy is to record a receivable in those cases at the point in time when the debtor is required, as a result of a court order or other legally binding instrument, to remit funds to the SEC.

The allowance for uncollectible amounts and the related provision for estimated losses for disgorgement and penalties and FOIA accounts receivable is based on an analysis of the collectibility of individual account balances for the largest debts and on historical collection data to determine on a percentage basis the value of gross accounts receivable that are likely to be collected by the SEC. This percentage is applied to the remaining disgorgement and penalties and FOIA accounts receivable to reflect the balances at their estimated net realizable value. The allowance for uncollectible amounts and the related provision for estimated losses for filing fees and other accounts receivable is based on historical collection data to determine on a percentage basis the value of gross accounts receivable that are likely to be collected by the SEC; and no allowance for uncollectible amounts and the related provision for estimated losses has been established for Due for Reimbursable Agreements and Exchange Fees, as these gross accounts receivable are deemed to represent their net realizable value. In addition, the SEC does not recognize interest as accounts receivable, unless a court or administrative order specifies the amount of pre-judgment interest.

K. Advances and Prepayments

The SEC may prepay amounts in anticipation of receiving future benefits; the benefits include training and supplemental health benefits for SEC employees. These payments are expensed when the goods have been received or services have been performed. The SEC may also advance funds to its personnel for travel costs, and these amounts are expensed when the travel takes place.

L. Property and Equipment, Net

The SEC's property and equipment consists of software and 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. Property and equipment purchases and additions are stated at cost. Property and equipment acquisitions that do not meet the capitalization criteria, normal repairs, and maintenance are charged to expense as received or incurred by the SEC.

Property and equipment are depreciated over their estimated useful lives using the straight-line method of depreciation. Property and equipment are removed from the SEC's asset accounts in the period of disposal, retirement, or removal from service. Any difference between the book value of the property and equipment and amounts realized is recognized as a gain or loss in the same period that the asset is removed.

M. Liabilities

The SEC records liabilities for amounts that are likely to be paid as the result of events that have occurred as of September 30, 2007 and 2006. The SEC's liabilities consist of routine operating accounts payable, accrued payroll and benefits, registrant deposit accounts, and fiduciary and custodial liabilities associated with monetary sanctions imposed on violators of securities laws.

Fiduciary and custodial liabilities represent the largest portion of the SEC's liabilities. Custodial liabilities arise in respect of accounts receivable for disgorgement, penalties, and interest assessed against securities law violators. The SEC records a custodial liability for the net amount of such receivables, after taking into account the estimated allowance for doubtful accounts. When the SEC collects this revenue, it is either transferred to the Treasury or it is held by the SEC in a fiduciary capacity on behalf of harmed investors to whom the SEC intends to return the funds. Fiduciary liabilities arise when the SEC collects disgorgement, penalties, and interest from securities law violators which will be returned to harmed investors. When collected, fiduciary receipts are held in Fund Balance with Treasury or invested in Treasury securities pending distribution to harmed investors, and an equal and offsetting fiduciary liability for assets held by the SEC at the Treasury is reported 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 cash and amounts held in Fund Balance with Treasury that do not require the use of a budgetary resource. Realized budgetary resources include obligated balances that fund existing liabilities and unobligated balances at September 30, 2007 and 2006. Unrealized budgetary resources represent fee collections in excess of amounts appropriated for current fiscal year spending. These resources are used to cover liabilities when appropriation language makes these unrealized budgetary resources available in the fiscal year without further Congressional action.

N. Employee Retirement Systems and Benefits

SEC employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), depending on when they were hired by the federal government. The FERS was established by enactment of Public Law 99-335. Pursuant to this law, the 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 placed in the CSRS offset retirement system or may elect to join the FERS.

The SEC's financial statements do not report CSRS or FERS assets or accumulated plan benefits that may be applicable to its employees as they are reported by the U.S. Office of Personnel Management (OPM). While 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 the 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, 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. For the fiscal year ended September 30, 2006, the SEC made contributions based on OPM cost factors equivalent to approximately 6.78 percent and 10.91 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 the FERS, a thrift savings plan is automatically established, and the SEC makes a mandatory 1 percent contribution to this plan. In addition, the SEC makes matching contributions ranging from 1 to 4 percent for FERS-eligible employees who contribute to their thrift savings plans. FERS participating employees are also covered under the Federal Insurance Contributions Act (FICA), for which the SEC contributes a matching amount to the Social Security Administration. No matching contributions are made to the thrift savings plans for employees participating in the CSRS.

O. Injury and Post-employment Compensation

Claims brought by SEC employees for on-the-job injuries are addressed under the Federal Employees' Compensation Act (FECA) administered by the United States Department of Labor (DOL). 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, SEC employees who are terminated 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.

P. Annual, Sick, and Other Leave

Annual leave and compensatory time are accrued as earned and the accrual is reduced when leave is taken. Each fiscal quarter an adjustment is made so that the balances in the accrued leave accounts reflect current leave balances and pay rates. No portion of this liability has been obligated. Funding will be obtained from future financing sources to the extent current or prior year funding is not available to pay for leave earned but not taken. Sick leave and other types of non-vested leave are expensed as used.

Q. Revenue and Other Financing Sources

The SEC's revenue and financing sources include exchange revenues, which are generated from arm's length transactions, and non-exchange revenues, which arise from the government's ability to demand payment. The SEC's exchange revenues consist of mainly fees collected from SROs and registrants. The SEC's non-exchange revenue consists of amounts collected in enforcement proceedings from violators of securities laws.

The SEC's funding is through primarily the collection of securities transaction fees from SROs, and securities registration, tender offer, merger, and other fees from registrants. The SEC's fee rates are established by law and are applied to volumes of activity reported by SROs or to filings submitted by registrants. When received, these fees are recorded 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. All amounts remitted by registrants in excess of the fees for specific filings are recorded as liabilities in deposit accounts until earned by the SEC from registrant filings or returned to the registrant pursuant to SEC policy, which calls for the return of registrant deposits when an account is dormant for six months.

The SEC also recognizes revenue from enforcement proceedings that result in the assessment of disgorgement, penalties, and interest against violators of federal securities laws. This activity is recognized as non-exchange revenue and presented on the Statement of Custodial Activity. When the SEC collects this revenue, it is either transferred to the Treasury or it is held by the SEC in a fiduciary capacity on behalf of harmed investors to whom the SEC intends to return the funds. An equal and offsetting liability for the fiduciary assets held by the SEC is reported on the Balance Sheet. The SEC does not record fiduciary assessments collected and held by another government entity, such as a court registry, or a non-government entity, such as a receiver.

R. Budgets and Budgetary Accounting

The SEC is subject to certain restrictions on its use of statutory fees. All fee revenues are deposited in a designated account at the U.S. Department of the Treasury (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.

Fees other than the restricted excess fees can be used for SEC operations subject to an annual Congressional limitation of $867.5 million and $888.7 million for the budget FYs 2007 and 2006, respectively. Funds appropriated but not used in a given fiscal year are maintained in a designated account for use in future periods, as appropriated by the Congress.

Each fiscal year, the SEC receives its appropriation through 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.

S. Custodial Activities

The Statement of Custodial Activity presents the sources and disposition of SEC custodial activity that consists of primarily disgorgement, penalties, and interest assessed against violators of securities laws. When collected, the funds are either returned to the Treasury or held for future distribution to harmed investors as discussed in *Note 1. J. Accounts Receivable and Allowance for Uncollectible Accounts.*

T. Fiduciary Activities

Fiduciary activities represent the receipt, management, accounting, and disposition by the SEC of cash or other assets in which harmed investors will ultimately have an ownership interest, pursuant to an approved distribution plan and disbursement order, that the SEC must uphold. The SEC also recognizes an equal and offsetting liability for these assets. See *Note 1.M. Liabilities.*

The SEC's fiduciary assets consist of disgorgement, penalties, and interest assessed against securities laws violators where the Commission, and administrative law judge, or, in some cases, a court has determined that the SEC should return such funds to harmed investors. The funds are held as fiduciary assets by the SEC pending distribution to harmed investors pursuant to an approved distribution plan. The SEC does not record fiduciary asset amounts collected and held by another government entity, such as a court, or a non-governmental entity, such as a receiver.

NOTE 2. Non-Entity Assets

SEC non-entity assets consist entirely of public assets. At September 30, non-entity assets consisted of the following:

(DOLLARS IN THOUSANDS)	FY 2007	FY 2006
Public:		
Registrant Deposits (Fund Balance with Treasury)	$ 61,689	$ 57,464
Fiduciary Assets (Fund Balance with Treasury, Investments, and Accounts Receivable)	3,615,760	3,834,662
Custodial Assets (Accounts Receivable)	63,614	71,545
Securities Transaction Fee Refund (Fund Balance with Treasury)	—	8,901
Total Non-Entity Assets	$3,741,063	$3,972,572

NOTE 3. Fund Balance with Treasury

Fund balances with Treasury, by type of fund, as of September 30, are as follows:

(DOLLARS IN THOUSANDS)	FY 2007	FY 2006
Fund Balance:		
General Funds	$ 5,817,111	$ 5,107,369
Other Funds	70,928	71,524
Total Fund Balance with Treasury	$5,888,039	$5,178,893
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	6,068	14,978
Unavailable	83,944	4,863,083
Obligated Balance not yet Disbursed	254,660	229,308
Non-Budgetary Fund Balance with Treasury	5,543,367	71,524
Total Fund Balance with Treasury	$5,888,039	$5,178,893

Starting in FY 2007 the SEC changed its method of accounting for the user fees collected in excess of the current year appropriations. This change in accounting principle resulted in a change in the Status of Fund Balance with Treasury in the FY 2006 Unavailable amount to be recorded as a Non-Budgetary Fund Balance with Treasury transaction in the current year. Refer to *Note 1.C. Change in Accounting Principle* and *Note 1.R. Budgets and Budgetary Accounting.*

NOTE 4. Investments

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

(DOLLARS IN THOUSANDS)	COST	AMORTIZATION METHOD	AMORTIZED (PREMIUM) DISCOUNT	INVESTMENT NET	MARKET VALUE DISCLOSURE
Non-Marketable Market Based Securities	$3,588,309	S/L	$14,202	$3,602,511	$3,605,239

At September 30, 2006, investments consist of the following:

(DOLLARS IN THOUSANDS)	COST	AMORTIZATION METHOD	AMORTIZED (PREMIUM) DISCOUNT	INVESTMENT NET	MARKET VALUE DISCLOSURE
Non-Marketable Market Based Securities	$3,652,749	S/L	$21,779	$3,674,528	$3,676,439

The SEC invests these funds in Overnight and Short-Term Market-Based Treasury Bills. Interest earned on investments of qualified settlement funds is subject to income tax under Section 468B(b) of the Internal Revenue Code.

Treasury Bills are securities traded in the primary and secondary U.S. Treasury market. Originally, Treasury Bills are auctioned directly by the U.S. government in the primary U.S. Treasury market and are subsequently traded among investors in the secondary U.S. Treasury market. In accordance with GAAP, SEC records the value of its investments in U.S. 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.

NOTE 5. Accounts Receivable, Net

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

(DOLLARS IN THOUSANDS)	GROSS RECEIVABLES	ALLOWANCE	NET RECEIVABLES
Non-Entity Intragovernmental Assets:			
Interest on Investments	$ 155	$ —	$ 155
Subtotal Intragovernmental Assets	155	—	155
Entity Non-Intragovernmental Assets:			
Exchange Fees	74,422	—	74,422
Filing Fees	355	11	344
Other	318	5	313
Non-Entity Assets:			
Disgorgement and Penalties	329,584	265,974	63,610
FOIA	6	2	4
Subtotal Non-Intragovernmental Assets	404,685	265,992	138,693
Total	$404,840	$265,992	$138,848

At September 30, 2006, accounts receivable consisted of the following:

(DOLLARS IN THOUSANDS)	GROSS RECEIVABLES	ALLOWANCE	NET RECEIVABLES
Entity Intragovernmental Assets:			
Due for Reimbursable Agreements	$ 131	$ —	$ 131
Non-Entity Intragovernmental Assets:			
Disgorgement and Penalties	154,375	—	154,375
Subtotal Intragovernmental Assets	154,506	—	154,506
Entity Non-Intragovernmental Assets:			
Exchange Fees	105,416	—	105,416
Filing Fees	232	5	227
Other	305	2	303
Non-Entity Assets			
Fines and Penalties	247,631	176,086	71,545
Subtotal Non-Intragovernmental Assets	353,584	176,093	177,491
Total	$508,090	$176,093	$331,997

The SEC writes off debts that are two or more years old by removing the amount of the debts from the gross accounts receivable and any related allowance for doubtful accounts. Refer to *Note 1.J. Accounts Receivable and Allowance for Uncollectible Accounts* for methods used to estimate allowances.

NOTE 6. Property and Equipment, Net

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 VALUE	ACCUMULATED DEPRECIATION/ AMORTIZATION	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

At September 30, 2006, 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 VALUE	ACCUMULATED DEPRECIATION/ AMORTIZATION	BOOK VALUE
Furniture	S/L	$ 15	$ 50	5	$ 8,569	$ 2,165	$ 6,404
Equipment	S/L	$ 15	$500	3	37,155	25,788	11,367
Software	S/L	$300	$300	3–5	58,828	36,032	22,796
Leasehold Improvements	S/L	$300	N/A	10	69,104	6,040	63,064
Total					$173,656	$ 70,025	$103,631

NOTE 7. Liabilities Not Covered by Budgetary Resources

At September 30, liabilities consisted of the following:

(DOLLARS IN THOUSANDS)	FY 2007	FY 2006
Liabilities Not Covered by Budgetary Resources		
Intragovernmental		
Unfunded FECA and Unemployment Liability	$ 1,109	$ 992
Total Intragovernmental Liabilities	1,109	992
Other Accrued Liabilities—Recognition of Lease Liability	16,865	27,641
Accrued Leave	35,296	32,974
Actuarial FECA Liability	5,080	4,813
Total Liabilities Not Covered by Budgetary Resources	58,350	66,420
Liabilities Not Requiring Budgetary Resources		
Registrant Deposits	61,689	57,464
Custodial Liability	63,614	71,545
Fiduciary Liability	3,615,760	3,834,662
Total Liabilities Not Requiring Budgetary Resources	3,741,063	3,963,671
Liabilities Covered by Budgetary Resources		
Intragovernmental		
Accounts Payable	6,153	14,527
Employee Benefits	2,699	2,687
Total Intragovernmental Liabilities	8,852	17,214
Accounts Payable	43,096	47,608
Accrued Payroll and Benefits	18,176	18,149
Other	6,473	14,839
Total Liabilities Covered by Budgetary Resources	76,597	97,810
Total Liabilities	$3,876,010	$4,127,901

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 fiduciary assets held by the SEC on behalf of harmed investors.

NOTE 8. Actuarial FECA Liability

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

The SEC's estimate is based on the DOL's model for estimating the FECA actuarial liability for federal agencies not specified in 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 as follows:

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 2006, the LBP ratios were as follows:

LBP CATEGORY	MEDICAL	COMPENSATION
Highest	9.70%	12.80%
Overall Average	8.00%	11.90%
Lowest	7.10%	11.40%

For FY 2007 and 2006, the SEC used the overall average LBP ratios to calculate the $5.1 million and $4.8 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, 2007, the SEC leased office space at 18 locations under operating lease agreements that expire between 2008 and 2021. The SEC paid $85,497 thousand and $80,958 thousand for rent for FY 2007 and 2006, respectively. Under existing commitments, the minimum lease payments through FY 2012 and thereafter are as follows:

FISCAL YEAR *(DOLLARS IN THOUSANDS)*	MINIMUM LEASE PAYMENTS
2008	$ 80,848
2009	78,566
2010	76,692
2011	76,595
2012	67,723
2013 and thereafter	403,683
Total Future Minimum Lease Payments	$784,107

The total future minimum lease payments summarized above include a liability the SEC has recognized for office space leased in Washington, D.C. and New York. During FY 2006, the SEC moved into new office space and vacated old office space in Washington, D.C. While the SEC is marketing the old office space for potential tenants, the SEC is responsible for the remaining $1,909 thousand of lease payments that end in FY 2008.

FISCAL YEAR *(DOLLARS IN THOUSANDS)*	REQUIRED LEASE PAYMENTS		
	NEW YORK	WASHINGTON, D.C.	TOTAL
2008	$ 2,722	$1,909	$ 4,631
2009	2,722	—	2,722
2010	2,722	—	2,722
2011	2,469	—	2,469
2012	1,192	—	1,192
Total Future Estimated Lease Payments	$11,827	$1,909	$13,736

During FY 2005, the SEC also entered into a lease agreement for new office space in New York. With respect to its prior New York office space, the SEC and U.S. General Services Administration (GSA) entered into separate agreements with the lessor. The GSA has agreed to rent the office space from the lessor for the next five years of the SEC's lease. At that time, the 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 the GSA with the lessor. As of FY 2007, the SEC is responsible for the remaining $11,827 thousand of lease payments that end in FY 2012.

In FY 2006, the SEC recorded an additional six months of rent expense totaling approximately $4.4 million and recorded a reduction to the liability for six months totaling $0.3 million. In FY 2007, the SEC recorded a reduction to the liability totaling $10.7 million. For FY 2007 and 2006, the SEC recognized an unfunded liability of $16.9 million and $27.6 million, respectively to cover the three lease obligations (See *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, 2007 and 2006, the components of the imputed financing sources and corresponding expenses were as follows:

PENSION/ORB CATEGORY *(DOLLARS IN THOUSANDS)*	FY 2007	FY 2006
CSRS	$ 6,113	$ 6,956
FERS	1,386	1,269
FEHB	18,838	18,525
FEGLI	89	93
Other	11	7
Total Pension/ORB	$26,437	$26,850

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. The SIPA authorizes the SIPC to create a fund to maintain all moneys received and disbursed by the SIPC. The 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 the SIPA. If necessary, these funds would be made available to the SEC through the purchase by the 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, 2007, 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 yet received. For FY 2007, net obligations for all of SEC's activities were $254,660 thousand and of this amount $80,731 thousand were delivered and unpaid. For FY 2006, net obligations for all of SEC's activities were $229,308 thousand and of this amount $89,507 thousand were delivered and unpaid.

B. Contingencies

Contingent liabilities are recognized 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 by or 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, 2007, SEC management does not owe for claims.

NOTE 12. Intragovernmental Costs and Exchange Revenue

All costs incurred during FY 2007 and 2006 were assigned to specific goals, but exchange revenue is not directly assignable to a specific goal, and is presented in total. Total intragovernmental and public costs at September 30, are summarized below.

PROGRAM GOALS (DOLLARS IN THOUSANDS)	FY 2007	FY 2006
Enforce compliance with federal securities laws		
Intragovernmental costs	$ 82,118	$ 95,152
Public costs	447,336	483,924
Subtotal—Enforce compliance with federal securities laws	529,454	579,076
Promote healthy capital markets through an effective and flexible regulatory environment		
Intragovernmental costs	12,362	12,695
Public costs	67,342	64,568
Subtotal—Promote healthy capital markets through an effective and flexible regulatory environment	79,704	77,263
Foster informed investment decision making		
Intragovernmental costs	21,081	22,323
Public costs	114,836	113,533
Subtotal—Foster informed investment decision making	135,917	135,856
Maximize the use of SEC resources		
Intragovernmental costs	15,117	15,894
Public costs	82,349	80,834
Subtotal—Maximize the use of SEC resources	97,466	96,728
Total Entity		
Intragovernmental Costs	130,678	146,064
Public Costs	711,863	742,859
Total Costs	$ 842,541	$ 888,923
Less: Exchange Revenues	1,507,750	1,882,619
Net (Income) from Operations	$(665,209)	$(993,696)

NOTE 13. Exchange Revenues

For FY 2007 and 2006, exchange revenues consisted of the following:

(DOLLARS IN THOUSANDS)	FY 2007	FY 2006
Securities Transactions Fees	$1,249,019	$1,382,805
Securities Registration, Tender Offer, and Merger Fees	258,490	499,236
Other	241	578
Total Exchange Revenues	$1,507,750	$1,882,619

NOTE 14. Status of Budgetary Resources

A. Apportionment Categories of Obligations Incurred

The distinction between Category A and B funds is that Category A funds are subject to quarterly apportionment by the OMB, while Category B funds are available for use by the agency without being subject to quarterly apportionment. For FY 2007 and 2006, obligations incurred as reported on the Statement of Budgetary Resources consisted of the following:

OBLIGATIONS INCURRED (DOLLARS IN THOUSANDS)	FY 2007	FY 2006
Direct Obligations		
Category A	$876,274	$896,911
Total Direct Obligations	876,274	896,911
Reimbursable Obligations		
Category B	321	519
Total Reimbursable Obligations	321	519
Total Obligations Incurred	$876,595	$897,430

In addition, the amounts of budgetary resources obligated for undelivered orders include $173,929 thousand and $140,595 thousand as of September 30, 2007 and 2006, respectively.

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

A comparison between the Statements of Budgetary Resources and the actual FY 2007 data in the President's Budget cannot be performed as the FY 2009 President's Budget is not yet available; the comparison will be presented in next year's financial statements. A comparison between the FY 2006 Statement of Budgetary Resources and the FY 2006 data in the President's Budget is as follows:

(DOLLARS IN MILLIONS)	TOTAL BUDGETARY RESOURCES/STATUS OF BUDGETARY RESOURCES	TOTAL NEW OBLIGATIONS	TEMPORARILY NOT AVAILABLE PURSUANT TO PUBLIC LAW	UNOBLIGATED BALANCE—END OF YEAR	OBLIGATIONS INCURRED	NET OUTLAYS
SBR	$5,775	$897	$ —	$4,878	$897	$ (982)
Reconciling Items	4,861	19	1,041	4,842	19	51
Budget of the U.S. Government	$ 914	$878	$(1,041)	$ 36	$878	$(1,033)

In the past, the SEC recorded excess collections as unapportioned authority. This amount is presented on the SBR as *Unobligated Balance, Brought Forward, October 1* and as *Unobligated Balance Not Available.* This SBR presentation differs from the treatment of these balances on the Program and Financing (P&F) Statement included in the Budget of the United States, in that this amount is presented in a memorandum account on the P&F rather than as a component of agency resources.

Under a change in accounting methodology made in the third quarter, SEC will reflect the current years' excess offsetting collections as *Temporarily Not Available Pursuant to Public Law.* Accordingly, the SBR, *Unobligated Balance, Brought Forward, October 1* will appear net of excess collections resolving the reconciling items. To effect this change, an adjustment in the amount of $4,691 million was made decreasing both *Unobligated Balance, Brought Forward, October 1* and *Unobligated Balance Not Available.*

The SBR reports all obligations incurred while the President's Budget excludes expired accounts that are no longer available for new obligations. The net outlays do not agree, due to the fact that the P&F does not include Distributed Offsetting Receipts.

NOTE 15. Custodial Revenues and Liabilities

For FY 2007, the source of custodial revenues consisted of the following:

(DOLLARS IN THOUSANDS)	DISGORGEMENT AND PENALTIES	OTHER	TOTAL
Cash Collections	$ 496,386	$138	$ 496,524
Less: Refunds	—	—	—
Net Cash Collections	496,386	138	496,524
Increase/(Decrease) in Amounts to be Collected	(7,935)	4	(7,931)
Total Non-Exchange Revenues	$ 488,451	$142	$ 488,593

For FY 2007, the source of custodial liabilities consisted of the following:

(DOLLARS IN THOUSANDS)	DISGORGEMENT AND PENALTIES	FOIA	TOTAL
Gross Custodial Accounts Receivable	$ 329,584	$ 6	$ 329,590
Less: Allowance for Doubtful Accounts	(265,974)	(2)	(265,976)
Net Custodial Liability	$ 63,610	$ 4	$ 63,614

For FY 2006, the source of custodial revenues consisted of the following:

(DOLLARS IN THOUSANDS)	DISGORGEMENT AND PENALTIES	OTHER	TOTAL
Cash Collections	$1,804,043	$ 90	$1,804,133
Less: Refunds	—	—	—
Net Cash Collections	1,804,043	90	1,804,133
Increase/(Decrease) in Amounts to be Collected	(23,967)	—	(23,967)
Total Non-Exchange Revenues	$1,780,076	$ 90	$1,780,166

For FY 2006, the source of custodial liabilities consisted of the following:

(DOLLARS IN THOUSANDS)	DISGORGEMENT AND PENALTIES	FOIA	TOTAL
Gross Custodial Accounts Receivable	$ 247,631	$ —	$ 247,631
Less: Allowance for Doubtful Accounts	(176,086)	—	(176,086)
Net Custodial Liability	$ 71,545	$ —	$ 71,545

NOTE 16. Fiduciary Assets and Liabilities

At September 30, 2007 and 2006, the assets held by the SEC in a fiduciary capacity and its offsetting liability consisted of the following:

FIDUCIARY ACTIVITIES (*DOLLARS IN THOUSANDS*)	FY 2007	FY 2006
Assets		
Fund Balance with Treasury	$ 13,094	$ 5,759
Investments	3,602,511	3,674,528
Accounts Receivable	155	154,375
Total Assets	$3,615,760	$3,834,662
Liabilities		
Liability for Fiduciary Activity	$3,615,760	$3,834,662
Total Liabilities	$3,615,760	$3,834,662

At September 30, 2007 and 2006, the source and disposition of the SEC's fiduciary activities consisted of the following:

FIDUCIARY ACTIVITIES (*DOLLARS IN THOUSANDS*)	FY 2007	FY 2006
Fund Balance with Treasury		
Beginning Balance	$ 5,759	$ 207,529
Disgorgement and Penalties	321,866	1,639,914
Transfer to Investments	(314,531)	(1,841,684)
Total Fund Balance with Treasury	13,094	5,759
Investments		
Beginning Balance	3,674,528	1,768,024
Net Investments Activity—Disgorgement and Penalties	(72,017)	1,906,504
Total Investments	3,602,511	3,674,528
Accounts Receivable		
Beginning Balance	154,375	—
Net Activity—Accounts Receivable	(154,220)	154,375
Total Accounts Receivable	155	154,375
Total Assets	$3,615,760	$3,834,662
Liability for Fiduciary Activity		
Beginning Balance	$3,834,662	$1,975,553
Disgorgement and Penalties	(218,902)	1,859,109
Total Liabilities	$3,615,760	$3,834,662

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

(DOLLARS IN THOUSANDS)	FY 2007	FY 2006
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated:		
Obligations Incurred (Note 14)	$ 876,595	$ 897,430
Less: Spending Authority from Offsetting Collections and Recoveries	(1,560,985)	(1,936,658)
Net Obligations	(684,390)	(1,039,228)
Other Resources:		
Imputed Financing from Cost Absorbed by Others (Note 10)	26,437	26,850
Total Resources Used to Finance Activities	(657,953)	(1,012,378)
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	(35,123)	21,831
Resources That Finance the Acquisition of Assets Capitalized on the Balance Sheet	(31,793)	(57,658)
Net Decrease in Revenue Receivables Not Generating Resources until Collected	30,855	20,941
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(36,061)	(14,886)
Total Resources Used to Finance the Net Cost of Operations	(694,014)	(1,027,264)
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	2,322	950
Change in Lease Liability	(10,776)	5,994
Change in Unfunded Liability	385	(715)
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	(8,069)	6,229
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	35,912	26,265
Revaluation of Assets or Liabilities	950	1,071
Other Costs That Will Not Require Resources	12	3
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in Future Periods	36,874	27,339
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	28,805	33,568
Net (Income) from Operations	$ (665,209)	$ (993,696)

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Comptroller General
of the United States

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 2007 and 2006, we found

- the financial statements as of and for the fiscal years ended September 30, 2007, and 2006, including the accompanying notes, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- SEC did not have effective internal control over financial reporting; although certain compliance controls should be improved, SEC had effective control over compliance with laws and regulations that could have a direct and material effect on the financial statements as of September 30, 2007; 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 Management's 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, 2007, and September 30, 2006. However, misstatements may nevertheless occur in other financial information reported by SEC and may not be prevented or detected because of the internal control deficiencies described in this report.

As disclosed in footnote 1.C. to SEC's financial statements, in fiscal year 2007, SEC changed its method of accounting for user fees collected in excess of current-year appropriations.

Opinion on Internal Control

Because of the material weakness[1] and significant deficiencies[2] in internal control discussed below, SEC did not maintain effective internal control over financial reporting as of September 30, 2007, and thus did not have reasonable assurance that misstatements material in relation to the financial statements would be prevented or detected on a timely basis. Although certain compliance controls should be improved, SEC maintained, in all material respects, effective internal control over compliance with laws and regulations as of September 30, 2007, that provided reasonable assurance 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. 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 significant control deficiencies in SEC's financial reporting process, which taken collectively, result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Therefore, we considered the combination of the following control deficiencies to collectively constitute a material weakness in SEC's financial reporting process:

- period-end financial reporting process,
- disgorgements and penalties accounts receivable,
- accounting for transaction fee revenue, and
- preparing financial statement disclosures.

In addition to the material weakness discussed above, we identified three significant deficiencies in internal control, which although not material

[1]A material weakness is a significant deficiency or 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.

[2]A significant deficiency is a control deficiency, or combination of 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.

weaknesses, represent significant deficiencies in the design or operation of internal control. Although we are considering these issues separately from the material weakness described above, they nevertheless adversely affect SEC's ability to meet financial reporting and other internal control objectives. These deficiencies concern

- information security controls,
- property and equipment, and
- accounting for budgetary resources.

In our prior year audit,[3] we reported on weaknesses we identified in the areas of SEC's (1) recording and reporting of disgorgements and penalties, (2) information systems controls, and (3) property and equipment controls.[4] During fiscal year 2007, SEC improved its controls over the accuracy, timeliness, and completeness of the disgorgement and penalty data and used a much improved database for the initial recording and tracking of these data. However, the processing of these data for financial reporting purposes is still done through a manual process that is prone to error. We found that the internal controls that compensated for the manual processing of the related accounts receivable balances in fiscal year 2006 were not effective in fiscal year 2007. This issue is included in the material weakness in SEC's financial reporting process for fiscal year 2007.

SEC continues to make progress in resolving the information security weaknesses. Previously identified weaknesses, though, still need to be

[3]GAO, *Financial Audit: Securities and Exchange Commission's Financial Statements for Fiscal Year 2006 and 2005*, GAO-07-134 (Washington, D.C.: Nov. 15, 2006).

[4]In our previous report, we considered those weaknesses to be reportable conditions. Reportable conditions involved matters coming to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control, and could adversely affect an agency's ability to meet key control objectives. In May 2006, the American Institute of Certified Public Accountants issued Statement on Auditing Standards (SAS) 112, and subsequently made conforming changes to the Statements on Standards for Attestation Engagements (AT 501). The new standards eliminated the term reportable condition and introduced new definitions for the terms "significant deficiency" and "material weakness." Under these new standards, the auditor is required to communicate control deficiencies that are considered to be significant deficiencies or material weaknesses in internal controls.

addressed, along with new weaknesses we found during this year's audit. Therefore, we consider information security to be a significant deficiency as of September 30, 2007. In addition, we continued to identify the same weaknesses in controls over property and equipment during this year's audit, and therefore, we considered this area to be a significant deficiency as of September 30, 2007.

Although SEC had one material weakness and three significant control deficiencies in internal control, SEC's financial statements were fairly stated in all material respects for fiscal years 2007 and 2006. However, the weaknesses in internal control noted above may adversely affect decisions by SEC management that is based, in whole or in part, on information that is inaccurate because of this weakness. In addition, unaudited financial information reported by SEC, including performance information, may also contain misstatements resulting from these weaknesses.

We will be reporting additional details concerning the material weakness and the 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 controls separately to SEC management.

Material Weakness

Financial Reporting Process

During this year's audit, we found control deficiencies in SEC's period-end financial reporting process, in its calculation of accounts receivable for disgorgements and penalties, in its accounting for transaction fee revenue, and in preparing its financial statement disclosures. We believe these control deficiencies, collectively, constitute a material weakness.

Period-End Financial Reporting Process:

SEC's financial management system does not conform to the systems requirements of OMB Circular No. A-127, *Financial Management Systems*. Specifically, Circular No. A-127 requires that financial management systems be designed to provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems. Circular No. A-127 further states that financial systems must have common data elements, common transaction processing, consistent internal controls, and efficient transaction entry, and that reports produced by the systems shall provide financial data that can be traced directly to the general ledger accounts.

SEC’s period-end financial reporting process for recording transactions, maintaining account balances, and preparing financial statements and disclosures are supported to varying degrees by a collection of automated systems that are not integrated or compatible with its general ledger system. These automated systems’ lack of integration and compatibility require that extensive compensating manual and labor-intensive accounting procedures, involving large spreadsheets and numerous posting and routine correcting journal entries, dominate SEC’s period-end financial reporting process. Some of SEC’s subsidiary systems, such as that for property and equipment and for disgorgements and penalties, do not share common data elements and common transaction processing with the general ledger system. Therefore, intermediary information processing steps, including extensive use of spreadsheets, manipulation of data, and manual journal entries, are needed to process the information in SEC’s general ledger. This processing complicates review of the transactions and greatly increases the risk that the transactions are not recorded completely, properly, or consistently, ultimately affecting the reliability of the data presented in the financial statements. Our identification this year of errors in SEC’s calculation of disgorgement and penalty accounts receivable, discussed below, illustrates this risk.

The risk to data reliability is further increased because basic controls over electronic data, such as worksheet and password protection, change history, and controls over data verification, such as control totals and record counts, were not consistently used during the data processing between the source systems and the general ledger. In addition, currently, SEC’s general ledger has several unconventional posting models and other limitations that prevent proper recording of certain transactions. As a result, SEC’s year-end reporting process requires extensive routine correcting journal entries to correct errors created by incorrectly posted transactions in its general ledger. We also noted that SEC’s documentation used to crosswalk individual accounts to the financial statement line items contained an incorrect routing to a line item on SEC’s Statement of Budgetary Resources for SEC’s year-end financial statement preparation process, which caused a material error in SEC’s draft financial statements. Also, SEC did not have detailed written documentation of its methodologies and processes for preparing financial statements and disclosures, increasing the risk of inconsistent and improper reporting and the risk that disruptions and error may arise when staff turnover occurs.

Disgorgements and Penalties Accounts Receivable:

As part of its enforcement responsibilities, SEC issues orders and administers judgments ordering, among other things, disgorgements, civil monetary penalties, and interest against violators of federal securities laws.[5] SEC recognizes a receivable when SEC is designated in an order or a final judgment to collect the assessed disgorgements, penalties, and interest. At September 30, 2007, the gross amount of disgorgements and penalties accounts receivable was $330 million, with a corresponding allowance of $266 million resulting in a net receivable of $64 million.

In our reviews of the interim June 30, 2007, and year-end September 30, 2007, balances of accounts receivable for disgorgements and penalties, we found errors in SEC's spreadsheet formulas resulting in overstatements of these receivable balances for both periods. These errors consisted of incorrectly changed spreadsheet formulas that affected the final calculated balances. SEC subsequently detected and corrected the June 30 errors, but then made different spreadsheet calculation errors in the year-end balances as of September 30, 2007, which we detected as part of our audit. SEC made adjustments to correct the errors, which were not material. However, SEC's process for calculating its accounts receivable for disgorgements and penalties presents a high risk that significant errors could occur and not be detected. The main cause of these errors is the breakdown this year in the manual controls that were intended to compensate for the lack of an integrated accounting system for disgorgements and penalties, as discussed above. Specifically, although the journal entries posting the amounts to the general ledger were reviewed, this review did not extend to the preparation of the spreadsheet SEC used to document the accounts receivable calculation at June 30 and September 30, 2007, and therefore, was not sufficient to detect significant spreadsheet formula errors.

Accounting for Transaction Fee Revenue:

As one of its sources of revenue, SEC collects securities transaction fees paid by self-regulatory organizations (SRO) to SEC for stock transactions. SRO transaction fees are payable to the SEC twice a year –in March for the previous months September through December, and in September for the previous months January through August. Since the SROs are not required to report the actual volume of transactions until 10 business days after

[5] 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.

each month end, SEC estimates and records an amount receivable for fees payable by the SROs to SEC for activity during the month of September. At September 30, 2007, SEC estimated this receivable amount at $100.6 million. Based on information SEC received in mid-October concerning the actual volume of transactions, the amount of claims receivable at September 30, 2007, should have been $74.4 million. In previous years, SEC made adjustments to reflect the actual volume of transactions; however, SEC does not have written procedures to help ensure that this adjustment is made as a routine part of its year-end financial reporting process. We proposed, and SEC posted, the necessary audit adjustment to correct the amount of transaction fee revenue for fiscal year 2007.

Statement on Auditing Standards No.1, *Codification of Auditing Standards and Procedures*, which explains the accounting requirements for subsequent events, requires that events or transactions that existed at the date of the balance sheet and affect the estimates inherent in the process of preparing financial statements should be considered for adjustment to or disclosure in the financial statements through the date that the financial statements are issued. In addition, the concept of consistency in financial reporting provides that accounting methods, including those for determining estimates, once adopted, should be used consistently from period to period unless there is good cause to change.

Preparing Financial Statement Disclosures:

In our review of SEC's year-end draft financial statement disclosures, we noted numerous errors including misstated amounts, improper break out of line items, and amounts from fiscal year-end 2006 incorrectly brought forward as beginning balances for fiscal year 2007. For example, in its disclosure for *Custodial Revenues and Liabilities*, SEC improperly excluded approximately $320 million in collections. In another example, for its disclosure on *Fund Balance with Treasury*, SEC misclassified approximately $90 million into incorrect line items. Also, in its disclosure for *Fiduciary Assets and Liabilities*, SEC's beginning balances for Fund Balance with Treasury and for Liability for Fiduciary Activity were each misstated by $8.9 million due to errors in carrying forward ending balances from September 30, 2006. SEC revised the financial statement disclosures to correct the errors that we noted. We believe the cause of these and numerous other errors in the disclosures is due mainly to the lack of a documented timeline and process for completing the fiscal year 2007 financial statements and disclosures, including review of the disclosures. In addition, the cumbersome and complicated nature of SEC's financial reporting process discussed above did not allow SEC finance staff sufficient time to carry out thorough and complete reviews of the disclosures in light of the November 15 reporting deadline.[6]

Significant Deficiencies

We also identified three control deficiencies that adversely affect SEC's ability to meet its internal control objectives. These conditions concern deficiencies in controls over (1) information security, (2) property and equipment, and (3) accounting for budgetary resources, which are summarized below.

Information Security

SEC relies extensively on computerized information systems to process, account for, and report on its financial activities and make payments. To provide reasonable assurance that financial information and financial assets are adequately safeguarded from inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction, effective information security controls are essential. These controls include security management, access controls, configuration management, physical security, and contingency planning. Weaknesses in these controls can impair the accuracy, completeness, and timeliness of information used by management and increase the potential for undetected material misstatements in the agency's financial statements.

During fiscal year 2007, SEC made important progress in mitigating certain control weaknesses that were previously reported as unresolved at the time of our prior review. For example, SEC developed a comprehensive program for monitoring access activities to its computer network environment, tested and evaluated the effectiveness of controls for the general ledger system, and documented authorizations for software modifications. SEC also took corrective action to restrict access to sensitive files on its servers, change default database accounts that had known or weak passwords, and apply strong encryption key management practices for managing secure connections.

Despite this progress, SEC has not consistently implemented certain key information security controls to effectively safeguard the confidentiality,

[6]OMB directs executive branch agencies to issue their audited financial statements by November 15 for the preceding fiscal year ending on September 30. OMB Circular No. A-136, *Financial Reporting Requirements*, § I.5 (rev. June 27, 2007).

integrity, and availability of its financial and sensitive information and information systems. During this year's audit, we identified continuing and new information security weaknesses that increase the risk that (1) computer resources (programs and data) will not be adequately protected from unauthorized disclosure, modification, and destruction; (2) access to facilities by unauthorized individuals will not be adequately controlled; and (3) computer resources will not be adequately protected and controlled to ensure the continuity of data processing operations when unexpected interruptions occur. For example, SEC had not yet mitigated weaknesses related to malicious code attacks on SEC's workstations, had not yet adequately documented access privileges for a major application, and had not yet implemented an effective intrusion detection system. New control weaknesses in authorization, boundary protection, configuration management, and audit and monitoring that we identified this year include for example, the use of a single, shared user account for posting journal vouchers in a financial application, inadequate patching of enterprise databases, and inadequate auditing and monitoring capabilities on its database servers. Lapses in physical security enabled unauthorized network access from a publicly accessible location within SEC Headquarters. In addition, SEC did not have contingency plans for key desktops that support manual processes such as the preparation of spreadsheets. These weaknesses existed, in part, because SEC has not yet fully implemented its information security program.

Collectively, these problems represent a significant deficiency in SEC's internal control over information systems and data. Specifically, the continuing and newly identified weaknesses decreased assurances regarding the reliability of the data processed by the systems and increased 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 consistently 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. We will be issuing a separate report on issues we identified regarding information security concerns at SEC.

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 $27 million dollars in property and equipment during fiscal year 2007.

Similar to our last year's audit, during the course of testing fiscal year 2007 additions, we noted numerous instances of inaccuracies in recorded acquisition costs and dates for property and equipment purchases, as well as unrecorded property and equipment purchases, and errors in amounts capitalized and amortized for internal-use software projects. In addition, errors were carried forward from the previous year. These systemic 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 2007; however, these conditions evidence a significant deficiency in control over the recording of property and equipment that affects the reliability of its recorded balances for property and equipment. Specifically, SEC lacks a process that integrates controls over capitalizing and recording property and equipment purchases. For example, SEC does not have a formalized, documented process for comparing quantity and type of item received against the corresponding order for property purchases. In addition, SEC does not have sufficient oversight of the recording of acquisition dates and values of the capitalized property. Further, SEC's lack of an integrated financial management system for accounting for property and equipment, as discussed above, requires compensating procedures, which were not effective, to ensure that manual calculations, such as those for depreciation and amortization, are accurate. Until it has a systemic process that incorporates effective controls over receiving, recording, capitalizing, and amortizing property and equipment purchases, SEC will not have sufficient assurance over the accuracy and completeness of its reported balances for property and equipment.

Accounting for Budgetary Resources

For fiscal year 2007, SEC incurred $877 million in obligations, which represents legal liabilities against funds available to SEC to pay for goods and services ordered. At September 30, 2007, SEC reported that the amount of budgetary resources obligated for undelivered orders was $255 million, which reflects obligations for goods or services that had not been delivered or received as of that date. In our testing of undelivered order transactions for this year's audit, we identified several concerns over SEC's accounting for obligations and undelivered orders. Specifically, we found numerous instances in which SEC (1) recorded obligations prior to having documentary evidence of a binding agreement for the goods or services, (2) recorded invalid undelivered order transactions due to an incorrect posting configuration in SEC's general ledger, and (3) made errors in recording new obligations and deobligations due to the use of incorrect accounts and by posting incorrect amounts in the general ledger.

The majority of exceptions related to these issues, amounting to approximately $76 million, were corrected by SEC through adjusting journal entries. While the remaining uncorrected amounts did not materially affect the balances on the Statement of Budgetary Resources at September 30, 2007, ineffective processes that caused these errors constitute a significant deficiency in SEC's internal control over recording and reporting of obligations, and puts SEC at risk that the amounts recorded in the general ledger and reported on SEC's Statement of Budgetary Resources are misstated. Specifically, SEC's general ledger is not configured to properly post related entries, thereby resulting in the need to routinely correct entries. Extensive reviews of the budgetary transactions, along with significant adjusting journal entries, are needed to compensate for the system limitations. The errors in recording new obligations and deobligations that we found in our audit indicate a lack of effective review over those transactions. Further, SEC does not have policies or internal controls to prevent recording of obligations that are not valid. Recording obligations prior to having 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 charging incorrect fiscal year funds for an agreement executed in a later fiscal year.

Compliance with Laws and Regulations

Our tests for compliance with selected provisions of laws and regulations 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's 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 do not express an opinion on this information. However, we compared this information for consistency with

[7] 31 U.S.C. § 1501(a)(1).

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 or nonconformance with OMB guidance. However, because of the internal control weaknesses noted above, 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. In order 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 Management's 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 the 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 Prompt Payment Act; and
  - the Federal Employees' Retirement System Act of 1986.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the 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, 2007. We caution that noncompliance may occur and not be detected by these tests and that this testing may not be sufficient for other purposes.

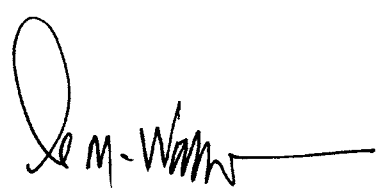
We performed our work in accordance with U.S. generally accepted government auditing standards and OMB audit guidance.

SEC's management provided comments on a draft of this report. They are discussed and evaluated below and are reprinted in appendix I.

SEC Comments and Our Evaluation

In commenting on a draft of this report, SEC's Chairman said he was pleased to receive an unqualified opinion on SEC's financial statements. The Chairman discussed SEC's plans to remediate this material weakness before the end of fiscal 2008, and to address each of the findings and recommendations identified during the audit. The Chairman emphasized SEC's commitment to enhance its controls in all operational areas and to ensure reliability of financial reporting, soundness of operations, and public confidence in SEC's mission.

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



David M. Walker
Comptroller General
of the United States
November 13, 2007

CHRISTOPHER COX
CHAIRMAN

HEADQUARTERS
100 F STREET, NE
WASHINGTON, DC 20549

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

REGIONAL OFFICES
ATLANTA, BOSTON, CHICAGO,
DENVER, FORT WORTH,
LOS ANGELES, MIAMI, NEW YORK,
PHILADELPHIA, SALT LAKE CITY,
SAN FRANCISCO

November 14, 2007

The Honorable David M. Walker
Comptroller General of the United States
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Walker:

Thank you for the opportunity to respond to the Government Accountability Office's (GAO) draft report entitled Financial Audit: Securities and Exchange Commission's Financial Statements for Fiscal Years 2007 and 2006. I would like to personally acknowledge and commend you and the GAO staff for your efforts and dedication in working with the SEC again this year to meet the reporting deadline for our audited financial statements.

I am pleased that once again 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, and that it found no instances of reportable noncompliance with laws and regulations tested. I also appreciate the progress that you have helped the SEC make during the past year in strengthening our internal controls over financial reporting. As you know, in 2008 the agency will introduce several new technology upgrades designed to support the preparation of reliable audited financial statements. The phase-in of these new software systems is designed to eliminate the material weakness in the SEC's internal controls cited in the draft report, stemming in substantial part from the lack of integration and compatibility in the agency's legacy automated systems. The SEC intends to remediate this material weakness before the end of fiscal 2008, and to address each of the findings and recommendations identified during the audit. We will continue to work with you and your staff to enhance the SEC's controls in all operational areas, and ensure reliability of financial reporting, soundness of operations, and public confidence in the agency's mission.

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

Sincerely,

Christopher Cox
Chairman

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Management Challenges

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

OFFICE OF THE
INSPECTOR GENERAL

August 3, 2007

To: Honorable Christopher Cox
Chairman

From: Walter Stachnik Walter Stachnik
Inspector General

Re: Summary of Management Challenges

This report summarizes our view of the most serious management and performance challenges facing the Commission. It was prepared in accordance with the Reports Consolidation Act of 2000. This report is to be included in the Financial Section of the Performance and Accountability Report, which is due to the President, the Office of Management and Budget (OMB), and the Congress by November 15, 2007.

The report was prepared by the Office of Inspector General (Office) in accordance with guidance from OMB. The primary criterion used to select challenges for inclusion was the potential impact of the challenges on the Commission's achievement of its management and performance objectives.

INFORMATION TECHNOLOGY

The Office of Inspector General has reported information technology management as a significant problem for several years. The Commission also recognized that it must effectively employ information technology (IT) to achieve its strategic and operational objectives. The integration of IT into Commission work processes and interactions with the public and its partners has been, and continues to be, a critical management challenge.

Notably, in 2006, the Government Accountability Office (GAO) reported that the Commission had resolved the three material weaknesses it had previously reported, including information security. The Commission had implemented a number of new policies and procedures governing IT security risk, certified and accredited its major systems, trained 99 percent of its staff in security awareness, and conducted disaster recovery and business continuity tests.

The Commission expects to further strengthen its processes for controlling changes to the technical environment, the management of user accounts and passwords, and physical security of IT facilities.

Although significant improvements in IT have been made, the Office has identified challenges in several key IT areas:

- Privacy,

- Enterprise architecture management,
- IT capital investment decision making,
- Administration of IT contracts,
- IT project management, and
- Strategic management of IT human capital.

The Commission's Office of Information Technology (OIT) has continued to make progress in implementing improvements in IT. For example, OIT indicated that it has:

- Progressed with protecting personally identifiable data in its IT environment by implementing and enforcing OMB directives for protecting personally identifiable information (PII);
- Implemented a Service Oriented Architecture (SOA) to provide a standard application infrastructure to facilitate development, deployment and management of reusable services that can be shared among multiple business applications;
- Initiated work to substantially improve the monitoring of the SEC's network, servers, and storage systems to make problems known earlier, increase reliability, and improve delivery of services to agency staff;
- Continued to take significant steps to remediate virtually all information security weaknesses to include improving logical and physical access control, data security, and remedial action management;
- Begun the initial phase of a new identity management system, which provides centralized management over access privileges to agency systems;
- Continued to emphasize disaster recovery readiness at the SEC's regional offices through training exercises;
- Continued to mature and refine its Capital Planning and Investment Decision-Making process; and
- Continued to correct the IT management weaknesses identified by the IG with a goal of eliminating all or most of the components that comprise the significant problem by the close of calendar year 2007.

ASSESSMENT AND MANAGEMENT OF RISK

Detecting and ultimately preventing new forms of fraudulent conduct and practices remain a challenge for the Commission. New types of fraudulent, illegal, and questionable conduct and practices in the securities markets have caused, and continue to pose, serious threats to investors. Failure to identify and address these risks timely will be a significant impediment to the complete achievement of Commission program objectives.

To identify new forms of illegal practices, the Commission established the Office of Risk Assessment. It has introduced or enhanced various initiatives to help advance the agency's risk management capability. These efforts include: leading or coordinating internal teams which address specific issues; designing and initial testing of software for the description and prioritization of risks; initial testing of statistical techniques to identify certain types of risk; and assessing emerging trends through workshops for the staff, meetings with industry experts and other regulators, and the review of professional and academic research.

Recent staff turnover, however, has significantly impaired the Office's ability to achieve its objectives. The Commission must determine the best approach to managing risk and the Office's structure.

FINANCIAL MANAGEMENT

The Government Accountability Office's (GAO) fiscal year 2006 audit of the Commission's financial statements found that they were presented fairly, in all material respects, and in conformity with generally accepted accounting principles for federal agencies; that the Commission had effective internal control over financial reporting; and that no instances of reportable noncompliance with laws and regulations were reported for the items tested. GAO identified three reportable conditions: reporting of disgorgements and penalties, information system controls, and property and equipment controls.

The Division of Enforcement reported that it completed a comprehensive Delinquent Debt Project to verify all outstanding enforcement debts, established new controls over receivables, and designed a new system for tracking disgorgements and penalties. The Commission also reported that it is working on a fully integrated case tracking and financial management system, and seeking to make the distribution to investors of Fair Funds more efficient with stronger controls.

The Commission plans to improve the reporting of property and equipment. It intends to document revised business processes, strengthen controls over the recognition of property, initiate additional quality checks, and initiate the replacement of its outdated asset management system to integrate it with the agency's financial management systems.

HUMAN CAPITAL

The Commission operates in a challenging human capital environment. To fully achieve its human capital objectives, Commission human capital strategies must be aligned with the agency's mission, program objectives, and outcomes. While progress has been realized in achieving this alignment, it remains a management challenge for the Commission.

Based on our audit of performance management, the Office of Inspector General recently reported Commission performance management as a significant problem to the Congress. The Office of Human Resources is modifying the Commission's performance management program for 2007-2008. It is also working to implement and integrate a set of human capital systems, including systems for performance management, selection, leadership and knowledge management, and succession planning. It is developing and implementing the agency's first stand-alone Strategic Human Capital Plan to guide the achievement of human capital objectives and the management and dissemination of knowledge throughout the agency.

Summary of Financial Statement Audit and Management Assurances

Summary of Financial Statement Audit

TABLE 4.1

AUDIT OPINION	UNQUALIFIED				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Reporting	0	✓	0	0	✓
Total Material Weaknesses	0	1	0	0	1

Summary of Management Assurances

TABLE 4.2

COMPLIANCE WITH FINANCIAL MANAGEMENT SYSTEM COMPLIANCE (FMFIA § 4)						
Statement of Assurance	Systems do not conform to financial management system requirements.					
Non-Conformance	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Financial Management Systems	0	1	0	0	0	1

Improper Payments Information Act Reporting Details

The Improper Payments Information Act (IPIA) of 2002 (Public Law No. 107-300) 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 2007, 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 these assessments, the SEC identified two programs as having a potential high risk for significant improper payments: Operational Vendor Payments and Disgorgements and Penalties.

Statistical Sampling

Monetary Unit Sampling (MUS) was used to calculate sample sizes of 194 vendor payments and 19 disgorgement 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 randomly select from vendor and disgorgement payment transactions accumulated during the first nine months of FY 2007. Test results only found improper payments in Operational Vendor Payments. The error rate calculation and projected amount of improper payments is shown below:

TABLE 4.3

PROGRAM	TRANSACTIONS IN POPULATION	TRANSACTIONS IN SAMPLE	DOLLARS IN POPULATION	DOLLARS IN SAMPLE	ERROR RATE	PROJECTED IMPROPER PAYMENTS
Operational Vendor Payments	11,125	194	$163,840,855	$ 79,398,668	.0019%	$4,092
Disgorgement & Penalties	236	19	$420,030,117	$379,979,748	0%	0

Improper Payment Reduction Outlook

TABLE 4.4

PROGRAM	FY06 OUTLAYS	FY06 %	FY06 $	FY07 OUTLAYS/ PAYMENTS	FY07 IP %	FY07 IP $	FY08 EST. OUTLAYS/ PAYMENTS
Operational Vendor Payments	N/A	N/A	N/A	$222,979,881	0.0019%	$4,092	$247,000,000
Disgorgement & Penalties*	N/A	N/A	N/A	$580,491,065	0%	$ 0	N/A*

**Disgorgement & Penalties represent fair fund distributions to harmed investors and it is not possible to estimate the amount of payments that will result from future court orders.*

Summary of Test Results

The following table provides a summary of the improper payments identified in FY 2007, the cause for the improper payment and the corrective action plan to reduce the estimated rate of improper payments:

TABLE 4.5

PROGRAM	FY 2007 (BASELINE MEASUREMENT YEAR) IMPROPER PAYMENT FINDINGS	CORRECTIVE ACTION PLAN
Operational Vendor Payments	Some invoice totals were incorrectly calculated by the vendor and SEC did not detect the errors. Also, some vendors were underpaid interest because SEC did not calculate interest as required by the Prompt Pay Act. These were all underpayments which resulted in the projected amount of $4,092.	The SEC will review for accuracy all documentation prior to paying invoices. The SEC will enforce and follow its policies and procedures as they relate to the Prompt Pay Act.
Disgorgement & Penalties	None noted.	—

FY08 EST. IP %	FY08 EST. IP $	FY09 EST. OUTLAYS	FY09 EST. IP %	FY09 EST. IP $	FY10 EST. OUTLAYS	FY10 EST. IP %	FY10 EST. IP $
0.0008%	$1,976	$278,000,000	0.0004%	$1,112	$264,000,000	0.0002%	$528
0%	$ 0	N/A	0%	$ 0	N/A	0%	$ 0

Recovery Auditing

The Recovery Auditing Act, Section 831 of the Defense Authorization Act of Fiscal Year 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

The SEC is committed to reducing its amount of improper payments and will continue to review all programs and activities identified as having a risk of erroneous payments.

Information Systems

Although no improper payments were identified in the Disgorgement and Penalty program, the agency implemented a new financial management information system for tracking disgorgement and penalties that replaced the financial portion of Enforcement's existing tracking database.

Statutory or Regulatory Barriers

There are currently no statutory or regulatory barriers that limit the SEC's corrective action plans for reducing the amount of improper payments in Operational Vendor Payments.

Appendix A: Chairman and Commissioners

Christopher Cox
Chairman

Christopher Cox is the 28th Chairman of the U.S. Securities and Exchange Commission. He was appointed by President Bush on June 2, 2005, and unanimously confirmed by the Senate on July 29, 2005. He was 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 groundbreaking 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. He has assumed leadership of the international effort to integrate U.S. and overseas regulation more closely in an era of global capital markets and international securities exchanges. He also has championed transforming the SEC's system of mandated disclosure from a static, forms-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.

Paul S. Atkins
Commissioner

Paul S. Atkins was appointed by President George W. Bush to the U.S. Securities and Exchange Commission on July 29, 2002.

Commissioner Atkins' 22-year career has focused on the financial services industry and securities regulation. Before his appointment to the Commission, he assisted financial services firms in improving their compliance with SEC regulations and worked with law enforcement agencies to investigate and rectify situations where investors had been harmed. The largest of these investigations involved the Bennett Funding Group, Inc., a $1 billion leasing company that perpetrated the largest "Ponzi" fraud in U.S. history, in which more than 20,000 investors lost much of their investment. Assisting the company's court-appointed bankruptcy trustee, he served as crisis president of Bennett's sole surviving subsidiary. By stabilizing its finances and operations and rebuilding and expanding its business, Commissioner Atkins improved its share value for the remaining investors by almost 2,000 percent.

From 1990 to 1994, Commissioner Atkins served on the staff of two former chairmen of the SEC, Richard C. Breeden and Arthur Levitt, ultimately as executive assistant and counselor, respectively.

Annette L. Nazareth
Commissioner

Annette L. Nazareth was appointed by President George W. Bush to the U.S. Securities and Exchange Commission and sworn in on August 4, 2005.

Prior to her appointment, Commissioner Nazareth served as the Commission's Director of the Division of Market Regulation, a position she held from March 1999 until August 2005. As Director, she had primary responsibility for the supervision and regulation of the U.S. securities markets, principally through the regulation of brokers and dealers, exchanges, clearing agencies, transfer agents and securities information processors. Significant initiatives adopted by the Commission during her tenure include: execution of quality disclosure rules, implementation of equities decimal pricing, short sale reforms, implementation of a voluntary regime for consolidated supervision of broker-dealer holding companies and modernization of the national market system rules. She joined the Commission staff in 1998 as Senior Counsel to Chairman Arthur Levitt and served briefly as the Interim Director of the Division of Investment Management. Since 1999, Commissioner Nazareth has served as the Commission's representative on the Financial Stability Forum.

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 her appointment, Commissioner Casey spent 13 years on Capitol Hill. She served as Staff Director and Counsel of the Senate Banking, Housing, and Urban Affairs Committee. Ms. Casey was primarily responsible for guiding the Chairman's and Committee's consideration of, and action on, issues affecting economic and monetary policy, international trade and finance, banking, securities and insurance regulation, transit and housing policy, money laundering and terror finance. Significant issues the Committee considered under her direction include: reform of Government-Sponsored Enterprises, reauthorization of the Terrorism Risk Insurance Act, Deposit Insurance Reform, insurance regulation, Committee on Foreign Investment in the United States, Sarbanes-Oxley implementation, and credit rating agencies.

Appendix B: Major Enforcement Cases

Actions Involving Financial Fraud Issuer Disclosure, and Backdating of Options

The Commission brought numerous cases in FY 2007 involving financial fraud, issuer disclosure, and reporting violations at public companies. In these cases, investors were given an inaccurate view of the company's financial situation and denied the opportunity of making an informed investment decision. One of the most notable types of cases in this area is options backdating, in which the dates on which stock options were granted to executives and employees were changed to give them artificially and fraudulently low exercise prices for those options. Together, the Division of Enforcement and the Office of Economic Analysis developed techniques for identifying firms who engaged in options backdating schemes, resulting in the Commission bringing several actions against companies.

In a case against Mercury Interactive, a fraudulent backdating scheme allowed Mercury to fail to record over $258 million in compensation expenses and to provide false and misleading compensation disclosures to Mercury's shareholders in filings with the Commission. Mercury agreed to settle this injunctive action and pay a $28 million civil penalty. The Commission's case against former officers of the company is litigating. The Commission also brought a case against two executives of Apple, Inc. for a fraudulent stock option backdating scheme which allowed Apple to underreport its expenses by nearly $40 million. One of the executives, Apple's former CFO, settled the injunctive action and agreed to pay $3.5 million in disgorgement and penalties, while the case is litigating against the other executive.

In other matters involving financial fraud, the Commission brought a settled action against ConAgra Foods, Inc. for engaging in improper and fraudulent accounting practices. As a result of these practices, ConAgra materially overstated its before-tax income by more than $300 million between FY 1999 and 2005. ConAgra agreed to pay a $45 million penalty, which the SEC will seek to place into a Fair Fund. In addition, the Commission filed a settled civil action against Cardinal Health, Inc., in which Cardinal agreed to pay a $35 million penalty to settle charges that it engaged in a nearly four-year long fraudulent revenue and earnings management scheme, as well as other improper accounting and disclosure practices.

In the issuer disclosure area, the Commission reached a settlement for a cease and desist order against Hewlett-Packard for its failure to disclose the circumstances surrounding a board member's resignation amidst the company's controversial investigation into boardroom leaks.

The Commission also continued to bring cases against both individuals and companies for violations of the Foreign Corrupt Practices Act and to seek disgorgement of profits. In a case against Baker Hughes, the company was charged with paying $5.2 million in bribes to government officials in Kazakhstan. Baker Hughes settled the injunctive action and agreed to pay $2.3 million in disgorgement and prejudgment interest and a $10 million civil penalty. The Commission also brought a settled cease and desist action against Statoil, ASA, for paying over $5.2 million in bribes to an Iranian government official. Statoil agreed to pay $10.5 million in disgorgement of profits and agreed to numerous undertakings. Similarly, Textron Inc. was charged with authorizing and paying $650,000 in illicit kickback payments in connection with its sale of humanitarian goods to Iraq under the U.N. Oil for Food Program. Textron agreed to disgorge $2.4 million in profits and pre-judgment interest and an $800,000 civil penalty.

Actions Involving Self-Regulatory Organizations

In FY 2007, the SEC brought several important cases involving self-regulatory organizations. The Commission issued a settled cease and desist order against the American Stock Exchange for failing to enforce compliance with securities laws and rules and failing to comply with its record-keeping obligations from 1999 through June 2004. The Commission also brought settled actions against the Boston Stock Exchange and its former president for their failure to prevent specialists from trading for their own accounts ahead of customer orders. Both parties consented to censures and cease and desist orders. The Boston Stock Exchange agreed to spend $1 million for comprehensive audits of its practices, and the former president consented to pay a $75,000 penalty.

Actions Involving Broker-Dealers

In FY 2007, the Commission brought numerous cases involving broker-dealers. The Commission brought an action against Banc of America (BAS) for violating the antifraud and internal controls provisions of the federal securities laws in connection with its issuance of research. As a result of inadequate policies and procedures, as well as incentives for research analysts to support its investment banking, BAS published equity research reports which did not reflect the true views of the research analyst covering the security. BAS agreed to pay $26 million in disgorgement and penalties.

In addition, the SEC brought settled fraud charges against Morgan Stanley for its failure to provide best execution to certain retail orders for over-the-counter (OTC) securities. Morgan Stanley agreed to a cease and desist order and to pay approximately $8 million in disgorgement and penalties.

Actions Involving Mutual Funds and Investment Advisers

The SEC continued to address abuses relating to the market timing and late trading of mutual funds. In settled proceedings against Evergreen Investment Management Company, three affiliated entities, and a former officer, the Commission alleged that, contrary to prospectus disclosures, respondents allowed certain shareholders to market time and trade excessively in the mutual fund complex. Evergreen and its three affiliates will pay $28.5 million in disgorgement and $4 million in penalties. The former officer agreed to pay $1 in disgorgement plus a civil penalty of $150,000 and to submit to a one-year industry bar. All settlement funds will be distributed through a Fair Fund.

Additionally, in an action against Fred Alger Management and Fred Alger & Company, the Commission found that the companies allowed market timing and late trading in the Alger Fund. The Alger companies agreed to a cease and desist order and to pay $30 million in disgorgement and a $10 million civil penalty, all of which will be paid into a Fair Fund.

Actions Involving Investment Fraud

The Commission has focused significant attention on protecting the increasing number of senior investors in the marketplace. These cases largely involve the offer and sale of unregistered securities. In one such case, the Commission filed charges against 26 individuals in a $428 million securities fraud that targeted senior citizens and retirement savings. The fraud involved the sale of securities in the form of universal leases, which were structured as timeshares with pre-arranged rental agreements that promised investors a high, fixed rate of return. The complaint alleges that the defendants failed to disclose key facts, including that more than $72 million of the investors' funds were used to pay brokers' commissions and most payments to investors were funded by money raised from new investors.

In a case against Credit First Fund, David Lund offered and sold unregistered securities, raising $10.7 million from 187 investors nationwide—many of whom were seniors—by falsely promising a monthly return of one to three percent. Lund consented to an injunction, a five-year securities industry bar, disgorgement of over $300,000, and a Fair Fund penalty of over $130,000.

Actions Involving Insider Trading

In FY 2007, the Commission brought many significant cases in the area of insider trading. In one case, the SEC charged 14 defendants in connection with two related insider trading schemes involving employees at UBS Securities and Morgan Stanley and resulting in at least $15 million in illicit profits. The SEC is seeking permanent injunctive relief, disgorgement, and civil penalties from the defendants. In another case, the SEC obtained an asset freeze against two Hong Kong residents who made approximately $8 million in profits by purchasing $15 million worth of Dow Jones stock in the weeks prior to the company's acquisition announcement. The Commission is seeking permanent injunctive relief, disgorgement, and civil penalties.

Appendix C: SEC Divisions and Offices

Headquarters Offices

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Appendix D: Acronyms

Banc of America	BAS
Bureau of the Public Debt	BPD
Capital Planning and Investment Control	CPIC
Certificate for Excellence in Accountability Reporting	CEAR
Chief Compliance Officer	CCO
Civil Service Retirement System	CSRS
Committee of European Securities Regulators	CESR
Complex Structured Finance Transaction	CSFT
Department of Labor	DOL
Department of the Treasury	Treasury
Electronic Data Gathering, Analysis, and Retrieval system	EDGAR
Employee Benefits Information System	EBIS
Enterprise Architecture	EA
Federal Citizen Information Center	FCIC
Federal Employees Group Life Insurance program	FEGLI
Federal Employees Health Benefit program	FEHB
Federal Employees Retirement System	FERS
Federal Employees' Compensation Act	FECA
Federal Financial Management Improvement Act	FFMIA
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 Stability Forum	FSF
Fiscal Year	FY
Foreign Corrupt Practices Act	FCPA
Freedom of Information Act	FOIA
Full-Time Equivalents	FTE
General Services Administration	GSA
Generally Accepted Accounting Principles	GAAP
German Federal Financial Supervisory Authority	BaFin
Government Accountability Office	GAO
Government Performance Results Act	GPRA
Improper Payments Information Act	IPIA
Information Technology	IT
Internal Controls over Financial Reporting	ICFR
International Financial Reporting Standards	IFRS
International Organization of Securities Commissions	IOSCO
Liability to Benefits Paid	LBP
Monetary Unit Sampling	MUS
Nationally Recognized Statistical Rating Organization	NRSRO
Office of Compliance Inspections and Examinations	OCIE
Office of Financial Management	OFM
Office of Investor Education and Advocacy	OIEA
Office of Management and Budget	OMB
Office of Personnel Management	OPM
Other Retirements Benefits	ORB
Over-the-Counter	OTC
Performance and Accountability Report	PAR
Program and Financing	P&F
Program Assessment Rating Tool	PART
Public Alert: Unregistered Soliciting Entities	PAUSE
Public Company Accounting Oversight Board	PCAOB
Securities and Exchange Commission	SEC
Securities Investor Protection Act	SIPA
Securities Investor Protection Corporation	SIPC
Self-Regulatory Organization	SRO
Statement of Budgetary Resources	SBR
Statement of Financing	SOF
Statement of Net Cost	SNC
Statements of Federal Financial Accounting Standards	SFFAS

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