U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

November 16, 2015

The Honorable Mary Jo White
Chair
United States Securities and Exchange Commission

Financial Audit: Securities and Exchange Commission's Fiscal Years 2015 and 2014 Financial Statements

Dear Ms. White:

This report transmits the GAO auditor's report on the results of our audits of the fiscal years 2015 and 2014 financial statements of the United States Securities and Exchange Commission (SEC) and its Investor Protection Fund (IPF),[1] which is incorporated in the enclosed *U.S. Securities and Exchange Commission Fiscal Year 2015 Agency Financial Report*.

As discussed more fully in the auditor's report that begins on page 59 of the enclosed agency financial report, we found

- the financial statements of SEC and its IPF as of and for the fiscal years ended September 30, 2015, and 2014, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- SEC maintained, in all material respects, effective internal control over financial reporting for SEC and for IPF as of September 30, 2015; and
- no reportable noncompliance for fiscal year 2015 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The Accountability of Tax Dollars Act of 2002 requires that SEC annually prepare and submit audited financial statements to Congress and the Office of Management and Budget.[2] The Securities Exchange Act of 1934, as amended in 2010 by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), requires SEC to annually prepare and submit a complete set of audited financial statements for IPF to Congress.[3] In accordance with the authority conferred in the Chief Financial Officers Act of 1990, as amended by the Government Management and Reform Act of 1994,[4] we have audited the SEC and IPF financial statements. Section 963 of the Dodd-Frank Act further requires that (1) SEC annually submit a report to

[1]IPF was established in 2010 by section 922 of the Dodd-Frank Wall Street Reform and Consumer Protection Act to fund the activities of SEC's whistleblower award program and the SEC Office of Inspector General suggestion program. IPF is a separate SEC fund and its financial statements present SEC's financial activity associated with its whistleblower and Inspector General suggestion programs. Accordingly, IPF's financial transactions are also included in SEC's overall financial statements.

[2]Pub. L. No. 107-289, § 2, 116 Stat. 2049-2050 (Nov. 7, 2002), *amending* 31 U.S.C. § 3515.

[3]Section 21F(g)(5) of the Securities Exchange Act of 1934, 15 U.S.C. § 78u-6(g)(5).

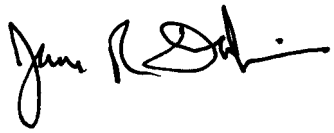
[4]See the Chief Financial Officers Act of 1990, Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990), codified, in relevant part, as amended, at 31 U.S.C. § 3521(g); see also the Government Management Reform Act of 1994, Pub. L. No. 103-356, 108 Stat. 3410 (Oct. 13, 1994), codified, in relevant part, as amended, at 31 U.S.C. § 3515(c).

Congress describing management's responsibility for internal control over financial reporting and for assessing the effectiveness of such internal control during the fiscal year, (2) the SEC Chairman and Chief Financial Officer attest to SEC's report, and (3) GAO attest to and report on the assessment made by SEC.[5] Accordingly, this report also includes our reporting in response to the requirement under the Dodd-Frank Act.

We are sending copies of this report to the Chairmen and Ranking Members of the Senate Committee on Banking, Housing, and Urban Affairs; the Senate Committee on Homeland Security and Governmental Affairs; the House Committee on Financial Services; and the House Committee on Oversight and Government Reform. We are also sending copies to the Secretary of the Treasury, the Director of the Office of Management and Budget, and other interested parties. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have questions about this report, please contact me at (202) 512-3133 or dalkinj@gao.gov.

Sincerely yours,



James R. Dalkin
Director
Financial Management and Assurance

Enclosure

(194924)

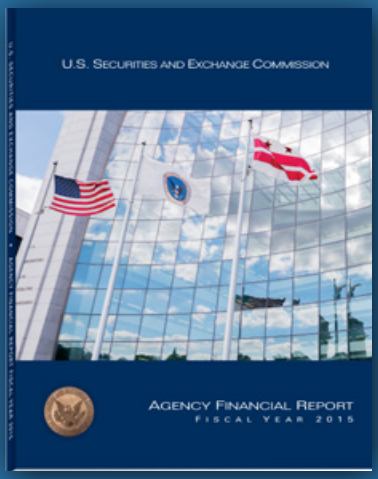
[5]Dodd-Frank Act, Pub. L. No. 111-203, § 963(a), (b) (2), 124 Stat. 1376, 1910 (2010), *codified at* 15 U.S.C. § 78d-8(a), (b)(2).

U.S. Securities and Exchange Commission

Agency Financial Report

Fiscal Year 2015

About This Report



The U.S. Securities and Exchange Commission's (SEC) Fiscal Year (FY) 2015 Agency Financial Report (AFR) provides financial and high-level performance results that enable the President, Congress and the public to assess the SEC's accomplishments and understand its financial picture. This report satisfies the reporting requirements contained in the following laws and regulations:

- Accountability of Tax Dollars Act of 2002
- Chief Financial Officers Act of 1990, as amended by the Reports Consolidation Act of 2000
- Dodd-Frank Wall Street Reform and Consumer Protection Act Section 922 Whistleblower Protection, and Section 963 Annual Financial Controls Audit
- Federal Civil Penalties Inflation Adjustment Act of 1990, as amended
- Federal Financial Management Improvement Act of 1996
- Federal Managers Financial Integrity Act of 1982
- Government Management Reform Act of 1994
- GPRA Modernization Act of 2010
- Improper Payments Information Act of 2002, as amended by Improper Payments Elimination and Recovery Act of 2010 and Improper Payments Elimination and Recovery Improvement Act of 2012
- Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Controls*
- Office of Management and Budget Circular A-136, *Financial Reporting Requirements*
- Recovery Auditing Act, Section 831, Defense Authorization Act, for 2002

For the fourth year in a row, the SEC is producing an AFR, with a primary focus on financial results, and an Annual Performance Report (APR), which focuses on strategic goals and performance results, in lieu of a combined Performance and Accountability Report. The FY 2015 APR will be included in the SEC FY 2017 Congressional Budget Justification available in February 2016. Additionally, SEC will publish a Summary of Performance and Financial Information (SPFI), also to be released in February 2016. This AFR and prior year SEC AFRs are electronically available at *www.sec.gov/about/secreports.shtml*. To comment on this report, email SECAFR@sec.gov.

Certificate of Excellence in Accountability Reporting

The SEC's FY 2014 AFR received the Certificate of Excellence in the Accountability Reporting (CEAR) from the Association of Government Accountants, which represents the ninth year in a row the SEC has received this honor. The award is presented to Federal Government agencies whose annual reports achieve the highest standards demonstrating accountability and communicating results. In addition, the SEC received a Best in Class Award for the Most Responsive Explanations and Actions for Prior Year CEAR Recommendations.

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Available on the Web at *www.sec.gov/about/secafr2015.shtml*

To contact the SEC, please see *www.sec.gov* or "Contact Us" at *www.sec.gov/contact.shtml.*
To comment on this report, email SECAFR@sec.gov.
For further information on selected terms and topics, please see "Fast Answers" at *www.sec.gov/answers.shtml*.

Message from the Chair

Throughout the past year, the more than 4,000 talented public servants of the U.S. Securities and Exchange Commission have diligently carried out the agency's mission to protect investors, foster capital formation and promote fair, orderly and efficient markets.

The Commission's accomplishments in Fiscal Year (FY) 2015 were many and significant. The Commission vigorously pursued wrongdoing in the markets through a broad-based enforcement program, proposed and adopted major reforms to protect investors and markets from products and practices that contributed directly to the financial crisis, enhanced our risk-based, data-driven examination program, and deployed new technology and data analytics to increase the efficiency and effectiveness of our programs.

Through these efforts and much more, the SEC works to ensure that our capital markets are the strongest in the world.

This past year, we continued to focus on advancing rulemakings required under the Dodd-Frank Wall Street Reform and Accountability Act (Dodd-Frank) and the Jumpstart Our Business Startups (JOBS) Act as well as on important discretionary policy initiatives. Under these statutory mandates, we adopted major new rules for reporting and trading security-based swaps, required credit risk retention for asset-backed securities, advanced new executive compensation disclosures, and adopted new rules to facilitate smaller securities offerings, among other steps. We also took action in areas outside the Dodd-Frank Act and JOBS Act, proposing enhanced data and liquidity requirements for asset management firms, finalizing requirements for the use of technology by exchanges and other key market participants, and proposing new regulations for proprietary trading firms.

Because of our work this last fiscal year, the Commission has now essentially completed all of its mandatory rulemaking in six of the eight most significant areas requiring SEC action by the Dodd-Frank Act: the regulation of private fund advisers; restrictions on proprietary trading; enhanced standards for clearing agencies; a new regulatory framework for municipal advisors; better regulation of credit rating agencies and credit ratings; and expanded regulation and credit risk retention for asset-backed securities. The Commission is working to finalize rules for the remaining two areas: security-based swaps and executive compensation. The Commission has also completed all of its significant rulemaking under the JOBS Act.

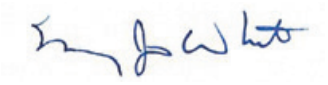
Our enforcement program continued building an impressive record this year by bringing 807 cases and obtaining orders for $4.2 billion in penalties and disgorgement. Enforcement efforts were focused on important areas of concern, including financial reporting and accounting fraud and illegal practices by broker-dealers and investment advisers, bringing first-of-their kind cases in these and other areas. The program

continued to expand its use of innovative analytical tools to leverage data to detect and investigate complex and intricate violations of the Federal securities laws.

Over the past year, our examination teams conducted nearly 2,000 formal examinations of registrants, an increase over each of the prior five fiscal years. Our examinations resulted in the return of approximately $120 million to investors.

I am pleased to report the SEC's independent auditors, the Government Accountability Office, issued an unmodified audit opinion on the SEC's financial statements and has affirmed that the agency's financial statements are presented fairly in all material respects, in conformity with the U.S. generally accepted accounting principles. Based on our review, we can confirm that the financial and performance data presented in this report are complete, reliable and conform to the Office of Management and Budget guidance.

In today's evolving marketplace, the dedicated women and men at the SEC are working hard to meet the changes we face. The accomplishments of FY 2015 are a testament to the staff and Commission's unyielding commitment to our mission. As we look ahead to the next year, we will build upon these efforts, strive to do more, continue adapting to the ever-changing markets, and do all of this in the most effective way possible.



Mary Jo White
Chair
November 13, 2015

Introduction to the Agency Financial Report

The SEC Agency Financial Report (AFR) is organized in the following three major sections, plus supplemental appendices.

Management's Discussion and Analysis

This section provides an overview of SEC's history, mission, organization, strategic goals and objectives, a review of the SEC's significant achievements in Fiscal Year 2015, forward looking information, performance highlights and a summary of financial information. This section concludes with management's assurance on internal controls, financial systems and controls, and compliance with laws and regulations.

Financial Section

This section contains a message from the Chief Financial Officer followed by the independent auditor's report on our principal financial statements, management's response to the audit report, audited financial statements and accompanying notes, and required supplementary information. Concluding this section are stand-alone comparative financial statements and accompanying notes for the Investor Protection Fund as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Other Information

This section contains the statement prepared by the agency's Office of Inspector General (OIG) summarizing what the OIG considers to be the management and performance challenges facing the agency, followed by the SEC Chair's response outlining the agency's progress in addressing the challenges. Also included are a Summary of Financial Statement Audit and Management Assurances, listing internal control material weaknesses and financial systems non-conformances; a schedule of spending showing how and where the SEC spends its funds; a detailed explanation of any significant erroneous payments and overpayments recaptured as required by the Improper Payments Information Act of 2002, as amended; and a table displaying the most recent inflationary adjustments to civil monetary penalties as required by the Federal Civil Penalties Inflation Adjustment Act of 1990, as amended.

Appendices

This section includes biographies of the SEC Chair and Commissioners, a summary of the SEC's major enforcement cases, a listing of the SEC divisions and offices, a glossary defining selected technical terms contained in the AFR, and a list of acronyms used within the AFR.

Management's Discussion and Analysis

The U.S. Securities and Exchange Commission's (SEC) Management's Discussion and Analysis (MD&A) serves as a brief overview of the agency's mission, organization, goals, and the 2015 program and financial performance:

- **Mission, Vision, Values and Goals:** The listed mission, vision and values statements as set forth in the SEC's Strategic Plan establishes the direction the SEC is undertaking in meeting its four strategic goals.
- **History and Purpose:** Provides background on the SEC and responsibilities for overseeing the nation's securities markets and certain primary participants.
- **Organization Structure and Resources:** Highlights the SEC's office locations, organization, employment statistics, and a summary of programs by responsible divisions and offices.
- **Fiscal Year 2015 in Review:** Provides a summary of SEC's efforts in pursuing its mission in Fiscal Year (FY) 2015.
- **Looking Forward:** An overview of actions the SEC will continue to focus on, as part of its on-going regulatory and oversight responsibilities.
- **Financial Highlights:** Provides an overview of the SEC's financial information, including an analysis of the financial data presented in the audited financial statements. The sources and uses of SEC's funds and the limitations of the financial statements are also explained.
- **Performance Highlights:** Explains the SEC's strategic and performance planning framework, discusses the process used to verify and validate the performance results contained in the Agency Financial Report (AFR), displays the FY 2015 operating costs by strategic goal, summarizes the FY 2015 performance results by strategic goal, and highlights key performance accomplishments.
- **Management Assurances and Compliance with Other Laws:** Provides management's assessment and assurances on the SEC's internal controls related to the Federal Manager's Financial Integrity Act of 1982 (FMFIA) and our compliance with the Federal Financial Management Improvement Act (FFMIA) related to compliance of our financial systems with Federal requirements. Also addressed is our compliance with Federal Information Security Management Act (FISMA) and other laws and regulations.

Mission, Vision, Values and Goals

MISSION

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

VISION

The SEC strives to promote a market environment that is worthy of the public's trust and characterized by:

- Transparent disclosure to investors of the risks of particular investments;
- Oversight of key market participants, including exchanges, brokers and dealers, investment advisers, and others;
- Focus on strengthening market structure and systems;
- Promotion of disclosure of market-related information;
- Protection against fraud and abuse; and
- Evaluation, development, and maintenance of appropriate rules and regulations.

VALUES

Integrity: As the SEC is the independent Federal agency entrusted with regulating and conducting enforcement for the U.S. securities markets, each member of the Commission's workforce has a responsibility to demonstrate the highest ethical standards to inspire confidence and trust.

Excellence: The SEC is committed to the highest standards of excellence in pursuit of its mission. The investing public and the U.S. securities markets deserve nothing less.

Accountability: The SEC embraces the responsibility with which it is charged. In carrying out its mission, SEC employees hold themselves accountable to the public and take responsibility for achieving SEC goals.

Effectiveness: The SEC strives to work creatively, proactively, and effectively in assessing and addressing risks to the securities markets, the public, and other market participants. The staff is committed to finding innovative and flexible approaches to the SEC's work and using independent judgment to explore new ways to fulfill the SEC's mission in the most efficient and effective manner possible.

Teamwork: The SEC recognizes that its success depends on a diverse, coordinated team committed to the highest standards of trust, hard work, cooperation, and communication. The staff is committed to working together and coordinating effectively with investors, business, governments, and other organizations in the U.S. and abroad.

Fairness: The SEC treats investors, market participants, and others fairly and in accordance with the law. As an employer, the SEC seeks to hire and to retain a skilled and diverse workforce, and to ensure that all decisions affecting employees and applicants are fair and ethical.

Strategic Goals and Strategic Objectives

Strategic Goal 1: Establish and maintain an effective regulatory environment

Strategic Objective 1.1: The SEC establishes and maintains a regulatory environment that promotes high-quality disclosure, financial reporting and governance, and that prevents abusive practices by registrants, financial intermediaries and other market participants.

Strategic Objective 1.2: The SEC promotes capital markets that operate in a fair, efficient, transparent and competitive manner, fostering capital formation and useful innovation.

Strategic Objective 1.3: The SEC adopts and administers regulations and rules that are informed by robust economic analysis and public comment and that enable market participants to understand clearly their obligations under the securities laws.

Strategic Objective 1.4: The SEC engages with a multitude of stakeholders to inform and enhance regulatory activities domestically and internationally.

Strategic Goal 2: Foster and enforce compliance with the Federal securities laws

Strategic Objective 2.1: The SEC fosters compliance with the Federal securities laws.

Strategic Objective 2.2: The SEC promptly detects and deters violations of the Federal securities laws.

Strategic Objective 2.3: The SEC prosecutes violations of Federal securities laws and holds violators accountable through appropriate sanctions and remedies.

Strategic Goal 3: Facilitate access to the information investors need to make informed investment decisions

Strategic Objective 3.1: The SEC works to ensure that investors have access to high-quality disclosure materials that facilitate informed investment decision-making.

Strategic Objective 3.2: The SEC works to understand investor needs and educate investors so they are better prepared to make informed investment decisions.

Strategic Goal 4: Enhance the Commission's performance through effective alignment and management of human, information and financial capital

Strategic Objective 4.1: The SEC promotes a results-oriented work environment that attracts, engages, and retains a technically proficient and diverse workforce, including leaders who provide motivation and strategic direction.

Strategic Objective 4.2: The SEC encourages a collaborative environment across divisions and offices and leverages technology and data to fulfill its mission more effectively and efficiently.

Strategic Objective 4.3: The SEC maximizes the use of agency resources by continually improving agency operations and bolstering internal controls.

History and Purpose

During the peak of the Depression, Congress passed the Securities Act of 1933[1] (Securities Act). This law, along with the Securities Exchange Act of 1934[2] (Exchange Act), which created the SEC, was designed to restore investor confidence in our capital markets by providing investors and the markets with more reliable information and clear rules of honest dealing. The main purposes of these laws were to ensure that:

- Companies publicly offering securities for investment dollars must tell the public the truth about their businesses, the securities they are selling, and the risks involved in investing.
- People who sell and trade securities – brokers, dealers and exchanges – must treat investors fairly and honestly, putting investors' interests first.

The SEC is responsible for overseeing the nation's securities markets and certain primary participants, including broker-dealers, investment companies, investment advisers, clearing agencies, transfer agents, credit rating agencies, and securities exchanges, as well as organizations such as the Financial Industry Regulatory Authority (FINRA), Municipal Securities Rulemaking Board (MSRB), and Public Company Accounting Oversight Board (PCAOB). Under the Dodd-Frank Wall Street Reform and Consumer Protection Act[3] (Dodd-Frank Act), the agency's jurisdiction was expanded to include certain participants in the derivatives markets, private fund advisers, and municipal advisors, among other changes.

The SEC consists of five presidentially appointed Commissioners, with staggered five-year terms. One of them is designated by the President as Chair of the Commission (see *Appendix A: Chair and Commissioners*). President Franklin Delano Roosevelt appointed Joseph P. Kennedy to serve as the first Chairman of the SEC.

By law, no more than three of the Commissioners may belong to the same political party. The Commission convenes regularly at meetings that are open to the public and the news media unless the discussion pertains to confidential subjects, such as whether to begin an enforcement investigation.

Each year, the SEC brings hundreds of civil enforcement actions against individuals and companies for violation of securities laws. Examples of infractions include insider trading, accounting fraud, and providing false or misleading information about securities or the companies that issue them. One of the major sources of information that the SEC relies on to bring enforcement action is investors themselves – another reason that educated and careful investors are critical to the functioning of efficient markets. To help inform investors, the SEC offers the public a wealth of educational information on its website at *www.investor.gov*, as well as an online database of disclosure documents at *www.sec.gov/edgar/searchedgar/companysearch.html* that public companies and other market participants are required to file with the SEC.

[1] *Securities Act of 1933 www.sec.gov/about/laws/sa33.pdf*

[2] *Securities Exchange Act of 1934 www.sec.gov/about/laws/sea34.pdf*

[3] *Dodd-Frank Wall Street Reform and Consumer Protection Act www.sec.gov/about/laws/wallstreetreform-cpa.pdf*

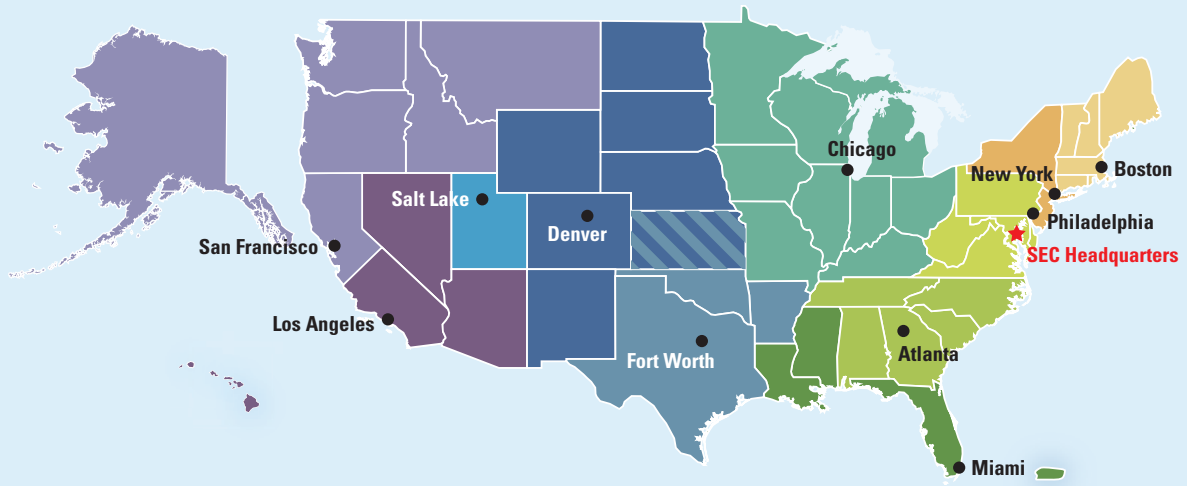
Organizational Structure and Resources

SEC Office Locations

The SEC's headquarters are in Washington, DC, and the agency has 11 regional offices located throughout the country. The regional offices are responsible for investigating and litigating potential violations of the securities laws. The offices also have examination staff, who inspect regulated entities such as investment advisers, investment companies and broker-dealers. The map below shows the locations of the regional offices, and the states that are included in each region.

CHART 1.1

SEC HEADQUARTERS AND REGIONAL OFFICE LOCATIONS



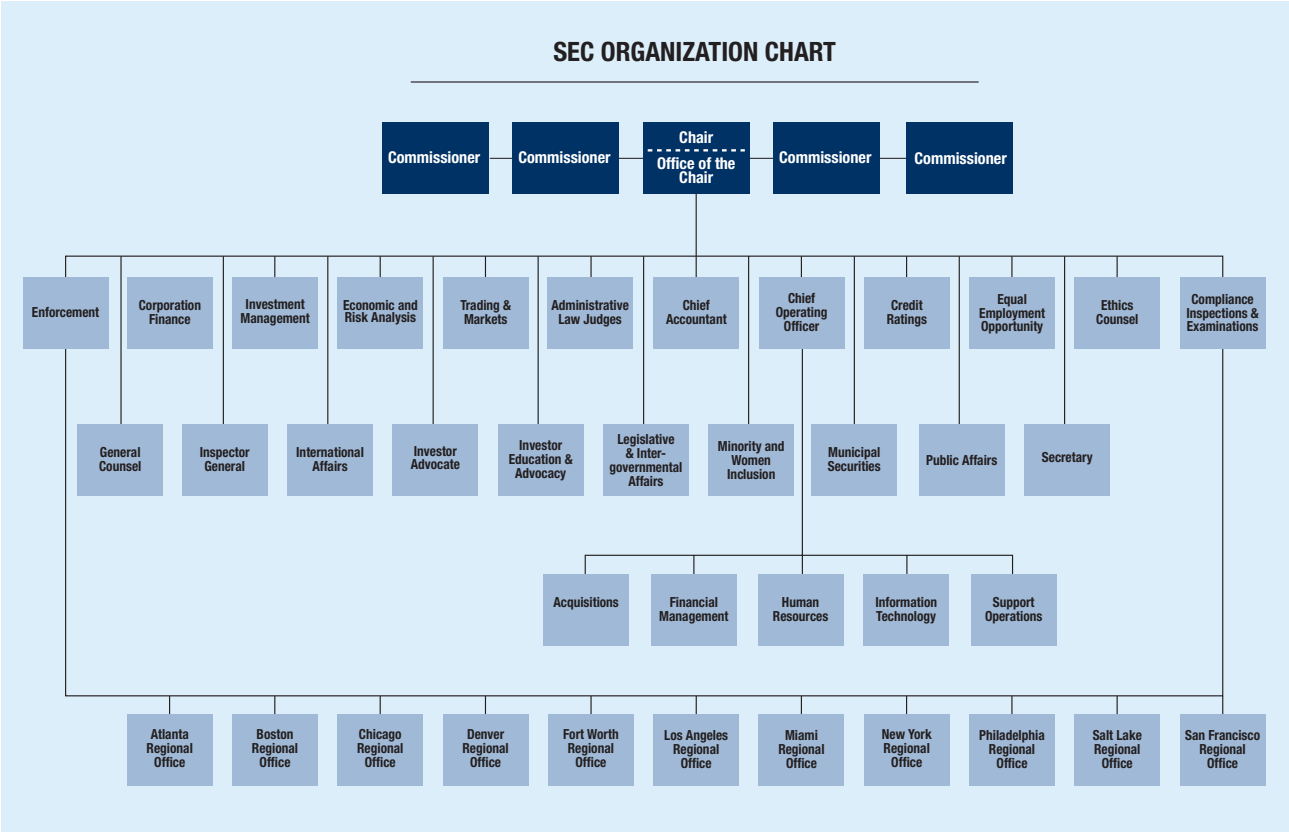
- ★ **SEC Headquarters**
- **Atlanta Regional Office**
  Georgia, North Carolina, South Carolina, Tennessee, Alabama
- **Boston Regional Office**
  Connecticut, Maine, Massachusetts, New Hampshire, Vermont, Rhode Island
- **Chicago Regional Office**
  Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Ohio, Wisconsin
- **Denver Regional Office**
  Colorado, Kansas, Nebraska, New Mexico, North Dakota, South Dakota, Wyoming
- **Fort Worth Regional Office**
  Texas, Oklahoma, Arkansas, Kansas (except for the exam program which is administered by the Denver Regional Office)
- **Los Angeles Regional Office**
  Arizona, Hawaii, Guam, Nevada, Southern California (zip codes 93599 and below, except for 93200-93299)
- **Miami Regional Office**
  Florida, Mississippi, Louisiana, U.S. Virgin Islands, Puerto Rico
- **New York Regional Office**
  New York, New Jersey
- **Philadelphia Regional Office**
  Delaware, Maryland, Pennsylvania, Virginia, West Virginia, District of Columbia
- **Salt Lake Regional Office**
  Utah
- **San Francisco Regional Office**
  Washington, Oregon, Alaska, Montana, Idaho, Northern California (zip codes 93600 and up, plus 93200-93299)

SEC Organization Structure

The SEC is an independent Federal agency established pursuant to the Exchange Act. It is headed by a bipartisan five-member Commission, comprised of the Chair and four Commissioners, who are appointed by the President and confirmed by the Senate (*see Appendix A: Chair and Commissioners*). The Chair serves as the chief executive. The agency's functional responsibilities are organized into five divisions and 23 offices, each of which is headquartered in Washington, DC. The SEC also has 11 regional offices which are comprised primarily of staff from the national enforcement and examination programs.

In Fiscal Year (FY) 2015, the agency employed 4,301 full-time equivalents (FTE), including 4,078 permanent and 223 other than permanent FTEs. The SEC organization chart below is as of September 30, 2015.

CHART 1.2



SEC Programs

The SEC organizes its divisions and offices under the 10 major programs outlined below in *Table 1.1, SEC Programs and Program Descriptions*.

TABLE 1.1
SEC PROGRAMS AND PROGRAM DESCRIPTIONS

Program	Divisions and Offices	Program Descriptions
Enforcement	Division of Enforcement and enforcement staff within the SEC's regional offices	This program investigates and brings civil charges in Federal district court or in administrative proceedings based on violations of the Federal securities laws. An integral part of the program's function is to seek penalties and the disgorgement of ill-gotten gains in order to return funds to harmed investors. Also organized within the Enforcement program is the Office of the Whistleblower, created under the Dodd-Frank Act to administer the SEC's Whistleblower Program that rewards individuals who provide the agency with tips that lead to successful enforcement actions.
Compliance Inspections and Examinations	Office of Compliance Inspections and Examinations and examinations staff within the SEC's regional offices	This program conducts the SEC's examinations of registrants such as investment advisers, investment companies, broker-dealers, self-regulatory organizations (SROs), credit rating agencies, transfer agents, and clearing agencies.
Corporation Finance	Division of Corporation Finance	This program performs functions to help investors gain access to materially complete and accurate information about companies and the securities they offer and sell, and to deter fraud and misrepresentation in the public offering, trading, voting, and tendering of securities.
Trading and Markets	Division of Trading and Markets	This program conducts activities to establish and maintain standards for fair, orderly and efficient markets, while fostering investor protection and confidence in the markets.
Investment Management	Division of Investment Management	This program seeks to minimize the financial risks to investors from fraud, mismanagement, self-dealing, and misleading or incomplete disclosure in the investment company and investment adviser segments of the financial services industry.
Economic and Risk Analysis	Division of Economic and Risk Analysis	The division provides economic analyses as part of the Commission's rulemaking process; supports its rule review, examination and enforcement programs with data-driven, risk-based analytical methods; and oversees its Tips, Complaints and Referrals (TCR) and interactive data programs.
General Counsel	Office of the General Counsel	The Office of the General Counsel (OGC) serves as the chief legal officer of the Commission and provides independent legal analysis and advice to the Chair, Commissioners, and operating divisions on all aspects of the Commission's activities. The General Counsel also defends the Commission in Federal district courts, represents the Commission in all appellate matters and *amicus curiae* filings, and oversees the SEC's bankruptcy program.

(Continued on next page)

TABLE 1.1 *Continued from previous page*

Program	Divisions and Offices	Program Descriptions
Other Program Offices	• Office of the Chief Accountant; • Office of Investor Education and Advocacy; • Office of International Affairs; • Office of Administrative Law Judges; • Office of the Investor Advocate; • Office of Credit Ratings; and • Office of Municipal Securities	These offices are responsible for: • Serving as the chief advisor to the Commission on all accounting and auditing policy and overseeing private sector standards setting; • Serving investors who contact the SEC, ensuring that retail investors' perspectives inform the Commission's regulatory policies and disclosure program, and improving investors' financial literacy; • Administering the rules of the Commission with respect to the practices of municipal securities brokers and dealers, municipal advisors, and investors in municipal securities, and the practices of nationally recognized statistical rating organizations (NRSROs), including examinations of NRSROs; • Advancing international regulatory and enforcement cooperation, promoting converged high regulatory standards worldwide, and facilitating technical assistance programs in foreign countries; and • Adjudicating allegations of securities law violations.
Agency Direction and Administrative Support	• The Chair and Commission; • Office of Legislative and Intergovernmental Affairs; • Office of Public Affairs; • Office of the Secretary; • Office of the Chief Operating Officer; • Office of Financial Management; • Office of Information Technology; • Office of Human Resources; • Office of Acquisitions; • Office of Support Operations; • Office of the Ethics Counsel; • Office of Minority and Women Inclusion; and • Office of Equal Employment Opportunity	The Chair is responsible for overseeing all aspects of agency operations, and the Chair and Commissioners are responsible for the review and approval of enforcement cases and formal orders of investigation and the development, consideration, and execution of policies and rules. The other offices in Agency Direction and Administrative Support are responsible for: • Working with Members of Congress on issues that affect the Commission; • Coordinating the SEC's communications with the media, the general public, and foreign visitors; • Reviewing all documents issued by the Commission, and preparing and maintaining records of Commission actions; • Maximizing the use of SEC resources by overseeing the strategic planning, information technology, procurement, financial management, records management, human resources, and administrative functions of the agency; • Ensuring that the SEC is an equal opportunity employer in full compliance with all Federal equal employment opportunity laws; and • Enhancing the diversity of the SEC's workforce, contractors, and regulated entities in accordance with existing Federal laws and regulations.
Inspector General	Office of Inspector General	The Office of Inspector General (OIG) is an independent office that conducts audits of programs and operations of the SEC and investigations into allegations of misconduct by staff or contractors. The mission of OIG is to detect fraud, waste, and abuse and to promote integrity, economy, efficiency, and effectiveness in the SEC's programs and operations.

As shown in the *Statements of Net Cost* on page 69, the SEC presents its net costs of operations by the programs outlined above, consistent with the presentation used by the agency in submitting its budget requests.

Fiscal Year 2015 in Review

Continuing the Commitment to Excellence

Fiscal Year (FY) 2015 marked another strong year of achievement for the SEC under the leadership of Chair Mary Jo White. The SEC rose to the challenges of a growing mandate and increasingly complex marketplace through strong and effective rulemakings; innovative strategies for vigorous enforcement; enhanced examinations and oversight; a deepened determination to oversee the most complex and rapidly evolving corners of the financial markets; enhancing traditional priorities including investor education and international cooperation; and a dedication to more efficient operations by the agency itself.

Chair Mary Jo White

Making Safer, Stronger Markets through Focused Rulemaking

In FY 2015, the SEC focused on advancing both important discretionary policy initiatives and rules required under the Dodd-Frank Wall Street Reform and Accountability Act (Dodd-Frank) and Jumpstart Our Business Startups (JOBS) Act in those areas that are central to investor protection and strong markets. Under the Dodd-Frank Act, the Commission completed major new rules for reporting and trading security-based swaps, required credit risk retention for asset-backed securities, removed references to credit ratings in money market fund rules, and advanced a suite of executive compensation disclosures. Under the JOBS Act, the Commission adopted new rules to facilitate smaller securities offerings. Beyond these statutory mandates, the Commission moved ahead with a broad program for enhancing the regulation of asset management, continuing efforts on equity market structure with final controls for technology use at key market participants, and new proposed regulations for proprietary trading firms.

Prosecuting a High-Impact, Broad-Based Enforcement Program

The Enforcement Division (Enforcement) continued to build an impressive record of cases that spanned the spectrum of the securities industry. Using powerful, innovative analytical and data tools, the SEC focused its aggressive enforcement efforts on key areas of growing concern such as financial reporting and accounting fraud, improper conduct by key market participants and illegal practices by broker-dealers and investment advisers. The Commission also continued to identify and address new issues in compliance with the Federal securities laws, bringing "first-ever" cases in gatekeeper responsibility, whistleblower protection, private equity, market structure, municipal bonds, securities-based swaps, dark pool disclosure, and credit ratings agencies.

Enhancing a Risk-Based, Data-Driven Examination Program

The Office of Compliance Inspections and Examinations (OCIE) continued to promote compliance through a multi-level outreach program and to detect and prevent fraud through an increasingly sophisticated examination process. OCIE expanded its abilities to analyze massive amounts of data from registrants to detect potential violations, from hiring skilled technologists to improving the National Exam Analytics Tool (NEAT) that enables examiners to access and systematically analyze such data. Through these efforts, its annual statement of examination priorities, meetings with senior management, public risk alerts, and other channels,

OCIE strengthened its program to identify, communicate, and address those risks at registrants that can most place investors and markets at risk.

Building Efficient, Effective Commission Programs with Data and Technology

Across these areas and others, the Commission deployed new technology and data to increase the efficiency and effectiveness of its programs. In enforcement, investigations were supported by innovative tools devised to analyze large volumes of data to identify potentially fraudulent trade allocations, unravel order books to detect abusive trading, and track wrongdoers across national borders. In rulemaking, analyses of securities offerings, the security-based swap market, and asset management helped inform policy choices and calibrate Commission proposals. In examinations, NEAT and other tools were deployed to leverage limited resources to assess risks and identify deficiencies across billions of transactions and hundreds of firms. Core operations of the Commission were also improved, with significant new updates to the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system and enhancements to agency infrastructures like the Enterprise Data Warehouse.

Throughout the agency, the SEC's talented and dedicated staff are creating and embracing new tools and technology, deploying new and innovative strategies to protect investors, keep markets safe and encourage capital formation – more effectively than ever before.

Transformative Policy Initiatives for Safer, Stronger Markets

During FY 2015, the Commission advanced critical reforms to protect investors and build stronger markets, including addressing products and practices that contributed directly to the financial crisis.

With the efforts of the last fiscal year, the Commission has now completed all of its mandatory rulemaking in six of the eight most significant areas targeted for SEC action by the Dodd-Frank Act: the regulation of private fund advisers; restrictions on proprietary trading; enhanced standards for clearing agencies; a new regulatory framework for municipal advisors; better regulation of credit rating agencies and credit ratings; and credit risk retention for asset-backed securities. The SEC is also actively in the process of completing final rules for the remaining two areas: security-based swaps and executive compensation rules required by the Dodd-Frank Act – pay versus performance, employee and director hedging and compensation clawbacks.

With the adoption in FY 2015 of final rules for smaller offerings, the Commission has also nearly completed its mandatory rulemaking under the JOBS Act.

Security-Based Swaps

The Commission has put in place the foundation for the regulation of trade reporting and dissemination for security-based swaps, adopting a new set of rules for the registration, duties, and core principles of security-based swap data repositories and a second set of rules that prescribe reporting and public dissemination requirements for security-based swap transaction data. In addition, the Commission re-proposed rules to address authorities' access to data in trade repositories, including a conditional exemption from a statutory indemnification requirement.

The Commission also began finalizing rules for the regulation of security-based swap intermediaries, adopting new rules to provide a comprehensive, efficient process for security-based swap dealers and major security-based swap participants to register with the SEC. The new rules address all aspects of the registration regime, setting forth the set of information required to be provided and kept up to date by registered entities. As part of this process, the Commission also proposed rules to provide an application process for security-based swap entities to request continuation of security-based swap activities through associated persons subject to certain adverse legal actions, if doing so would be consistent with the public interest.

Furthering efforts to address the cross-border application of Commission rules in the security-based swap market, the Commission also proposed rules governing the application of certain requirements to security-based swap transactions connected with a non-U.S. person's dealing activity in the United States.

Executive Compensation

In FY 2015, the Commission adopted a rule requiring issuers to disclose the ratio of the compensation of its Chief Executive Officer (CEO) to the compensation of its median employee. The Commission also proposed a full suite of executive compensation rules required by the Dodd-Frank Act, addressing the disclosure of hedging policies, disclosure of the relationship between executive compensation and an issuer's performance, and exchange listing standards for the recovery of erroneously awarded compensation, commonly referred to as a "clawback."

Equity Market Structure and Critical Market Infrastructure

Beginning a new phase of rulemaking to enhance the U.S. equity market structure, the Commission adopted Regulation Systems Compliance and Integrity (Regulation SCI), which mandates comprehensive new controls to strengthen key technological systems, promoting greater transparency, resiliency, and accountability.

As a complement to this effort, the Commission approved rules from the national securities exchanges and the Financial Industry Regulatory Authority (FINRA) designed to address specific areas where the robustness and resilience of critical market infrastructure could be improved for the equity and options markets, including the implementation of trade break processes and procedures, kill switches and other risk mitigation mechanisms. The Commission staff also worked with the exchanges and FINRA, as well as the securities information processors (SIPs), to identify and implement long-term resilience, capacity, information security, and testing/monitoring objectives for the SIPs; establish an enhanced backup process for the SIPs in the case of a primary SIP failure; improve SIP governance and transparency; and assess and address the resilience of other non-SIP critical market infrastructure systems. In addition, the Commission staff continued to work with the self-regulatory organizations (SROs) on rule amendments and procedures addressing the issuance, effectiveness, and communication of regulatory halts.

Beyond these efforts to enhance operational integrity, the Commission continued its efforts to enhance equity market structure by the following.

- Launching the Market Structure Advisory Committee, putting in place a formal mechanism through which the Commission can receive advice and recommendations specifically related to equity market structure issues.
- Proposing rule amendments to require broker-dealers trading in off-exchange venues become members of a national securities association.
- Ordering the SROs to submit a tick size pilot plan that would widen the quoting and trading increments for certain small capitalization stocks. The plan is designed to generate data that would allow the Commission and the public to evaluate whether a widened tick improves the market quality for small capitalization stocks.
- Receiving and assessing a proposed plan from the exchanges and FINRA to implement the consolidated audit trail (CAT) pursuant to a rule previously adopted by the Commission. The CAT is designed to capture customer and order event information for orders in national market securities from the time of order execution through routing, cancellation, modification, or execution.

Asset Management

In FY2015, the Commission also began a wide-ranging program to enhance its regulation of investment advisers and registered funds. In May 2015, the Commission proposed rules to modernize and enhance the information reported by investment companies and investment advisers. The new rules would enhance the quality of information available to the Commission and investors and would allow the Commission to more effectively collect and use data provided by investment companies and investment advisers.

In September 2015, the Commission proposed reforms to promote effective liquidity risk management throughout the open-end fund industry. The proposed reforms would require mutual funds and exchange-traded funds to implement liquidity risk management programs and enhance disclosure regarding fund liquidity and redemption practices and also provide a framework under which mutual funds could elect to use "swing pricing."

Securities Offerings and Securitization

The Commission also continued to implement statutory mandates designed to enhance securities offerings and strengthen securitization processes. Fulfilling a requirement of the JOBS Act, the Commission adopted rules to increase access to capital for smaller companies by enabling companies to offer and sell up to $50 million of securities within a 12-month period, a provision commonly called "Regulation A+." Also under the JOBS Act, the Commission proposed new rules for registration and reporting thresholds under Exchange Act Section 12(g).

With respect to securitization, the Commission, jointly with five other Federal agencies, adopted credit risk retention rules required by the Dodd-Frank Act that require sponsors of asset-backed securities to keep "skin in the game" for the securities they package and sell.

Disclosure Policy and Review

In FY 2015, the Commission issued a request for comment on certain requirements in Regulation S-X, the first product of the Division of Corporation Finance's (Corporation Finance) disclosure effectiveness initiative. The Division has continued to advance this initiative, undertaking a comprehensive review of the disclosure requirements and seeking input from a broad range of market participants. The staff is developing recommendations on how to update the disclosure requirements to facilitate more effective disclosure by companies to their shareholders. As part of this review, staff members are coordinating with the Financial Accounting Standards Board to identify ways to improve the effectiveness of disclosures in corporate financial statements and to minimize duplication with other existing disclosure requirements.

In FY 2015, Corporation Finance also continued to work to ensure that companies disclose material information appropriately and effectively. Through its review program, Corporation Finance continued to improve the effectiveness of company disclosures and enhance investor protection through focused comments on periodic reports and offering documents, including the registration statements for approximately 600 initial public offerings.

The Division also published significant interpretive guidance to assist companies in improving their disclosures, such as updates to Corporation Finance's Financial Reporting Manual.

Aggressive and Innovative Approach to Enforcement

In FY 2015, the SEC continued to build an impressive record of cases that spanned the spectrum of the securities industry. The SEC focused its aggressive enforcement efforts on key areas of growing concern such as financial reporting and accounting fraud, improper conduct by key market participants and illegal practices by broker-dealers and investment advisers. The SEC has also continued to bring important cases involving market structure, insider trading, Foreign Corrupt Practices Act (FCPA) violations and misconduct related to complex financial instruments.

The SEC ended the year with 807 enforcement actions in FY 2015 and obtained orders for $4.2 billion in penalties and disgorgement. The quality, breadth, and impact of these actions are demonstrated by the fact that the SEC brought 507 independent administrative proceedings and civil injunctive actions, representing a 23 percent increase over last fiscal year. The remaining cases brought were largely to obtain bars on individual wrongdoers, one of the agency's more powerful tools to protect investors and the markets.

Leveraging Data Tools and Analysis

Enforcement's extremely strong fiscal year was due in no small part to the use of innovative analytical tools to leverage data to detect and investigate complex and intricate violations of the Federal securities laws. As violations of the Federal securities laws have become harder to detect, Enforcement has focused on ways to harness in-house expertise and data infrastructure to plumb the depth of massive data sources and identify violative conduct. Collaboration between Enforcement staff and economists from the Division of Economic and Risk Analysis (DERA) continued to be strong this year, bolstered by an almost 20 percent increase in DERA staff dedicated to enforcement matters. The two Divisions collaborated on over 120 new projects in FY 2015, in matters involving market manipulation, insider trading, structured products, accounting fraud, and abusive practices by investment advisers and brokerage firms.

These efforts have culminated in a number of cases filed during the past fiscal year where data tools and analysis played a significant role in their origin or investigation, a trend that Enforcement sees continuing into the following fiscal year and beyond.

- During FY 2015, the SEC announced fraud charges against a Wisconsin-based investment advisory firm, and its owner for fraudulently "cherry-picking" winning options trades. The fraudulent trading was identified with help from DERA staff, who conducted a statistical analysis to determine whether the trades at issue could have resulted from a coincidental or lucky combination of trades.
- The SEC charged 34 defendants in an action alleging a scheme to profit from stolen nonpublic information about corporate earnings announcements, which was developed through the use of innovative analytical tools designed to find suspicious trading patterns and expose misconduct. Since filing the emergency action, the SEC obtained a $30 million settlement from two of the defendants.
- The SEC filed an emergency asset freeze against a Bulgarian national, and four entities controlled by him, who manipulated Avon stock through false tender offer filings on EDGAR. In a matter of three weeks, Enforcement staff tracked the filing to an IP address located in Sofia, Bulgaria and were able to link the filing and trading in a couple of accounts to an entity controlled by the Bulgarian national.
- The SEC charged several individuals with insider trading that was detected through its Analysis and Detection Center, including a former J.P. Morgan Chase investment bank analyst, and a consultant to Panda Restaurant Group.

First-of-their Kind Cases

The SEC continued to blaze new trails in enforcement of the Federal securities laws by bringing many first-of-their-kind cases. These cases involved essential areas, including gatekeepers, whistleblower protection, private equity, market structure, municipal bonds, securities-based swaps, dark pool disclosure, and credit ratings agencies and are discussed below.

Commissioner Luis A. Aguilar

- **First action involving admissions by an auditing firm.** The SEC charged BDO USA, LLP and five of the firm's partners, including national office personnel, with dismissing red flags and issuing false and misleading unqualified audit opinions about the financial statements of staffing services company General Employment Enterprises. To settle the matter, BDO agreed to admit wrongdoing, pay disgorgement of its audit fees and interest totaling approximately $600,000, and pay a $1.5 million penalty in addition to complying with undertakings related to its quality controls. Four of the firm's partners agreed to be suspended from practicing public company accounting for various periods; all five partners agreed to pay penalties ranging from $10,000 to $30,000.
- **First action charging a private equity adviser with misallocating broken deal expenses.** The SEC charged Kohlberg Kravis Roberts & Co. (KKR) with misallocating more than $17 million in so-called "broken deal" expenses to its flagship private equity funds in breach of its fiduciary duty. KKR agreed to a settlement that included nearly $30 million in disgorgement, prejudgment interest and penalties. This action originated from an OCIE referral.

- **First action for failure to report a material compliance matter to a fund board.** The SEC charged Blackrock Advisors LLC with breaching its fiduciary duty by failing to disclose a conflict of interest created by the outside business activity of a top-performing portfolio manager. The SEC also charged Blackrock's former Chief Compliance Officer (CCO) with causing the funds' failure to report a material compliance matter to the fund board and with causing Blackrock's failure to adopt and implement policies and procedures for outside activities of employees. Blackrock paid a $12 million penalty and agreed to hire an independent compliance consultant, and the former CCO paid a $60,000 penalty.

- **First action brought under Distribution-in-Guise initiative.** The SEC charged New York-based investment adviser First Eagle Investment Management and its affiliated distributor, FEF Distributors, with improperly using mutual fund assets to pay for the marketing and distribution of fund shares. First Eagle and FEF agreed to pay nearly $40 million to settle the SEC's charges. This action originated from an OCIE referral.

- **First actions brought against underwriters under Municipalities Continuing Disclosure Cooperation (MCDC) initiative.** The SEC charged 58 municipal underwriting firms for violations in municipal bond offerings. To settle the actions, the firms agreed to pay penalties ranging from $20,000 to a maximum penalty of $500,000 and retain independent consultants to review each firm's policies and procedures on due diligence in the municipal underwriting process.

- **First action against underwriter for pricing-related fraud in the primary market for municipal securities.** The SEC charged Edward Jones and the former head of its municipal underwriting desk with overcharging customers in connection with the sale of new municipal bonds. Edward Jones agreed to a settlement that included payment of over $20 million and the former head of Edward Jones' municipal underwriting desk agreed to pay a $15,000 penalty and a two-year industry bar. This action originated from an OCIE referral.

- **First action charging violations of MSRB Rule G-15(f).** The SEC sanctioned 13 dealers for effecting customer transactions in municipal securities in amounts below the minimum denomination set for the issue. Each of the 13 firms settled to terms including penalties between $54,000 and $130,000.

- **First action applying Dodd-Frank provisions limiting the sale of security-based swaps.** The SEC charged Sand Hill Exchange, a Silicon Valley-based startup company, and its two founders with offering and selling security-based swaps contracts to retail investors outside the regulatory framework of a national securities exchange and without the required registration statements in effect. The firm and its two founders agreed to a settlement that included a $20,000 penalty.

- **First action under Rule 21F-17.** The SEC charged KBR, Inc. with using confidentiality agreements or other actions to impede a whistleblower from communicating with the SEC. KBR agreed to a settlement that included a $130,000 penalty and an agreement to undertake reasonable efforts to contact employees in the U.S. who signed the earlier version of the confidentiality statement to inform them of the updated policy.

- **First high frequency trading manipulation action.** The SEC charged Athena Capital Research with fraud for using a complex algorithm that placed a large number of aggressive, rapid fire trades in the final two seconds of almost every trading day during a six-month period to manipulate the closing prices of thousands of NASDAQ-listed stocks. Athena paid a $1 million penalty to settle the charges.

- **First action to address violations arising from a dark pool's disclosure of order types to its subscribers.** The SEC charged a UBS subsidiary with disclosure and other securities law violations related to the operation and marketing of its dark pool. The subsidiary agreed to pay over $14 million to settle the charges.

- **First action against a Big Three credit rating agency.** The SEC charged Standard & Poor's (S&P) in three separate settled actions and the former head of S&P's Commercial Mortgage-Backed Securities (CMBS) ratings group with fraudulent misconduct in the ratings

of certain CMBS. To settle these actions, S&P agreed to a settlement that included factual admissions, monetary relief totaling $58 million to the SEC and $19 million to authorities in New York and Massachusetts, and agreed to undertake an overhaul of its internal controls and retract public research concerning its ratings that the SEC found to be fraudulent.

Market Structure, Exchanges, and Broker-Dealers

During FY 2015, Enforcement continued to prioritize market structure issues, bringing a number of significant actions involving alternative trading systems (known as ATSs), stock exchanges and other market participants to help ensure that our markets continue to operate fairly and efficiently. In order to bring such cases, Enforcement leveraged the knowledge of its specialized units and task forces, pursued creative ways to effectively use data and analytics, and filed a number of significant actions against market participants who threatened the fair and efficient operation of our markets by flaunting the rules, examples of which follow below.

- The SEC brought actions against Morgan Stanley, Goldman, Sachs & Co., and Latour Trading LLC under Exchange Act Rule 15c3-5, known as the market access rule, which obligates broker-dealers providing market access to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage financial, regulatory, and other risks of this business activity. Each of the firms agreed to settle the SEC's charges by paying penalties ranging from $4 million to $8 million.
- The SEC charged two exchanges formerly owned by Direct Edge with failing to accurately describe their order types in SEC rule filings. The SEC obtained a penalty of $14 million in settlement, which represents the largest penalty to date assessed against an exchange.
- The SEC charged two Merrill Lynch entities with using inaccurate data in the course of executing short sale orders. To settle the SEC's charges, Merrill agreed to admit wrongdoing, pay nearly $11 million in disgorgement, prejudgment interest and penalties, and retain an independent compliance consultant.
- The SEC charged ITG Inc. and its affiliate AlterNet Securities, Inc. with operating a secret trading desk and misusing the confidential trading information of dark pool subscribers. ITG and AlterNet agreed to a settlement that included admissions, $2.2 million in disgorgement and prejudgment interest, and an $18 million penalty that is the SEC's largest to date against an ATS.

Insider Trading

During FY 2015, Enforcement continued its pursuit of individuals who misappropriate or trade unlawfully on material, nonpublic information. In FY 2015, the SEC charged 87 parties with insider trading actions, which sends a strong message of deterrence to would-be violators. Below are notable examples.

- The SEC charged an entrepreneur and private equity investor and a general partner at a venture capital firm with insider trading in shares of Cooper Tire and Rubber Company ahead of an announcement that the company would be acquired by Apollo Tyres in a scheme that allegedly netted more than $1 million.
- The SEC charged a former Fortune 500 company executive and his brother-in-law whom he allegedly tipped with nonpublic information ahead of the company's merger.
- The SEC charged a former day trader, his two friends, and his brother-in-law with a multi-million dollar serial insider trading scheme involving numerous stocks since at least 2010 and that allegedly generated more than $4.4 million in unlawful profits.
- The SEC settled with a Swiss trader for trading on nonpublic information ahead of a Florida-based biometrics company's acquisition by Apple. The trader agreed to pay over $2.8 million in disgorgement, prejudgment interest and a penalty, which is significant due to the legal hurdles in obtaining penalties from foreign nationals.

Financial Reporting/Accounting and Disclosure Fraud

Comprehensive, accurate, and reliable financial reporting is the bedrock upon which our markets are based. Because of this, rooting out financial and disclosure fraud has always been an Enforcement priority, and FY 2015 was no exception. Enforcement actions in this area are

essential to ensuring public confidence in the securities markets. The SEC's notable actions in FY 2015 included the following:

- Computer Sciences Corporation (CSC) paid a $190 million penalty to settle charges that it manipulated financial results and concealed significant problems with the company's largest and most high-profile contract. The SEC also charged eight former CSC executives, including CSC's former CEO and Chief Financial Officer (CFO), all of whom have now settled the charges by payment of over $5 million in clawbacks, disgorgement, prejudgment interest, and penalties.
- Deutsche Bank AG paid a $55 million penalty to settle charges that it filed misstated financial reports during the height of the financial crisis that failed to take into account a material risk for potential losses estimated to be in the billions of dollars.
- The SEC charged Bankrate Inc. and three former executives with allegedly falsely overstating its second quarter 2012 net income. Bankrate and one of the former executives agreed to pay more than $15 million to settle the charges; litigation continues against the other two former executives.
- The SEC charged MusclePharm Corp. and four executives with series of disclosure and accounting failures relating to perquisites, related parties, executive bankruptcies, and other financial statement requirements. The company and its executives settled with the SEC by agreeing to payment of approximately $850,000 in penalties and other ancillary relief.
- The SEC charged ITT Educational Services and its CEO and CFO with allegedly engaging in a fraudulent scheme to conceal significant defaults associated with ITT's student loan programs.
- The SEC announced charges against Miller Energy Resources Inc., its former CFO, and its current Chief Operating Officer (COO) for allegedly inflating values of oil and gas properties, resulting in fraudulent financial reports for the Tennessee-based company.
- The SEC charged two former top executives of a now-bankrupt online video management company, accusing them of falsifying financial statements to make the company appear more profitable than it was in reality.
- The SEC announced charges against two former top executives at Assisted Living Concepts Inc. for allegedly listing fake occupants at some senior residences in order to meet the requirements of a lease to operate the facilities.
- Two former CFOs of Saba Software agreed to reimburse the company for almost $500,000 in bonuses and stock sale profits under Section 304 of the Sarbanes-Oxley Act of 2002, which requires officers to reimburse the company for such compensation received while misconduct occurred.

Gatekeepers

Gatekeepers are integral to protecting investors in our financial system because they are best positioned to detect and prevent the compliance breakdowns and fraudulent schemes that cause investor harm. During FY 2015, Enforcement remained focused on potential violations by gatekeepers, examples of which follow below.

- The SEC charged current and former broker-dealer subsidiaries of E*Trade Financial Corporation and Oppenheimer & Co. for failing in their gatekeeper roles in connection with unregistered sales of microcap stocks. The E*Trade subsidiaries agreed to pay over $2.5 million in disgorgement, prejudgment interest and penalties, and Oppenheimer agreed to a settlement that included a $20 million penalty and admissions.
- The SEC also brought significant actions against auditing firms for violating auditor independence rules:
  - The SEC sanctioned eight auditing firms for violating auditor independence rules when they prepared the financial statements of brokerage firms that were their audit clients. The audit firms each settled, agreed to remedial undertakings, and agreed to pay a total of $140,000 in penalties.

- The SEC charged Deloitte & Touche LLP with violating auditor independence rules when its consulting affiliate maintained a business relationship with a trustee serving on the boards and audit committees of three of Deloitte's audit clients. Deloitte settled with the SEC by agreeing to payment of more than $1 million in disgorgement, prejudgment interest, and penalties.

- The SEC charged MusclePharm Corp.'s former audit committee chair who substituted his own uninformed view of legal requirements for those of an outside expert, resulting in an incorrect disclosure; he settled the charges by paying a $30,000 penalty.
- The SEC charged 14 accountants and 10 attorneys for their roles in aiding perpetrators of microcap fraud, including the SEC's charges against two attorneys, two audit firms, and seven auditors for their involvement in a microcap scheme involving the filing of 20 false and misleading registration statements.

Microcap Fraud

During FY 2015, Enforcement broadened its efforts to combat microcap fraud to encompass significant actions involving international schemes, professionals associated with microcap frauds, and recidivist offenders. Enforcement's efforts in this area are included below.

- Suspending trading in 334 issuers, including 128 issuers arising from a microcap fraud-fighting initiative known as *Operation Shell-Expel*.
- Charging a Canadian citizen with conducting a scheme to conceal his control and ownership of a microcap company Cynk Technology Corp., a company with no assets that claimed to operate a social networking site and whose trading the SEC suspended after Cynk's stock price shot up significantly.
- Charging a securities lawyer who used his New York law office as the headquarters for planning and implementing three penny stock manipulation schemes. The attorney agreed to a settlement that included payment of approximately $4.6 million in disgorgement and prejudgment interest, anti-violation injunctions and a penny stock bar.

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- Charging a recidivist microcap promoter, arising from his alleged role in the illegal sale of more than 83 million penny stock shares, which he accumulated through at least 10 different offshore front companies, for proceeds of at least $21 million.
- Charging 34 entities and individuals in an alleged massive microcap manipulation scheme that included unregistered Costa Rica-based firms acting as broker-dealers for U.S.-based customers who engaged in various "pump and dump" schemes to sell their penny stock shares to the public at artificially inflated prices.

Municipal Securities

In addition to the three first-of-their-kind actions brought by the SEC involving participants in the municipal securities market discussed above, the SEC also charged the City of Allen Park (a suburb of Detroit) and its administrator with making false and misleading representations in offering documents for the city's issuance of $31 million in general obligation bonds, and Allen Park's mayor as a "controlling person" of his city. Allen Park, its mayor and its administrator settled the SEC's action, which included payment of a $10,000 penalty by the mayor.

Investment Advisers

Investment advisers and the funds they manage – which touch the lives of the investing public every day as they invest in funds and seek advice about investing in our markets to reach their financial goals – remained a key focus of Enforcement during FY 2015. Enforcement brought actions against a wide range of investment advisers, including those who failed to disclose conflicts of interest, engaged in fraudulent conduct, and otherwise breached their fiduciary duties to their clients. Examples, in addition to the actions against Blackrock, First Eagle, and KKR listed above, include:

- The SEC charged investment management firm F-Squared Investments and its co-founder and former CEO with defrauding investors through false performance advertising about its flagship product. To settle the matter, F-Squared agreed to admit wrongdoing and pay disgorgement and a penalty of $35 million. The SEC's litigation against the firm's co-founder and former CEO is continuing.
- The SEC charged a New York City-based investment adviser with fraud for allegedly stealing $20 million from customers that he then lost in unprofitable options trading.
- The SEC charged Interinvest Corp., an investment advisory firm purporting to manage almost $95 million in client assets, and its owner with funneling more than $17 million in client assets into four financially troubled Canadian penny stock companies in which the owner had undisclosed business and financial interests.
- The SEC charged Patriarch Partners, the firm's CEO, and three other entities with fraud in overvaluing assets in three collateralized loan obligations.

Foreign Corrupt Practices Act (FCPA)

The SEC continued to focus on enforcement of the antibribery and anticorruption laws in FY 2015 and brought a number of significant actions against both companies and individuals.

- The SEC charged Bio-Rad Laboratories, Inc. (Bio-Rad) with violating the FCPA when its subsidiaries made improper payments to foreign officials in Russia, Vietnam, and Thailand in order to win business. Bio-Rad, which self-reported its misconduct and extensively cooperated during the investigation, agreed to pay $55 million to settle the SEC's charges and a parallel action announced by the U.S. Department of Justice (DOJ).
- The SEC charged Avon Products Inc. with violating the FCPA by failing to put controls in place to detect and prevent payments and gifts to Chinese government officials from employees and consultants at a subsidiary. The company agreed to pay $135 million to settle charges brought by the SEC and DOJ and the U.S. Attorney's Office for the Southern District of New York.
- The SEC charged BHP Billiton with violating the FCPA when it established a hospitality program for foreign government officials to attend the 2008 Beijing Olympics. The company agreed to settle the charges by paying a $25 million penalty and reporting on its FCPA compliance program for one year.
- The SEC charged BNY Mellon with FCPA violations arising from internships provided to family members of foreign government officials affiliated with a Middle Eastern sovereign wealth fund. BNY Mellon agreed to a settlement that included payment of disgorgement, prejudgment interest and a penalty totaling $14.8 million. This was the first FCPA action against a financial institution and the first involving hiring practices.
- The SEC also brought FCPA-related charges against two former employees in the Dubai office of FLIR Systems Inc., an officer of PBSJ Corporation, and the former vice president of global and strategic accounts for SAP SE, all of whom settled by collectively paying over $200,000 in penalties and disgorgement.

Complex Financial Instruments

In FY 2015, the SEC brought a number of actions involving complex financial instruments, which built on the SEC's already strong record of pursuing financial crisis-related cases.

- The SEC charged two Citigroup affiliates with defrauding investors in two hedge funds that collapsed during the financial crisis. The Citigroup affiliates agreed to a settlement that included payment of approximately $180 million in disgorgement and prejudgment interest to aggrieved investors. The SEC charged three senior residential mortgage-backed securities (RMBS) traders at the broker-dealer Nomura Securities International, Inc. (Nomura) with fraud arising from their making, and directing others to make, misrepresentations to Nomura customers in dozens of RMBS trades. The staff also entered into deferred prosecution agreements with three midlevel Nomura traders.

Jury Trial Victories

Enforcement had a number of important jury trial victories in FY 2015.

- Following a six-week trial, in December 2014 a jury returned a verdict in favor of the SEC on its fraud claims against BankAtlantic Bancorp, now known as BBX Capital Corporation, and its CEO Alan Levan. The case arose from fraud charges against BankAtlantic and Mr. Levan concerning the state of the bank's loan portfolio early in the financial crisis. Following the remedies phase of the proceedings, the court entered final judgments against BBX and Mr. Levan ordering permanent injunctive relief as to both BBX and Mr. Levan, a $4.55 million penalty as to BBX, and a two year officer-and-director bar (effective 90 days from the court's ruling) and a $1.3 million penalty as to Mr. Levan.
- Following a five-day trial, in November 2014, the SEC received a favorable jury verdict against Charles Kokesh, who was found liable for defrauding four business development companies of tens of millions of dollars. Following the remedies phase of the proceedings, the court entered a final judgment against Mr. Kokesh, ordering him to pay disgorgement, prejudgment interest and a penalty totaling over $55 million.
- The SEC received a jury verdict finding Willie Gault liable for filing false certifications with the SEC and knowingly circumventing the company's internal controls. The charges against Mr. Gault arose from his role as co-CEO of HeartTronics, Inc., a company that claimed to sell a heart monitoring device. Proceedings regarding remedies are ongoing and were not resolved during FY 2015.
- The SEC received a favorable jury verdict finding George Levin liable for fraud in connection with his and his companies' purchase of discounted legal settlements in the form of promissory notes and limited partnership interests offered by Ft. Lauderdale attorney Scott Rothstein, which turned out to be non-existent and comprised one of the largest-ever Ponzi schemes in South Florida. Following the verdict, the court entered judgment against Mr. Levin and ordered him to pay approximately $50 million in disgorgement, prejudgment interest and a penalty.
- The SEC received a favorable jury verdict finding Ralph Pirtle, the former Director of Real Estate for Philips Electronics North America, Inc., a wholly-owned subsidiary of Royal Philips, N.V., and his friend and business associate, Morando Berrettini, liable for insider trading in the securities of two companies that were acquisition targets for Philips. Proceedings regarding remedies were not resolved during FY 2015.

International Enforcement

In coordination with the SEC's Office of International Affairs (OIA), Enforcement continued to expand its international enforcement efforts. FY 2015 included several significant actions, discussed above, involving cooperation with the SEC's law enforcement and regulatory counterparts both at home and abroad.

OIA's enforcement cooperation and assistance team handled 929 requests from Enforcement for international assistance, 531 requests for assistance from foreign regulatory and law enforcement authorities, and 826 tips, complaints and referrals with international aspects (incoming and outgoing). The SEC also opened 20 formal investigations to assist its foreign regulatory counterparts.

Continued Excellence in the Examination Program

OCIE plays a critical role in protecting investors and the integrity of our capital markets. Every year, OCIE examiners conduct risk-based examinations of many kinds of registered entities, including broker-dealers, investment advisers, investment companies, national securities exchanges, SROs, transfer agents, and clearing agencies, to evaluate their compliance with applicable regulatory requirements. OCIE uses the findings from these examinations to address deficiencies directly with registrants and, more broadly, to improve industry compliance, detect and prevent fraud, inform policy, and identify risks.

In FY 2015, OCIE conducted nearly 2,000 formal examinations of registrants, an increase over each of the prior five fiscal years. As described below, in addition to examinations, OCIE also performed thousands of desk reviews to evaluate the business activities of its registrants. OCIE's examinations resulted in the return of approximately $120 million to investors.

Developing Technology and Data Analytics

In FY 2015, OCIE continued to make significant enhancements in data analytics. This effort has made OCIE more efficient and effective in analyzing massive amounts of data from registrants to detect potential violations of laws, rules, and regulations.

OCIE's Risk Analysis and Surveillance Group (RAS) has aggregated and analyzed data from SEC filings concerning registrants and individuals to identify activity that may warrant examination. In FY 2015, RAS significantly furthered its data analysis and monitoring efforts to surveil data from sources internal and external to the Commission, including, for example, data collected by or filed with other regulators, SROs, and exchanges, as well as information that registrants provide to data aggregators regarding, for example, their business activities and marketing-related efforts. This expanded data collection and analysis has not only enhanced OCIE's ability to identify operational red flags throughout entire industries – such as firms with aberrant swings in reported assets under management, changes in key individuals, business activities, and affiliates, migration of bad actor industry participants, and other possible indicia of heightened risk – but has also enabled examiners to better understand each firm's business activities prior to conducting an examination.

Other OCIE teams have also leveraged technology to evaluate large amounts of data for signs of fraud and suspicious activity. OCIE has hired highly skilled technologists in its Quantitative Analytics Unit (QAU) to develop tools that bring powerful analytic capabilities to each examiner in the National Examination Program. In FY 2015, the QAU further improved NEAT which enables examiners to access and systematically analyze years' worth of a registrant's trading data in minutes. QAU has also been developing technologies to help examiners detect suspicious activity in areas such as money laundering and high frequency trading that will further expand and enhance OCIE's capabilities to fight and deter fraud.

OCIE's Risk Analysis Examination (RAE) Team continues to leverage technology using its specialized skills and examination experience to conduct examinations of some of the nation's largest broker-dealers. By analyzing transactions cleared by firms over several years, RAE has identified problematic behavior across multiple firms, including unsuitable recommendations, misrepresentations, inadequate supervision, churning, reverse churning, and load waivers.

Continuing to Promote and Improve Industry Compliance

OCIE improves industry compliance with the Federal securities laws and promotes better industry risk management practices through examinations, communication, and outreach initiatives with the industry.

- OCIE published its annual public statement of examination priorities to inform investors and registrants about areas that the staff believes present heightened risk and to support the SEC's mission. The examination priorities were selected through a collaborative process in which OCIE's senior management and senior representatives of other SEC Divisions and Offices worked side-by-side to analyze and perform a risk-based assessment of information from a number of sources. This included information reported by registrants in required filings and gathered through examinations; communications with other

Federal, state and foreign regulators; comments and tips received from investors and registrants; third-party databases; interactions with industry groups and service providers outside of examinations; and industry and media publications.

- OCIE issued six public "Risk Alerts":
  - *Broker-Dealer Controls Regarding Customer Sales of Microcap Securities* (October 9, 2014)
  - *Cybersecurity Examination Sweep Summary* (February 3, 2015)
  - *OCIE's Never-Before Examined Registered Investment Company Initiative* (April 20, 2015)
  - *Retirement – Targeted Industry Reviews and Examinations Initiative* (June 22, 2015)
  - *Broker – Dealer Controls Regarding Retail Sales of Structured Securities Products* (August 24, 2015)
  - *OCIE's 2015 Cybersecurity Examination Initiative* (September 15, 2015)
- OCIE conducted over 100 outreach conferences with the industry and securities regulators, both regionally and nationally, and OCIE staff appeared at more than 150 events in order to promote transparent communications and coordination among industry participants and regulators.
- OCIE engaged directly with senior management, heads of control functions, and independent directors of the largest broker-dealer holding companies and management organizations to emphasize the critical role of compliance in those institutions' enterprise risk management.
- OCIE launched a number of focused examination initiatives to promote compliance and increase awareness of regulatory risks with certain entities. For example, OCIE commenced an initiative to examine investment companies that have been registered with the Commission for at least three years, but have not yet been examined. OCIE also expanded its initiative to focus on newly registered Municipal Advisors that registered under SEC rules, which went into effect during FY 2014.

Continuing to Identify and Prevent Fraud

OCIE identifies and prevents fraud and other misconduct through examinations. When OCIE uncovers information in an examination that establishes or suggests misconduct, examiners refer the matter to Enforcement for investigation and appropriate action. In FY 2015, OCIE made more than 200 referrals, many of which resulted in enforcement investigations and/or actions. Notable examples of enforcement actions that have involved OCIE referrals are described below.

- An examination in Fort Worth led to charges against H.D. Vest Investment Securities for violations of key customer protection rules after the firm failed to adequately supervise registered representatives' outside business activities. The Commission found that some representatives used their outside business to defraud brokerage customers by transferring or depositing customer brokerage funds into their outside business accounts.
- With significant assistance from the National Exam Program, the Commission charged Citigroup Global Markets with failing to enforce policies and procedures to prevent and detect securities transactions that could involve the misuse of material, nonpublic information. The firm also failed to adopt and implement policies and procedures to prevent and detect principal transactions conducted by an affiliate. The firm agreed to pay a $15 million penalty.
- Based on an examination, the Commission charged co-owners of a Manhattan-based brokerage firm, Arjent LLC, with violating the antifraud and books and records provisions of the Federal securities laws. The CEO and managing director attempted to keep the failing firm afloat by selling shares in a holding company, misrepresenting to investors the value of the affiliate's assets, and misrepresenting how their invested money would be used. The co-owners transferred a significant portion of the capital they raised directly into their own bank accounts for personal benefit. In addition, the CEO made misrepresentations to SEC examiners.
- The Commission settled administrative and cease-and-desist proceedings against a registered adviser, Alpha Titans LLC, its principal and its general counsel for non-scienter fraud, custody rule, and compliance

charges. The OCIE examination identified that the adviser and key individuals used assets of two affiliated private funds to pay for most of the firm's operating expenses, but it did not seek clear investor authorization to do so. The funds' financial statements provided to investors also were misleading because they did not disclose the use of the funds' money by entities its principal controlled.

- The Commission settled administrative and cease-and-desist proceedings against a registered adviser, Commonwealth Capital Management LLC, and its principal and the independent trustees of a registered fund, World Funds Trust, for their failures in connection with the advisory contract approval process.
- The Commission settled administrative proceedings against a registered adviser, AlphaBridge Capital Management LLC, and its two principals for their fraudulent inflation of the prices of mortgage-backed securities held by certain private funds managed by AlphaBridge. These inflated prices resulted in the overstatement of the funds' net asset values and overcharging of fees to the funds. AlphaBridge claimed to value the securities based on independent price quotes from two broker-dealers, but AlphaBridge instead provided its own prices to representatives of the broker-dealers.

In order to be more effective in identifying and preventing fraud in examinations, OCIE continues to broaden its expertise and capacity. In addition to developments in technology and analytics, OCIE has implemented specialized working groups (SWGs) in nine key areas: (1) Equity Market Structure and Trading Practices; (2) Fixed Income and Municipals; (3) Marketing and Sales Practices; (4) Microcap Fraud; (5) New and Structured Products; (6) Valuation; (7) Private Funds; (8) Transfer Agents; and (9) Investment Companies. The SWGs are an invaluable resource to examiners and managers, providing subject matter expertise in their respective areas. OCIE has also established a Private Funds Unit, which is led by OCIE's hedge fund and private equity senior specialized examiners. The Private Fund Unit not only conducts risk-based examinations of private fund advisers, but, through the participation of its leadership team, provides experience and training for examiners to enable them to become subject matter experts.

Continuing to Inform Policy

As the SEC's "eyes and ears" in the field, OCIE uses its perspective to provide structured support to the rulemaking process and other guidance issued by the SEC, and its Divisions and Offices.

- OCIE provided substantial input into the Commission's Dodd-Frank rulemaking process participating in nine working groups to interface with the policy divisions on such rulemaking such as the adopting and re-proposing rules under Title VII concerning swap data repositories and cross-border swap transactions.
- In addition to its contributions to Dodd-Frank rulemaking, OCIE staff participated in 17 other rulemakings and initiatives, including (i) the final adopting rules for Regulation Systems Compliance and Integrity (Regulation SCI); (ii) the proposed rules amending Form ADV and investment adviser rules; and (iii) the proposed rules related to modernizing the reporting and disclosure of information by registered investment companies.
- OCIE also provided useful information from examinations to the rulemaking divisions of the SEC for a number of other purposes. For example, OCIE staff highlighted to divisions instances in which, based on observations in examinations registrants have misinterpreted the rules and instances in which more guidance may be needed. OCIE staff also provided valuable insight into certain risk management practices and profiles.

Continuing to Identify New and Emerging Risks

OCIE continues to improve its ability to assess and monitor risk. Because OCIE's examination programs are risk-based, these enhanced capabilities have enabled each program to better allocate its limited resources to high-risk firms and practices. In addition to the developments in technology and analytics described above, the following are examples of OCIE initiatives to monitor and examine for new and emerging risks.

- OCIE has continued to expand the use of targeted examinations as a technique to explain potential sources of risk, such as:

- The potential misuse by mutual funds of payments to intermediaries as payment for distribution;
- Compliance policies and procedures and investment and trading controls of mutual funds with significant exposure to interest rate increases;
- Compliance programs and other risk areas of never-before examined investment advisers and investment companies;
- The use of purported "alternative" investment strategies by registered investment companies;
- Representations of investment advisers and broker-dealers and sales practices when recommending to customers a movement of retirement plan assets into rollover vehicles;
- Broker-dealers' compliance with Exchange Act Rule 15c3-5 when having direct market access to exchanges or ATSs;
- The potential for excessive trading;
- Any interaction between payments for order flow and execution quality; and
- Cybersecurity practices of broker-dealers and investment advisers.

• OCIE continued its monitoring and examination efforts with respect to some of the nation's largest broker-dealers. Among other things, OCIE has coordinated efforts within the Commission and with other regulators to increase coverage in important areas affecting these broker-dealers, such as operational risk, technology governance, automated trading and controls, liquidity risk management, and effectiveness of control functions, including strategic initiatives to remediate control deficiencies and meet future enhanced requirements.

• Other examples of RAS's efforts to identify new and emerging risks include:

  - Close collaboration throughout the Commission, including within OCIE, the regions, the DERA and other offices, to focus examinations on registrants and practices that pose the greatest risk to capital markets and investors; and

Commissioner Daniel M. Gallagher

  - Techniques to analyze information submitted by private fund advisers on Form ADV and Form PF, as well as disciplinary and employment histories of "bad actors" in the financial industry to identify risks to investors and the markets.

• Developing initial intelligence on individuals associated with newly registered Municipal Advisors to identify entities that may have an elevated risk profile and could warrant examination. OCIE's QAU has continued to develop OCIE's quantitative system architecture through software projects. The QAU has supported individual exam teams nationwide and the development of improved risk identification methods.

• OCIE's Technology Controls Program (TCP) continues to develop its technology controls examination program investing in our people, tools, and processes. TCP is the center of excellence for the SEC to provide surveillance and examination oversight of market technology, which promotes well-functioning markets and supports investor confidence. OCIE leverages TCP's strong technology knowledge base to support other examination programs nationally, including serving as technical experts for exam teams. TCP has also regularly liaised with other regulators to share

identified technology risks and communicate those within the Agency as appropriate.

- OCIE's Office of Market Oversight continued its successful approach to monitoring and assessing risk at the national securities exchanges and FINRA. Examinations in this area included reviews of the regulatory service agreements and equity order types at the exchanges and FINRA district offices, as well as FINRA home office enforcement. The Market Oversight Office also conducted examinations of many registrants to ensure compliance with Section 31 of the Exchange Act, which requires each SRO to pay certain fees to the Commission based on the aggregate dollar amount of certain sales of securities.

- OCIE improved collaboration efforts in other areas with divisions and offices throughout the SEC to help ensure that higher risk activities and issues are addressed in the most effective manner. For example, OCIE coordinates efforts and utilizes data produced by the Risk and Examinations Office in the Division of Investment Management (Investment Management) to identify and address higher risk firms and activities. OCIE also regularly shares examination trends, findings, and industry observations with other offices in order to identify mutual areas of interest and concern.

OCIE has expanded efforts to coordinate processes with other regulators and agencies, including FINRA, the DOJ, the Department of Labor, banking regulators, state regulators and foreign regulators, on a number of matters. Among other things, this type of coordination helps ensure that all regulators are informed about ongoing risks and issues related to broad market practices as well as specific entities of mutual interest.

Deploying Economic and Risk Analysis to Advance the Commission's Mission

DERA has continued to expand its provision of data-driven economic analyses to the Commission and its staff, work that is marked by collaboration with other offices and divisions. As the financial markets have increased in complexity, so has the need for the Commission to be a sophisticated user of market data. DERA is central to those efforts, analyzing data to support an ever-broadening array of policy development and risk assessment initiatives; acting as a key source of insight for fellow regulators and the public on issues relevant to the capital markets; and assisting with the development of methods to ensure the usability of data as it comes into the Commission or is accessed by the public.

Support of Rulemaking and Policy Development

DERA staff provided the Commission with complex and novel economic analyses of the many rules promulgated in the past year, and worked closely with staff from other divisions and offices on a range of policy initiatives, engaging from the earliest stages of policy development through finalization of a particular rule. As part of these efforts, DERA staff have designed and implemented a significant number of original, data-driven analyses intended to educate both the Commission and the public on important issues. For example:

- DERA has worked closely with Corporation Finance on a variety of rules under the JOBS Act and the Dodd-Frank Act, including those affecting executive compensation and capital raising. For these rules, DERA examined a range of data drawn from issuer filings and performed novel data analyses to help inform the Commission and the public of the potential economic effects of the rules. DERA also developed two significant analyses for the pay ratio rulemaking that modeled the potential effects on the pay ratio calculation of excluding a percentage of employees at a range of thresholds.

- DERA also worked with Investment Management to support rulemaking related to fund liquidity requirements for open-end mutual funds. A paper by DERA staff examined the investor flows into and out of open-ended funds, estimated the liquidity profile of the fund portfolios, and considered how those two characteristics interact.

- Data analyses by DERA helped frame policy choices related to the activities and participants in the security-based swap market. DERA staff continued to update the Commission and public's knowledge of the security-based swap market, including by

providing information related to transaction volume and participation in the credit default swap market.

- DERA also collaborated with the Division of Trading and Markets to produce two memoranda related to post-trade transparency in the security-based swap market. The data analyses directly informed discussions surrounding the costs and benefits of public dissemination of security-based swap transaction data.
- DERA issued a white paper on voluntary clearing activity in the single-name credit default swap (CDS) market. The paper provides an analysis of trading and clearing activity for single-name corporate CDS and has informed the Commission's policy choices on a number of rulemakings.

Data Management and Analytics

DERA serves as a hub for the Commission's overarching approach to the intake, processing, and use of data. A massive amount of market data comes into the Commission on a regular basis, and DERA's staff economists, analysts, institutional experts, database administrators and other technologists serve as experts on how to ingest, process, and then use these data for analytical purposes.

DERA has worked closely with other offices and divisions to ensure SEC filings capture the legal requirements of mandatory disclosures in a form that makes the information most useable to investors, regulators, analysts, and others. In addition, the following several key initiatives from the past year have enhanced the public and Commission's use of data:

- DERA finished the development of a new eXtensible Business Reporting Language (XBRL) rendering engine that replaced the engine used since the Commission began accepting filings with XBRL attachments. The updated rendering engine enables filers to quickly render and evaluate their XBRL exhibits, helping to detect errors in advance of submission.
- This winter, DERA posted on the Commission's website reformatted financial information that was reported by companies in their filings in XBRL format. This downloadable data assists the public with more easily consuming the XBRL data for analysis. DERA continues to update this data quarterly.
- DERA continue to work to improve the quality and usefulness of registrant disclosures by supporting the design and implementation of machine-readable forms and filings adopted through Commission rulemaking, where appropriate.

DERA manages key Commission databases and ensures agency-wide staff access to these data through readily available formats and applications, and transforms that data into relevant summary information and statistics accessible to non-technical staff. For the past two years, DERA has overseen the Quantitative Research Analytical Data Support ("QRADS") program, which further develops and refines high-quality financial market data for advanced analytics and data-driven initiatives across the Commission. QRADS projects have expanded over the past year and allow non-technical agency staff to generate user-friendly reports drawn from data on funds, broker-dealers, advisors, and other market participants to help achieve the SEC's mission.

Identification of Financial Market Risks and Misconduct

DERA's Office of Risk Assessment (ORA) was formally chartered in Fall 2014 to develop customized analytic tools to proactively detect market risks indicative of possible violations of the Federal securities laws.

ORA experts have created analytic programs designed to identify risks, enabling Commission divisions and offices to deploy scarce resources targeting possible misconduct in the corporate issuer, broker-dealer, and fund sectors. In particular, the Corporate Issuer Risk Assessment allows staff to identify anomalous patterns in financial reporting that warrant further inquiry by highlighting outliers among earnings quality measures, financial ratios, and other financial statement items. The Broker-Dealer Risk Assessment tool was developed in conjunction with OCIE and helps support examinations in that area and provide key insights into the market. In addition, ORA experts have undertaken ad-hoc analyses in the corporate bond, high frequency trading and fixed income trading areas, responding to particular areas of need from other staff across the agency.

Enhancing Financial Markets Expertise

DERA staff author a rich body of papers for publication in finance, economics, accounting, and other journals on topics related to the Commission's mission. DERA staff members also attend significant conferences on topics critical to the SEC's mission, presenting their own work and discussing the work of others. This interplay between DERA staff and the public helps ensure that the SEC's policy development, surveillance activity, and examination work reflect the most current industry innovations and up-to-date understanding of financial market risks.

Over the past year, DERA has facilitated several programs to allow for ongoing access to cutting-edge research. For example, DERA hosted more than 15 academics from leading universities in FY 2015 to present their research at the SEC, covering a broad range of topics relevant to the SEC. Similarly, under the Distinguished Visiting Scholar series, senior academics visit the SEC for a week at a time, and present seminar series and have extensive meetings with staff across the agency.

In collaboration with the University of Maryland and the Chartered Financial Analyst Institute, DERA co-sponsored the Second Annual Conference on the Regulation of Financial Markets in FY 2015. This conference brought together participants from academia and the SEC for a robust exchange of views on issues of relevance to the Commission.

Continued Commitment to Education

Protecting Investors through Education

FY 2015 was also marked by a continued commitment to providing investors with the information they need to avoid securities fraud and make informed investment decisions. The SEC's Office of Investor Education and Advocacy continued to support the Commission's investor protection mission by:

- Increasing investor education outreach to target audiences, including in-person events focused on helping members of the military and their families protect themselves from investment fraud. In July, Chair Mary Jo White led a multi-agency event at Joint Base McGuire-Dix-Lakehurst to support Military Consumer Protection Day 2015;
- Posting educational content to Investor.gov, including information emphasizing the importance of checking the registration status of an investment professional before investing. In FY 2015, Investor.gov continued to receive high customer satisfaction scores, which significantly exceeded Federal government benchmarks, and attracted over 1.2 million new visitors, an increase of 20 percent compared to FY 2014;
- Publishing a variety of investor alerts and bulletins warning investors of possible fraudulent schemes, and educating them on investment-related matters. The SEC worked with other regulators to issue joint alerts and bulletins, including SEC-FINRA alerts on automated investment tools and dormant shell companies and an SEC-Consumer Financial Protection Bureau bulletin on planning for diminished capacity and illness;
- Distributing educational publications through the General Services Administration's Federal Citizen Information Center to individuals and groups, including, among others, schools, libraries, and readers of the *Dear Abby* advice column; and
- Handling investment-related complaints and questions from tens of thousands of individual investors.

Continued International Collaboration

Working in close collaboration with divisions and offices across the agency, OIA continues to facilitate the enforcement and regulation of activities in today's global securities markets, where the SEC has many internationally active registrants and where the U.S. market is impacted by cross-border transactions and developments in other markets.

Cross-Border Enforcement and Supervisory Assistance

In addition to the collaboration with Enforcement described above, OIA provides technical assistance to the SEC's international regulatory and law enforcement counterparts to promote cross-border enforcement and supervisory assistance, to minimize the likelihood of regulatory arbitrage,

and to assist countries in developing and maintaining robust protections for investors.

The SEC's international technical assistance program provided training on enforcement, examinations, and market development to approximately 1,666 persons from the SEC's international regulatory and law enforcement counterparts.

OIA also makes requests to foreign authorities for supervisory cooperation assistance and responds to such requests from foreign regulators, both through formal mechanisms, such as supervisory memoranda of understanding, and on an ad hoc basis, to create a more effective and coordinated regulatory environment.

In FY 2015, OIA handled approximately 135 supervisory cooperation requests to foreign authorities and 113 responses to supervisory cooperation requests from foreign authorities.

Cross-Border Policy Development

In order to maintain fair, orderly, and efficient markets, the SEC continues to work with international counterparts through International Organization of Securities Commission (IOSCO), the Financial Stability Board (FSB) and the over-the-counter (OTC) Derivatives Regulators Group, among others, to coordinate international approaches in key regulatory areas and advance SEC policy objectives. Through IOSCO and the FSB, the SEC also regularly participates in international discussions about emerging risks in the securities markets.

In FY 2015, the SEC worked with its international counterparts to develop consistent approaches to regulating participants in the OTC derivatives market. In IOSCO, the SEC worked with international securities regulators to publish reports sharing tools for credible deterrence and for the cross-border regulation of internationally active entities.

The SEC staff also participated in ongoing assessments and peer reviews of financial regulatory reforms by IOSCO, the FSB and other international bodies to help promote convergence of high-quality regulatory standards and practices.

Commissioner Kara M. Stein

Continuing to Enhance Operations

Chief Operating Officer (COO)

The COO provides strategic leadership and oversight of the SEC human, financial, technological, and administrative resources focused on infrastructure and operational activities that enable the agency to accomplish its mission. The collaborative interaction of the following offices that support these interdependent efforts allow flexible, efficient, and cost-effective action by the agency regardless of the challenges at hand.

Office of Information Technology (OIT)

OIT delivered over $125 million in information technology investments in FY 2014 followed by the delivery of over $100 million in IT investments in 2015. OIT delivered these business critical investments while managing the day-to-day operations of over $150 million infrastructure with virtually no customer-impacting disruptions to service. Despite the massive investments, OIT was able to achieve significant operational savings through streamlining its operations and efficiently leveraging its existing assets.

OIT acted in parallel with the agency's rulemaking efforts to update the SEC's EDGAR system to support securities-based swap data repository registration and by updating forms 1-A and 2-A in line with JOBS Act requirements. Additionally, OIT modified the EDGAR system to ensure that filings are available to the public on the SEC website before such filings are made available to the contractor-operated, subscription-based public dissemination system.

Also, in FY 2015 OIT delivered on the enterprise data warehouse initiative, which uses a sophisticated set of data analytics tools to help the SEC discover suspicious trading patterns and possible wrongdoing by reducing processing time for billions of Blue Sheet trading records from days to hours and performing complex queries in seconds.

In the area of Information Security, OIT continued to enhance its multi-faceted program that examines all aspects of information security from the infrastructure to the end-user. In FY 2015 OIT completed the assessment and authorization of 22 reportable systems bringing the total to 63 reportable systems that are in accordance with Office of Management and Budget policy. Additionally, OIT continued to staff a Security Operations Center on a 24-hour-by-365-days basis to monitor and respond to all aspects of information security.

Office of Human Resources (OHR)

OHR continues to implement a comprehensive talent management approach for the agency, in order to attract, develop, motivate, and retain productive, engaged employees.

In 2015, improved workforce planning allowed the SEC to identify emerging talent needs as the agency continued to grow in size and its mission evolved in tandem with Congressional direction and financial market changes.

Recruiting and hiring talented staff with needed skill sets is just the beginning. A new Expert Inventory/Skills Database, known as Talent Profile, now allows the agency to identify specialized staff experience and expertise that might not be applied during an employee's regular day-to-day activities, but which is needed when unusual but important situations arise – an investigation demanding detailed knowledge of a country's corporate governance regulations, for example.

The new Career Horizons program further helps employees advance their careers through a systematic skills and training acquisition strategy that increases in-house talent and helps retain talented employees by demonstrating agency support and a clear career path. The launch of the Aspiring Leaders Program is promoting and building the leadership competencies of senior employees through an interactive learning environment designed to strengthen each participant's capacity for management and leadership effectiveness.

Both Career Horizons and the Aspiring Leaders Program are supported by enhancements to the LEAP learning management system, making it easier for agency staff to access their training, and by Individual Development Plans which guide employees through skill-acquisition opportunities that improve performance and provide career opportunities.

Office of Financial Management (OFM)

OFM continues to streamline operations in ways that both benefit the public and increase operational efficiency. OFM launched a new initiative to modernize the system supporting filing fee reviews, making the process more user-friendly and streamlining staff review of more complex fee calculations. The Office also began efforts to institute new systems supporting enforcement receivables and property transactions, to strengthen and automate internal controls. OFM form automation is saving staff time in areas such as conference approvals, Delphi access, and approval of top-line accounting entries.

Office of Acquisitions (OA)

OA continues to enhance the planning, award, and administration of contracts by focusing on long-term scalable enterprise contracts that bring discounts, reduce transactions, speed delivery, and improve relationships with contractors. Sourcing techniques including negotiations with vendors, larger volume leveraging, understanding the marketplace, re-competitions, longer term contracts, vendor relationships, and others led to lower prices paid in areas such as IT storage maintenance. Increased collaboration and early involvement in planning SEC procurements allows OA to provide sound strategic

business and acquisition advice, leveraging SEC buying to obtain better business deals and pricing with longer term contracts such as administrative type services support to the divisions and offices. Focus on efficiency has led to a number of larger, enterprise-wide contracts with small businesses for language translation capability and services for process servers that reduce the need for our customers to make a large number of unique procurement actions. Sound administration principles allowed OA to return millions to SEC budgets in FY 2015 through our de-obligation and closeout process. Extra efforts were made to locate small and disadvantaged businesses that provided quality services and hardware and software allowing the SEC to surpass all small business goals set for the agency with 59 percent of contract awards going to small businesses.

Office of Support Operations (OSO)

OSO's Freedom of Information Act (FOIA) regulation update and publication is providing clarity and legal compliance guidance to filers while bringing the SEC's fee schedule in line with similar Federal agencies' fees. Establishment of a FOIA appeals time frame is allowing for more efficient processing of appeals and the creation of a more sound administrative record.

The General Services Administration and SEC have thus far identified eight opportunities representing an estimated annual rent savings of up to $21 million by FY 2021 (18 percent reduction of annual leased costs) primarily by consolidations and right-sizing rentable square feet requirements. Four of these opportunities have been successfully completed with achieved annual rent savings of over $5 million and footprint savings of over 170,000 rentable square feet.

Office of Chief Operating Officer (OCOO)

The Office of the Chief Operating Officer's Office of Strategic Initiatives (OSI) collaborated with DERA on the oversight of the QRADS program, which is designed to develop and refine high quality financial market data and robust analytical processes.

SEC staff extensively use and rely on electronic information services and external data sources in support of rulewriting, examinations, investigations, and litigations. This makes access to and management of these assets – including ongoing reviews of these portfolios and their associated costs – a priority. To this end, two governance committees have been established – the Data Working Group and the Information Services Working Group.

The newly established Information Service Branch (which encompasses the library) is establishing dedicated portfolio managers to focus on the approximately $20 million investment in these data and information assets to assess them against new and diverse providers.

Re-design of the EDGAR system has been re-oriented as an SEC wide initiative with the convening of an oversight board to ensure transparency and ongoing involvement of the divisions/offices. This is critical to ensuring the success of this strategic initiative.

The SEC physical library space has been restructured and reconfigured to reflect current needs and usage.

OCOO significantly enhanced agency operations through upgrades to Archer – an industry-standard software platform – that created fully integrated audit follow-up capability, standardized the internal controls over financial reporting used by OFM, centralized security incident tracking and follow-up, and standardized operational risk management efforts.

Reinvigorated internal communications and robust operational messaging are enhancing efficiency by increasing trust in leadership and staff's alignment with the SEC's mission, all the while fostering a culture of openness and collaboration.

Looking Forward

In Fiscal Year (FY) 2016, the SEC will continue to promote policies and programs to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. The agency will continue to enhance its robust enforcement and examination programs using innovative data analysis and cutting-edge technology. The SEC will also continue to make progress on important rulemakings – both those mandated by Congress and those that seek to enhance our program in mission-critical areas. In FY 2016, the SEC will also strive to enhance its operations, bolster its investor outreach, and use sophisticated data analytics to improve its efficiency and effectiveness.

Policy Initiatives for Safer, Stronger Markets

In the coming fiscal year, the Commission will focus on the final areas of the Dodd-Frank and JOBS Acts where major rulemaking is required. The SEC will also continue its discretionary rulemaking in areas of importance for investors and other market participants, including asset management, equity market structure, and public company disclosures.

The Dodd-Frank Act and the JOBS Act

The Commission has finished its Dodd-Frank rulemaking in most key areas. In FY 2016, the SEC will strive to:

- Finish implementation of a regulatory regime for security-based swaps;
- Complete final rules related to executive compensation, including requirements relating to pay versus performance, employee and director hedging, and compensation clawbacks;
- Develop revised rules to require reporting issuers engaged in the commercial development of oil, natural gas, or minerals to disclose in an annual report certain payments made to the United States or a foreign government; and
- Advance the remaining reviews, studies and reports required by the Dodd-Frank Act, including a comprehensive review of the definition of the term "accredited investor."

The SEC will also work to complete the few remaining rulemakings required by the JOBS Act in FY 2016, particularly final rules to implement a new exemption under the Securities Act for securities-based crowdfunding offerings.

Other Major Regulatory Initiatives

Beyond these statutory mandates, the SEC will continue to develop rules for a safer, stronger market economy that seeks to facilitate capital formation while protecting investors and maintaining fair, orderly, and efficient markets. In particular, in the coming fiscal year, the SEC will, among other efforts, seek to:

- Consider significant enhancements to the risk management practices of investment funds and advisers, including through new requirements addressing liquidity risk management, stress testing, the use of derivatives, and transition planning;
- Develop enhanced data reporting requirements for mutual funds, investment advisers, exchange-traded funds (ETFs) and other registered investment companies to facilitate data analysis and risk monitoring;
- Advance a new set of rules for improving equity market structure, which may include rules for enhanced oversight of trading algorithms, dealer registration requirements for active proprietary traders, membership requirements for dealers that trade in off-exchange venues, enhanced order routing disclosures by broker-dealers, expanded public information concerning alternative trading system operations, and an anti-disruptive trading rule;
- Develop potential rules for enhanced pre-trade transparency in the fixed income markets, including in the trading of municipal securities;
- Work toward a stronger financial responsibility framework for broker-dealers, including through new capital and liquidity requirements;
- Develop a uniform fiduciary duty for investment advisers and broker-dealers, as well as a program of third-party compliance reviews for registered investment advisors.

- Advance rules to enhance the risk management of clearing agencies and shorten the settlement cycle; and
- Review potential updates and improvements to core agency programs, including the disclosure framework for public companies, the regulatory framework for transfer agents, and the regulatory treatment of ETFs.

Continuing Aggressive Enforcement and Examination Efforts

The Division of Enforcement (Enforcement) and the Office of Compliance Inspections and Examinations (OCIE) will continue to build on their very strong results from FY 2015 by focusing on current and emerging high-priority areas, and on leveraging cutting-edge technology and analytics. Enforcement's priorities for the coming year include a continued focus on data to target and streamline their efforts, complex financial products, gatekeepers, financial reporting, market structure, insider trading, investment advisers and private funds, and municipal securities. OCIE will continue to use data analytics that enable preemptive detection of risk throughout entire industries and more effective identification of fraud during examinations.

- Enforcement will continue to collaborate with the SEC's in-house experts across the Divisions and Offices as it pursues complex frauds and schemes, and use technology to better process and understand large volumes of data. This includes employing technology to identify and investigate potential violations, including in high-risk areas that could harm investors, markets, or regulated entities.
- Market structure issues are a top priority for Enforcement as new technologies like algorithmic and high-frequency trading have become more prevalent.
- Enforcement will continue to prioritize financial reporting and accounting fraud with an emphasis on areas including revenue and expense recognition problems, faulty valuations supporting accounting estimates, faulty asset impairment conclusions, improper acquisition accounting, missing or insufficient disclosures, insufficient internal controls, and the role of auditors and other gatekeepers.
- Enforcement's Microcap Fraud Task Force will continue its proactive efforts to root out microcap fraud with a particular focus on recidivists, gatekeepers, and cross-border schemes. The Task Force also will continue its efforts to suspend trading in shell companies to prevent them from becoming the next vehicle for microcap fraud and to thwart ongoing pump and dump schemes.
- Enforcement will remain focused on investment advisers, registered investment companies, private funds and separately managed accounts and will continue its proactive efforts, including through data-driven risk-analytic initiatives, to identify issues concerning conflicts of interest, disclosure, valuation, performance, fees and expenses, advertising, governance, portfolio management, and compliance policies and controls.
- Enforcement will remain focused on identifying and pursuing misconduct in the origination, rating, sales, trading and valuation of complex financial instruments (such as residential mortgage-backed securities, commercial mortgage-backed securities, collateralized loan obligations, and other asset-backed securities), primarily through the use of data analytics. Enforcement also will continue to focus on the retail distribution of structured notes and other complex securities and securities-based swaps.
- Building on work from OCIE, Enforcement will develop a more efficient and uniform approach to bringing churning cases against firms that have indicia of excessive/abusive trading. Enforcement also will continue its focus on anti-money laundering practices and controls of regulated entities and will use strategic analysis to target registrants that may be in noncompliance with the appropriate rules.
- Enforcement will continue to focus on bringing cases as quickly as possible, thereby maximizing the deterrent effect of its actions.
- OCIE will continue to focus on issues affecting investors' retirement accounts, including sales and marketing practices related to financial advisers' recommendations that retirement plan assets be placed in investment vehicles offered by their firms.

- OCIE will continue to make governance and supervision of information technology systems a priority, including operational capability, business continuity planning, and cybersecurity.
- OCIE will continue to track individuals that have prior disciplinary histories and assess the compliance programs of firms that hire or conduct business with such individuals.
- OCIE will continue to look at compliance programs of registered investment advisers employing a business model that parallels a broker-dealer branch office model.
- OCIE will continue to prioritize the examination of fees and expenses of private fund advisers as well as controls and disclosure associated with side-by-side management of performance-based and purely asset-based fee accounts.
- OCIE will examine certain areas of higher risk in broker-dealers' trading activities, including execution of trades in fixed income securities, equity order routing, and trades in sub-accounts.
- OCIE will focus on risks associated with the ETF industry, including compliance with exemptive relief and other regulatory requirements, the creation and redemption process, primary and secondary market trading.
- OCIE will assess whether broker-dealers subject to the Volcker Rule have implemented reasonable compliance programs.
- OCIE will focus on pricing issues in the primary and secondary markets for municipal securities.

Continuing to Refine and Use Cutting-edge Data Analytics

The SEC will continue to develop and enhance sophisticated models and data analytics, and use them across the Agency to assess risk and, more broadly, to further its mission.

- The Division of Economic and Risk Analysis (DERA) will analyze information collected from Form D to help assess the impact of amending Rule 506 to allow general solicitation on private markets.
- DERA experts will continue to create analytic programs designed to identify risks, enabling Commission divisions and offices to deploy scarce resources targeting possible misconduct in the corporate issuer, broker-dealer, and fund sectors. For example, the Broker-Dealer Risk Assessment tool was developed in conjunction with OCIE and helps support examinations in that area and provide key insights into the market.
- DERA also will continue to work closely with Enforcement's Financial Reporting and Audit Group and with the Division of Corporation Finance to assist in identifying financial reporting irregularities that may indicate financial fraud and help assess corporate issuer risk.
- DERA, Corporation Finance, and other divisions and offices are working together to recommend opportunities to provide greater use of structured data, including an inline eXtensible Business Reporting Language (XBRL) format that may help to improve the quality of structured data contained in forms and filings.

Promoting Investor Education

In FY 2016, the SEC will continue to look for new and innovative ways to educate investors including:

- Launching the pilot of its first public awareness campaign to educate target audiences in ways to avoid investment fraud; and
- Using research to inform and enhance investor education initiatives, including feedback from Investor.gov's customer satisfaction survey.

Continuing to Enhance Operations

In 2016, the Office of the Chief Operating Officer will continue to strengthen the human, financial, and technical infrastructure that allows the agency to effectively advance its mission in a dynamic and cost-effective manner.

Workforce

The SEC's strongest asset is its staff. In FY 2016, the Office of Human Resources will focus on identifying and recruiting an increasingly talented and diverse team; elevating individuals' performance and retention through personalized development strategies; targeted training and education opportunities; and effective career guidance and support, including leadership training for potential senior managers and executives.

The agency will continue to streamline the hiring process, allowing it to recruit staff quickly and efficiently in response to the demands of the mission. A priority of this streamlined process will be bringing skills sets that reflect the SEC's current oversight, regulatory, and law enforcement priorities.

The agency will support this effort with a communication and incentive strategy that aims to support staff morale and performance. Emphasis will be on improving two-way communication between staff and senior management and recognizing and rewarding exceptional performance.

Operations

The SEC will continue a review of administrative processes across the agency. A holistic analysis will identify and assess the current state of administrative requirements within the agency to identify process improvements, implement a governance structure, develop tools and technologies, and clarify roles and responsibilites for the SEC administrative community.

The Electronic Data Gathering, Analysis, and Retrieval (EDGAR) re-design will continue, while the new Information Portal Branch will begin modernization of The Insider, another key internal information resource, with the aim of increasing usability and discovery.

A more effective asset management system will bring greater efficiencies – from purchase request through retirement – of SEC hardware. Business process re-engineering for IT hardware and bulk purchasing will continue and the system will expand to include software acquisition as well.

The Office of Support Operations (OSO) will collaborate with the General Services Administration (GSA) to develop a comprehensive real property portfolio strategy that effectively addresses the SEC's leasehold interests and future leasing needs. GSA and SEC will continue to pursue opportunities to save rental costs by consolidating and right-sizing rentable square feet requirements when existing leases expire.

Additionally, OSO is coordinating with the Office of Information Technology (OIT) to automate certification of public EDGAR files to allow requestors to access digitally certified copies of filings for use in litigation or other official purposes in lieu of staff testifying to the documents' validity. This will save $500,000 annually in supplies, shipping, and personnel costs. It will also benefit the public by eliminating the fee they pay for certifications.

Financial Management

The Office of Financial Management will continue its multi-year effort to strengthen internal controls. The Office will continue systems initiatives in several key areas, including enforcement receivables, filing fees, and property. Once these systems are deployed, the agency will benefit from a reduction in manual effort, improvements in controls, and enhancements in reporting.

Office of Acquisitions (OA)

In 2016, OA will seek to reduce existing contract obligations through de-obligations and the closeout process giving the SEC the ability to apply returned funds towards other priorities. OA will work with divisions and offices to lower SEC costs for new contract services and products through strategic sourcing, contract negotiations, leveraging of requirements, and taking advantage of marketplace opportunities and competition in areas such as the Infrastructure Support Services. OA will maximize the use of existing contracts and knowledge of the marketplace and best practices to streamline procurements to reduce contract lead times from initial request to contract award. OA will seek competitive bids whenever possible and maximize the use of quality small and disadvantaged

From left to right: Commissioner Kara M. Stein, Commissioner Luis A. Aguilar, Chair Mary Jo White, Commissioner Daniel M. Gallagher, and Commissioner Michael S. Piwowar

businesses for the best outcomes to exceed small business goals. OA will assess the Contracting Officer's Representative program as a critical part of contractor oversight and performance.

Technology

Information Technology (IT) plays a critical role in the mission of the SEC. The increasing size and complexity of U.S. markets require that the SEC continue leveraging technology to streamline operations and increase the effectiveness of the agency's programs, building on the progress made over the past several years in modernizing technology systems.

In FY 2016, OIT will continue its leadership role in the overall management for the SEC's IT program including application development, infrastructure operations and engineering, user support, IT program management, capital planning, security, and enterprise architecture.

Investments planned for FY 2016 will continue to focus on improving the agency's ability to analyze data to uncover potential violations of the securities laws; systems to support agency business processes, including in Enforcement and Examinations; and efforts to improve the usability of agency information for the public.

Specific projects include efforts to:

- Enhance the agency's data analytics and reporting – to provide a Web-based solution that will enable SEC registrant disclosures to be analyzed much more quickly and comprehensively.
- Improve the XBRL Distribution System for EDGAR users, to help facilitate the submission and use of this key data.
- Enhance the SEC's quantitative research infrastructure by offering a scalable, multi-tier solution to identify and analyze key risks in the securities markets.
- Address new reporting requirements included in Commission-approved rulemaking.
- Bolster the document management system by adding an automated records management system to facilitate compliance with Federal records management statutes.
- Leverage the data produced by business intelligence tools that enhance the agency's ability to track key performance indicators.
- Implement high-powered data analytical systems for industry-wide investment adviser data.

The SEC also plans to continue investments in its information security program. In FY 2016, OIT plans to further automate security controls, continue the transition to a posture of information security continuous monitoring, enhance its risk management capabilities and response times, implement advanced persistent threat mitigation, and strengthen the privacy program.

Conclusion

In FY 2015, the SEC continued to achieve important results by leveraging technology, employing sophisticated data analytics and pursing focused rulemaking and policy initiatives, aggressive enforcement and risk-based examinations. Through the work of its talented and dedicated staff, the SEC is committed to building on its successes in FY 2016. The agency will continue to promote its strategic values of integrity, accountability, effectiveness, teamwork, fairness and a commitment to excellence through improving collaboration and coordination among its divisions and offices, employing new technology, and supporting the more than 4,000 talented men and women who work tirelessly to fulfill the agency's important mission.

Financial Highlights

This section provides an analysis of the financial position, results of operations, and the underlying causes for significant changes in balances presented in the SEC's Fiscal Year (FY) 2015 financial statements.

As described further below, the SEC's finances have several main components:

- An annual appropriation from Congress;
- Securities transaction fees, charged in accordance with Section 31 of the Securities Exchange Act, which offset the agency's annual appropriation;
- Securities registration, tender offer and merger fees (also called filing fees), of which $50 million is deposited into the Reserve Fund each year. The Reserve Fund may provide resources up to $100 million to pay for SEC expenses, and is not subject to annual appropriation or apportionment;
- Disgorgement and penalties ordered and collected from violators of the securities laws, some of which are then returned to harmed investors and the balances are transferred to the Treasury; and
- The SEC Investor Protection Fund, which is funded through disgorgement and penalties not distributed to harmed investors, and which is used to make payments to whistleblowers who give tips to aid the SEC's enforcement efforts in certain circumstances, as well as to cover the expenses of the SEC Office of Inspector General's (OIG) Employee Suggestion Program.

Sequestration Order for FY 2015

On March 1, 2013, the President issued the Sequestration Order for FY 2013 which reduced FY 2013 budget authority. As determined by the Office of Management and Budget (OMB), for FY 2015, the sequestration order was applicable to mandatory appropriations, which included the Reserve Fund.

For example, in FY 2015 the budget authority of $75 million was reduced by 7.3 percent or $5 million.

Rescission for FY 2015

On December 16, 2014, Congress passed the Consolidated Appropriations Act, 2015. Within the appropriations language, a $25 million rescission was applied to the unobligated balance of the Reserve Fund.

Overview of Financial Position

Assets. At September 30, 2015, the SEC's total assets were $11.5 billion, an increase of $865 million or eight percent over FY 2014.

Fund Balance with Treasury decreased by $592 million or seven percent. This was led by decreases in Disgorgement and Penalty balances of $612 million that were invested.

Investments, Net increased $1.1 billion, or 63 percent, due to several large Disgorgement and Penalty collections which were invested in FY 2015.

Accounts Receivable, Net increased by $353 million due to amounts owed from judgments rendered for payment of fines, penalties and disgorgements in 2015.

CHART 1.3
FY 2015 ASSETS BY TYPE

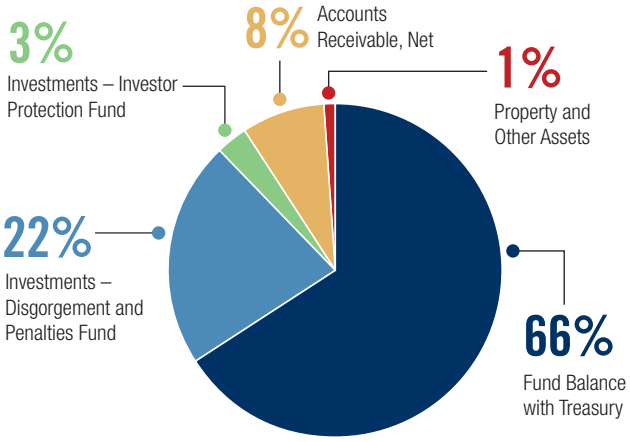


TABLE 1.2
ASSETS AS OF SEPTEMBER 30, 2015 AND 2014

(DOLLARS IN MILLIONS)	FY 2015	FY 2014
Fund Balance with Treasury	$ 7,619	$ 8,211
Investments – Disgorgement and Penalties Fund	2,469	1,361
Investments – Investor Protection Fund	398	395
Accounts Receivable, Net	860	507
Property and Equipment, Net	104	113
Other Assets	6	4
Total Assets	**$ 11,456**	**$ 10,591**

Liabilities. The SEC's total liabilities were $3.8 billion as of September 30, 2015, an increase of $873 million or 30 percent from FY 2014. The change was mainly related to increases in liabilities for Disgorgement and Penalties recorded from October 1, 2014 to September 30, 2015.

The increase in liabilities was partly offset by distributions to harmed investors totaling $51 million.

For the assets received resulting from judgments, the SEC recognizes a corresponding liability, which is either custodial if the collections are transferred to the U.S. Treasury General Fund or the Investor Protection Fund, or governmental if the collections are held pending distribution to harmed investors.

Accrued Payroll, Benefits and Leave increased due to the liability for the supplemental retirement program; increase in salary rates; and increases in personnel.

Accounts Payable decreased $24 million primarily due to a $23 million whistleblower award liability accrued in FY 2014 but paid in FY 2015. The accrued whistleblower award liability for FY 2015 totaled $17 thousand.

Unearned filing fees held in a SEC deposit account and earned filing fees being returned to the U.S. Treasury General Fund result in SEC recognizing a corresponding liability.

Ending Net Position. The SEC's net position, comprised of both unexpended appropriations and the cumulative results of operations, decreased by $8 million, or less than one percent, between September 30, 2015 and 2014.

CHART 1.4
FY 2015 LIABILITIES BY TYPE

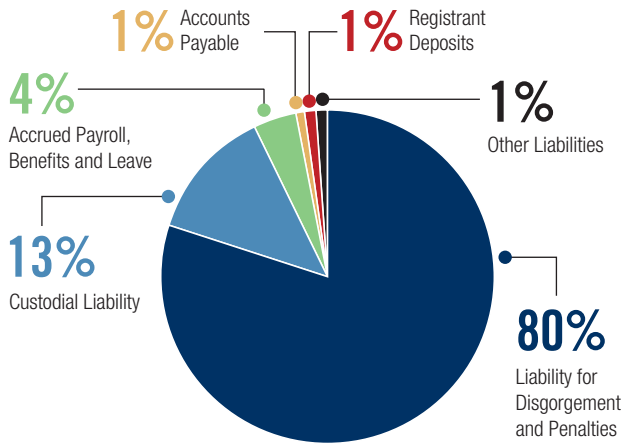


TABLE 1.3
LIABILITIES AS OF SEPTEMBER 30, 2015 AND 2014

(DOLLARS IN MILLIONS)	FY 2015	FY 2014
Liability for Disgorgement and Penalties	$ 3,029	$ 2,451
Custodial Liability	500	223
Accrued Payroll, Benefits and Leave	131	101
Accounts Payable	48	72
Registrant Deposits	35	35
Other Liabilities	30	18
Total Liabilities	**$ 3,773**	**$ 2,900**

Results of Operations

Earned Revenues. Total earned revenues for the year ended September 30, 2015 increased by $164 million or nine percent from FY 2014.

The increase reflects higher transaction volume and an increase in the rate for Section 31 Transaction Fees effective in March 2014.

Beginning in FY 2012, the majority of the SEC's filing fees is no longer used to partially fund the SEC's operations and are now deposited to the U.S. Treasury General Fund upon collection.

Reserve Fund. Section 991(e) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) authorized the creation of a Securities and Exchange Commission Reserve Fund (Reserve Fund). Funded from filing fee collections, the SEC can deposit up to $50 million per fiscal year, and the fund cannot hold more than $100 million in total. Excess filing fees are deposited to the U.S. Treasury General Fund.

For the period ended September 30, 2015, filing fee revenues were $581 million. Fifty million dollars was deposited into the Reserve Fund, of which $5 million was sequestered. The excess of $531 million was earned on behalf of the U.S. Treasury General Fund.

Filing fees deposited to the Reserve Fund can be used to fund the SEC's operations, create budgetary authority, and are reported as a component of Appropriations (Discretionary and Mandatory) on the SEC's Statement of Budgetary Resources. Filing fees deposited to the U.S. Treasury General Fund cannot be used to fund the SEC's operations. These amounts do not create budgetary authority, and are reported as a component of Other Financing Sources: Other on the SEC's Statement of Changes in Net Position.

Reserve Fund resources totaling $53 million were obligated, with $55 million in delivered orders paid, as of September 30, 2015, for both capitalized and non-capitalized IT related hardware, software, and contracting leaving a remaining amount of $328 thousand of available resources.

TABLE 1.4
EARNED REVENUES FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

(DOLLARS IN MILLIONS)	FY 2015	FY 2014
Section 31 Securities Transaction Fees	$ 1,489	$ 1,326
Securities Registration, Tender Offer, and Merger Fees (Filing Fees)	581	580
Total Earned Revenues	**$ 2,070**	**$ 1,906**

CHART 1.5
RESERVE FUND EARNED REVENUE
(DOLLARS IN MILLIONS)

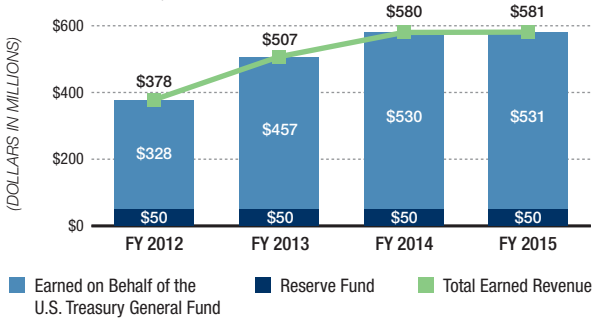
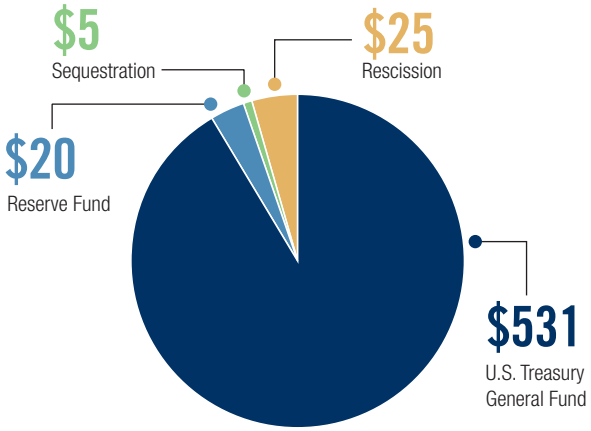


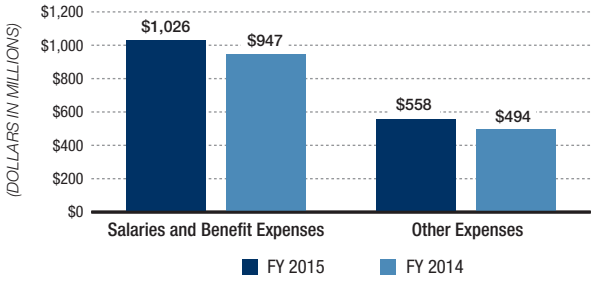
CHART 1.6
FY 2015 FILING FEE REVENUE
(DOLLARS IN MILLIONS)



Program Costs. Total Program Costs were $1.6 billion for the period ended September 30, 2015, an increase of $143 million, or 10 percent, compared to FY 2014. Salary and Benefit Expenses increased more than $79 million, as the result of increased staffing and compensation. Other Expenses increased more than $64 million, which includes $3 million in accrued expenses for whistleblower payments from the SEC's Investor Protection Fund, and $49 million in additional expenses for contractual services.

The SEC had increased expenses in the areas of personnel compensation and benefits, which correlates to an increase of 150 full-time equivalent employees; information technology service contracts and licensing; capitalized and noncapitalized information systems software and hardware; and whistleblower award payments.

CHART 1.7
PROGRAM COSTS

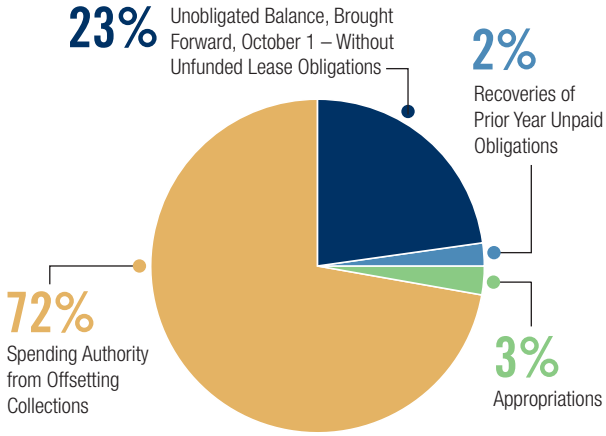


Budgetary Resources

In FY 2015, the SEC's total budgetary resources equaled $1.7 billion, a 10 percent increase above the FY 2014 amount of $1.5 billion. Significant components of the SEC's Total Budgetary Resources are described below.

Unobligated Balance Brought Forward – Unfunded Lease Obligations. Unfunded lease obligations totaled $358 million at the beginning of FY 2015. The balance through the year ended September 30, 2015 is $286 million.

CHART 1.8
FY 2015 SOURCES OF FUNDS



Percentages do not include the Unobligated Balance Brought Forward, October 1 – Interpretation for Lease Obligations.

Spending Authority from Offsetting Collections. Between September 30, 2015 and 2014, Spending Authority from Offsetting Collections increased $204 million.

The change reflects the increase in Section 31 Fees collected of $201 million, due to the change in fee rate in March of FY 2014 from $17.40 per million to $22.10 per million. The new rate was in effect through February 13, 2015. The increase in collections was also due to a 12 percent increase in trading volume for the fees collected in FY 2015 compared to FY 2014.

TABLE 1.5
TOTAL BUDGETARY RESOURCES FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

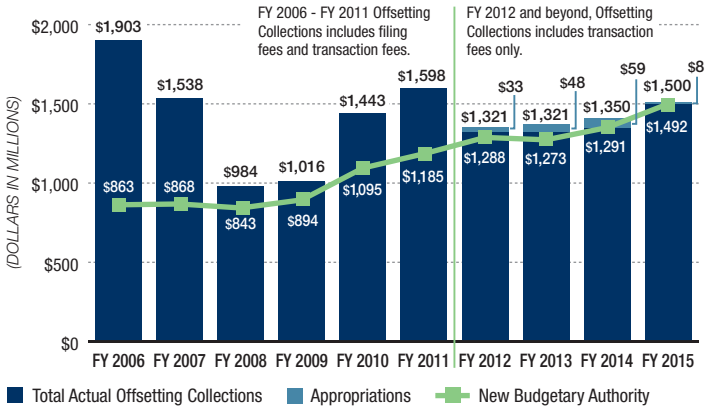
(DOLLARS IN MILLIONS)	FY 2015	FY 2014
Unobligated Balance, Brought Forward, October 1:		
Salaries and Expenses Fund – Without Unfunded Lease Obligations	$ 74	$ 108
Salaries and Expenses Fund – Effect of Change in Legal Interpretation for Lease Obligations	(358)	(441)
Reserve Fund	–	44
Investor Protection Fund	408	434
Total Unobligated Balance, Brought Forward, October 1	124	145
Recoveries of Prior Year Unpaid Obligations	34	34
Other changes in Unobligated Balance (+ or -)	(1)	–
Appropriations (Discretionary and Mandatory)		
Salaries and Expenses Fund	6	59
Reserve Fund	50	22
Investor Protection Fund	4	(1)
Spending Authority from Offsetting Collections	1,496	1,292
Total Budgetary Resources	**$ 1,713**	**$ 1,551**

Spending Authority from Offsetting Collections and Appropriations

During the fiscal year, the SEC receives an appropriation to fund its operations. This appropriation establishes the SEC's new budget authority in its Salaries and Expenses Fund for the fiscal year. The SEC's new budget authority of $1.5 billion was for FY 2015.

The SEC's Section 31 fee collections are used to offset the appropriation, and as the collections come in, the appropriated authority is returned to the U.S. Treasury General Fund.

CHART 1.9
OFFSETTING COLLECTIONS VS. NEW BUDGETARY AUTHORITY
SECTION 31 EXCHANGE AND FILING FEES



FY 2006 – FY 2011 Offsetting Collections includes transaction fees and filing fees. FY 2012 and beyond, Offsetting Collections includes transaction fees and $50 million of filing fees.

Schedule of Spending

The Schedule of Spending presents more detail about the "Obligations Incurred" line in the Statement of Budgetary Resources. The SEC's obligations are categorized by major program and object class.

To confirm the quality of data reported on USASpending.gov for public transparency, the SEC reconciled obligations reported on the financial statements and spending reported on the website. The majority of obligations included on the financial statements that are not included on USASpending.gov consists of the following: personnel compensation and benefits, leases, interagency agreements, travel, and training. Differences also exist due to the timing of obligations reported in SEC's financial reporting system, as compared to the timing of data transmissions to USASpending.gov from the Federal Procurement Data System.

Chart 1.10 presents the SEC Total Obligations Incurred by Cost Category for FY 2015.

CHART 1.10
FY 2015 TOTAL OBLIGATIONS INCURRED BY COST CATEGORY

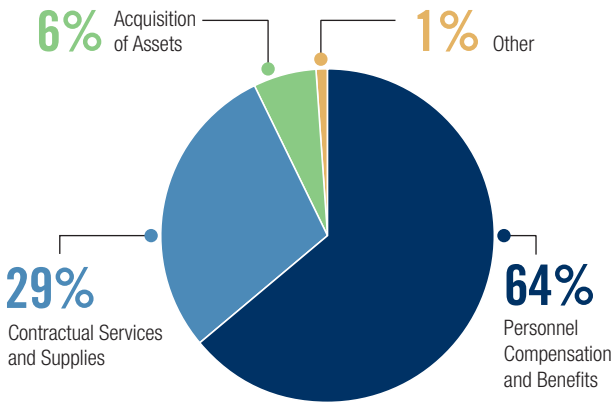


TABLE 1.6
SCHEDULE OF SPENDING:
OBLIGATIONS INCURRED BY COST CATEGORY
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

(DOLLARS IN THOUSANDS)	FY 2015	FY 2014
Personnel Compensation and Benefits	$ 996	$ 903
Contractual Services and Supplies	444	417
Acquisition of Assets	95	81
Other	15	25
Total Obligations Incurred by Cost Category	**$ 1,550**	**$ 1,426**

Investor Protection Fund

The SEC prepares stand alone financial statements for the Investor Protection Fund as required by the Dodd-Frank Act. The Fund was established in FY 2010 to provide funding for a whistleblower award program and to finance the operations of the SEC OIG's Employee Suggestion Program.

For FY 2015, the balance of the Investor Protection Fund decreased by $28 million between October 1, 2014 and September 30, 2015. The Fund recognized non-exchange revenues totaling $867 thousand, from interest earned on investments in U.S. Treasury Securities. In addition, the Investor Protection Fund incurred expenses of $28 million for whistleblower awards, and $19 thousand for salary and benefit cost in the OIG's Employee Suggestion Program.

Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by 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.

TABLE 1.7
INVESTOR PROTECTION FUND ACTIVITY
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

(DOLLARS IN THOUSANDS)	FY 2015	FY 2014
Balance of Fund at beginning of fiscal year, October 1	$414,660	$439,197
Amount of earnings on investments during the fiscal year	867	579
Amount paid from the Fund during the fiscal year to whistleblowers	(28,397)	(25,069)
Amount paid from the Fund during the fiscal year for expenses incurred by Employee Suggestion Program	(19)	(47)
Balance of the Fund at the end of the reporting period	**$ 387,111**	**$ 414,660**

Note: Table 1.7 is presented as "Dollars in Thousands" in order to detail Investor Protection Fund Activity.

Performance Highlights

The SEC's performance data provides a foundation for both programmatic and organizational decision-making and is critical for gauging the agency's success in meeting its objectives. The SEC is committed to using performance management best practices to promote greater accountability. This section provides information on its key performance measures for FY 2015. It outlines the SEC's strategic and performance planning framework, provides information on the costs incurred by the agency's four strategic goals and 10 national programs, and highlights the agency's progress toward reaching key performance targets.

The SEC's FY 2015 Annual Performance Report (APR) will be issued with the agency's FY 2017 Congressional Budget Justification, and will provide a complete discussion of all of the agency's strategic goals, including a description of performance goals and objectives, data sources, performance results and trends, and information about internal reviews and evaluations. The summary presented below of the SEC's verification and validation of all performance data also will be included in the APR. The SEC's APR is expected to be available in February 2016 at *www.sec.gov/about/secreports.shtml*.

Verification and Validation of Performance Data

The SEC's programs require accurate data to properly assess program performance and to make good management decisions. To ensure data is correct, a system of data verification and validation is used. Data verification is a systematic process for evaluating a set of data against a set of standards to ascertain its completeness, correctness, and consistency, using the methods and criteria defined in the project documentation. Data validation follows the data verification process and is an effort to ensure that performance data are free of systematic error or bias and that what is intended to be measured is actually measured. Together, these processes are used to evaluate whether the information has been generated according to specifications, satisfies acceptance criteria, and is appropriate and consistent with its intended use.

The SEC ensures that the performance data presented in this report is complete, reliable and accurate by taking the following steps:

(1) The agency develops performance goals through its strategic planning process.

(2) The SEC's divisions and offices provide:

- The procedures used to obtain assurance as to the accuracy and reliability of the data;
- The data definitions for reference;
- Documentation and explanation of the performance goal calculations; and
- The sources of the underlying data elements.

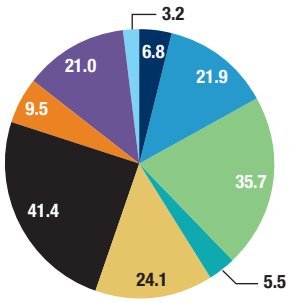
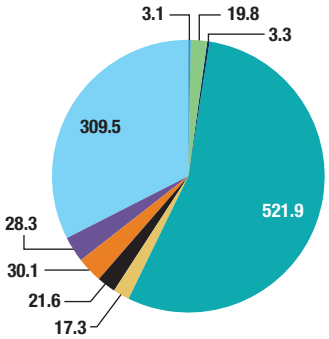
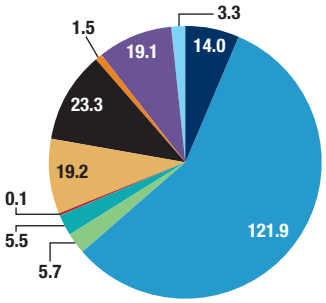
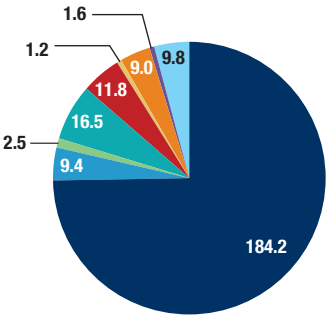
(3) The divisions and offices calculate and report the performance goals to the Office of Financial Management, and the performance goals are approved by the division directors and office heads. This process ensures that the data used in the calculation of performance goals is accurate and reliable and that internal control is maintained throughout the approval process.

Strategic and Performance Planning Framework

The SEC's FY 2015 strategic and performance planning framework is based on the FY 2014 – FY 2018 Strategic Plan, available at *www.sec.gov/about/sec-strategic-plan-2014-2018.pdf*. The Strategic Plan outlines the agency's mission, vision, values, strategic goals, and strategic objectives. The SEC's work is structured around four strategic goals, as well as 12 strategic objectives the agency plans to achieve in support of those four goals. The SEC's goals and priorities in the Strategic Plan are influenced by several external environmental factors, including global, complex and constantly evolving securities markets.

Table 1.8 displays the agency's FY 2015 costs for its four strategic goals, as well as how these costs are divided among the SEC's programs described in Table 1.1.

TABLE 1.8

Strategic Goal	Strategic Objective	Contributing Programs *($ in millions)*
STRATEGIC GOAL 1: Establish and maintain an effective regulatory environment **Cost: $169.1 million**	**Strategic Objective 1.1:** The SEC establishes and maintains a regulatory environment that promotes high-quality disclosure, financial reporting and governance, and that prevents abusive practices by registrants, financial intermediaries and other market participants. **Strategic Objective 1.2:** The SEC promotes capital markets that operate in a fair, efficient, transparent and competitive manner, fostering capital formation and useful innovation. **Strategic Objective 1.3:** The SEC adopts and administers regulations and rules that are informed by robust economic analysis and public comment and that enable market participants to understand clearly their obligations under the securities laws. **Strategic Objective 1.4:** The SEC engages with a multitude of stakeholders to inform and enhance regulatory activities domestically and internationally.	
STRATEGIC GOAL 2: Foster and enforce compliance with the Federal securities laws **Cost: $954.9 million**	**Strategic Objective 2.1:** The SEC fosters compliance with the Federal securities laws. **Strategic Objective 2.2:** The SEC promptly detects and deters violations of the Federal securities laws. **Strategic Objective 2.3:** The SEC prosecutes violations of Federal securities laws and holds violators accountable through appropriate sanctions and remedies.	
STRATEGIC GOAL 3: Facilitate access to the information investors need to make informed investment decisions **Cost: $213.6 million**	**Strategic Objective 3.1:** The SEC works to ensure that investors have access to high-quality disclosure materials that facilitate informed investment decision-making. **Strategic Objective 3.2:** The SEC works to understand investor needs and educate investors so they are better prepared to make informed investment decisions.	
STRATEGIC GOAL 4: Enhance the Commission's performance through effective alignment and management of human, information, and financial capital **Cost: $246.0 million**	**Strategic Objective 4.1:** The SEC promotes a results-oriented work environment that attracts, engages, and retains a technically proficient and diverse workforce, including leaders who provide motivation and strategic direction. **Strategic Objective 4.2:** The SEC encourages a collaborative environment across divisions and offices and leverages technology and data to fulfill its mission more effectively and efficiently. **Strategic Objective 4.3:** The SEC maximizes the use of agency resources by continually improving agency operations and bolstering internal controls.	

Agency Direction and Administrative Support · Corporation Finance · Economic and Risk Analysis · Enforcement · Inspector General · Investment Management · Trading and Markets · General Counsel · Other Program Offices · Compliance Inspections and Examinations

The SEC expended about $1,584 million in FY 2015 to achieve its four strategic goals and 12 strategic objectives. Seventy four percent of the total costs in FY 2015 were directed toward achieving Strategic Goal 2 *Foster and enforce Federal securities laws* and Strategic Goal 3 *Facilitate access to the information investors need to make informed investment decisions*. The agency's APR will provide a complete explanation of how many planned performance goal targets were exceeded, met, and not met. Where the agency met or exceeded its planned performance targets, the report will provide a discussion of the increased efficiencies and improved processes employed by the agency. When a planned performance target was not met, the report will provide a description of actions that will be taken to achieve the target in the future.

Performance Achievements

As part of the SEC's efforts to promptly detect and deter violations of the Federal securities laws (Strategic Objective 2.2), the agency's National Examination Program (NEP) conducts inspections of regulated entities, covering as much of the securities industry as resources will allow. The NEP continued to exert considerable time and effort during the year on enhancing its risk assessment and surveillance capabilities, to ensure that the program is spending its limited time and resources on those firms presenting the highest risk. Examinations of high risk firms often take significant time to complete and are frequently of large and complex entities. Overall, the program exceeded expectations and completed more examinations than in any of the previous five fiscal years (Performance Goal 2.2.1). In addition, examination resources were also allocated during the past year to other critical efforts intended to improve the long-term performance of the program, including industry outreach initiatives, rulemaking projects, and other program improvement efforts. These activities to build and maintain coverage of the industry helps the Commission uncover wrongdoing and promote compliance with the Federal securities laws.

TABLE 1.9

PERFORMANCE GOAL 2.2.1
Percentage of investment advisers, investment companies, and broker-dealers examined during the year

Description: This metric indicates the number of registrants examined by the SEC or a Self-Regulatory Organization (SRO) as a percentage of the total number of registrants. This metric includes all types of examinations: risk priority examinations, cause inspections to follow up on tips and complaints, limited-scope special inspections to probe emerging risk areas, oversight examinations of broker-dealers to test compliance and the quality of examinations by the Financial Industry Regulatory Authority (FINRA).

Fiscal Year	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015 Plan	FY 2015 Actual	FY 2015 Results
Investment advisers	9%	8%	8%	9%	10%	10%	10%	Met
Investment companies	10%	13%	12%	11%	10%	12%	15%	Exceeded
Broker-dealers (exams by SEC and SROs)	44%	58%	49%	46%	49%	50%	51%	Exceeded

Responsible Division/Office: Office of Compliance Inspections and Examinations

Data Source: Tracking and Reporting Exam National Documentation System (TRENDS), (IA, IC, and BD SEC data) and SRO Databases (BD SRO Data)

A key part of investor protection is for those who choose to prey on investors to be swiftly and appropriately sanctioned. The SEC's ability to successfully litigate cases is critical to its mission of protecting investors. Successful litigation sanctions wrongdoers, provides relief to victims, and deters wrongdoing. In addition to victories in the specific cases the agency brings to trial, the SEC's litigation efforts also help the SEC obtain strong settlements in other cases by making clear that the SEC will go deep into litigation and to trial, if necessary, in order to obtain appropriate relief. Prosecuting violations of Federal securities laws and holding violators accountable (Strategic Objective 2.3) is among the most important work of the

Commission. The SEC has implemented controls and strategies to resolve actions quickly and on a favorable basis, while at the same time, it does not hesitate to file matters on a contested basis where a favorable settlement was unavailable before filing (Performance Goal 2.3.1). The SEC has dedicated the necessary resources to ensure that the agency will continue to have a strong record of success.

TABLE 1.10

PERFORMANCE GOAL 2.3.1
Percentage of enforcement actions in which the Commission obtained relief on one or more claims

Description: This metric identifies, as to all parties to enforcement actions that were resolved in the fiscal year, the percentage against whom the Commission obtained a judgment or order entered on consent, a default judgment, a judgment of liability on one or more charges, and/or the imposition of monetary or other relief.

Fiscal Year	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015 Plan	FY 2015 Actual	FY 2015 Results
Percentage	92%	93%	89%	93%	94%	92%	95%	Exceeded
Responsible Division/Office: Division of Enforcement								
Data Source: HUB case management and tracking system for the Division of Enforcement								

An educated investing public ultimately provides the best defense against fraud and costly mistakes. The Federal securities laws place great emphasis on assuring that corporations, investments companies, and other entities provide investors with timely, clear, complete and accurate financial and non-financial information. The starting point for shaping company disclosure is remembering its purpose, which is, that investors have access to high-quality disclosure materials that facilitate informed investment decision-making (Strategic Objective 3.1). Consistent with Section 408 of the Sarbanes Oxley-Act of 2002, the SEC completed its review of disclosures made by certain public issuers, including issuers' financial statements, no less frequently than once every three years (Performance Goal 3.1.1).

TABLE 1.11

PERFORMANCE GOAL 3.1.1
Percentage of public companies and investment companies with disclosures reviewed each year

Description: The Sarbanes-Oxley Act requires that the SEC review, at least once every three years, the disclosures of all companies and investment company portfolios reporting under the Exchange Act. These reviews help improve the information available to investors and may identify possible violations of the Federal securities laws. This metric gauges the number of public companies and investment companies reviewed each year.

Fiscal Year	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015 Plan	FY 2015 Actual	FY 2015 Results
Division of Corporation Finance								
Corporations	44%	48%	48%	52%	52%	33%	51%	Exceeded
Responsible Division/Office: Division of Corporation Finance								
Data Source: Electronic, Data Gathering, Analysis, and Retrieval (EDGAR)/Filing Activity Tracking System (FACTS)								
Division of Investment Management								
Investment company portfolios	35%	33%	36%	34%	35%	33%	35%	Exceeded
Responsible Division/Office: Division of Investment Management								
Data Source: Microsoft Office Suite Tools								

In today's complex world, having a solid understanding of the financial marketplace is a key foundation for investors to be able to handle life's big events – paying for college, marriage, buying a home, and saving for retirement. Understanding the interests and concerns of investors is critical to carrying out the Commission's investor protection mission. The SEC advances this mission by seeking to understand investor needs and educate investors so they are better prepared to make informed investment decisions (Strategic Objective 3.2). The SEC website dedicated to retail investors provides excellent content helpful to investors all over the world. During FY 2015, Investor.gov, featuring calculators, tools, and resources for checking the background of investment professionals, among other materials for investors, helped the agency exceed its goal of page views of online investor education content. The SEC also continued to be an active member of the U.S. Department of Defense's Financial Readiness Campaign, and conducted financial workshops on military installations throughout the country. The SEC regularly issued investor alerts to educate the public about potentially fraudulent activity and supported financial readiness events and activities such as Military Saves Week by providing free educational brochures. The SEC had 23.6 million page views of online investor education content and participated in 71 in-person events (Performance Goal 3.2.1).

TABLE 1.12

PERFORMANCE GOAL 3.2.1
Number of page views of online investor education content, and number of in-person events, including those with specifically targeted communities and organizations

Description: The Office of Investor Education and Advocacy (OIEA) initiates investor education campaigns on key strategies for making informed investment decisions, including publicizing online resources for researching investment professionals and investments, understanding fees, and identifying fraud. OIEA staff also participates in in-person events for investors generally and those targeted to specific investors, such as seniors, service members, and other affinity groups. This metric tracks page views of SEC online investor education materials and the number of investor events in which OIEA staff participated.

Fiscal Year	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015 Plan	FY 2015 Actual	FY 2015 Results
Number of page views (in millions)	Prior-year data not available			12.1	22.2	20	23.6	Exceeded
Number of "in-person" events	Prior-year data not available			52	51	50	71	Exceeded

Responsible Division/Office: Office of Investor Education and Advocacy

Data Source: Google Analytics, Microsoft Office Suite Tools

Management Assurances and Compliance with Laws

In Fiscal Year (FY) 2015, the SEC demonstrated its continued commitment to maintaining strong internal controls. Internal control is an integral component of effective agency management, providing reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with laws and regulations. The Federal Managers' Financial Integrity Act of 1982 (FMFIA) establishes management's responsibility to assess and report on internal accounting and administrative controls. Such controls include program, operational, and administrative areas, as well as accounting and financial management. The FMFIA requires Federal agencies to establish controls that reasonably ensure obligations and costs are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to maintain accountability over the assets. The FMFIA also requires agencies to annually assess whether financial management systems conform to related requirements (FMFIA § 4). Guidance for implementing the FMFIA is provided through Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*.

Section 963 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) describes the responsibility of SEC management to establish and maintain adequate internal controls and procedures for financial reporting. This section requires an annual financial controls audit, a Government Accountability Office (GAO) audit of the SEC's assessment of the effectiveness of internal control, and attestation by the Chair and the Chief Financial Officer (CFO). Section 922 of the Dodd-Frank Act requires the SEC to submit audited financial statements of the Investor Protection Fund to the Committee on Banking, Housing and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives.

The following Assurance Statement is issued in accordance with the FMFIA, OMB Circular A-123 and Sections 963 and 922 of the Dodd-Frank Act.

Annual Assurance Statement

Assurance Statement On Internal Control Over Operations: The SEC management is responsible for establishing and maintaining effective internal control that meets the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). In accordance with OMB Circular A-123, the SEC conducted its annual assessment of the effectiveness of internal controls. Based on the results of the assessment for the period ending September 30, 2015, the SEC is able to provide a statement of assurance that the internal controls, both for the agency as a whole and for the Investor Protection Fund, meet the objectives of the FMFIA. No material weaknesses were found in the design or operation of the internal controls for the fiscal year ended September 30, 2015.

Assurance Statement On Internal Control Over Financial Reporting (ICFR): In accordance with Appendix A of OMB Circular A-123, the SEC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations. Based on the results of the assessment, the SEC is able to provide reasonable assurance that internal controls over financial reporting, both for the agency as a whole and for the Investor Protection Fund, met the objectives of FMFIA and were operating effectively as of September 30, 2015. No material weaknesses were found in the design or operation of controls.

SEC also conducted reviews of its financial management systems in accordance with OMB Circular A-123 Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA)*. Based on the results of these reviews, SEC can provide reasonable assurance that its financial management systems substantially comply with the requirements of the FFMIA as of September 30, 2015.

Mary Jo White
Chair
November 10, 2015

Kenneth A. Johnson
Chief Financial Officer
November 10, 2015

Management's Assessment of Internal Control

The FY 2015 Chair and CFO's annual assurance statements for FMFIA and ICFR provided reasonable assurance that the necessary objectives (effective and efficient operations, compliance with applicable laws and regulations, and reliability of financial reporting) are achieved.

The assurance statements are based on reports from each division director and office head on the effectiveness of their controls. These statements were based on self-assessments and internal reviews supported by control testing, as well as recommendations for improvement from audits, investigations, and reviews conducted internally by the SEC Office of Inspector General (OIG) and GAO.

The results of these statements were considered with other sources of information, which included, but were not limited to, the following:

- An entity-level control assessment;
- Internal management reviews, self-assessments, and tests of internal controls;
- Management's personal knowledge gained from daily operations;
- Reports from GAO and the OIG;
- Reviews of financial management systems under OMB Circular A-123 Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996*;
- Reports pursuant to the Federal Information Security Management Act (FISMA) and OMB Circular A-130, *Management of Federal Information Resources*;
- Annual reviews and reports pursuant to the Improper Payments Elimination and Recovery Act;
- Reports and other information from Congress or agencies such as OMB, the Office of Personnel Management (OPM), or the General Services Administration (GSA) reflecting the adequacy of internal controls; and
- Additional reviews relating to a division or office's operations.

With respect to internal controls over financial reporting, the SEC performed a comprehensive risk assessment. The agency documented its key controls to address risks, and then assessed the design and operating effectiveness of these controls through detailed test procedures. The agency also tested the operating effectiveness of control activities that were found to be deficient in prior years. SEC management analyzed the magnitude of internal control deficiencies, both individually and in the aggregate, to determine if a material weakness existed in the financial reporting processes.

Taking into account the assurance statements from directors and office heads, the supplemental sources of information as described above, and the results of the assessment of internal controls over financial reporting, the agency's Financial Management Oversight Committee advises the Chair as to whether the SEC had any deficiencies in internal control or financial system design significant enough to be reported as a material weakness or non-conformance.

This report provides a Summary of Financial Statement Audits and Management Assurances under the section entitled Other Accompanying Information, as required by OMB Circular A-136, *Financial Reporting Requirements*.

Other Reviews

Improper Payments Information Act

The Improper Payments Information Act (IPIA) of 2002, as amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010 and Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012, requires agencies to review all programs and activities they administer and identify those which may be susceptible to significant erroneous payments. For all programs and activities in which the risk of erroneous payments is significant, agencies are to estimate the annual amount of erroneous payments made in those programs. The SEC's risk assessments have consistently indicated that none of the SEC's programs are susceptible to significant improper payments. Please refer to the Other Information Section, *Improper Payments Elimination and Recovery Act Reporting Details*, of this report for additional information regarding the SEC's compliance with IPIA, IPERA, and IPERIA.

Financial Management System Conformance

The FFMIA requires that each agency implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level. The purpose of the FFMIA is to advance Federal financial management by verifying that financial management systems provide accurate, reliable, and timely financial management information in order to manage daily operations, produce reliable financial statements, maintain effective internal control, and comply with legal and regulatory requirements. Although the SEC is exempt from the requirement to determine substantial compliance with FFMIA, the agency assesses its financial management systems annually for conformance with the requirements of OMB Circular A-123, Appendix D and other Federal financial system requirements.

Summary of Current Financial System and Future Strategies

The FY 2015 ICFR assessment demonstrated that a low risk rating would be appropriate and that the agency substantially complied with the requirements of Section 803(a) of the FFMIA. The SEC's financial system, Delphi, is supported by an approved Federal Shared Service Provider (FSSP) and meets all of the requirements of FFMIA.

In FY 2015, the SEC continued to work with its FSSP, the Department of Transportation's Enterprise Services Center (ESC), in enhancing its existing systems and implementing additional financial and mixed systems. This year, the SEC transitioned its travel management system to E2 Solutions. ESC is now providing operations and maintenance support to the SEC for E2 Solutions, including interfacing financial data with the core financial management system on a daily basis. The SEC believes that continuing to invest in technology solutions will help to put its controls on a more sustainable path.

Federal Information Security Management Act (FISMA)

FISMA requires Federal agencies to "develop, document, and implement an agency-wide information security program to provide information security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source." In addition, FISMA requires Federal agencies to conduct annual assessments of their information security and privacy programs, to develop and implement remediation efforts for identified weaknesses and vulnerabilities, and to report compliance to OMB. The SEC's OIG, Chief Information Security Officer, and Privacy Officer annually perform a joint review of the Commission's compliance with FISMA requirements. The Commission will submit its 2015 report to OMB in November.

Oversight and Compliance

The SEC's Office of Information Technology (OIT), collaborating with business owners, completed assessment and authorization activities for 22 reportable systems. As a result, the SEC has now assessed and authorized a total of 63 reportable systems in accordance with OMB policy and guidance from the National Institute of Standards and Technology (NIST). OIT completed contingency testing on the majority of the SEC's authorized systems as part of disaster recovery exercises, unscheduled events, and weather occurrences. In FY 2015, OIT Security performed physical site assessments in accordance with NIST SP 800-53 for six of the regional offices and three vendor sites. OIT facilitated the remediation of 320 self-identified deficiencies associated with the SEC's network infrastructure and major applications and closed 19 OIG recommendations.

OIT conducted 181 privacy reviews, which included the approval and publishing of four privacy impact assessments. OIT also published two systems of record notices in the Federal Register.

Training and Communications

OIT delivered on-line cyber security and privacy awareness training to the SEC user community and achieved 94 percent completion. The Privacy Office conducted seven on-site regional office assessments and in-person privacy training, which focused on the safe handling of personally identifiable information (PII) and was delivered to approximately 89 percent of users in those regional offices. During the regional office assessments, the Privacy Office also held manager forums that focused on data breaches involving PII and discussed lessons learned from previous incidents. OIT launched a central, online Privacy Resource Center, which offers status updates of data breaches, and guidance and resources for protecting PII at the SEC and other Federal agencies.

Governance and Technology

OIT continues updating governance documentation to be consistent with OMB policy and NIST guidance. OIT is dedicating resources to enhancing SEC's electronic governance, risk and compliance software tool which will result in increased efficiency in managing security assessments and better visibility and tracking of issues in a consolidated repository. The first round of dashboards illustrating remediation progress was made available to OIT in FY 2015. SEC is well positioned to transition to continuous monitoring and is an active participant in interagency cybersecurity initiatives, many led by the Department of Homeland Security. The SEC continues to safely explore cloud computing technologies and solutions based on Federal information protection requirements. SEC leveraged five cloud service providers that have been through the Federal Risk and Authorization Management Program (FedRAMP) and is exploring additional cloud service providers that are registered in FedRAMP but have not yet received provisional authorization from either an agency or the Joint Authorization Board.

Financial Section

This section of the Agency Financial Report contains the U.S. Securities and Exchange Commission's (SEC) financial statements and other additional information for Fiscal Years (FYs) 2015 and 2014. Information presented here satisfies the financial reporting requirements of the Accountability of Tax Dollars Act of 2002 and Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The SEC prepares these statements and accompanying notes in conformity with U.S. generally accepted accounting principles (GAAP) for the Federal Government and OMB Circular A-136, *Financial Reporting Requirements*.

SEC Financial Statements:

- **Balance Sheets:** Presents, as of a specific time, amounts of future economic benefits owned or managed by the SEC (assets), amounts owed by the entity (liabilities), and amounts which comprise the difference (net position).
- **Statements of Net Cost:** Presents the gross cost incurred by the SEC less exchange revenue earned from its activities, including registration and filing fees. The SEC presents net cost of operations by program to provide cost information at the program level. The SEC recognizes collections as exchange revenue on the Statement of Net Cost, even when the collections are transferred to other entities.
- **Statements of Changes in Net Position:** Reports the change in net position during the reporting period. This statement presents changes to Cumulative Results of Operations and Unexpended Appropriations.
- **Statements of Budgetary Resources[1]:** Provides information about how budgetary resources were made available as well as their status at the end of the year.
- **Statements of Custodial Activity:** Reports the collection of revenue for the Treasury General Fund. The SEC accounts for sources and disposition of the collections as custodial activities on this statement. Custodial collections of non-exchange revenue, such as amounts collected from violators of securities laws as a result of enforcement proceedings, are reported only on the Statement of Custodial Activity.
- **Accompanying Notes to the Financial Statements:** Provides a description of significant accounting policies and detailed information on select statement line items.
- **Required Supplementary Information (Unaudited):** Reports the Combining Statements of Budgetary Resources by fund account[2].

Investor Protection Fund Financial Statements:

- **Investor Protection Fund Financial Statements:** Provides stand alone, comparative financial statements (Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and Statements of Budgetary Resources) as required by the Dodd-Frank Act.
- **Accompanying Notes to the Investor Protection Fund Financial Statements:** Provides a description of significant accounting policies and detailed information on select statement line items as required by the Dodd-Frank Act.

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[1] *Budgetary information aggregated for purposes of the Statement of Budgetary Resources is disaggregated for each of the SEC's major budget accounts and is presented as Required Supplementary Information.*

[2] *The SEC does not have stewardship over resources or responsibilities for which supplementary stewardship reporting would be required.*

Message from the Chief Financial Officer

I am delighted to join Chair White in presenting the SEC's Agency Financial Report (AFR) for Fiscal Year (FY) 2015. We hope you find the AFR a useful summary of the SEC's financial picture, operating performance, and internal controls.

For FY 2015, our independent auditor, the U.S. Government Accountability Office (GAO), has issued an unmodified opinion on our financial statements and internal controls. I am pleased to report that the SEC also successfully downgraded the significant deficiency identified in FY 2014 related to accounting for disgorgement and penalties. The SEC has worked diligently to address GAO's recommendations in this highly complex area.

For example, we reevaluated our business processes and bolstered controls related to the timely recording of court judgments impacting the financial statements. We have also developed the requirements for a new disgorgement and penalty sub-ledger system, and we expect the effort to implement the system will commence in FY 2016. This system is aimed towards streamlining the controls in this key area, by providing more comprehensive information in a more automated fashion.

In the coming year we are also focused on further improvements to the systems that support our financial controls. The SEC is working to replace the system supporting budget execution and formulation, and efforts are underway to modernize the systems related to filing fees and property management. Many of the challenges the SEC continues to face in these critical areas are the result of dated technology and manual processes. Thus, we believe that investing in technology solutions will help to put our controls on a more sustainable path.

This section of the AFR provides detailed information about the SEC's finances and its internal controls over financial reporting. It does so for both for the entity as a whole and for the Investor Protection Fund, as required under Section 922 of the Dodd-Frank Act. The section also contains the results of the FY 2015 audit conducted by GAO, as well as the agency's response. We hope you will find these materials both useful and informative.

I want to extend special thanks to the staff of the Office of Financial Management, as well as other divisions and offices throughout the SEC, who work extremely hard to manage, track, report on, and control SEC funds. The significant progress the SEC has made in its financial stewardship over the last several years could not have been achieved without their efforts.

Sincerely,

Kenneth A. Johnson
Chief Financial Officer
November 13, 2015

Report of Independent Auditors

441 G St. N.W.
Washington, DC 20548

Independent Auditor's Report

To the Chair of the United States Securities and Exchange Commission

In our audits of the 2015 and 2014 financial statements of the United States Securities and Exchange Commission (SEC)[1] and the Investor Protection Fund (IPF),[2] we found

- the SEC and IPF financial statements as of and for the fiscal years ended September 30, 2015, and 2014, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- SEC maintained, in all material respects, effective internal control over financial reporting for SEC and for IPF as of September 30, 2015; and
- no reportable noncompliance for fiscal year 2015 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on SEC's and IPF's financial statements and on internal control over financial reporting, which includes required supplementary information (RSI)[3] and other information[4] included with the financial statements; (2) our report on compliance with laws, regulations, contracts, and grant agreements; and (3) agency comments.

Report on SEC's and IPF's Financial Statements and on Internal Control over Financial Reporting

The Accountability of Tax Dollars Act of 2002 requires that SEC annually prepare and submit audited financial statements to Congress and the Office of Management and Budget.[5] The Securities Exchange Act of 1934, as amended in 2010 by the Dodd-Frank Wall Street Reform

[1]Dodd-Frank Act, Pub. L. No. 111-203, 124 Stat. 1376 (July 21, 2010) *codified at* 15 U.S.C. § 78d-8, requires that (1) SEC submit annual reports to Congress describing management's responsibility for internal control over financial reporting and assessing the effectiveness of such internal control during the fiscal year, (2) the SEC Chairman and Chief Financial Officer attest to SEC's reports, and (3) GAO attest to and report on the assessment made by SEC. SEC conducted an evaluation of its internal control over financial reporting in accordance with the Office of Management and Budget's Circular A-123, *Management's Responsibility for Internal Control*, based on criteria established under the Federal Managers' Financial Integrity Act.

[2]IPF was established in 2010 by section 922(g) of the Dodd-Frank Wall Street Reform and Consumer Protection Act to fund the activities of SEC's whistleblower award program and the SEC Office of Inspector General employee suggestion program established under Section 966 of Dodd-Frank. IPF is a separate SEC fund and its financial statements present SEC's financial activity associated with its whistleblower and Inspector General suggestion programs. Accordingly, IPF's financial transactions are also included in SEC's overall financial statements.

[3]RSI consists of the *Management's Discussion and Analysis* and *the Combined Statement of Budgetary Resources, by Fund*, which are included with the financial statements.

[4]Other information consists of information included with the financial statements, other than RSI and the auditor's report.

[5]Pub. L. No. 107-289, § 2, 116 Stat. 2049-2050 (Nov. 7, 2002), *amending* 31 U.S.C. § 3515.

and Consumer Protection Act (Dodd-Frank Act), requires that SEC provide separate annual audited financial statements for IPF to Congress.[6] IPF's financial transactions are also included in SEC's overall financial statements. In accordance with the authority conferred in the Chief Financial Officers Act of 1990, as amended by the Government Management and Reform Act of 1994,[7] we have audited the SEC and IPF financial statements. Further, in accordance with the Dodd-Frank Act, we have assessed the effectiveness of SEC's internal control over financial reporting, evaluated SEC's assessment of such effectiveness, and are attesting to SEC's assessment of its internal control over financial reporting. SEC's financial statements comprise the balance sheets as of September 30, 2015, and 2014; the related statements of net cost of operations, changes in net position, budgetary resources, and custodial activity for the fiscal years then ended; and the related notes to the financial statements. IPF's financial statements comprise the balance sheets as of September 30, 2015, and 2014; the related statements of net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements. We also have audited SEC's internal control over financial reporting as of September 30, 2015, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

We conducted our audits in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

SEC management is responsible for (1) the preparation and fair presentation of its financial statements and those of IPF in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (5) evaluating the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and (6) providing its assertion about the effectiveness of internal control over financial reporting as of September 30, 2015, based on its evaluation, included in the Management Assurance section of the annual financial report.

Auditor's Responsibility

Our responsibility is to express opinions on SEC's and IPF's financial statements and opinions on internal control over financial reporting for SEC and for IPF, based on our audits. U.S. generally accepted government auditing standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement, and whether effective internal control over financial reporting was maintained in

[6]Section 21F(g)(5) of the Securities Exchange Act of 1934, 15 U.S.C. § 78u-6(g)(5).

[7]See the Chief Financial Officers Act of 1990, Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990), codified, in relevant part, as amended, at 31 U.S.C. § 3521(g); see also the Government Management Reform Act of 1994, Pub. L. No. 103-356, 108 Stat. 3410 (Oct. 13, 1994), *codified, in relevant part, as amended, at* 31 U.S.C. § 3515(c).

all material respects. We are also responsible for applying certain limited procedures to the RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk, and testing relevant internal control over financial reporting. Our audit of internal control also considered the entity's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA. Our audits also included performing such other procedures as we considered necessary in the circumstances.

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.[8]

Definitions and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority; regulations; contracts; and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error. We also caution that projecting any evaluation of effectiveness 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 the policies or procedures may deteriorate.

[8]A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

Opinion on SEC's Financial Statements

In our opinion, SEC's financial statements present fairly, in all material respects, SEC's financial position as of September 30, 2015, and 2014, and its net cost of operations, changes in net position, budgetary resources, and custodial activity for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Opinion on IPF's Financial Statements

In our opinion, IPF's financial statements present fairly, in all material respects, IPF's financial position as of September 30, 2015, and 2014, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Opinions on Internal Control over Financial Reporting

In our opinion, SEC maintained, in all material respects, effective internal control over financial reporting as of September 30, 2015, for SEC and for IPF, based on criteria established under FMFIA. Our opinions on SEC's internal control are consistent with SEC's assertion that its internal control over financial reporting, both for the agency as a whole and for IPF, were operating effectively as of September 30, 2015, and that no material weaknesses were found in the design or operation of the controls.

During fiscal year 2015, SEC made progress in addressing internal control deficiencies we reported in fiscal year 2014. Specifically, SEC sufficiently addressed the deficiencies in its accounting for disgorgement and penalty transactions such that we no longer consider the remaining control deficiencies in this area, individually or collectively, to represent a significant deficiency as of September 30, 2015.[9]

During our 2015 audit, we identified deficiencies in SEC's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant SEC management's attention. We have communicated these matters to SEC management and, where appropriate, will report on them separately.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that RSI be presented to supplement the financial statements. Although RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or

[9]A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

SEC's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on SEC's and IPF's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of SEC's and IPF's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

SEC management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to SEC and IPF.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to SEC and IPF that have a direct effect on the determination of material amounts and disclosures in the SEC and IPF financial statements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to SEC and IPF.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2015 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to SEC and IPF. Accordingly, we do not express such an opinion.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments

In commenting on a draft of this report, SEC's Chair expressed her pleasure that GAO found that SEC remediated the significant deficiency identified in 2014 related to accounting for disgorgement and penalties, and attributed this accomplishment to the efforts of the Office of Financial Management and the Division of Enforcement. The Chair stated that accounting for disgorgement and penalties will continue to be an area of focus for SEC in the coming year. The Chair added that SEC has developed requirements for a new disgorgement and penalty sub-ledger aimed toward streamlining the controls in this key area, by providing more comprehensive information in a more automated fashion. The Chair further commented that in the coming year, SEC will focus on further improvements to the systems that support financial controls. The complete text of SEC's response is reprinted in enclosure I.

James R. Dalkin
Director
Financial Management and Assurance

November 13, 2015

Enclosure I: Management's Response to Audit Opinion

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

THE CHAIR

November 10, 2015

Mr. James R. Dalkin
Director
Financial Management and Assurance
United States Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Dalkin:

Thank you for the opportunity to review and comment on the audit report of the Government Accountability Office (GAO). I am pleased that the GAO's FY 2015 audit found that the SEC's financial statements and notes were presented fairly, in all material respects, and in conformity with U.S. generally accepted accounting principles.

Furthermore, I am pleased the GAO found the SEC no longer has a significant deficiency related to accounting for disgorgement and penalties, as was identified in 2014. The SEC has worked diligently to address GAO's recommendations in this highly complex area. I would particularly like to recognize the Office of Financial Management and the Division of Enforcement for their efforts in the SEC's remediation of this matter. Nevertheless, the accounting for disgorgements and penalties will continue to be an area of focus for the SEC in the coming year. We have developed requirements for a new disgorgement and penalty sub-ledger system, and the effort to implement the system will commence in FY 2016. This system is aimed towards streamlining the controls in this key area, by providing more comprehensive information in a more automated fashion.

In the coming year we are also focused on further improvements to the systems that support our financial controls. Efforts are underway to modernize the systems related to filing fees, property management, and budget execution and formulation. We believe that investing in technology solutions is the key to putting our controls on a sustainable path over the long term.

I very much appreciate the professional manner in which you and your team conducted the audit for FY 2015. If you have any questions, please feel free to contact me.

Sincerely,

Mary Jo White
Chair

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Financial Statements

U.S. SECURITIES AND EXCHANGE COMMISSION

Balance Sheets

As of September 30, 2015 and 2014

(DOLLARS IN THOUSANDS)	FY 2015	FY 2014
ASSETS (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 7,618,768	$ 8,210,610
Investments, Net (Note 5)	2,867,146	1,755,689
Accounts Receivable (Note 6)	26	19
Advances and Prepayments	6,213	3,488
Total Intragovernmental	10,492,153	9,969,806
Cash and Other Monetary Assets (Note 4)	39	731
Accounts Receivable, Net (Note 6)	860,022	506,605
Property and Equipment, Net (Note 7)	103,604	113,292
Advances and Prepayments	4	—
Total Assets	$ 11,455,822	$ 10,590,434
LIABILITIES (Note 8):		
Intragovernmental:		
Accounts Payable	$ 3,027	$ 7,249
Employee Benefits	5,068	4,017
Unfunded FECA and Unemployment Liability	1,182	1,286
Custodial Liability	500,238	223,363
Liability for Non-Entity Assets	1,802	3,752
Total Intragovernmental	511,317	239,667
Accounts Payable	44,380	64,830
Actuarial FECA Liability	6,054	6,821
Accrued Payroll and Benefits	58,165	37,931
Accrued Leave	67,635	58,498
Registrant Deposits	35,050	34,766
Liability for Disgorgement and Penalties (Note 16)	3,028,960	2,451,397
Contingent Liabilities (Note 10)	14,555	—
Other Accrued Liabilities (Note 8)	6,496	5,830
Total Liabilities	3,772,612	2,899,740
Commitments and Contingencies (Note 10)		
NET POSITION:		
Unexpended Appropriations – All Other Funds	–	764
Cumulative Results of Operations – Funds from Dedicated Collections (Note 11)	7,683,210	7,688,738
Cumulative Results of Operations – All Other Funds	–	1,192
Total Net Position – Funds from Dedicated Collections (Note 11)	7,683,210	7,688,738
Total Net Position – All Other Funds	–	1,956
Total Net Position	$ 7,683,210	$ 7,690,694
Total Liabilities and Net Position	$ 11,455,822	$ 10,590,434

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

U.S. SECURITIES AND EXCHANGE COMMISSION

Statements of Net Cost

For the years ended September 30, 2015 and 2014

(DOLLARS IN THOUSANDS)	FY 2015	FY 2014
PROGRAM COSTS (Note 12):		
Enforcement	$ 549,396	$ 487,047
Compliance Inspections and Examinations	325,745	281,738
Corporation Finance	156,327	146,276
Trading and Markets	86,219	79,246
Investment Management	61,807	57,328
Economic and Risk Analysis	63,701	43,366
General Counsel	50,244	42,826
Other Program Offices	69,926	61,830
Agency Direction and Administrative Support	208,334	232,575
Inspector General	11,922	8,764
Total Program Costs	1,583,621	1,440,996
Less: Earned Revenue Not Attributed to Programs (Note 12)	2,070,235	1,906,258
Net (Income) Cost from Operations (Note 15)	$ (486,614)	$ (465,262)

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

U.S. SECURITIES AND EXCHANGE COMMISSION

Statements of Changes in Net Position

For the years ended September 30, 2015 and 2014

	FY 2015		
(DOLLARS IN THOUSANDS)	**Funds from Dedicated Collections**	**All Other Funds**	**Consolidated Total**
CUMULATIVE RESULTS OF OPERATIONS:			
Beginning Balances	$ 7,688,738	$ 1,192	$ 7,689,930
Budgetary Financing Sources:			
Appropriations Used	5,705	—	5,705
Non-Exchange Revenue	867	—	867
Other Financing Sources:			
Transfers In/Out without Reimbursement	1,192	(1,192)	—
Imputed Financing (Note 13)	31,316	—	31,316
Other (Note 17)	—	(531,222)	(531,222)
Total Financing Sources	39,080	(532,414)	(493,334)
Net Income (Cost) from Operations	(44,608)	531,222	486,614
Net Change	(5,528)	(1,192)	(6,720)
Cumulative Results of Operations (Note 11)	7,683,210	—	7,683,210
UNEXPENDED APPROPRIATIONS:			
Beginning Balances	—	764	764
Budgetary Financing Sources:			
Appropriations Received	8,087	—	8,087
Other Adjustments	(2,382)	(764)	(3,146)
Appropriations Used	(5,705)	—	(5,705)
Total Budgetary Financing Sources	—	(764)	(764)
Total Unexpended Appropriations	—	—	—
Net Position, End of Period	$ 7,683,210	$ —	$ 7,683,210

U.S. SECURITIES AND EXCHANGE COMMISSION

Statements of Changes in Net Position *(continued)*

For the years ended September 30, 2015 and 2014

	FY 2014		
(DOLLARS IN THOUSANDS)	**Funds from Dedicated Collections**	**All Other Funds**	**Consolidated Total**
CUMULATIVE RESULTS OF OPERATIONS:			
Beginning Balances	$ 7,653,217	$ 1,192	$ 7,654,409
Budgetary Financing Sources:			
Appropriations Used	59,013	—	59,013
Non-Exchange Revenue	579	—	579
Other Financing Sources:			
Transfers In/Out without Reimbursement	—	—	—
Imputed Financing (Note 13)	39,556	—	39,556
Other (Note 17)	—	(528,889)	(528,889)
Total Financing Sources	99,148	(528,889)	(429,741)
Net Income (Cost) from Operations	(63,627)	528,889	465,262
Net Change	35,521	—	35,521
Cumulative Results of Operations (Note 11)	7,688,738	1,192	7,689,930
UNEXPENDED APPROPRIATIONS:			
Beginning Balances	—	764	764
Budgetary Financing Sources:			
Appropriations Received	59,013	—	59,013
Other Adjustments	—	—	—
Appropriations Used	(59,013)	—	(59,013)
Total Budgetary Financing Sources	—	—	—
Total Unexpended Appropriations	—	764	764
Net Position, End of Period	$ 7,688,738	$ 1,956	$ 7,690,694

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

U.S. SECURITIES AND EXCHANGE COMMISSION

Statements of Budgetary Resources

For the years ended September 30, 2015 and 2014

(DOLLARS IN THOUSANDS)	FY 2015	FY 2014
BUDGETARY RESOURCES:		
Unobligated Balance, Brought Forward, October 1	$ 123,644	$ 144,766
Recoveries of Prior Year Unpaid Obligations	34,261	33,554
Other Changes in Unobligated Balance	(764)	—
Unobligated Balance from Prior Year Budget Authority, Net	157,141	178,320
Appropriations (Discretionary and Mandatory)	60,052	79,763
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,495,633	1,292,430
Total Budgetary Resources	$ 1,712,826	$ 1,550,513
STATUS OF BUDGETARY RESOURCES:		
Obligations Incurred (Note 14):	$ 1,550,271	$ 1,426,869
Unobligated Balance, End of Year:		
Apportioned	433,657	455,849
Exempt from Apportionment	328	327
Unapportioned	(271,430)	(332,532)
Total Unobligated Balance, End of Year	162,555	123,644
Total Budgetary Resources	$ 1,712,826	$ 1,550,513
CHANGE IN OBLIGATED BALANCE:		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1 (Gross)	$ 915,846	$ 854,647
Obligations Incurred	1,550,271	1,426,869
Outlays (Gross)	(1,526,013)	(1,332,116)
Recoveries of Prior Year Unpaid Obligations	(34,261)	(33,554)
Unpaid Obligations, End of Year	905,843	915,846
Uncollected Payments:		
Uncollected Payments, Federal Sources, Brought Forward, October 1	(435)	(252)
Change in Uncollected Payments, Federal Sources	409	(183)
Uncollected Payments, Federal Sources, End of Year	(26)	(435)
Obligated Balance, End of Year	905,817	915,411
Memorandum (non-add) entries:		
Obligated Balance, Start of Year	$ 915,411	$ 854,395
Obligated Balance, End of Year	$ 905,817	$ 915,411
BUDGET AUTHORITY AND OUTLAYS, NET:		
Budget Authority, Gross (Discretionary and Mandatory)	$ 1,555,685	$ 1,372,193
Actual Offsetting Collections (Discretionary and Mandatory)	(1,493,660)	(1,292,247)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory)	409	(183)
Budget Authority, Net (Discretionary and Mandatory)	$ 62,434	$ 79,763
Outlays, Gross (Discretionary and Mandatory)	$ 1,526,013	$ 1,332,116
Actual Offsetting Collections (Discretionary and Mandatory)	(1,493,660)	(1,292,247)
Outlays, Net (Discretionary and Mandatory)	32,353	39,869
Distributed Offsetting Receipts	1,659	(1,929)
Agency Outlays, Net (Discretionary and Mandatory)	$ 34,012	$ 37,940

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

U.S. SECURITIES AND EXCHANGE COMMISSION

Statements of Custodial Activity

For the years ended September 30, 2015 and 2014

(DOLLARS IN THOUSANDS)	FY 2015	FY 2014
REVENUE ACTIVITY:		
Sources of Cash Collections:		
Disgorgement and Penalties	$ 764,052	$ 825,027
Other	1,505	2,702
Total Cash Collections	765,557	827,729
Accrual Adjustments	276,874	154,532
Total Custodial Revenue	1,042,431	982,261
DISPOSITION OF COLLECTIONS:		
Amounts Transferred to:		
Department of the Treasury	765,557	827,729
Amounts Yet to be Transferred	276,874	154,532
Total Disposition of Collections	1,042,431	982,261
NET CUSTODIAL ACTIVITY	$ —	$ —

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

Notes to the Financial Statements

U.S. SECURITIES AND EXCHANGE COMMISSION

As of September 30, 2015 and 2014

NOTE 1. Significant Accounting Policies

A. Reporting Entity

The U.S. Securities and Exchange Commission (SEC) is an independent agency of the U.S. Government established pursuant to the Securities Exchange Act of 1934 (Exchange Act), charged with regulating this country's capital markets. The SEC's mission is to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. The SEC works with Congress, other executive branch agencies, Self-Regulatory Organizations (SROs) (e.g., stock exchanges and the Financial Industry Regulatory Authority (FINRA)), accounting and auditing standards setters, state securities regulators, law enforcement officials, and many other organizations in support of the agency's mission.

The agency protects investors and promotes the public interest by establishing and maintaining an effective regulatory environment; fostering and enforcing compliance with the Federal securities laws; facilitating access to the information investors need to make informed investment decisions; and enhancing the SEC's performance through effective alignment and management of human, information, and financial capital.

The SEC consists of five presidentially-appointed Commissioners, with staggered five-year terms. The SEC is organized into five divisions and multiple offices. The five divisions are the Division of Enforcement, the Division of Corporation Finance, the Division of Trading and Markets, the Division of Investment Management, and the Division of Economic and Risk Analysis. The offices include the Office of Compliance Inspections and Examinations, the Office of General Counsel, the Office of Investor Education and Advocacy, the Office of the Chief Accountant, the Office of International Affairs, the Office of Administrative Law Judges, the Office of Credit Ratings, the Office of the Investor Advocate, the Office of Municipal Securities, the Office of Inspector General, eleven regional offices, and various supporting services.

The SEC reporting entity includes the Investor Protection Fund (See *Note 1.S, Investor Protection Fund*). In addition to being included in the SEC's financial statements, the Investor Protection Fund's financial activities and balances are also presented separately as stand-alone financial statements, as required by Exchange Act Section 21F(g)5.

As discussed in *Note 10.A, Commitments: Securities Investor Protection Act*, the SEC reporting entity does not include the Securities Investor Protection Corporation (SIPC).

As discussed in *Note 1.R, Disgorgement and Penalties*, disgorgement funds collected and held by the SEC on behalf of harmed investors are part of the SEC reporting entity. However, disgorgement funds held by the U.S. Courts and by non-Federal receivers on behalf of harmed investors are not part of the SEC reporting entity.

B. Basis of Presentation and Accounting

The accompanying financial statements present the financial position, net cost of operations, changes in net position, budgetary resources, and custodial activities of the SEC as required by the Accountability of Tax Dollars Act of 2002. The statements 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 the SEC's budgetary resources, due to differences in accounting and reporting principles discussed in the following paragraphs. The SEC's books and records serve as the source of the information presented in the accompanying financial statements.

The agency classifies assets, liabilities, revenues, and costs in these financial statements according to the type of entity associated with the transactions. Intragovernmental assets and liabilities are those due from or to other Federal entities. Intragovernmental revenues are earned from other Federal entities. Intragovernmental costs are payments or accruals due to other Federal entities.

The SEC's financial statements are prepared in conformity with generally accepted accounting principles (GAAP) for Federal reporting entities and presented in conformity with OMB Circular A-136, *Financial Reporting Requirements*. The Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position are prepared using the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred without regard to the receipt or payment of cash. These principles differ from budgetary accounting and reporting principles on which the Statement of Budgetary Resources is prepared. The differences relate primarily to the capitalization and depreciation of property and equipment, as well as the recognition of other assets and liabilities. The Statement of Custodial Activity is presented on the modified cash basis of accounting. Cash collections and amounts transferred to Treasury or the Investor Protection Fund are reported on a cash basis. The change in receivables and related payables are reported on an accrual basis.

The SEC presents net cost of operations by program. OMB Circular A-136 defines the term "major program" as describing an agency's mission, strategic goals, functions, activities, services, projects, processes, or any other meaningful grouping. The presentation by program is consistent with the presentation used by the agency in submitting its budget requests.

C. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. These estimates and assumptions include, but are not limited to, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates. Estimates are also used when computing the allowance for uncollectible accounts and in the allocation of costs to the SEC programs presented in the Statement of Net Cost.

D. Intra- and Inter-Agency Relationships

The SEC is a single Federal agency composed of various Treasury Appropriation Symbols, and it has only limited intra-entity transactions. The Investor Protection Fund finances the operations of the SEC Office of Inspector General's Employee Suggestion Program on a reimbursable basis. This has given rise to a small amount of intra-entity eliminations of the related revenue and expense transactions between the Investor Protection Fund and the SEC's General Salaries and Expenses Fund. See *Note 1.E, Fund Accounting Structure*, for more information about the SEC's Treasury Appropriation Symbols.

E. Fund Accounting Structure

The SEC, in common with other Federal agencies, utilizes various Treasury Appropriation Fund Symbols (Funds), to recognize and track appropriation authority provided by Congress, collections from the public, and other financial activity. These funds are described below:

(1) Funds from Dedicated Collections: Statement of Federal Financial Accounting Standards 27, *Identifying and Reporting Funds from Dedicated Collections*, as amended, states that, "funds from dedicated collections are financed by specifically identified revenues, provided to the government by non-federal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the Government's general revenues." The SEC's funds from dedicated collections are deposited into Fund X0100, *Salaries and Expenses*; Fund X5567, *Investor Protection Fund*; and Fund X5566, *Reserve Fund*.

- **Salaries and Expenses:** Earned revenues from securities transaction fees from SROs are deposited into Fund X0100, *Salaries and Expenses, Securities and Exchange Commission*. These collections are dedicated to carrying out the SEC's mission, functions, and day to day operations and may be used in accordance with spending limits established by Congress. Collections in excess of Congressional spending limits are unavailable by law and reported as Non-Budgetary Fund Balance with Treasury (See *Note 3, Fund Balance with Treasury*).

- **Investor Protection Fund:** The Investor Protection Fund is a fund for dedicated collections that provides funding for the payment of whistleblower awards as required by the Dodd-Frank Act. The Investor

Protection Fund is financed by a portion of monetary sanctions collected by the SEC in judicial or administrative actions brought by the SEC. Persons may receive award payments from the Fund if they voluntarily provide original information to the SEC that results in a successful enforcement action and other conditions are met. In addition, the Fund is used to finance the operations of the SEC's Office of Inspector General's Employee Suggestion Program for the receipt of suggestions for improvements in work efficiency and effectiveness, and allegations of misconduct or mismanagement within the SEC. This activity is recognized in Fund X5567, *Monetary Sanctions and Interest, Investor Protection Fund, Securities and Exchange Commission (Investor Protection Fund)*. See *Note 1.S, Investor Protection Fund*.

- **Reserve Fund:** A portion of SEC registration fee collections up to $50 million in any one fiscal year may be deposited in the Reserve Fund, the balance of which cannot exceed $100 million. The Reserve Fund is a fund for dedicated collections that may be used by the SEC to obligate up to $100 million in one fiscal year as the SEC determines necessary to carry out its functions. Although amounts deposited in the Reserve Fund are not subject to apportionment, the SEC must notify Congress when funds are obligated. Resources available in the Reserve Fund may be rescinded or sequestered through Congressional action. This activity is recognized in Fund X5566, *Securities and Exchange Commission Reserve Fund.*

(2) Miscellaneous Receipt Accounts:

- The Miscellaneous Receipt Accounts hold non-entity receipts and accounts receivable from custodial activities that the SEC cannot deposit into funds under its control. These accounts include registration fee collections in excess of amounts deposited into the Reserve Fund, receipts pursuant to certain SEC enforcement actions and other small collections that will be sent to the U.S. Treasury General Fund upon collection. These activities are recognized in Fund 0850.150, *Registration, Filing, and Transaction Fees, Securities and Exchange Commission*; Fund 1060, *Forfeitures of Unclaimed Money and Property*; Fund 1099, *Fines, Penalties, and Forfeitures, Not Otherwise Classified*; Fund 1435, *General Fund Proprietary Interest, Not Otherwise Classified*; and Fund 3220, *General Fund Proprietary Receipts, Not Otherwise Classified*. Miscellaneous Receipt Accounts are reported as "All Other Funds" on the Statement of Changes in Net Position.

(3) Deposit Funds:

- The Deposit Funds hold 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. These activities are recognized in Fund X6561, *Unearned Fees, Securities and Exchange Commission* and Fund X6563, *Disgorgement and Penalty Amounts Held for Investors, Securities and Exchange Commission*. Deposit Funds do not impact the SEC's Net Position and are not reported on the Statement of Changes in Net Position.

The SEC's lending and borrowing authority is limited to authority to borrow funds from Treasury and loan funds to the Securities Investor Protection Corporation, as discussed in *Note 10, Commitments and Contingencies*. The SEC has custodial responsibilities, as disclosed in *Note 1.L, Liabilities*.

F. Entity and Non-Entity Assets

Entity assets are assets that the SEC may use in its operations.

Non-entity assets are assets that the SEC holds on behalf of another Federal agency or a third party and are not available for the SEC's use. The SEC's non-entity assets include the following: (a) disgorgement, penalties, and interest collected and held or invested by the SEC; (b) disgorgement, penalties, and interest receivable that will be collected by the SEC; (c) securities registration, tender offer, merger, and other fees collected and receivable from registrants, in excess of amounts deposited in the SEC's Reserve Fund; and (d) other miscellaneous receivables and collections, such as registrant monies held temporarily until earned by the SEC.

G. Fund Balance with Treasury

Fund Balance with Treasury (FBWT) reflects amounts the SEC holds in the U.S. Treasury that have not been invested in Federal securities. The components of the SEC's FBWT are in the various funds described in *Note 1.E, Fund Accounting Structure*.

The SEC conducts all of its banking activity in accordance with directives issued by the U.S. Department of the Treasury's Bureau of the Fiscal Service.

H. Investments

The SEC has the authority to invest disgorgement funds in Treasury securities including civil penalties collected under the "Fair Fund" provision of the Sarbanes-Oxley Act of 2002. As the funds are collected, the SEC holds them in a deposit fund account and may invest them in overnight and short-term market-based Treasury securities through the Bureau of the Fiscal Service. The interest earned is subject to taxation under Treasury Regulation Section 1.468B-2, *Taxation of Qualified Settlement Funds and Related Administrative Requirements*.

The SEC also has authority to invest amounts in the Investor Protection Fund in overnight and short-term market-based Treasury securities through the Bureau of the Fiscal Service. The interest earned on the investments is a component of the balance of the Fund and available to be used for expenses of the Investor Protection Fund.

Additional information regarding the SEC's investments is provided in *Note 5, Investments*.

I. Accounts Receivable and Allowance for Uncollectible Accounts

SEC's entity and non-entity accounts receivable consist primarily of amounts due from the public. Entity accounts receivable are amounts that the SEC may retain upon collection. Non-entity accounts receivable are amounts that the SEC will forward to another Federal agency or to the public after the funds are collected.

Entity Accounts Receivable

The bulk of the SEC's entity accounts receivable arise from securities transaction fees. In addition, the SEC has small amounts of activity arising from the sale of services provided by the SEC to other Federal agencies and employee-related debt. Entity accounts receivable balances are normally small at year-end due to the timing and payment requirements relative to the largest categories of accounts receivable activity. Specifically, securities transaction fees are payable to the SEC twice a year: in March for the period September through December, and in September for the period January through August. Accordingly, the year-end accounts receivable accrual generally represents fees payable to the SEC for one month of securities transaction fee activity (September).

Non-Entity Accounts Receivable

Non-entity accounts receivable arise mainly from amounts assessed against violators of securities laws, including disgorgement of illegal gains, civil penalties, and related assessed interest. The SEC is responsible for collection, and recognizes a receivable, when an order of the Commission or a Federal court directs payment to the SEC or the U.S. Treasury.

Interest recognized by the SEC on non-entity accounts receivable includes prejudgment interest specified by the court or administrative order as well as post-judgment interest on collectible accounts. The SEC does not recognize interest revenue on accounts considered to be uncollectible.

The SEC's enforcement investigation and litigation activities often result in court orders directing violators of Federal securities laws to pay amounts assessed to a Federal court or to a non-Federal receiver acting on behalf of harmed investors. These orders are not recognized as accounts receivable by the SEC because the debts are payable to, and collected by, another party.

Securities registration, tender offer, merger, and other fees from registrants (filing fee) collections in excess of those deposited into the SEC's Reserve Fund are not available for the SEC's operations and are transferred to the U.S. Treasury General Fund. Accounts receivable amounts arising from

filing fees in excess of those deposited into the Reserve Fund are non-entity and are held on behalf of the U.S. Treasury.

Allowance for Uncollectible Amounts

The SEC uses a three-tiered methodology for calculating the allowance for loss on its disgorgement and penalty accounts receivable. The first tier involves making an individual collection assessment of cases that represent at least 65 percent of the portfolio. The second and third tiers are composed of the remaining cases that are equal to or less than 30 days old and over 30 days old, respectively. For the second and third tiers, the SEC applies an allowance rate based on historical collection data analysis.

The SEC calculates the allowance for uncollectible amounts and the related provision for estimated losses for filing fees and other accounts receivable using an analysis of historical collection data. No allowance for uncollectible amounts or related provision for estimated losses has been established for securities transaction fees payable by SROs, as these amounts are fully collectible based on historical experience.

The SEC writes off receivables aged two or more years by removing the debt amounts from the gross accounts receivable and any related allowance for uncollectible accounts.

J. Other Assets

Payments made in advance of the receipt of goods and services are recorded as advances or prepayments and recognized as expenses when the related goods and services are received.

K. Property and Equipment, Net

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

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

L. Liabilities

The SEC recognizes liabilities for probable future outflows or other sacrifices of resources as a result of events that have occurred as of the Balance Sheet date. The SEC's liabilities consist of routine operating accounts payable, accrued payroll and benefits, legal liabilities, liabilities to offset non-entity assets such as registrant monies held temporarily until earned by the SEC, disgorgement and penalties collected and receivable, and amounts collected or receivable on behalf of the U.S. Treasury. Refer to *Note 1.F, Entity and Non-Entity Assets*, for additional information.

Enforcement Related Liabilities

A liability for disgorgement and penalties arises when an order is issued for the SEC to collect disgorgement, penalties, and interest from securities law violators. When the Commission or court issues such an order, the SEC establishes an accounts receivable due to the SEC offset by a liability. The presentation of this liability on the Balance Sheet is dependent upon several factors. If the court or Commission order indicates that collections are to be retained by the Federal Government, either by transfer to the U.S. Treasury General Fund or to the Investor Protection Fund, the liabilities are classified as custodial (that is, collected on behalf of the Government) and intragovernmental. If the order indicates that the funds are eligible for distribution to harmed investors, the SEC will recognize a Governmental liability (that is, a liability of the Government to make a payment to the public). This liability is not presented as a custodial liability. The SEC does not record liabilities on its financial statements for disgorgement and penalty amounts that another Government entity such as a court, or a non-governmental entity, such as a receiver, has collected or will collect.

In accordance with the provisions of the Dodd-Frank Act, collections not distributed to harmed investors may be transferred to either the Investor Protection Fund or the U.S. Treasury General Fund. Collections not distributed to harmed investors are transferred to the Investor Protection

Fund if the Fund's balance does not exceed $300 million at the time of collection. Refer to *Note 16, Disgorgement and Penalties* for additional information.

Liability Classification

The SEC recognizes liabilities that are covered by budgetary resources, liabilities that are not covered by budgetary resources, and liabilities that do not require the use of budgetary resources.

Liabilities that are covered by budgetary resources are liabilities incurred for which budgetary resources are available to the SEC during the reporting period without further Congressional action.

The SEC also recognizes liabilities not covered by budgetary resources. Budgetary and financial statement reporting requirements sometimes differ on the timing for the required recognition of an expense. For example, in the financial statements, annual leave expense must be accrued in the reporting period when the annual leave is earned. However, in the budget, annual leave is required to be recognized and funded in the fiscal year when the annual leave is either used or paid out to a separating employee, not when it is earned. As a result of this timing difference, accrued annual leave liability is classified as a liability "not covered by budgetary resources" as of the financial statement date.

Liabilities that do not require the use of budgetary resources include registrant monies held temporarily until earned by the SEC and offsetting liabilities that correspond to non-entity assets that the SEC holds, such as collections and receivables from disgorgements and penalties. Liabilities that do not require the use of budgetary resources are covered by assets that do not represent budgetary resources to the SEC. Refer to *Note 8, Liabilities Covered and Not Covered by Budgetary Resources*, for more information.

M. Employee Retirement Systems and Benefits

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

All employees are eligible to contribute to a Thrift Savings Plan (TSP). For those employees participating in FERS, the TSP is automatically established, and the SEC makes a mandatory 1 percent contribution to this plan. In addition, the SEC matches contributions ranging from 1 to 4 percent for FERS-eligible employees who contribute to their TSP. Employees participating in CSRS do not receive matching contributions to their TSP. The SEC contributes the employer's matching amount to the Social Security Administration under the Federal Insurance Contributions Act, which fully covers FERS participating employees. The SEC is currently finalizing the creation of a supplemental retirement contribution program that would match an employee's TSP contribution of up to 1 percent of the employee's salary on dollar-for-dollar basis retroactive to January 13, 2013, within the IRS contribution guidelines. Beginning October 5, 2014, the new supplemental retirement match was increased from 1 percent to 3 percent for bargaining unit employees. The new supplemental retirement match was increased from 1 percent to 3 percent for SEC supervisors and managers effective January 2014. The SEC has accrued an estimated liability to account for the costs of these benefits.

The SEC does not report CSRS, FERS, Federal Employees Health Benefits Program, Federal Employees Group Life Insurance Program assets, or accumulated plan benefits; the U.S. Office of Personnel Management (OPM) reports this information.

N. Injury and Post-employment Compensation

The Federal Employees' Compensation Act (FECA), administered by the U.S. Department of Labor (DOL), provides income and medical cost protection to covered Federal civilian employees harmed on the job or who have contracted an occupational disease, and dependents of employees whose death is attributable to a job-related injury or occupational disease. The DOL bills the SEC annually as claims are paid, and the SEC in turn accrues a liability to recognize the future payments. Payment on these bills is deferred for two years to allow for funding

through the budget process. Similarly, employees that the SEC terminates without cause may receive unemployment compensation benefits under the unemployment insurance program also administered by the DOL, which bills each agency quarterly for paid claims.

In addition, the SEC records an estimate for the FECA actuarial liability using 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 ratio for the whole FECA program.

O. Annual, Sick, and Other Leave

The SEC accrues annual leave and compensatory time as earned and reduces the accrual when leave is taken. The balances in the accrued leave accounts reflect current leave balances and pay rates. No portion of this liability has been obligated because budget execution rules do not permit current or prior year funding to be used to pay for leave earned but not yet either taken or paid as a lump sum upon termination during the reporting period. Accordingly, such accrued leave is reported as "not covered by budgetary resources." Refer to *Note 8, Liabilities Covered and Not Covered by Budgetary Resources*. The SEC expenses sick leave and other types of non-vested leave as used.

P. Revenue and Other Financing Sources

The SEC's revenue and financing sources include exchange revenues, which are generated from transactions in which both parties give and receive value, and non-exchange revenues, which arise from the Federal Government's ability to demand payment.

Exchange Revenue

The SEC's exchange revenue consists primarily of collections of securities transaction fees from SROs and of securities registration, tender offer, merger, and other fees from registrants (filing fees). The fee rates are calculated by the SEC's Division of Economic and Risk Analysis and established by the SEC in accordance with Federal law and are applied to volumes of activity reported by SROs or to filings submitted by registrants. Fees are recognized as exchange revenue on the effective date of transaction or filing. These fee collections are the primary source of the SEC's funding and may be used up to limits established by Congress. See *Note 1.E, Fund Accounting Structure*.

The SEC recognizes amounts remitted by registrants in advance of the transaction or filing date as a liability until earned by the SEC or returned to the registrant. Federal regulation requires the return of registrant advance deposits when an account is dormant for three years, except in certain cases where refunds are not permitted. The Securities Act of 1933 and the Exchange Act do not permit refunds to registrants for securities that remain unsold after the completion, termination, or withdrawal of an offering. However, Code of Federal Regulations (CFR) Title 17 Chapter II, Part 230, Section 457(p) permits filers to offset a fee paid (filing fee offset) for a subsequent registration statement (offering) filed within five years of the initial filing date of the earlier registration statement. The total aggregate dollar amount of the filing fee associated with the unsold securities may be offset against the total filing fee due on the subsequent offering. Unused filing fee offsets are not a liability to the SEC because registrants cannot obtain refunds of fees or additional services in relation to securities that remain unsold. However, filing fee offsets may reduce revenue earned in future accounting periods.

These exchange revenues are a means to recover all or most of the cost of the total cost of all SEC programs and to deposit excess filing fee collections to the Treasury General Fund. As a result, they are shown as offsetting the total costs of the organization in the Statement of Net Cost, rather than individual SEC programs. This presentation is consistent with the financial accounting concepts described in Statement of Federal Financial Accounting Concepts 2, *Entity and Display*.

Non-exchange Revenue

The SEC's non-exchange revenue mainly consists of amounts collected from violators of securities laws as a result of enforcement proceedings. These amounts may take the form of disgorgement of illegal gains, civil penalties, and related interest. Amounts collected may be paid to injured investors, transferred to the Investor Protection Fund, or transferred to the U.S. Treasury General Fund, based on established policy and regulation.

All non-exchange revenue expected to be forwarded to either the U.S. Treasury General Fund or Investor Protection Fund is recognized on the Statement of Custodial Activity. The

Investor Protection Fund recognizes non-exchange revenue on the Statement of Changes in Net Position when funds are transferred into the Investor Protection Fund. The result is that, in accordance with Federal accounting standards, the entire amount of custodial activity is presented on the Statement of Custodial Activity to document the movement of funds, and the portion retained by the SEC is recognized as SEC activity.

The SEC does not recognize amounts collected and held by another government entity, such as a court registry, or a non-government entity, such as a receiver.

Q. Budgets and Budgetary Accounting

Salaries and Expenses

The SEC deposits securities transaction fee revenue in the SEC's Salaries and Expenses account. However, the SEC may use funds from this account only as authorized by Congress and made available by OMB apportionment, upon issuance of a Treasury warrant. Revenue collected in excess of appropriated amounts is restricted from use by the SEC. Collections in excess of Congressional spending limits are unavailable by law and reported as Non-Budgetary Fund Balance with Treasury (See *Note 3, Fund Balance with Treasury*). Each fiscal year, OMB provides the SEC's Salaries and Expenses account with Category A apportionments, which are quarterly distributions of budgetary resources for the fiscal year. These apportionments include both new budget authority appropriated by Congress and unused no-year funds (unobligated balances) from prior years. The Salaries and Expenses account also receives a small amount of Category B funds related to reimbursable activity, which are exempt from quarterly apportionment. Refer to *Note 1.E, Fund Accounting Structure*.

Investor Protection Fund

The Investor Protection Fund is a special fund that has the authority to retain revenues and other financing sources not used in the current period for future use. The Dodd-Frank Act provides that the Fund is available to the SEC without further appropriation or fiscal year limitation for the purpose of funding awards to whistleblowers and for the operations of the Office of Inspector General's Employee Suggestion Program. However, the SEC is required to request and obtain an annual apportionment from OMB to use these funds. All of the funds are Category B, exempt from quarterly apportionment. Refer to *Note 1.E, Fund Accounting Structure*.

Reserve Fund

The Reserve Fund is a special fund that has the authority to retain certain revenues not used in the current period for future use. The Dodd-Frank Act provides that the Fund is available to the SEC without further appropriation or fiscal year limitation "to carry out the functions of the Commission." Amounts in the Reserve Fund are exempt from apportionment. Collections arising from securities registration, tender offer, and merger fees from registrants, other than those that are deposited in the Reserve Fund, are not available to be used in the operations of the SEC. Refer to *Note 1. E, Fund Accounting Structure*.

R. Disgorgement and Penalties

The SEC maintains non-entity assets related to disgorgements and penalties ordered pursuant to civil injunctive and administrative proceedings. The SEC also recognizes an equal and offsetting liability for these assets as discussed in *Note 1.L, Liabilities*. These non-entity assets consist of disgorgement, penalties, and interest assessed against securities law violators where the Commission or a Federal court has determined that the SEC should return such funds to harmed investors or transfer such funds to the Investor Protection Fund or the U.S. Treasury General Fund. The SEC does not record on its financial statements any asset amounts that another government entity such as a court, or a non-governmental entity, such as a receiver, has collected or will collect. Additional details regarding disgorgement and penalties are presented in *Note 11, Funds from Dedicated Collections* and *Note 16, Disgorgement and Penalties*.

S. Investor Protection Fund

The Investor Protection Fund was established through a permanent indefinite appropriation to provide financing for payments to whistleblowers and is also used for the expenses of the SEC Office of Inspector General's Employee Suggestion Program. The Investor Protection Fund is financed by transferring a portion of monetary sanctions collected by the SEC in judicial or administrative actions

brought by the SEC under the securities laws that are not added to a disgorgement fund or other funds intended for harmed investors under Section 308 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7246). Sanctions collected by the Commission payable either to the SEC or the U.S. Treasury General Fund will be transferred to the Investor Protection Fund if the balance in that fund is less than $300 million on the day of collection.

The SEC may request the Secretary of the Treasury to invest Investor Protection Fund amounts in Treasury securities. Refer to *Note 1.H, Investments*, for additional details.

NOTE 2. Entity and Non-Entity Assets

Entity assets are assets that the SEC may use in its operations.

Non-entity assets are assets that the SEC holds on behalf of another Federal agency or a third party and are not available for the SEC's use. The SEC's non-entity assets include the following: (a) disgorgement, penalties, and interest collected and held or invested by the SEC; (b) disgorgement, penalties, and interest receivable that will be collected by the SEC; (c) securities registration, tender offer, merger, and other fees collected and receivable from registrants, in excess of amounts deposited in the SEC's Reserve Fund; and (d) other miscellaneous receivables and collections such as registrant monies held temporarily until earned by the SEC. Additional details are provided in *Note 16, Disgorgement and Penalties*.

At September 30, 2015, SEC entity and non-entity assets consisted of the following:

(DOLLARS IN THOUSANDS)	Entity	Non-Entity	Total
Intragovernmental:			
Fund Balance with Treasury:			
SEC Funds	$ 7,262,689	$ —	$ 7,262,689
Registrant Deposits	—	35,050	35,050
Disgorgement and Penalties (Note 16)	—	321,000	321,000
Custodial and Other Non-Entity Assets	—	29	29
Investments, Net:			
Disgorgement and Penalties (Note 16)	—	2,468,813	2,468,813
Investor Protection Fund	398,333	—	398,333
Accounts Receivable	26	—	26
Advances and Prepayments	6,213	—	6,213
Total Intragovernmental Assets	7,667,261	2,824,892	10,492,153
Cash and Other Monetary Assets:			
SEC Funds	25	—	25
Disgorgement and Penalties (Note 16)	—	13	13
Other Non-Entity Assets	—	1	1
Accounts Receivable, Net:			
SEC Funds	118,847	—	118,847
Disgorgement and Penalties (Note 16)	—	738,705	738,705
Custodial and Other Non-Entity Assets	—	2,470	2,470
Property and Equipment, Net (Note 7)	103,604	—	103,604
Advances and Prepayments	4	—	4
Total Assets	$ 7,889,741	$ 3,566,081	$ 11,455,822

At September 30, 2014, SEC entity and non-entity assets consisted of the following:

(DOLLARS IN THOUSANDS)	Entity	Non-Entity	Total
Intragovernmental:			
Fund Balance with Treasury:			
SEC Funds	$ 7,242,397	$ —	$ 7,242,397
Registrant Deposits	—	34,766	34,766
Disgorgement and Penalties (Note 16)	—	933,447	933,447
Custodial and Other Non-Entity Assets	—	—	—
Investments, Net:			
Disgorgement and Penalties (Note 16)	—	1,360,520	1,360,520
Investor Protection Fund	395,169	—	395,169
Accounts Receivable	19	—	19
Advances and Prepayments	3,488	—	3,488
Total Intragovernmental Assets	7,641,073	2,328,733	9,969,806
Cash and Other Monetary Assets:			
SEC Funds	21	—	21
Disgorgement and Penalties (Note 16)	—	710	710
Other Non-Entity Assets	—	—	—
Accounts Receivable, Net:			
SEC Funds	122,137	—	122,137
Disgorgement and Penalties (Note 16)	—	380,583	380,583
Custodial and Other Non-Entity Assets	—	3,885	3,885
Property and Equipment, Net (Note 7)	113,292	—	113,292
Advances and Prepayments	—	—	—
Total Assets	$ 7,876,523	$ 2,713,911	$ 10,590,434

NOTE 3. Fund Balance with Treasury

The Fund Balance with Treasury by type of fund and Status of Fund Balance with Treasury as of September 30, 2015 and 2014 consists of the following:

(DOLLARS IN THOUSANDS)	FY 2015	FY 2014
Fund Balances:		
General Funds	$ 7,174,713	$ 7,109,249
Special Funds	87,976	133,148
Other Funds	356,079	968,213
Total Fund Balance with Treasury	$ 7,618,768	$ 8,210,610
Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available	$ 38,854	$ 60,875
Unavailable	109,218	128,869
Obligated Balance not Yet Disbursed	619,338	557,376
Non-Budgetary Fund Balance with Treasury	6,851,358	7,463,490
Total Status of Fund Balance with Treasury	$ 7,618,768	$ 8,210,610

Special Funds consist of the Investor Protection Fund and the Reserve Fund. Refer to *Note 1.E, Fund Accounting Structure*, for additional information.

Other Funds consist of Fund Balance with Treasury held in deposit funds.

Obligated and unobligated balances reported for the status of Fund Balance with Treasury differ from the amounts reported in the Statement of Budgetary Resources due to the fact that budgetary balances are supported by amounts other than Fund Balance with Treasury. These amounts include Investor Protection Fund investments, uncollected payments from Federal sources, and the impact of the change in legal interpretation for leases. Refer to *Note 14.C, Other Budgetary Disclosures, Change in Legal Interpretation for Lease Obligations*.

Non-Budgetary Fund Balance with Treasury is comprised of amounts in deposit funds and offsetting collections temporarily precluded from obligation in the SEC's General Salaries and Expenses Fund (X0100). Amounts temporarily precluded from obligation represent offsetting collections in excess of appropriated amounts related to securities transactions fees, as well as securities registration, tender offer, merger, and other fees from registrants (filing fees) collected in fiscal years 2011 and prior.

There were no significant differences between the Fund Balance reflected in the SEC's financial statements and the balance in the Treasury accounts.

NOTE 4. Cash and Other Monetary Assets

The SEC had a cash balance of $39 thousand as of September 30, 2015. The SEC receives collections throughout the year. Any collections received after the U.S. Treasury Department cut-off for deposit of checks are treated as deposits in transit and recognized as Cash on the Balance Sheet. The SEC had a cash balance of $731 thousand as of September 30, 2014.

NOTE 5. Investments

The SEC invests funds in overnight and short-term non-marketable market-based Treasury securities. The SEC records the value of its investments in Treasury securities at cost and amortizes any premium or discount on a straight-line basis (S/L) through the maturity date of these securities. Non-marketable market-based Treasury securities are issued by the Bureau of the Fiscal Service to Federal agencies. They are not traded on any securities exchange but mirror the prices of similar Treasury securities trading in the Government securities market.

At September 30, 2015, investments consisted of the following:

(DOLLARS IN THOUSANDS)	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investment, Net	Market Value Disclosure
Non-Marketable Market-Based Securities						
Disgorgement and Penalties	$ 2,468,313	S/L	$ 500	$ —	$ 2,468,813	$ 2,469,201
Investor Protection Fund – Entity	401,387	S/L	(4,790)	1,736	398,333	396,843
Total	$ 2,869,700		$ (4,290)	$ 1,736	$ 2,867,146	$ 2,866,044

At September 30, 2014, investments consisted of the following:

(DOLLARS IN THOUSANDS)	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investment, Net	Market Value Disclosure
Non-Marketable Market-Based Securities						
Disgorgement and Penalties	$ 1,365,090	S/L	$ (5,331)	$ 761	$ 1,360,520	$ 1,360,071
Investor Protection Fund – Entity	395,124	S/L	(196)	241	395,169	394,978
Total	$ 1,760,214		$ (5,527)	$ 1,002	$ 1,755,689	$ 1,755,049

Intragovernmental Investments in Treasury Securities

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with the investment by Federal agencies in non-marketable Federal securities. The balances underlying these investments are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the SEC as evidence of these balances. Treasury securities are an asset of the SEC and a liability of the U.S. Treasury. Because the SEC and the U.S. Treasury are both components of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, the investments presented by the SEC do not represent an asset or a liability in the U.S. Government-wide financial statements.

Treasury securities provide the SEC with authority to draw upon the U.S. Treasury to make future payments from these accounts. When the SEC requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same manner in which the Government finances all expenditures.

NOTE 6. Accounts Receivable, Net

At September 30, 2015, accounts receivable consisted of the following:

(DOLLARS IN THOUSANDS)	Gross Receivables	Allowance	Net Receivables
Intragovernmental Entity Accounts Receivable:			
Reimbursable Activity	$ 26	$ —	$ 26
Entity Accounts Receivable:			
Securities Transaction Fees	$ 118,517	$ —	$ 118,517
Other	330	—	330
Non-Entity Accounts Receivable:			
Disgorgement and Penalties (Note 16)	3,256,097	2,517,392	738,705
Filing Fees	4,080	2,278	1,802
Other	2,842	2,174	668
Total Accounts Receivable	$ 3,381,892	$ 2,521,844	$ 860,048

At September 30, 2014, accounts receivable consisted of the following:

(DOLLARS IN THOUSANDS)	Gross Receivables	Allowance	Net Receivables
Intragovernmental Entity Accounts Receivable:			
Reimbursable Activity	$ 19	$ —	$ 19
Entity Accounts Receivable:			
Securities Transaction Fees	$ 121,731	$ —	$ 121,731
Other	406	—	406
Non-Entity Accounts Receivable:			
Disgorgement and Penalties (Note 16)	2,327,142	1,946,559	380,583
Filing Fees	6,013	2,261	3,752
Other	2,181	2,048	133
Total Accounts Receivable	$ 2,457,492	$ 1,950,868	$ 506,624

Refer to *Note 1.I, Accounts Receivable and Allowance for Uncollectible Accounts* for methods used to estimate allowances. The SEC estimates that accumulated interest on accounts receivable considered to be uncollectible is $2.2 million and $2.0 million, respectively, as of September 30, 2015 and 2014. This estimate does not include interest accumulated on debts written off or officially waived.

As of September 30, 2015 and 2014, the balances include disgorgement and penalty accounts receivable, net of allowance, of $499.6 million and $223.2 million, respectively, designated as payable to the U.S. Treasury General Fund per court order. As discussed in *Note 1.L, Liabilities*, these receivables, their offsetting liabilities, and the associated revenues, are classified as custodial.

As discussed in *Note 1.I, Accounts Receivable and Allowance for Uncollectible Accounts*, pursuant to Section 991(e) of the Dodd-Frank Act, accounts receivable for securities registration, tender offer, merger, and other fees from registrants in excess of the amounts deposited into the Reserve Fund are held on behalf of the U.S. Treasury and are transferred to the U.S. Treasury General Fund upon collection.

NOTE 7. Property and Equipment, Net

At September 30, 2015, property and equipment consisted of the following:

Class of Property *(DOLLARS IN THOUSANDS)*	Depreciation/ Amortization Method	Capitalization Threshold for Individual Purchases	Capitalization Threshold for Bulk Purchases	Service Life (Years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Book Value
Furniture and Equipment	S/L	$ 50	$ 300	3-5	$ 133,580	$ 112,095	$ 21,485
Software	S/L	300	300	3-5	196,353	133,920	62,433
Leasehold Improvements	S/L	300	N/A	10	101,254	81,568	19,686
Total					$ 431,187	$ 327,583	$ 103,604

At September 30, 2014, property and equipment consisted of the following:

Class of Property *(DOLLARS IN THOUSANDS)*	Depreciation/ Amortization Method	Capitalization Threshold for Individual Purchases	Capitalization Threshold for Bulk Purchases	Service Life (Years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Book Value
Furniture and Equipment	S/L	$ 50	$ 50	3-5	$ 135,035	$ 92,965	$ 42,070
Software	S/L	300	300	3-5	157,583	113,155	44,428
Leasehold Improvements	S/L	300	N/A	10	100,362	73,568	26,794
Total					$ 392,980	$ 279,688	$ 113,292

In FY 2015, the capitalization threshold for bulk purchases of Furniture and Equipment was changed from $50,000 to $300,000. Bulk purchases are acquisitions of a quantity of similar items that individually cost less than $50,000 but collectively exceed the designated bulk purchase threshold of $300,000.

NOTE 8. Liabilities Covered and Not Covered by Budgetary Resources

The SEC recognizes liabilities that are covered by budgetary resources, liabilities that are not covered by budgetary resources, and liabilities that do not require the use of budgetary resources.

Liabilities that are covered by budgetary resources are liabilities incurred for which budgetary resources are available to the SEC during the reporting period without further Congressional action.

The SEC also recognizes liabilities not covered by budgetary resources. Budgetary and financial statement reporting requirements sometimes differ on the timing for the required recognition of an expense. For example, in the financial statements, annual leave expense must be accrued in the reporting period when the annual leave is earned. However, in the budget, annual leave is required to be recognized and funded in the fiscal year when the annual leave is either used or paid out to a separating employee, not when it is earned. As a result of this timing difference, accrued annual leave liability is classified as a liability "not covered by budgetary resources" as of the financial statement date.

Liabilities that do not require the use of budgetary resources include registrant monies held temporarily until earned by the SEC and offsetting liabilities that correspond to non-entity assets that the SEC holds, such as collections and receivables from disgorgements and penalties, as discussed in *Note 1.L, Liabilities*. Liabilities that do not require the use of budgetary resources are covered by assets that do not represent budgetary resources to the SEC.

At September 30, 2015, liabilities consisted of the following:

(DOLLARS IN THOUSANDS)	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Liabilities Not Requiring Budgetary Resources	Total
Intragovernmental:				
Accounts Payable	$ 3,027	$ —	$ —	$ 3,027
Other Intragovernmental Liabilities				
Accrued Employee Benefits	5,068	—	—	5,068
Unfunded FECA and Unemployment Liability	—	1,182	—	1,182
Custodial Liability	—	—	500,238	500,238
Liability for Non-Entity Assets	—	—	1,802	1,802
Subtotal – Other Intragovernmental Liabilities	5,068	1,182	502,040	508,290
Total Intragovernmental	8,095	1,182	502,040	511,317
Accounts Payable	44,380	—	—	44,380
Actuarial FECA Liability	—	6,054	—	6,054
Other Liabilities				
Accrued Payroll and Benefits	58,165	—	—	58,165
Accrued Leave	—	67,635	—	67,635
Registrant Deposits	—	—	35,050	35,050
Liability for Disgorgement and Penalties (Note 16)	—	—	3,028,960	3,028,960
Contingent Liabilities (Note 10)	—	14,555	—	14,555
Other Accrued Liabilities				
Recognition of Lease Liability (Note 9)	—	6,440	—	6,440
Other	25	—	31	56
Subtotal – Other Liabilities	58,190	88,630	3,064,041	3,210,861
Total Liabilities	$ 110,665	$ 95,866	$ 3,566,081	$ 3,772,612

Other Liabilities (Intragovernmental and Governmental) totaled $3,719 million as of September 30, 2015, of which all but $89 million is current. The non-current portion of Other Liabilities includes the appropriate portions of Accrued Employee Benefits, Unfunded FECA and Unemployment Liability, Accrued Leave, Contingent Liabilities, and Lease Liability. Current liabilities not covered by budgetary resources totaled $446 thousand as of September 30, 2015.

At September 30, 2014, liabilities consisted of the following:

(DOLLARS IN THOUSANDS)	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Liabilities Not Requiring Budgetary Resources	Total
Intragovernmental:				
Accounts Payable	$ 7,249	$ —	$ —	$ 7,249
Other Intragovernmental Liabilities				
Accrued Employee Benefits	4,017	—	—	4,017
Unfunded FECA and Unemployment Liability	—	1,286	—	1,286
Custodial Liability	—	—	223,363	223,363
Liability for Non-Entity Assets	—	—	3,752	3,752
Subtotal – Other Intragovernmental Liabilities	4,017	1,286	227,115	232,418
Total Intragovernmental	11,266	1,286	227,115	239,667
Accounts Payable	64,830	—	—	64,830
Actuarial FECA Liability	—	6,821	—	6,821
Other Liabilities				
Accrued Payroll and Benefits	37,931	—	—	37,931
Accrued Leave	—	58,498	—	58,498
Registrant Deposits	—	—	34,766	34,766
Liability for Disgorgement and Penalties (Note 16)	—	—	2,451,397	2,451,397
Contingent Liabilities (Note 10)	—	—	—	—
Other Accrued Liabilities				
Recognition of Lease Liability (Note 9)	—	5,176	—	5,176
Other	21	—	633	654
Subtotal – Other Liabilities	37,952	63,674	2,486,796	2,588,422
Total Liabilities	$ 114,048	$ 71,781	$ 2,713,911	$ 2,899,740

Other Liabilities (Intragovernmental and Governmental) totaled $2,821 million as of September 30, 2014, of which all but $64 million was current. The non-current portion of Other Liabilities includes the appropriate portions of the Unfunded FECA and Unemployment Liability, Accrued Leave, and Lease Liability. Current liabilities not covered by budgetary resources totaled $652 thousand as of September 30, 2014.

NOTE 9. Leases

Operating Leases

At September 30, 2015, the SEC leased office space at 15 locations under operating lease agreements that expire between FY 2015 and FY 2029. The SEC paid $97.5 million and $95.3 million for rent for the years ended September 30, 2015 and 2014, respectively.

The following table details expected future lease payments for (a) the full term of all non-cancelable leases with terms of more than one year and (b) the non-cancelable portion of all cancelable commercial leases with terms of more than one year. This listing excludes leases with the General Services Administration (GSA). "Non-cancelable" leases are leases for which the lease agreements do not provide an option for the lessee to cancel the lease prior to the end of the lease term. The total expected future lease payments reflect an estimate of base rent and contractually required costs.

Under existing commitments, expected future lease payments through FY 2021 and thereafter are as follows:

Fiscal Year *(DOLLARS IN THOUSANDS)*	Non-Cancelable Expected Future Lease Payments
2016	$ 82,093
2017	78,963
2018	79,247
2019	65,594
2020	35,318
2021 and thereafter	18,129
Total	$ 359,344

As discussed in *Note 14.C, Other Budgetary Disclosures*, $286 million of the above $359.3 million are unfunded obligations.

Expense Recognition of "Rent Holiday"

In FY 2005, the SEC moved into temporary office space in New York due to renovations in the new leased office space. This temporary space was provided to the SEC for only the lessor's operating costs. As a result, the SEC accrued $8 million of rent expense discount, which is being amortized on a straight-line basis over the 15 year life of the new lease. Amortization of the discount recognized in FY 2015 and FY 2014 totaled $533 thousand in each period, respectively. The unamortized balance of this location's discount totaled $2.9 million and $3.5 million at September 30, 2015 and 2014 respectively.

In November 2011, the SEC occupied leased office space in Atlanta, Georgia. The lease term is 15 years and includes a one year rent payment holiday. The SEC expects to amortize $1.4 million of rent expense discount over the non-cancelable term of the lease which is 10 years. Amortization of the discount as an adjustment of rent payments began in November 2012. The unamortized balance of this location's discount totaled $863 thousand and $1 million at September 30, 2015 and 2014 respectively.

In December 2013, the SEC executed an occupancy agreement with GSA to renew leased office space in Miami, Florida. The occupancy agreement includes a five month rent payment holiday. The SEC expects to amortize $835 thousand of rent expense discount over the full term of the lease which is 5 years and 5 months. The unamortized balance of this location's discount totaled $552 thousand and $706 thousand at September 30, 2015 and 2014, respectively.

In September 2014, the SEC executed an occupancy agreement with GSA to lease office space in Los Angeles, California. The occupancy agreement includes a 16 month rent payment holiday. The SEC expects to amortize $3.2 million of rent expense discount over the non-cancelable term of the lease which is 10 years. As of September 30, 2015, the SEC has accumulated $2.4 million in rent expense discount for this site. The unamortized balance of this location's discount totaled $2.1 million at September 30, 2015.

The accrual and amortization of rent holiday discounts allow the rent expense to be allocated equally to each period of the lease term. When a rent holiday occurs at the beginning of the lease term, a rent expense is accrued, even though no payment is due. This accrued expense is recognized as an unfunded liability because funding will not be provided until the future period in which payment is due. Refer to *Note 8, Liabilities Covered and Not Covered by Budgetary Resources*, for more information.

Recognition of Rent Holiday Discounts as of September 30, 2015 (amounts in thousands)

Location	Total Discount	Amortized Discount	Accrued Lease Liability
New York, New York	7,995	5,063	2,932
Atlanta, Georgia	1,420	557	863
Miami, Florida	835	283	552
Los Angeles, California	2,415	322	2,093
Total (See Note 8)	12,665	6,225	6,440

Recognition of Rent Holiday Discounts as of September 30, 2014 (amounts in thousands)

Location	Total Discount	Amortized Discount	Accrued Lease Liability
New York, New York	7,995	4,530	3,465
Atlanta, Georgia	1,420	415	1,005
Miami, Florida	835	129	706
Total (See Note 8)	10,250	5,074	5,176

NOTE 10. Commitments and Contingencies

A. Commitments: Securities Investor Protection Act

The Securities Investor Protection Act of 1970 (SIPA), as amended, created the Securities Investor Protection Corporation (SIPC) to restore funds and securities to investors and to protect the securities markets from disruption following the failure of broker-dealers. Generally, if a brokerage firm is not able to meet its obligations to customers, then customers' cash and securities held by the brokerage firm are returned to customers on a pro rata basis. If sufficient funds are not available at the firm to satisfy customer claims, the reserve funds of SIPC are used to supplement the distribution, up to a ceiling of $500,000 per customer, including a maximum of $250,000 for cash claims.

SIPA authorizes SIPC to create a fund to maintain all monies received and disbursed by SIPC. SIPA gives SIPC the authority to borrow up to $2.5 billion from the SEC in the event that the SIPC Fund is or may appear insufficient for purposes of SIPA. To borrow the funds, SIPC must file with the SEC a statement of the uses of such a loan and a repayment plan, and then the SEC must certify to the Secretary of the Treasury that the loan is necessary to protect broker-dealer customers and maintain confidence in the securities markets and that the repayment plan provides as reasonable assurance of prompt repayment as may be feasible under the circumstances. The Treasury would make these funds available to the SEC through the purchase 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, 2015, the SEC had not loaned any funds to the SIPC, and there are no outstanding notes or other obligating instruments issued by the SEC.

Based on the estimated costs to complete ongoing customer protection proceedings, the current size of the SIPC Fund supplemented by SIPC's ongoing assessments on brokers is expected to provide sufficient funds to cover acknowledged customer claims. There are several broker-dealers that are being liquidated under SIPA or that have been referred to SIPC for liquidation that may result in additional customer claims. In the event that the SIPC Fund is or may reasonably appear to be insufficient for the purposes of SIPA, SIPC may seek a loan from the SEC.

B. Commitments and Contingencies: Investor Protection Fund

As mentioned in *Note 1.E, Fund Accounting Structure*, the Investor Protection Fund is used to pay awards to whistleblowers if they voluntarily provide original information to the SEC and meet other conditions. The legislation allows whistleblowers to receive between 10 and 30 percent of the monetary sanctions collected in the covered action or in a related action, with the actual percentage being determined at the discretion of the SEC using criteria provided in the legislation and the related rules to implement the legislation adopted by the SEC.

A Preliminary Determination is a first assessment, made by the Claims Review Staff appointed by the Director of the Division of Enforcement, as to whether the claim should

be allowed or denied and, if allowed, what the proposed award percentage amount should be. A contingent liability is recognized when (a) a positive Preliminary Determination has been made by the Claims Review Staff, (b) collection has been made, and (c) the percentage to be paid can be reasonably estimated. A potential liability is disclosed but not recognized when a positive Preliminary Determination is expected and a collection has been received. A liability is recognized when a positive Proposed Final Determination has been issued by the Claims Review Staff and collection has been received. In all cases, the whistleblower award is not paid until amounts have been collected, a final order is issued by the Commission and the appeal rights of all claimants on the matter have been exhausted.

The SEC recognized a contingent liability for potential whistleblower awards for the period ended September 30, 2015 of $13.6 million. The SEC did not recognize a contingent liability for potential whistleblower award for the period ended September 30, 2014.

As of September 30, 2015, potential whistleblower payments for cases where positive Preliminary Determinations have not been made, but are reasonably possible, are estimated to range from $224.8 million to $674.4 million given the amount of current collections on those cases. Such claims do not meet the criteria for recognition as contingent liabilities in FY 2015. As of September 30, 2015, the upper end of the range of reasonably possible liabilities exceeds the net asset balance of the Investor Protection Fund. In the event that whistleblower award payments reduce the Investor Protection Fund net asset balance below $300,000,000, the Investor Protection Fund will be replenished as described in the *Note 1.S*, *Investor Protection Fund*.

As of September 30, 2014, potential whistleblower payments that were reasonably possible, but did not meet the criteria for recognition as contingent liabilities, were estimated to range from $25.7 million to $77.1 million.

C. Other Commitments

In addition to future lease commitments discussed in *Note 9, Leases*, the SEC is obligated for the purchase of goods and services that have been ordered, but not received. As of September 30, 2015 net obligations for all of the SEC's activities were $905.8 million, of which $110.6 million was delivered and unpaid. As of September 30, 2014, net obligations for all of SEC's activities were $915.4 million, of which $114.0 million was delivered and unpaid.

D. Other Contingencies

The SEC is party to various routine administrative proceedings, legal actions, and claims brought against it, including threatened or pending litigation involving labor relations claims, some of which may ultimately result in settlements or decisions against the Federal Government. The SEC recognizes contingent liabilities when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable. As of September 30, 2015, the SEC recognized $990 thousand in other contingent liabilities. As of September 30, 2014, no contingent liabilities of this type were recognized.

NOTE 11. Funds from Dedicated Collections

The SEC's funds from dedicated collections consist of transactions and balances recorded in its Salaries and Expenses Fund, Investor Protection Fund, and Reserve Fund. See *Note 1.E.1, Funds from Dedicated Collections*. Also see *Note 5, Investments*, for additional information about intragovernmental investments in Treasury securities.

For FY 2015, the assets, liabilities, net position, and net income from operations relating to funds from dedicated collections consisted of the following:

(DOLLARS IN THOUSANDS)	Salaries & Expenses	Investor Protection Fund	Reserve Fund	Eliminations	Total Funds From Dedicated Collections
Balance Sheet as of September 30, 2015					
ASSETS					
Fund Balance with Treasury	$7,174,713	$ 2,360	$ 85,616	$ —	$7,262,689
Cash and Other Monetary Assets	25	—	—	—	25
Investments, Net	—	398,333	—	—	398,333
Accounts Receivable, Net	118,873	—	—	—	118,873
Property and Equipment, Net	60,797	—	42,807	—	103,604
Advances and Prepayments	6,217	—	—	—	6,217
Total Assets	$7,360,625	$ 400,693	$ 128,423	$ —	$7,889,741
LIABILITIES					
Accounts Payable	$ 41,093	$ 17	$6,297	$ —	$ 47,407
FECA and Unemployment Liability	7,236	—	—	—	7,236
Accrued Payroll and Benefits	63,233	—	—	—	63,233
Accrued Leave	67,635	—	—	—	67,635
Contingent Liabilities	990	13,565	—	—	14,555
Other Accrued Liabilities	6,465	—	—	—	6,465
Total Liabilities	186,652	13,582	6,297	—	206,531
NET POSITION					
Cumulative Results of Operations	7,173,973	387,111	122,126	—	7,683,210
Total Net Position	7,173,973	387,111	122,126	—	7,683,210
Total Liabilities and Net Position	$7,360,625	$ 400,693	$ 128,423	$ —	$7,889,741
Statement of Net Cost for the year ended September 30, 2015					
Gross Program Costs	$1,514,489	$ 28,416	$ 40,718	$ (19)	$1,583,604
Less Earned Revenues Not Attributable to Program Costs	1,489,015	—	50,000	(19)	1,538,996
Net (Income) Cost from Operations	$ 25,474	$ 28,416	$ (9,282)	$ —	$44,608
Statement of Changes in Net Position for the year ended September 30, 2015					
Cumulative Results of Operations:					
Net Position, Beginning of Period	$7,161,234	$ 414,660	$ 112,844	$ —	$7,688,738
Budgetary Financing Sources:					
Appropriations Used	5,705	—	—	—	5,705
Non-Exchange Revenue	—	867	—	—	867
Other Financing Sources:					
Transfers In/Out Without Reimbursement	1,192	—	—	—	1,192
Imputed Financing	31,316	—	—	—	31,316
Net Income (Cost) from Operations	(25,474)	(28,416)	9,282	—	(44,608)
Net Change	12,739	(27,549)	9,282	—	(5,528)
Cumulative Results of Operations	7,173,973	387,111	122,126	—	7,683,210
Unexpended Appropriations:					
Budgetary Financing Sources:					
Appropriations Received	8,087	—	—	—	8,087
Other Adjustments (Recissions, etc.)	(2,382)	—	—	—	(2,382)
Appropriations Used	(5,705)	—	—	—	(5,705)
Total Unexpended Appropriations	—	—	—	—	—
Net Position, End of Period	$7,173,973	$ 387,111	$ 122,126	$ —	$7,683,210

For FY 2014, the assets, liabilities, net position, and net income from operations relating to funds from dedicated collections consisted of the following:

(DOLLARS IN THOUSANDS)	Salaries & Expenses	Investor Protection Fund	Reserve Fund	Eliminations	Total Funds From Dedicated Collections
Balance Sheet as of September 30, 2014					
ASSETS					
Fund Balance with Treasury	$7,108,486	$ 42,627	$ 90,521	$ —	$7,241,634
Cash and Other Monetary Assets	21	—	—	—	21
Investments, Net	—	395,169	—	—	395,169
Accounts Receivable, Net	122,156	—	—	—	122,156
Property and Equipment, Net	82,635	—	29,465	—	112,100
Advances and Prepayments	3,488	—	—	—	3,488
Total Assets	$7,316,786	$ 437,796	$ 119,986	$ —	$7,874,568
LIABILITIES					
Accounts Payable	$ 41,801	$ 23,136	$ 7,142	$ —	$ 72,079
FECA and Unemployment Liability	8,107	—	—	—	8,107
Accrued Payroll and Benefits	41,948	—	—	—	41,948
Accrued Leave	58,498	—	—	—	58,498
Contingent Liabilities	—	—	—	—	—
Other Accrued Liabilities	5,198	—	—	—	5,198
Total Liabilities	155,552	23,136	7,142	—	185,830
NET POSITION					
Cumulative Results of Operations	7,161,234	414,660	112,844	—	7,688,738
Total Net Position	7,161,234	414,660	112,844	—	7,688,738
Total Liabilities and Net Position	$7,316,786	$ 437,796	$ 119,986	$ —	$7,874,568
Statement of Net Cost for the year ended September 30, 2014					
Gross Program Costs	$1,391,435	$ 25,116	$ 23,642	$ (47)	$1,440,146
Less Earned Revenues Not Attributable to Program Costs	1,326,566	—	50,000	(47)	1,376,519
Net (Income) Cost from Operations	$ 64,869	$ 25,116	$ (26,358)	$ —	$ 63,627
Statement of Changes in Net Position for the year ended September 30, 2014					
Cumulative Results of Operations:					
Net Position, Beginning of Period	$7,127,534	$ 439,197	$ 86,486	$ —	$7,653,217
Budgetary Financing Sources:					
Appropriations Used	59,013	—	—	—	59,013
Non-Exchange Revenue	—	579	—	—	579
Other Financing Sources:					
Transfers In/Out Without Reimbursement	—	—	—	—	—
Imputed Financing	39,556	—	—	—	39,556
Net Income (Cost) from Operations	(64,869)	(25,116)	26,358	—	(63,627)
Net Change	33,700	(24,537)	26,358	—	35,521
Cumulative Results of Operations	7,161,234	414,660	112,844	—	7,688,738
Unexpended Appropriations:					
Budgetary Financing Sources:					
Appropriations Received	59,013	—	—	—	59,013
Other Adjustments (Recissions, etc.)	—	—	—	—	—
Appropriations Used	(59,013)	—	—	—	(59,013)
Total Unexpended Appropriations	—	—	—	—	—
Net Position, End of Period	$7,161,234	$ 414,660	$ 112,844	$ —	$7,688,738

NOTE 12. Intragovernmental Costs and Exchange Revenue

The Statement of Net Cost presents the SEC's results of operations for its major programs. The SEC assigns all costs incurred to ten programs, consistent with its budget submissions. The full cost of the SEC's programs is the sum of (1) the costs of resources directly or indirectly consumed by those programs, and (2) the costs of identifiable supporting services provided by other responsibility segments within the agency. Typical examples of indirect costs include costs of general administrative services, technical support, security, rent, and operating and maintenance costs for buildings, equipment, and utilities. The SEC allocates support costs to its programs using activity-based cost accounting.

Intragovernmental costs arise from purchases of goods and services from other components of the Federal Government. In contrast, public costs are those which arise from the purchase of goods and services from non-Federal entities.

These exchange revenues are a means to recover all or most of the total cost of all SEC programs and to deposit excess collections from registrants to the Treasury General Fund. As a result, they offset the total costs of the organization in the Statement of Net Cost, rather than individual SEC programs. This presentation is consistent with the financial accounting concepts described in Statement of Federal Financial Accounting Concepts 2, *Entity and Display*.

The Statements of Net Cost, for the years ended September 30, 2015 and 2014, with a breakout of intragovernmental and public costs is presented below.

	FY 2015		
(DOLLARS IN THOUSANDS)	**Intragovernmental Gross Cost**	**Gross Cost with the Public**	**Total**
SEC Programs:			
Enforcement	$ 82,914	$ 466,482	$ 549,396
Compliance Inspections and Examinations	54,339	271,406	325,745
Corporation Finance	26,955	129,372	156,327
Trading and Markets	14,434	71,785	86,219
Investment Management	10,446	51,361	61,807
Economic and Risk Analysis	7,444	56,257	63,701
General Counsel	8,418	41,826	50,244
Other Program Offices	11,603	58,323	69,926
Agency Direction and Administrative Support	35,370	172,964	208,334
Inspector General	2,295	9,627	11,922
Total Program Costs	$ 254,218	$ 1,329,403	1,583,621
Less: Exchange Revenues			
Securities Transaction Fees			1,488,699
Securities Registration, Tender Offer, and Merger Fees			581,209
Other			327
Total Exchange Revenues			2,070,235
Net (Income) Cost from Operations			$ (486,614)

	FY 2014		
(DOLLARS IN THOUSANDS)	**Intragovernmental Gross Cost**	**Gross Cost with the Public**	**Total**
SEC Programs:			
Enforcement	$ 81,429	$ 405,618	$ 487,047
Compliance Inspections and Examinations	47,103	234,635	281,738
Corporation Finance	24,456	121,820	146,276
Trading and Markets	13,249	65,997	79,246
Investment Management	9,585	47,743	57,328
Economic and Risk Analysis	7,250	36,116	43,366
General Counsel	7,160	35,666	42,826
Other Program Offices	10,337	51,493	61,830
Agency Direction and Administrative Support	38,884	193,691	232,575
Inspector General	1,465	7,299	8,764
Total Program Costs	$ 240,918	$ 1,200,078	1,440,996
Less: Exchange Revenues			
Securities Transaction Fees			1,326,423
Securities Registration, Tender Offer, and Merger Fees			579,708
Other			127
Total Exchange Revenues			1,906,258
Net (Income) Cost from Operations			$ (465,262)

Intragovernmental exchange revenue was $298 thousand for the year ended September 30, 2015. Intragovernmental exchange revenue was $96 thousand for the year ended September 30, 2014.

NOTE 13. Imputed Financing

A portion of the retirement, health, and life insurance benefits provided to SEC employees is funded by OPM. In accordance with Federal accounting standards, the SEC recognizes identified costs paid by OPM on behalf of the SEC as an expense. The funding for this expense is reflected as imputed financing on the Statement of Changes in Net Position. Costs paid by OPM on behalf of the SEC were $31.3 million and $39.6 million in FY 2015 and FY 2014, respectively.

NOTE 14. Status of Budgetary Resources

A. Apportionment Categories of Obligations Incurred

Category A funds are those amounts that are subject to quarterly apportionment by OMB, meaning that a portion of the annual appropriation is not available to the agency until apportioned each quarter. Category B funds represent budgetary resources distributed by a specified time period, activity, project, object, or a combination of these categories. The SEC's Category B funds represent amounts apportioned at the beginning of the fiscal year for the SEC's reimbursable and Investor Protection Fund activities. The SEC's Reserve Fund is exempt from apportionment. For additional information, see *Note 1.E, Fund Accounting Structure*, and *Note 1.Q, Budgets and Budgetary Accounting*. For the years ended September 30, 2015 and 2014, the SEC incurred obligations against Category A, Category B, and Exempt funds as follows:

Obligations Incurred *(DOLLARS IN THOUSANDS)*	**FY 2015**	**FY 2014**
Direct Obligations		
Category A	$ 1,481,665	$ 1,335,969
Category B — Investor Protection Fund	14,851	25,116
Exempt From Apportionment — Reserve Fund	53,452	65,605
Total Direct Obligations	1,549,968	1,426,690
Reimbursable Obligations		
Category B	303	179
Total Obligations Incurred	$ 1,550,271	$ 1,426,869

In addition, the amounts of budgetary resources obligated for undelivered orders include $795.2 million and $801.8 million at September 30, 2015 and 2014, respectively.

B. Explanation of Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government

A comparison between the FY 2015 SBR and the actual FY 2015 data in the President's budget cannot be presented, as the FY 2017 President's budget which will contain FY 2015 actual data is not yet available. The comparison will be presented in next year's financial statements. The comparison as of September 30, 2014 is presented below:

(DOLLARS IN MILLIONS)	**Budgetary Resources**	**Obligations Incurred**	**Distributed Offsetting Receipts**	**Outlays, Net**
Combined Statement of Budgetary Resources	$ 1,551	$ 1,427	$ (2)	$ 40
FY 2014 Ending Balance: Comptroller General Decision B 322160, *Recording of Obligation for Multiple Year Contract*	358	—	—	—
OMB's application of cumulative unobligated balances used to offset the remaining deficiency	(74)	—	—	—
Budget of the U.S. Government for FY 2015	$ 1,835	$ 1,427	$ (2)	$ 40

The differences between the FY 2014 SBR and the prior year column in the FY 2016 Budget of the U.S. Government exist because certain data elements are reported on the SBR differently than those same data elements are reported in the Budget.

The data elements reported differently are those used to report the SEC's recording of obligations in FY 2011 to reflect the impact of Comptroller General Decision B 322160, Securities and Exchange Commission – Recording of Obligation for Multiple-Year Contract and the subsequent adjustment and liquidation of those obligations. In consultation with OMB, in FY 2011 the SEC recognized obligations for leases entered into in FY 2010 and prior. The recognition of these lease obligations resulted in an unfunded obligation (deficiency) of $778 million.

In the Budget, the unfunded obligation is not included in the beginning of the year unobligated balance brought forward, but instead is reported in a separate schedule of the SEC's Budget titled "Unfunded Deficiencies."

A detailed reconciliation of the data elements follows:

- Based on an agreement with OMB, the SEC funds the deficiency over time as budgetary resources become available for current year lease operations and as the prior year unfunded lease obligation amounts are recovered. At the end of FY 2014, the SEC's SBR included $358 million in remaining unfunded obligations after the SEC funded $83 million for current year lease operations ((FY 2012 Beginning Balance of $778 million) - (FY 2012 funding of the deficiency of $113 million) - (FY 2012 downward adjustments of $142 million) - (FY 2013 funding of the deficiency of $80 million) - (FY 2013 downward adjustments of $2 million) - (FY 2014 funding of the deficiency of $83 million) = FY 2014 Ending Balance of $358 million). The SEC SBR for FY 2015 presents this balance as part of the beginning of the year unobligated balance brought forward.

- In addition to the budgetary resources and recovered prior year unfunded lease obligation amounts, OMB used each year's unobligated balance to offset the unfunded deficiency, beginning in FY 2011. As a result, the FY 2014 "Unfunded Deficiencies" schedule in the FY 2016 Budget of the U.S. Government reported $284 million in remaining unfunded obligations, while the SEC reported $358 million. The $74 million cumulative difference reflects the use of the year-end unobligated balances by OMB to offset the unfunded deficiency.

- In FY 2011, OMB used the year-end unobligated balance ($47 million) as an offset to the unfunded deficiency. The increases in the unobligated balance amounts at the end of FY 2012 and FY 2013 (increases of the end-of-year unobligated balance of $55 million and $6 million, respectively) also were used to offset the unfunded deficiency. In FY 2014, the change in the end-of-year unobligated balance was a decrease (-$34 million), which resulted in a reduction in the end-of-year unfunded obligated balance brought forward.

- A portion of the activity in the "Unfunded Deficiencies" schedule is also reflected in the Budgetary Resources section of the Salaries and Expense Account in the FY 2016 Budget of the U.S. Government. The $49 million in "New budget authority used to liquidate deficiencies" in the "Unfunded Deficiencies" is equal to the SEC funding of $83 million used to liquidate the lease obligations less the $34 million end-of year unobligated balance for FY 2014 that is offsetting the unfunded obligations in the "Unfunded Deficiencies" schedule.

C. Other Budgetary Disclosures

General Provisions of Appropriation

The SEC's annual Appropriations Act contains general provisions that limit the amount that can be obligated for international conferences, International Organization of Securities Commission (IOSCO) dues, and representation expenses. The Act also requires the SEC to fund its Office of Inspector General with a minimum of $9,239,000 and the Division of Economic and Risk Analysis with a minimum of $56,613,000 in new budget authority.

The SEC's annual Appropriations Act for FY 2014 temporarily rescinded $25 million in appropriations recognized in the SEC's Reserve Fund in FY 2014. This rescission ended on September 30, 2014, leaving that $25 million available starting in FY 2015. The SEC's FY 2015 appropriation bill included a provision that rescinds $25 million in appropriations recognized in the SEC's Reserve Fund. Refer to *Note 1.E, Fund Accounting Structure, "Reserve Fund,"* for more information.

The SEC returned $764 thousand to the Treasury General Fund as a result of the cancellation of the 2009/2010 two year appropriation cancelled in FY 2015.

Change in Legal Interpretation for Lease Obligations

The SEC was granted independent leasing authority in 1990. Based on a legal review of its statutory authority at the time, the SEC adopted a policy of obligating only the annual portion of lease payments due each year. On October 3, 2011, the Government Accountability Office (GAO) issued a decision that this longstanding practice of recording lease obligations only on an annual basis violated the recording statute, 31 U.S.C. sect. 1501(a)(1). Specifically, the GAO's decision was that the SEC lacks statutory authority to obligate an amount less than the Government's total obligation. If the SEC lacks sufficient budget authority to cover this obligation, the SEC should report a violation of the Antideficiency Act (ADA).

The SEC recorded obligations in the same manner for all its leasing actions between the time the agency was granted independent leasing authority in 1990 and 2010. Further, the agency did not have sufficient remaining unobligated funds in the years in which the various leases were entered to cover the full obligations associated with those leases. As a result, the agency recorded unfunded obligations totaling $778 million for leases executed between 1990 and 2010 in FY 2011. The SEC appropriately obligated the Government's total financial responsibility for lease actions that were executed in FY 2011 and thereafter.

Unfunded lease obligations totaled $286 million and $358 million as of September 30, 2015 and 2014, respectively. The change in unfunded obligations is due to the SEC funding previously unfunded obligations totaling $72 million. Accrual accounting requires expenses to be recognized in the period in which the expenses are incurred. Because future lease expenses are not an expense of the current fiscal year, they are not reported as expenses or liabilities in the current fiscal year. See *Note 9, Leases*, for additional information.

See *Note 10.A, Commitments: Securities Investor Protection Act*, for information on the SEC's borrowing authority.

NOTE 15. Reconciliation of Net Cost of Operations to Budget

For the years ended September 30, 2015 and 2014:

(DOLLARS IN THOUSANDS)	FY 2015	FY 2014
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated:		
Obligations Incurred (Note 14)	$ 1,550,271	$1,426,869
Less: Spending Authority from Offsetting Collections, Recoveries, and Downward Adjustments to Prior Year Unfunded Lease Obligations	(1,527,512)	(1,325,984)
Less: Reserve Fund Appropriations	(50,000)	(50,000)
Net Obligations	(27,241)	50,885
Other Resources:		
Imputed Financing from Cost Absorbed by Others (Note 13)	31,316	39,556
Total Resources Used to Finance Activities	4,075	90,441
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	3,470	(11,352)
Resources that Finance the Acquisition of Assets Capitalized on the Balance Sheet	(48,761)	(47,553)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(45,291)	(58,905)
Total Resources Used to Finance the Net Cost of Operations	(41,216)	31,536
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:		
Change in Accrued Leave Liability	9,137	6,792
Change in Revenue Receivables Not Generating Resources Until Collected	3,290	(35,509)
Change in Lease Liability	1,264	31
Change in Unfunded Liability	13,684	(356)
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	27,375	(29,042)
Components not Requiring or Generating Resources:		
Depreciation and Amortization	58,275	60,596
Revaluation of Assets or Liabilities	174	537
Non-Entity Filing Fee Revenue, Net	(531,192)	(528,858)
Other Costs that will not Require or Generate Resources	(30)	(31)
Total Components of Net Cost of Operations that will not Require or Generate Resources in Future Periods	(472,773)	(467,756)
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	(445,398)	(496,798)
Net (Income) Cost from Operations	$ (486,614)	$ (465,262)

Components of net cost of operations that will not require or generate budgetary resources represent required timing differences in the Statement of Net Cost and the Statement of Budgetary Resources.

For example, as noted in *Note 1.L, Liabilities*, annual leave that is earned but not either taken or paid out to separating employees by the end of the fiscal year is required to be reported as an expense in the financial statements in the year when it is earned, but it is required to be funded by budgetary resources in the future fiscal year when it is either used or paid out to separating employees. In the reconciliation above, it is reported as a component of net cost that will not require resources in the current period. Another example is depreciation expense. In budgetary reporting, the entire cost of a depreciable asset is recognized in the period when the asset is purchased. However, in financial statement reporting, accrual accounting requires the cost of such assets to be allocated among the reporting periods that represent the estimated useful life of the asset. In the reconciliation above, depreciation is recognized as a "component not requiring or generating resources." Another example is Non-Entity Filing Fee Revenue, Net. "Non-entity" filing fee revenue is not available to the SEC for use in its operations; accordingly, this revenue does not generate budgetary resources for the SEC.

NOTE 16. Disgorgement and Penalties

The SEC's non-entity assets include disgorgement, penalties, and interest assessed against securities law violators by the Commission or a Federal court. The SEC also recognizes an equal and offsetting liability for these non-entity assets, as discussed in *Note 1.L, Liabilities*.

When the Commission or court issues an order for the SEC to collect disgorgement, penalties, and interest from securities law violators, the SEC establishes an account receivable due to the SEC. Upon collection, the SEC may (a) hold receipts in the Disgorgement and Penalty Deposit Fund as FBWT or Treasury investments pending distribution to harmed investors, (b) deposit receipts in the U.S. Treasury General Fund or, (c) transfer amounts to the Investor Protection Fund. The situations where funds would not be held for distribution to harmed investors arise when the SEC either determines it is not practical to return funds to investors or when court orders expressly state that funds are to be remitted to the U.S. Treasury. The determination as to whether funds not held for distribution to harmed investors will be deposited in the U.S. Treasury or transferred to the Investor Protection Fund is made in accordance with the provisions of the Dodd-Frank Act, and is dependent on the balance in the Investor Protection Fund on the day the amounts are collected. (See *Note 1.S, Investor Protection Fund*).

Disbursements related to disgorgements and penalties include distributions to harmed investors, payments to tax authorities, and fees paid to plan administrators and the Bureau of the Fiscal Service. The SEC does not record accounts receivable on its financial statements for any amounts ordered to another Government entity such as a court, or a non-governmental entity such as a receiver. Additional details regarding disgorgement and penalties are presented in *Note 1.R, Disgorgement and Penalties*, and *Note 2, Entity and Non-Entity Assets*.

At September 30, the net inflows and outflows for FBWT, Investments, and Accounts Receivable related to disgorgement and penalties consisted of the following:

(DOLLARS IN THOUSANDS)	FY 2015	FY 2014
Fund Balance with Treasury:		
Beginning Balance	$ 933,447	$ 988,237
Collections	1,314,854	1,478,207
Purchases and Redemptions of Treasury Securities	(1,107,064)	(510,901)
Disbursements	(56,185)	(197,069)
Transfers and Deposits to the U.S. Treasury General Fund	(764,052)	(825,027)
Total Fund Balance with Treasury (Note 2)	321,000	933,447
Cash and Other Monetary Assets:		
Beginning Balance	710	387
Net Activity	(697)	323
Total Cash and Other Monetary Assets (Notes 2 and 4)	13	710
Investments, Net:		
Beginning Balance	1,360,520	848,441
Net Activity	1,108,293	512,079
Total Investments, Net (Notes 2 and 5)	2,468,813	1,360,520
Accounts Receivable, Net:		
Beginning Balance	380,583	297,098
Net Activity	358,122	83,485
Total Accounts Receivable, Net (Notes 2 and 6)	738,705	380,583
Total Disgorgement and Penalties	$ 3,528,531	$ 2,675,260

NOTE 17. Statement of Changes in Net Position

In FY 2015, the negative $531,222 thousand in "Other" Financing Sources reported in the Statement of Changes in Net Position consists of $531,192 thousand in securities registration, tender offer, merger, and other fees from registrants ("filing fees") and $30 thousand in Freedom of Information Act (FOIA) fees collected, or to be collected, for deposit into the U.S. Treasury General Fund.

In FY 2014, the negative $528,889 thousand consists of $528,858 thousand in filing fees and $31 thousand in FOIA revenues collected, or to be collected, for deposit into the U.S. Treasury General Fund.

Required Supplementary Information (Unaudited)

This section provides the Required Supplementary Information as prescribed by OMB Circular A-136, *Financial Reporting Requirements*.

U.S. SECURITIES AND EXCHANGE COMMISSION

Combining Statements of Budgetary Resources by Fund

For the year ended September 30, 2015

(DOLLARS IN THOUSANDS)	Salaries and Expenses and Other Funds	Investor Protection Fund	Reserve Fund	Total
	X0100, 09/10 0100, 1435, 3220	5567	5566	
BUDGETARY RESOURCES:				
Unobligated Balance, Brought Forward, October 1	$ (284,560)	$ 407,877	$ 327	$ 123,644
Recoveries of Prior Year Unpaid Obligations	30,733	—	3,528	34,261
Other Changes in Unobligated Balance	(764)	—	—	(764)
Unobligated Balance from Prior Year Budget Authority, Net	(254,591)	407,877	3,855	157,141
Appropriations (Discretionary and Mandatory)	5,704	4,423	49,925	60,052
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,495,633	—	—	1,495,633
Total Budgetary Resources	$ 1,246,746	$ 412,300	$ 53,780	$ 1,712,826
STATUS OF BUDGETARY RESOURCES:				
Obligations Incurred (Note 14)	$ 1,481,968	$ 14,851	$ 53,452	$ 1,550,271
Unobligated Balance, End of Year:				
Apportioned	36,208	397,449	—	433,657
Exempt from Apportionment	—	—	328	328
Unapportioned	(271,430)	—	—	(271,430)
Total Unobligated Balance, End of Year	(235,222)	397,449	328	162,555
Total Budgetary Resources	$ 1,246,746	$ 412,300	$ 53,780	$ 1,712,826
CHANGE IN OBLIGATED BALANCE:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1 (Gross)	$ 832,916	$ 23,136	$ 59,794	$ 915,846
Obligations Incurred	1,481,968	14,851	53,452	1,550,271
Outlays (Gross)	(1,433,138)	(37,970)	(54,905)	(1,526,013)
Recoveries of Prior Year Unpaid Obligations	(30,733)	—	(3,528)	(34,261)
Unpaid Obligations, End of Year	851,013	17	54,813	905,843
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	(435)	—	—	(435)
Change in Uncollected Payments, Federal Sources	409	—	—	409
Uncollected Payments, Federal Sources, End of Year	(26)	—	—	(26)
Memorandum (non-add) entries:				
Obligated Balance, Start of Year	$ 832,481	$ 23,136	$ 59,794	$ 915,411
Obligated Balance, End of Year	$ 850,987	$ 17	$ 54,813	$ 905,817
BUDGET AUTHORITY AND OUTLAYS, NET:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 1,501,337	$ 4,423	$ 49,925	$ 1,555,685
Actual Offsetting Collections (Discretionary and Mandatory)	(1,493,660)	—	—	(1,493,660)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory)	409	—	—	409
Budget Authority, Net (Discretionary and Mandatory)	$ 8,086	$ 4,423	$ 49,925	$ 62,434
Outlays, Gross (Discretionary and Mandatory)	$ 1,433,138	$ 37,970	$ 54,905	$ 1,526,013
Actual Offsetting Collections (Discretionary and Mandatory)	(1,493,660)	—	—	(1,493,660)
Outlays, Net (Discretionary and Mandatory)	(60,522)	37,970	54,905	32,353
Distributed Offsetting Receipts	(398)	2,057	—	1,659
Agency Outlays, Net (Discretionary and Mandatory)	$ (60,920)	$ 40,027	$ 54,905	$ 34,012

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

U.S. SECURITIES AND EXCHANGE COMMISSION

Combining Statements of Budgetary Resources by Fund *(continued)*

For the year ended September 30, 2014

(DOLLARS IN THOUSANDS)	Salaries and Expenses and Other Funds	Investor Protection Fund	Reserve Fund	Total
	X0100, 09/10 0100, 1435, 3220	5567	5566	
BUDGETARY RESOURCES:				
Unobligated Balance, Brought Forward, October 1	$ (333,375)	$ 434,392	$ 43,749	$ 144,766
Recoveries of Prior Year Unpaid Obligations	33,521	—	33	33,554
Other Changes in Unobligated Balance	—	—	—	—
Unobligated Balance from Prior Year Budget Authority, Net	(299,854)	434,392	43,782	178,320
Appropriations (Discretionary and Mandatory)	59,012	(1,399)	22,150	79,763
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,292,430	—	—	1,292,430
Total Budgetary Resources	$ 1,051,588	$ 432,993	$ 65,932	$ 1,550,513
STATUS OF BUDGETARY RESOURCES:				
Obligations Incurred (Note 14)	$ 1,336,148	$ 25,116	$ 65,605	$ 1,426,869
Unobligated Balance, End of Year:				
Apportioned	47,972	407,877	—	455,849
Exempt from Apportionment	—	—	327	327
Unapportioned	(332,532)	—	—	(332,532)
Total Unobligated Balance, End of Year	(284,560)	407,877	327	123,644
Total Budgetary Resources	$ 1,051,588	$ 432,993	$ 65,932	$ 1,550,513
CHANGE IN OBLIGATED BALANCE:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1 (Gross)	$ 825,600	$ —	$29,047	$ 854,647
Obligations Incurred	1,336,148	25,116	65,605	1,426,869
Outlays (Gross)	(1,295,311)	(1,980)	(34,825)	(1,332,116)
Recoveries of Prior Year Unpaid Obligations	(33,521)	—	(33)	(33,554)
Unpaid Obligations, End of Year	832,916	23,136	59,794	915,846
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	(252)	—	—	(252)
Change in Uncollected Payments, Federal Sources	(183)	—	—	(183)
Uncollected Payments, Federal Sources, End of Year	(435)	—	—	(435)
Memorandum (non-add) entries:				
Obligated Balance, Start of Year	$ 825,348	$ —	$ 29,047	$ 854,395
Obligated Balance, End of Year	$ 832,481	$ 23,136	$ 59,794	$ 915,411
BUDGET AUTHORITY AND OUTLAYS, NET:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 1,351,442	$ (1,399)	$ 22,150	$ 1,372,193
Actual Offsetting Collections (Discretionary and Mandatory)	(1,292,247)	—	—	(1,292,247)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory)	(183)	—	—	(183)
Budget Authority, Net (Discretionary and Mandatory)	$ 59,012	$ (1,399)	$ 22,150	$ 79,763
Outlays, Gross (Discretionary and Mandatory)	$ 1,295,311	$ 1,980	$ 34,825	$ 1,332,116
Actual Offsetting Collections (Discretionary and Mandatory)	(1,292,247)	—	—	(1,292,247)
Outlays, Net (Discretionary and Mandatory)	3,064	1,980	34,825	39,869
Distributed Offsetting Receipts	(1,439)	(490)	—	(1,929)
Agency Outlays, Net (Discretionary and Mandatory)	$ 1,625	$ 1,490	$ 34,825	$ 37,940

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

Investor Protection Fund Financial Statements

Investor Protection Fund Financial Statements 106

Notes to the Investor Protection Fund Financial Statements 108

Investor Protection Fund Financial Statements

U.S. SECURITIES AND EXCHANGE COMMISSION
INVESTOR PROTECTION FUND

Balance Sheets

As of September 30, 2015 and 2014

(DOLLARS IN THOUSANDS)	FY 2015	FY 2014
ASSETS:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 2,360	$ 42,627
Investments, Net (Note 3)	398,333	395,169
Total Assets	$ 400,693	$ 437,796
LIABILITIES (NOTE 4):		
Accounts Payable	$ 17	$ 23,136
Contingent Liabilities (Note 5)	13,565	—
Total Liabilities	13,582	23,136
Commitments and Contingencies (Note 5)		
NET POSITION:		
Cumulative Results of Operations – Funds from Dedicated Collections	387,111	414,660
Total Net Position – Funds from Dedicated Collections	387,111	414,660
Total Net Position	387,111	414,660
Total Liabilities and Net Position	$ 400,693	$ 437,796

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

U.S. SECURITIES AND EXCHANGE COMMISSION
INVESTOR PROTECTION FUND

Statements of Net Cost

For the years ended September 30, 2015 and 2014

(DOLLARS IN THOUSANDS)	FY 2015	FY 2014
PROGRAM COSTS (Note 6):		
Awards to Whistleblowers	$ 28,397	$ 25,069
Employee Suggestion Program	19	47
Total Program Costs	28,416	25,116
Net (Income) Cost from Operations	$ 28,416	$ 25,116

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

U.S. SECURITIES AND EXCHANGE COMMISSION
INVESTOR PROTECTION FUND

Statements of Changes in Net Position

For the years ended September 30, 2015 and 2014

(DOLLARS IN THOUSANDS)	FY 2015	FY 2014
CUMULATIVE RESULTS OF OPERATIONS – FUNDS FROM DEDICATED COLLECTIONS:		
Beginning Balances	$ 414,660	$ 439,197
Budgetary Financing Sources:		
Non-Exchange Revenue	867	579
Total Financing Sources	867	579
Net Income (Cost) from Operations	(28,416)	(25,116)
Net Change	(27,549)	(24,537)
Cumulative Results of Operations	387,111	414,660
Net Position, End of Period	$ 387,111	$ 414,660

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

U.S. SECURITIES AND EXCHANGE COMMISSION
INVESTOR PROTECTION FUND

Statements of Budgetary Resources

For the years ended September 30, 2015 and 2014

(DOLLARS IN THOUSANDS)	FY 2015	FY 2014
BUDGETARY RESOURCES:		
Unobligated Balance, Brought Forward, October 1	$ 407,877	$ 434,392
Appropriations (Discretionary and Mandatory)	4,423	(1,399)
Total Budgetary Resources	$ 412,300	$ 432,993
STATUS OF BUDGETARY RESOURCES:		
Obligations Incurred – Category B	$14,851	$ 25,116
Unobligated Balance, End of Year:		
Apportioned	397,449	407,877
Total Unobligated Balance, End of Year	397,449	407,877
Total Budgetary Resources	$ 412,300	$ 432,993
CHANGE IN OBLIGATED BALANCE:		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1 (Gross)	$ 23,136	$ —
Obligations Incurred	14,851	25,116
Outlays (Gross)	(37,970)	(1,980)
Unpaid Obligations, End of Year	$ 17	$ 23,136
BUDGET AUTHORITY AND OUTLAYS, NET:		
Budget Authority, Gross (Discretionary and Mandatory)	$ 4,423	$ (1,399)
Budget Authority, Net (Discretionary and Mandatory)	$ 4,423	$ (1,399)
Outlays, Gross (Discretionary and Mandatory)	$ 37,970	$ 1,980
Outlays, Net (Discretionary and Mandatory)	37,970	1,980
Distributed Offsetting Receipts	2,057	(490)
Agency Outlays, Net (Discretionary and Mandatory)	$ 40,027	$ 1,490

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

Notes to the Investor Protection Fund Financial Statements

U.S. SECURITIES AND EXCHANGE COMMISSION
INVESTOR PROTECTION FUND

As of September 30, 2015 and 2014

NOTE 1. Significant Accounting Policies

A. Reporting Structure

The U.S. Securities and Exchange Commission (SEC) is an independent agency of the U.S. Government established pursuant to the Securities Exchange Act of 1934 (Exchange Act), charged with regulating this country's capital markets. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) established the Securities and Exchange Commission Investor Protection Fund. The Investor Protection Fund provides funding for a Whistleblower Award Program and finances the operations of the SEC Office of Inspector General's (OIG) Employee Suggestion Program. The Investor Protection Fund is a fund within the SEC, and these financial statements present a segment of the SEC's financial activity.

B. Basis of Presentation and Accounting

The accompanying financial statements present the financial position, net cost of operations, changes in net position, and budgetary resources of the Investor Protection Fund as required by Exchange Act Section 21F(g)(5). The Act requires a complete set of financial statements that includes a balance sheet, income statement, and cash flow analysis. The Investor Protection Fund is a Federal reporting entity. As such, its financial statements are prepared in conformity with generally accepted accounting principles (GAAP) for the Federal Government, and are presented in conformity with OMB Circular A-136, *Financial Reporting Requirements*. The legislative requirements to prepare an income statement and cash flow analysis are addressed by the Statement of Net Cost and *Note 2, Fund Balance with Treasury*, respectively.

The SEC's books and records serve as the source of the information presented in the accompanying financial statements.

The agency classifies assets, liabilities, revenues, and costs in these financial statements according to the type of entity associated with the transactions. Intragovernmental assets and liabilities are those due from or to other Federal entities, including other funds within the SEC. Intragovernmental revenues and costs result from transactions with other Federal entities, including other funds within the SEC.

The Balance Sheet, Statement of Net Cost and Statement of Changes in Net Position are prepared using the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred without regard to the receipt or payment of cash. These principles differ from budgetary accounting and reporting principles on which the Statement of Budgetary Resources is prepared. A reconciliation of differences, if any, between the accrual-based Statement of Net Cost and the budgetary-based Statement of Budgetary Resources is presented in *Note 8, Reconciliation of Net Cost of Operations to Budget*.

C. Use of Estimates

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

D. Intra- and Inter-Agency Relationships

Transactions with Other SEC Funds

The Investor Protection Fund is comprised of a single Federal Treasury Fund Symbol. The Investor Protection Fund is the recipient of non-exchange revenues collected by the SEC. Amounts transferred to the Investor Protection Fund are classified as "retained by the SEC" because the Investor Protection Fund is a fund within the SEC. The Investor Protection Fund finances the operations of the SEC Office of Inspector General's Employee Suggestion Program.

Transactions with Other Federal Agencies

Whistleblower payments may be made from the Investor Protection Fund as a result of monetary sanctions paid to other Federal agencies in related actions, but only if there has been a Commission enforcement action resulting in sanctions of a million dollars or greater and the Commission has determined that the whistleblower is eligible for an award and recommended the percentage. In those instances, the SEC remains liable for paying the whistleblower. However, in instances where a whistleblower has already received an award from the Commodity Futures Trading Commission (CFTC), the whistleblower is not entitled to an award from the SEC.

E. Funds from Dedicated Collections

A fund from dedicated collections is financed by specifically identified revenues, provided to the government by non-Federal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the Government's general revenues. Investor Protection Fund resources are funds from dedicated collections and may only be used for the purposes specified by the Dodd-Frank Act.

F. Entity Assets

Assets that an agency is authorized to use in its operations are entity assets. The SEC is authorized to use all funds in the Investor Protection Fund for the purposes specified by the Dodd-Frank Act. Accordingly, all assets are recognized as entity assets.

G. Fund Balance with Treasury

Fund Balance with Treasury reflects amounts the Investor Protection Fund holds in the U.S. Treasury that have not been invested in Federal securities. The SEC conducts all of its banking activity in accordance with directives issued by the U.S. Department of the Treasury's Bureau of the Fiscal Service.

H. Investments

The SEC has authority to invest amounts in the Investor Protection Fund in overnight and short-term, market-based Treasury securities. The interest earned on the investments is a component of the Fund and is available to be used for expenses of the Investor Protection Fund. Additional details regarding Investor Protection Fund investments are provided in *Note 3, Investments*.

I. Liabilities

The SEC records liabilities for probable future outflows or other sacrifices of resources as a result of events that have occurred as of the Balance Sheet date. The Investor Protection Fund's liabilities consist of amounts payable to whistleblowers and amounts recognized as contingent liabilities for whistleblower awards.

The SEC recognizes liabilities that are covered by budgetary resources and liabilities that are not covered by budgetary resources. Budgetary and financial statement reporting requirements sometimes differ on the timing for the required recognition of an expense. For example, financial reporting requirements include the recognition of certain contingent liabilities that, if they become actual liabilities in the future, would be covered by budgetary resources in the future period(s) in which they occur. Liabilities that are covered by budgetary resources are liabilities incurred for which budgetary resources are available to the SEC without further Congressional action. Refer to *Note 4, Liabilities Covered and Not Covered by Budgetary Resources*, for detailed information regarding liabilities covered and not covered by budgetary resources.

The Dodd-Frank Act and the SEC implementing regulations establish the eligibility criteria for whistleblower awards. Refer to *Note 5, Commitments and Contingencies* for additional information regarding the disclosure and recognition of actual and contingent liabilities for whistleblower awards.

J. Program Costs

The Investor Protection Fund reimburses the SEC's Salaries and Expenses account (X0100) for expenses incurred by the Office of Inspector General to administer the Employee Suggestion Program. The Investor Protection Fund also finances payments to whistleblowers under Section 21F of the Exchange Act.

K. Non-Exchange Revenue

Disgorgement and Penalty Transfers

Non-exchange revenue arises from the Government's ability to demand payment. The Investor Protection Fund is financed through the receipt of monetary sanctions collected by the SEC in judicial or administrative actions brought by the SEC under the securities laws that are not either: (1) added to the disgorgement fund or other fund under Section 308 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7246) or (2) otherwise distributed to victims of a violation of the securities laws. The Investor Protection Fund recognizes non-exchange revenue for disgorgement and penalty amounts transferred into the fund from the SEC's Disgorgement and Penalties Fund (X6563). No sanction collected by the SEC can be deposited into the Investor Protection Fund if the balance in the fund exceeds $300 million on the day of collection.

Interest Earnings on Investments with Treasury

Interest earned from investments in U.S. Treasury securities is classified in the same way as the predominant source of revenue to the fund. The Investor Protection Fund is financed through the receipt of non-exchange revenues and thus interest earnings are also recognized as non-exchange revenues.

L. Budgets and Budgetary Accounting

The Investor Protection Fund (X5567) is a special fund established through a permanent indefinite appropriation that has the authority to retain revenues and other financing sources not used in the current period for future use. The Dodd-Frank Act provides that the Fund is available to the SEC without further appropriation or fiscal year limitation for the purpose of paying awards to whistleblowers and funding the activities of the OIG's employee suggestion program. However, the SEC is required to request and obtain an annual apportionment from OMB to use these funds.

The resources of the Investor Protection Fund are apportioned under Category B authority, which means that the funds represent budgetary resources distributed by a specified project and are not subject to quarterly apportionment. Thus, all obligations incurred as presented on the Statement of Budgetary Resources are derived from Category B funds.

NOTE 2. Fund Balance with Treasury

The Fund Balance with Treasury by type of fund and Status of Fund Balance with Treasury as of September 30, 2015 and 2014 consisted of the following:

(DOLLARS IN THOUSANDS)	FY 2015	FY 2014
Fund Balances:		
Special Fund	$ 2,360	$ 42,627
Total Fund Balance with Treasury	$ 2,360	$ 42,627
Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available	2,343	$ 13,011
Unavailable	—	6,480
Obligated Balance not Yet Disbursed	17	23,136
Total Status of Fund Balance with Treasury	$ 2,360	$ 42,627

Unobligated balances reported for the status of Fund Balance with Treasury do not agree with the amounts reported in the Statement of Budgetary Resources due to the fact that funds for unobligated balances are held in investments as well as in Fund Balance with Treasury.

There were no differences between the Fund Balance reflected in the Investor Protection Fund financial statements and the balance in the Treasury accounts.

Cash Flow

The Investor Protection Fund cash flows during FY 2015 consisted of:

- Net cash outflows for purchases of investments of $230 thousand,
- Net cash outflows for investment interest of $2.1 million (which includes $4.2 million of interest collections, less $6.3 million of premiums paid, and $23 thousand in discounts received), and
- Net cash outflows for payment of whistleblower awards totaling $23.1 million for amounts that were awarded during FY 2014 and $14.8 million for amounts that were awarded during FY 2015, and payment of expenses of operating the OIG Employee Suggestion Program of $19 thousand.

Cash flows during FY 2014 consisted of:

- Net cash inflows from investment redemptions of $39.2 million,
- Net cash inflows from interest received of $412 thousand (which includes $648 thousand of interest collections, less $258 thousand of premiums paid, and $22 thousand in discounts received), and
- Net cash outflows for payments of whistleblower awards totaling $2 million, and payment of expenses of operating the OIG Employee Suggestion Program of $47 thousand.

NOTE 3. Investments

The SEC invests funds in overnight and short-term non-marketable market-based Treasury bills. The SEC records the value of its investments in Treasury bills at cost and amortizes any premium or discount on a straight-line basis (S/L) through the maturity date of these securities.

Non-marketable market-based Treasury securities are issued by the Bureau of the Fiscal Service to Federal agencies. They are not traded on any securities exchange but mirror the prices of similar Treasury securities trading in the Government securities market.

At September 30, 2015, investments consisted of the following:

(DOLLARS IN THOUSANDS)	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investment, Net	Market Value Disclosure
Non-Marketable Market-Based Securities						
Investor Protection Fund – Entity	$ 401,387	S/L	$ (4,790)	$ 1,736	$ 398,333	$ 396,843

At September 30, 2014, investments consisted of the following:

(DOLLARS IN THOUSANDS)	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investment, Net	Market Value Disclosure
Non-Marketable Market-Based Securities						
Investor Protection Fund – Entity	$ 395,124	S/L	$ (196)	$ 241	$ 395,169	$ 394,978

Intragovernmental Investments in Treasury Securities

Market-based Treasury securities are debt securities that the U.S. Treasury issues to Federal entities without statutorily determined interest rates. Although the securities are not marketable, the terms (prices and interest rates) mirror the terms of marketable Treasury securities.

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with the investment by Federal agencies in non-marketable Federal securities. The balances underlying these investments are deposited in the U.S. Treasury, which uses the cash for

general Government purposes. Treasury securities are issued to the SEC as evidence of these balances. Treasury securities are an asset of the SEC and a liability of the U.S. Treasury. Because the SEC and the U.S. Treasury are both components of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, the investments presented by the SEC do not represent an asset or a liability in the U.S. Government-wide financial statements. Treasury securities provide the SEC with authority to draw upon the U.S. Treasury to make future payments from these accounts. When the SEC requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same manner in which the Government finances all expenditures.

NOTE 4. Liabilities Covered and Not Covered by Budgetary Resources

The SEC recognizes liabilities that are covered by budgetary resources and liabilities that are not covered by budgetary resources. Budgetary and financial statement reporting requirements sometimes differ on the timing for the required recognition of an expense. For example, financial reporting requirements include the recognition of certain contingent liabilities that, if they become actual liabilities, would be covered by budgetary resources in the future periods in which they occur.

At September 30, 2015, liabilities consisted of the following:

(DOLLARS IN THOUSANDS)	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total
Accounts Payable	$ 17	$ —	$ 17
Contingent Liabilities	—	13,565	13,565
Total Liabilities	$ 17	$ 13,565	$ 13,582

At September 30, 2014, liabilities consisted of the following:

(DOLLARS IN THOUSANDS)	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total
Accounts Payable	$ 23,136	$ —	$ 23,136
Contingent Liabilities	—	—	—
Total Liabilities	$ 23,136	$ —	$ 23,136

NOTE 5. Commitments and Contingencies

Commitments and Contingencies: Whistleblower Program

As mentioned in *Note 1.I, Liabilities*, the Investor Protection Fund is used to pay awards to whistleblowers if they voluntarily provide original information to the SEC and meet other conditions. The legislation allows whistleblowers to receive between 10 and 30 percent of the monetary sanctions collected in the covered action or in a related action, with the actual percentage being determined at the discretion of the SEC using criteria provided in the legislation and the related rules to implement the legislation adopted by the SEC.

A Preliminary Determination is a first assessment, made by the Claims Review Staff appointed by the Director of the Division of Enforcement, as to whether the claim should be allowed or denied, and if allowed, what the proposed

award percentage amount should be. A contingent liability is recognized when (a) a positive Preliminary Determination has been made by the Claims Review Staff, (b) collection has been made, and (c) the percentage to be paid can be reasonably estimated. A potential liability is disclosed but not recognized when a positive Preliminary Determination is expected and a collection has been received. A liability is recognized when a positive Proposed Final Determination has been issued by the Claims Review Staff and collection has been received. In all cases the whistleblower award is not paid until amounts have been collected, a final order is issued by the Commission and the appeal rights of all claimants on the matter have been exhausted.

The SEC recognized a contingent liability for potential whistleblower awards for the period ended September 30, 2015 of $13.6 million. The SEC did not recognize a contingent liability for potential whistleblower awards for the period ended September 30, 2014.

As of September 30, 2015, potential whistleblower payments for cases where positive Preliminary Determinations have not been made, but are reasonably possible, are estimated to range from $224.8 million to $674.4 million given the amount of current collections on those cases. Such claims do not meet the criteria for recognition as contingent liabilities in FY 2015. As of September 30, 2015, the upper end of the range of reasonably possible liabilities exceeds the net asset balance of the Investor Protection Fund. In the event that whistleblower awards payments reduce the Investor Protection Fund net asset balance below $300,000,000, the Investor Protection Fund will be replenished as described in the "Disgorgement and Penalty Transfers" section of *Note 1.K*, *Non-Exchange Revenue*.

As of September 30, 2014, potential whistleblower payments that were reasonably possible, but did not meet the criteria for recognition as contingent liabilities, were estimated to range from $25.7 million to $77.1 million.

NOTE 6. Intragovernmental Costs

The Statement of Net Cost presents the Investor Protection Fund's results of operations for its two activities: the Employee Suggestion Program and awards to whistleblowers under the Dodd-Frank whistleblower program. Intragovernmental costs arise from purchases of goods and services from other components of the Federal Government (including other SEC funds). In contrast, public costs are those which arise from the purchase of goods and services from non-Federal entities. Awards to whistleblowers are categorized as "costs with the public."

In FY 2015, the Employee Suggestion Program incurred $19 thousand of intragovernmental costs. The Dodd-Frank whistleblower program incurred $28.4 million of costs with the public (awards to whistleblowers) in FY 2015.

In FY 2014, the Employee Suggestion Program incurred $47 thousand of intragovernmental costs. The Dodd-Frank whistleblower program incurred $25.1 million of costs with the public (awards to whistleblowers) in FY 2014.

NOTE 7. Status of Budgetary Resources

A. Explanation of Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government

A comparison between the FY 2015 Statement of Budgetary Resources and the actual FY 2015 data in the President's budget cannot be presented, as the FY 2017 President's budget which will contain FY 2015 actual data is not yet available; the comparison will be presented in next year's financial statements. There are no differences between the FY 2014 SBR and the FY 2014 data in the President's budget.

B. Other Budgetary Disclosures

There were no budgetary resources obligated for undelivered orders as of September 30, 2015 and 2014.

There are no legal arrangements affecting the use of unobligated balances of budget authority, such as time limits, purpose, and obligation limitations.

NOTE 8. Reconciliation of Net Cost of Operations to Budget

For the years ended September 30, 2015 and 2014:

(DOLLARS IN THOUSANDS)	FY 2015	FY 2014
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated:		
Obligations Incurred	$ 14,851	$ 25,116
Total Resources Used to Finance the Net Cost of Operations	14,851	25,116
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN CURRENT PERIOD:		
Components Requiring or Generating Resources in Future Periods:		
Change in Unfunded Liability	13,565	—
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	13,565	—
Net (Income) Cost from Operations	$ 28,416	$ 25,116

Components of net cost of operations that will not require or generate budgetary resources represent required timing differences in the Statement of Net Cost and the Statement of Budgetary Resources. For the year ended September 30, 2015, the SEC awarded $14.9 million in new whistleblower awards, of which $17 thousand was payable at September 30, 2015, and recognized $13.6 million in contingent liabilities for whistleblower awards. Refer to *Note 4, Liabilities Covered and Not Covered by Budgetary Resources*, and *Note 5, Commitments and Contingencies*, for more information about contingent liabilities.

For the year ended September 30, 2014, Obligations Incurred equaled the Net Cost of Operations and there were no reconciling items.

Other Information

This section provides additional information regarding the U.S. Securities and Exchange Commission's (SEC) financial and performance management:

- **Combined Schedule of Spending (Unaudited):** Provides an overview of how the SEC spent its resources based on the amount available to the SEC and to whom the money was spent.
- **Inspector General's Statement on Management and Performance Challenges:** Provides a summary of the most serious management and performance challenges facing the SEC as identified by management and the Office of Inspector General (OIG) in accordance with the Reports Consolidation Act of 2000. Also included is a response from the SEC Chair outlining the agency's progress in addressing the challenges.
- **Summary of Financial Statement Audit and Management Assurances:** Summary tables are provided for each material weakness and non-conformance found and/or resolved during the U.S. Government Accountability Office's (GAO) audit as well as found by management during the evaluation of internal control and financial systems required by the Federal Managers' Financial Integrity Act (FMFIA).
- **Improper Payments Elimination and Recovery Act Reporting Details:** Provides information on the SEC's commitment and progress in reducing improper payments, including efforts to recapture payments made improperly.
- **Civil Monetary Penalty Adjustment for Inflation:** Provides inflationary adjustments to civil monetary penalties as required by the Federal Civil Penalties Inflation Adjustment Act of 1990, as amended.

Combined Schedule of Spending (Unaudited)

The Schedule of Spending presents a more detailed summary of the "Obligations Incurred" line presented on the Statement of Budgetary Resources, and how these amounts agreed to be spent compare to the SEC's total resources after factoring out amounts available but not agreed to be spent, as well as amounts not available to be spent. The SEC's obligations are categorized by major program and object class.

In an additional effort to improve the quality of data reported on USASpending.gov for public transparency, the SEC also reconciles between obligations reported on the financial statements and spending reported on the website. The majority of obligations included on the financial statements that are not included on USASpending.gov include the following: personnel compensation and benefits, leases, interagency agreements, travel, and training. Differences may also exist due to timing lags between obligations reported in SEC's financial reporting system and data transmitted to USASpending.gov through the central Federal Procurement Data System.

U.S. SECURITIES AND EXCHANGE COMMISSION

Combined Schedule of Spending

For the years ended September 30, 2015 and 2014

(DOLLARS IN THOUSANDS)	FY 2015	FY 2014
What Money is Available to Spend?		
Total Resources	$ 1,712,826	$ 1,550,513
Less Amount Available but Not Agreed to be Spent	433,985	456,176
Less Amount Not Available to be Spent	(271,430)	(332,532)
Total Amounts Agreed to be Spent	$ 1,550,271	$ 1,426,869
How was the Money Spent/Issued?		
Enforcement		
Personnel Compensation and Benefits	$ 316,710	$ 286,868
Contractual Services	180,666	124,255
Acquisition of Assets	34,685	8,809
Other	14,853	25,072
	546,914	445,004
Compliance Inspections and Examinations		
Personnel Compensation and Benefits	216,971	193,531
Contractual Services	74,879	43,055
Acquisition of Assets	19,152	6,039
Other	14	4
	311,016	242,629
Corporation Finance		
Personnel Compensation and Benefits	108,257	100,661
Contractual Services	36,377	18,262
Acquisition of Assets	7,909	3,368
Other	—	—
	152,543	122,291
Trading and Markets		
Personnel Compensation and Benefits	58,298	54,514
Contractual Services	21,139	9,832
Acquisition of Assets	4,342	1,758
Other	—	—
	83,779	66,104

(continued on next page)

U.S. SECURITIES AND EXCHANGE COMMISSION

Combined Schedule of Spending *(continued)*

For the years ended September 30, 2015 and 2014

(DOLLARS IN THOUSANDS)	FY 2015	FY 2014
Investment Management		
Personnel Compensation and Benefits	42,904	40,206
Contractual Services	14,111	6,580
Acquisition of Assets	3,158	1,260
Other	—	—
	60,173	48,046
Economic and Risk Analysis		
Personnel Compensation and Benefits	31,712	22,028
Contractual Services	20,689	19,487
Acquisition of Assets	2,537	1,281
Other	—	—
	54,938	42,796
General Counsel		
Personnel Compensation and Benefits	34,147	29,865
Contractual Services	11,528	5,578
Acquisition of Assets	2,504	898
Other	497	216
	48,676	36,557
Other Program Offices		
Personnel Compensation and Benefits	47,477	42,556
Contractual Services	21,383	8,803
Acquisition of Assets	3,662	1,369
Other	—	—
	72,522	52,728
Agency Direction and Administrative Support		
Personnel Compensation and Benefits	131,460	127,648
Contractual Services	60,716	179,520
Acquisition of Assets	16,049	56,418
Other	—	49
	208,225	363,635
Inspector General		
Personnel Compensation and Benefits	7,872	5,507
Contractual Services	2,685	1,374
Acquisition of Assets	928	198
Other	—	—
	11,485	7,079
Total Amounts Agreed to be Spent	$ 1,550,271	$ 1,426,869
Who did the Money go to?		
Non-Federal Individuals and Organizations	$ 1,359,946	$ 1,255,909[2]
Federal Agencies[1]	190,325	170,960[2]
Total Amounts Agreed to be Spent	$ 1,550,271	$ 1,426,869

[1] *"Federal Agencies" include Federal agencies, offices, and all other organizations that are components of the U.S. Government.*

[2] *"Federal Agencies" was revised for FY 2014 to include Federal personnel benefits activity.*

Inspector General's Statement on Management and Performance Challenges

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

OFFICE OF
INSPECTOR GENERAL

M E M O R A N D U M

September 30, 2015

TO: Mary Jo White, Chair

FROM: Carl W. Hoecker, Inspector General

SUBJECT: *The Inspector General's Statement on the SEC's Management and Performance Challenges, September 2015*

The Reports Consolidation Act of 2000 requires the U.S. Securities and Exchange Commission (SEC or agency) Office of Inspector General (OIG) to identify and report annually on the most serious management challenges that the SEC faces. In deciding whether to identify an issue as a challenge, we consider its significance in relation to the SEC's mission; its susceptibility to fraud, waste, and abuse; and the SEC's progress in addressing the challenge. We compiled this statement on the basis of past and ongoing audit, evaluation, and investigation work; our knowledge of the SEC's programs and operations; and information from SEC management and staff and the U.S. Government Accountability Office (GAO) auditors who conduct the SEC's annual financial statement audit. We previously provided a draft copy of this statement to SEC officials and considered all comments received when finalizing the statement. As we begin fiscal year (FY) 2016, we identified the following areas where the SEC faces management and performance challenges to varying degrees:

- Regulatory Oversight
- Information Security
- Acquisition Management
- Financial Management
- Human Capital Management

Each challenge and corresponding audit, evaluation, or investigation work is further discussed in the attachment. If you have any questions, please contact Rebecca L. Sharek, Deputy Inspector General for Audits, Evaluations, and Special Projects, at sharekr@sec.gov.

Attachment

cc: Andrew Donahue, Chief of Staff, Office of the Chair
Erica Y. Williams, Deputy Chief of Staff, Office of the Chair
Luis A. Aguilar, Commissioner
Paul Gumagay, Counsel, Office of Commissioner Aguilar
Daniel M. Gallagher, Commissioner
Michael C. Pawluk, Counsel, Office of Commissioner Gallagher
Michael S. Piwowar, Commissioner
Jaime Klima, Counsel, Office of Commissioner Piwowar
Kara M. Stein, Commissioner
Robert Peak, Advisor to the Commissioner, Office of Commissioner Stein
Jeffery Heslop, Chief Operating Officer
Darlene L. Pryor, Management and Program Analyst, Office of the Chief Operating Officer

Attachment. THE INSPECTOR GENERAL'S STATEMENT ON THE SEC'S MANAGEMENT AND PERFORMANCE CHALLENGES, SEPTEMBER 2015

Regulatory Oversight

The increase in the SEC's responsibilities in recent years continues to present challenges for the agency as it carries out its mission to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. As a regulatory agency, the SEC must be able to keep pace with changes in the size and complexity of the securities markets and the market participants the SEC oversees and regulates. In her March 24, 2015, testimony before the United States House of Representatives Committee on Financial Services, the SEC Chair identified a lack of sufficient resources as a continuing challenge. Specifically, she stated:

> Although improvements to technology and operations have made the agency more efficient and effective and recent growth in the SEC's budget has permitted the agency to begin to address gaps, more is needed to match our resources to our growing mandates and the increasing complexity of the markets. There continues to be an immediate and pressing need for additional resources to permit the agency to increase its examination coverage of registered investment advisers and investment companies so as to better protect investors and the nation's securities markets.[1]

In 2014, we reported that the SEC (specifically, the SEC Chair and the Investor Advocate) had identified resource constraints and an immediate and pressing need for ensuring sufficient examination coverage of registered investment advisers as a challenge and a "substantial and continuing risk to investors."[2] As a result, in fiscal year (FY) 2015, we initiated an evaluation to assess the Office of Compliance Inspections and Examinations' efficiency and effectiveness in managing its human resources to address mission priorities and long-term goals, particularly for investment adviser examinations. Our work is ongoing and we anticipate issuing a report summarizing our findings in FY 2016.

The SEC also continues to recognize needed technological improvements to achieve its mission. In her Congressional testimony, the SEC Chair further stated that, in FY 2016, the SEC plans to build on the progress made over the past few years to modernize its technology systems, streamline operations, and increase the effectiveness of its programs. Key information technology (IT) initiatives she testified to included:

- implementing data analytics tools;
- continuing Electronic Data Gathering, Analysis and Retrieval (EDGAR) modernization;

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[1] Chair Mary Jo White testimony on "Examining the SEC's Agenda, Operations and FY 2016 Budget Request," March 24, 2015, before the United States House of Representatives Committee on Financial Services. The Chair provided similar testimony before the United States House of Representatives Subcommittee on Financial Services and General Government Committee on Appropriations on April 15, 2015, and before the United States Senate Subcommittee on Financial Services and General Government Committee on Appropriations on May 5, 2015.

[2] U.S. Securities and Exchange Commission, Office of the Investor Advocate, Report on Objectives Fiscal Year 2015.

- improving the examination workflow system and risk assessment and surveillance tools; and
- establishing an Enterprise Data Warehouse.

The SEC Chair also testified that the Division of Enforcement continues to achieve significant results, filing 755 enforcement actions and obtaining orders for more than $4.16 billion in disgorgement and penalties in FY 2014. Collecting disgorgement and penalty amounts from securities violators and returning monies to harmed investors helps protect investors and foster and enforce compliance with Federal securities laws. To assess the SEC's policies, procedures, and efforts for (1) collecting disgorgement and penalty funds and accurately and timely distributing those funds to harmed investors, and (2) overseeing the work of third party entities used in the distribution process, we conducted an audit of the Division of Enforcement's Office of Collections and Office of Distributions (OD) controls over collections and distributions. In our report titled *Improvements Needed in the Division of Enforcement's Oversight of Fund Administrators*, Report No. 531, issued September 30, 2015, we reported that OD's oversight of fund administrators could be improved to more fully align with GAO's *Standards for Internal Control in the Federal Government*. Specifically, we determined that some distribution plans required fund administrators to provide payment files to Commission staff for the staff's review and authorization or approval before distributing funds. In response to a draft of our report, Division of Enforcement officials stated that fund administrators have the responsibility to submit accurate payment files. However, OD did not clearly document in its policies and procedures (1) the steps it takes to review and accept payment files submitted by fund administrators, and (2) its responsibilities for fund administrator oversight generally. Policies and procedures should address risks identified and, based on those risks, establish controls designed to ensure Federal requirements and the goals and objectives of the agency are met. OD officials told us about a limited number of instances, some of which occurred before fiscal year 2010, in which fund administrators submitted and OD accepted inaccurate payment files and at least one case where a fund administrator made inaccurate payments. According to OD officials, corrective payments were made to the underpaid investors in that case. However, the SEC's oversight of fund administrators could be improved by fully assessing and documenting the risks involved when using fund administrators and updating policies and procedures for fund administrator oversight. We made one related recommendation for corrective action. Management concurred with the recommendation, which will be closed upon completion and verification of corrective action.

For FY 2016, we are planning audit work to assess the SEC's approaches for addressing newly expanded responsibilities; improving investor access to material information; effectively targeting and monitoring market participants based on risk and available resources; establishing an effective approach to modernizing its IT infrastructure; and complying with the requirements governing reviews of rules filed by self-regulatory organizations.

Information Security

The SEC generates and collects commercially valuable, market-sensitive, proprietary, and other nonpublic information. To accomplish the SEC's mission, the agency shares sensitive information internally among its divisions and offices and externally with the regulated community and financial regulators. During FY 2015, we identified and assessed weaknesses in the agency's controls over information security.

For example, we completed our FY 2014 evaluation of the effectiveness of the SEC's information security programs and practices and whether the SEC's Office of Information Technology (OIT) has policies, procedures, and practices consistent with Federal Information Security Management Act (FISMA) requirements (*Federal Information Security Management Act: Fiscal Year 2014 Evaluation*, Report No. 529, issued February 5, 2015). Overall, we found that OIT has made progress in key areas of information security, including the agency's management of its continuous monitoring controls, configuration controls, and identity and access controls. However, systems in production did not always have a current authorization to operate, and the SEC's security awareness training did not include the required insider threat component. In addition, OIT had not addressed several areas of potential risk identified in prior FISMA evaluations, including (1) failure to implement personal identity verification cards for logical access to the maximum extent practicable, (2) a lack of full implementation of continuous monitoring, (3) a lack of multi-factor authentication for external systems, (4) outdated procedures and inconsistencies with policy, and (5) improper review of user accounts. We also determined that the system security assessment may not be comprehensive or adequately address system and subsystem risks for one of the SEC's mission critical systems and that OIT did not take action to address some known vulnerabilities (recorded on plan of action and milestone documents) within established timeframes. In some cases, these items—which represent both moderate and low risk—have been open for 2 to 6 years beyond established remediation dates. The agency is taking steps to address our concerns and we have begun our FY 2015 audit of the SEC's compliance with FISMA.

In addition, in our audit report titled *Improvements Needed in the Division of Enforcement's Oversight of Fund Administrators*, Report No. 531, issued September 30, 2015, we reported that the SEC did not ensure third party fund administrators' information security was assessed, as required by the E-Government Act, including FISMA, and certain agency policies and requirements. The SEC uses fund administrators to distribute disgorgement and penalty amounts to harmed investors. The fund administrators collect on the SEC's behalf harmed investors' personally identifiable information (PII), including investors' names, addresses, dates of birth, social security numbers, and bank information. Despite Federal and agency requirements to assess fund administrator's information security, the agency did not ensure that it completed required security assessments and privacy impact assessments of fund administrators' IT environments and did not obtain approval from an authorizing official before using the fund administrators. In addition, the fund administrators were required to demonstrate compliance with security and privacy regulations by providing an independent third party assessment of compliance. Although the SEC has obtained third party assessments of fund administrators' data security controls for all nine fund administrators currently in use, the SEC did not receive or thoroughly review the assessments before allowing the fund administrators into the agency's pool of administrators. As a result, the SEC lacks assurance that fund administrators are adequately protecting the confidentiality, integrity, and availability of investors' PII collected and maintained on behalf of the agency in the course of the distribution process. OIT has developed a plan to complete required assessments of all nine fund administrators by December 31, 2015 – more than 2 years after the SEC selected the fund administrators for the SEC's pool. We made two related recommendations for corrective action. Management concurred with the recommendations and plans to complete the required assessments of all nine fund administrators by December 31, 2015.

In FY 2015, the OIG also initiated or completed several investigations related to information security. For example, we investigated an allegation that an SEC contractor knowingly and

willfully misused his SEC network administrative privileges to access visitor logs to obtain information about competitors to a contract for which the contractor's employer was competing. Our investigation confirmed that the contractor misused his administrative privileges as alleged and had provided the identities of the competitors to his employer. However, we found no evidence that the contractor's improper disclosure affected the procurement process for the contract, which was awarded to a competitor of the contractor's employer. We reported the results of the investigation to SEC management for informational purposes and appropriate consideration in the future.

We also conducted at least three investigations that disclosed evidence that SEC employees sent PII and/or other nonpublic information to unsecure, personal e-mail accounts, in violation of SEC policy. However, we did not find evidence that employees disseminated PII to unauthorized persons or used the information for unauthorized purposes. We referred the results of our investigations to SEC management for any action deemed appropriate.

In its February 2015 biennial update to its list of high-risk areas needing attention by Congress and the executive branch, GAO expanded a prior high-risk area to include protecting the privacy of PII.[3] Specifically, GAO stated that advances in technology which have dramatically enhanced the ability of both government and private sector entities to collect and process extensive amounts of PII pose challenges to ensuring the privacy of such information. Moreover, because Federal agencies and private companies collect detailed information about the activities of individuals and the number of reported security incidents involving PII at Federal agencies has increased dramatically in recent years, GAO raised concerns about the potential for significant erosion of personal privacy.

Finally, as part of its audit of the SEC's FY 2014 financial statements, GAO reported in November 2014 that the SEC sufficiently addressed the deficiencies in its information security identified in FY 2013 such that GAO no longer considers the remaining control deficiencies in this area, individually or collectively, to represent a significant deficiency as of September 30, 2014.[4] However, in its accompanying April 2015 report, "*Management Report: Improvements Needed in SEC's Internal Controls and Accounting Procedures*," GAO stated:

> During our fiscal year 2014 audit, we found that SEC did not consistently implement effective internal controls over its information systems operations, including those affecting financial systems that support financial reporting. Weaknesses in information security controls, as identified, relate to the maintenance and monitoring of SEC configuration baseline standards and implementation of security configurations based on these standards in the areas of password settings and network services.[5]

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[3] U.S. Government Accountability Office, *High-Risk Series An Update*, GAO-15-290 (February 2015). Citing evolving high-risk issues since its last high-risk update in 2013, GAO expanded the high-risk area titled "Ensuring the Security of Federal Information Systems and Cyber Critical Infrastructure" to include the federal government's protection of PII. The new high-risk area is called "Ensuring the Security of Federal Information Systems and Cyber Critical Infrastructure and Protecting Personally Identifiable Information (PII)."

[4] U.S. Government Accountability Office, *Financial Audit: Securities and Exchange Commission's Fiscal Years 2014 and 2013 Financial Statements*, GAO-15-166R (November 17, 2014).

[5] U.S. Government Accountability Office, *Management Report: Improvements Needed in SEC's Internal Controls and Accounting Procedures*, GAO-15-387R (April 30, 2015).

Based on observations from prior work and the expansion of GAO's high-risk areas to include protecting the privacy of PII, in FY 2016, we will continue to assess the SEC's information security program, including cyber security and the protection of PII. We will leverage newly hired IT audit and investigative staff in these efforts.

Acquisition Management

The SEC has made progress in improving its acquisitions policies and procedures; however, the OIG continues to find improvements the SEC can make in the area of contract management. For example, during our *Audit of the SEC's Contracting Officer's Representative Program*, Report No. 530, issued September 18, 2015, we observed that Contracting Officer's Representatives (CORs) did not always perform contract monitoring duties consistently and as required. Specifically, CORs did not always (1) review and process contractor invoices in a timely manner; (2) evaluate contractor performance within the prescribed timeframe; or (3) use the SEC's Contractor Time Management System to track certain contractor labor hours. Due, in part, to untimely invoice processing, the SEC incurred Prompt Payment Act interest penalties of nearly $10,000 for 2013 through 2014. In addition, contractor performance evaluations were not available in a timely manner for use by the SEC and other Federal agencies when making contracting decisions. Finally, failure to use the Contractor Time Management System when appropriate reduces the SEC's contract oversight and increases its risk of making improper payments to contractors. We also found that 151 SEC CORs who filed required financial disclosure reports in 2012, 2013, and 2014 filed the reports late, and a small number of CORs did not file the reports each year. Additionally, some CORs monitored SEC contracts without first disclosing their financial interests. We made six recommendations to improve compliance with applicable requirements, address excessive COR workload, and strengthen controls over COR financial disclosures. The agency concurred with our recommendations for corrective action and is developing a corrective action plan.

Also, during an audit support engagement intended to assist the OIG in planning an audit of the SEC's Tips, Complaints, and Referrals Intake and Resolution System (TCR system), we identified various factors, including unacceptable contractor performance and a lack of adequate contractor and government resources to timely address concerns, that led to schedule delays and cost increases in the agency's project to (1) elicit requirements, (2) design, and (3) deploy a redesigned TCR system. Notwithstanding these issues, agency officials report that the current TCR system is functioning and meeting the SEC's needs. The Tips, Complaints, and Referrals Oversight Board—a decision-making body composed of senior officers from across the agency—has managed the project, and the SEC has taken action to address contractor performance, including issuing the vendor a cure notice, requiring a corrective action plan, and converting contract milestones from time and materials to firm fixed price. However, as of May 20, 2015, the contract value had increased by nearly $4 million (from about $7.2 million to about $11.0 million) and the project was at least 10 months behind schedule. We commend the SEC for addressing the project's development delays and minimizing the agency's financial risk in the event of continued contractor non-performance. Doing so increases the chances of obtaining a redesigned TCR system that fully meets the agency's needs. However, as of May 20, 2015, the SEC had not accepted the redesigned TCR system and a final user acceptance date had not been established, resulting in uncertainty in the timeframe for implementing the redesigned TCR system. We reported our observations to management and requested updated information (received on May 27, 2015)

to help us determine whether further action by the OIG is warranted (*Final Management Letter: Observations Noted During TCR System Audit Support Engagement*, issued on May 20, 2015*).*

In February 2015, GAO included "Improving the Management of Information Technology (IT) Acquisitions and Operations" as a new high-risk area needing attention by Congress and the executive branch.[6] Specifically, GAO stated:

> Congress has passed legislation and the administration has undertaken numerous initiatives to better manage IT investments. Nonetheless, federal IT investments too frequently fail to be completed or incur cost overruns and schedule slippages while contributing little to mission-related outcomes. GAO has found that the federal government spent billions of dollars on failed and poorly performing IT investments which often suffered from ineffective management, such as project planning, requirements definition, and program oversight and governance.

Based on (1) observations from our prior work, (2) GAO's recognition of IT acquisition as a new high-risk area across the executive branch, and (3) the magnitude and criticality of the SEC's ongoing and planned IT modernization efforts, we plan to perform work in FY 2016 to assess the SEC's progress in improving its acquisitions management broadly and its IT acquisitions specifically. We will leverage newly hired IT audit and investigative staff in these efforts.

Financial Management

GAO's audits of the FY 2014 and FY 2013 financial statements of the SEC and the Investor Protection Fund (IPF) found that the SEC's and the IPF's financial statements were presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles.[7] GAO reported that, although certain internal controls could be improved, the SEC maintained, in all material respects, effective internal control over financial reporting for the SEC and the IPF as of September 30, 2014, based on criteria established under the Federal Managers' Financial Integrity Act.

However, during GAO's FY 2014 audit, GAO identified continuing and new deficiencies in the SEC's internal controls over disgorgement and penalty transactions that constituted a significant deficiency in the SEC's internal control over financial reporting.[8] GAO has reported deficiencies in the SEC's controls over disgorgement and penalty transactions in prior years. In FY 2013, GAO concluded that these deficiencies did not individually or collectively represent a material weakness or significant deficiency but warranted SEC management's attention. According to GAO, the SEC took action to address some of these deficiencies; however, GAO's testing identified new deficiencies in accounting for disgorgement and penalty transactions, which, combined with the remaining control deficiencies from prior audits, are

[6] U.S. Government Accountability Office, *High-Risk Series An Update*, GAO-15-290 (February 2015).

[7] U.S. Government Accountability Office, *Financial Audit: Securities and Exchange Commission's Fiscal Years 2014 and 2013 Financial Statements*, GAO-15-166R (November 17, 2014).

[8] This significant deficiency pertained to the SEC's overall financial reporting but not that of the IPF because the IPF does not include disgorgement and penalty transactions.

important enough to merit the attention of those charged with governance of the SEC. According to GAO, these continuing and new deficiencies related to:

- procedures for ensuring funds availability before transferring disgorgement and penalty-related funds to the U.S. Treasury;
- monitoring of disgorgement and penalty-related cases filed in courts to ensure all cases that should be recorded as receivables are timely identified;
- safeguarding controls at service providers that collect SEC cash receipts, including payments from violators for disgorgement, penalties, and related interest on the SEC's behalf; and
- controls to timely and accurately record disgorgement and penalty transactions in the SEC's general ledger, and timely detect and correct any errors.[9]

In addition to this significant deficiency, in April 2015, GAO reported other new deficiencies in the SEC's internal control over financial reporting. While not considered to be material weaknesses or significant deficiencies, either individually or collectively, according to GAO these deficiencies warrant SEC management's attention. The deficiencies relate to the following:

- reinvestment of disgorgement funds,
- maintaining ongoing accuracy of property and equipment inventory records,
- documenting disposal of property and equipment,
- ensuring existence of capitalized bulk purchases,
- identifying and summarizing uncorrected misstatements, and
- information security.

GAO made 13 new recommendations to address these deficiencies in the SEC's controls over financial reporting and noted that the SEC took action to fully address 14 of 25 prior years' recommendations that remained open at the beginning of the FY 2014 audit. Consequently, the SEC has 24 open recommendations that need to be addressed—the 11 prior recommendations as well as the 13 new ones from GAO's April 2015 report.[10] Corrective action is in progress for all outstanding recommendations. We will continue to monitor the SEC's financial management and reporting controls and actions to address open recommendations.

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[9] U.S. Government Accountability Office, *Financial Audit: Securities and Exchange Commission's Fiscal Years 2014 and 2013 Financial Statements*, GAO-15-166R (November 17, 2014).

[10] U.S. Government Accountability Office, *Management Report: Improvements Needed in SEC's Internal Controls and Accounting Procedures*, GAO-15-387R (April 30, 2015).

Human Capital Management

As an employer, the SEC seeks to hire and retain a skilled and diverse workforce, and to ensure that all decisions affecting employees and applicants are fair and ethical. Attracting, engaging, and retaining a technically proficient and diverse workforce is one of the agency's stated strategic objectives.[11] However, human capital management remains a challenge.

Section 342 of the Dodd-Frank Act required specific Federal financial agencies, including the SEC, to establish, by January 21, 2011, an Office of Minority and Women Inclusion (OMWI), responsible for matters relating to diversity in management, employment, and business activities. At the request of the U. S. House of Representatives Committee on Financial Services, we completed the *Audit of the Representation of Minorities and Women in the SEC's Workforce*, Report No. 528, November 20, 2014, to help identify factors that may impact the SEC's ability to increase the representation of minorities and women at the SEC, in general, and in senior management positions, in particular. We assessed diversity at the SEC and compared the agency's workforce between FY 2011 and FY 2013 to U.S. civilian labor force, Federal, and securities industry workforce data. We reported that the SEC has made efforts to promote diversity. However, some minority groups and women (1) were underrepresented in the SEC workforce, (2) received relatively fewer and smaller cash awards and bonuses, (3) experienced statistically significant lower performance management and recognition scores, and (4) filed equal employment opportunity complaints at rates higher than their percentage of the workforce. These conditions may have occurred or may not have been remedied, in part, because the Office of Equal Employment Opportunity did not take required initial steps to identify areas where barriers may operate to exclude certain groups. Therefore, the SEC did not examine, eliminate, or modify, where appropriate, policies, practices, or procedures that create barriers to equal opportunity. As a result, the SEC lacks assurance that it has uncovered, examined, and removed barriers to equal participation at all levels of its workforce. We also found that OMWI lacks a systematic and comprehensive method of evaluating the effectiveness of its programs and diversity efforts. Agency management indicated that it expects an ongoing barrier analysis to be completed in early October 2015. The agency has sufficiently addressed two of our five recommendations for corrective action and is taking steps to address the remaining three recommendations.

In addition, in 2014, we reported that GAO assessed the SEC's organizational culture, its personnel management challenges, and its efforts to address those challenges. In its July 2013 report,[12] GAO made seven recommendations to improve the SEC's personnel management, including developing comprehensive workforce plans.[13] In June 2014, the Office of Personnel Management found that the SEC still did not have a comprehensive workforce plan, although the agency had a workforce planning process conducted by the senior executive within each office. In its 2014 Agency Financial Report, the SEC stated that it is developing a comprehensive workforce plan, including a plan to assist the agency in identifying future leaders—an initial building block for the workforce plan. The agency further reported that additional steps were being taken in FY 2015 to finalize SEC-wide strategic initiatives and

[11] U.S. Securities and Exchange Commission Strategic Plan, Fiscal Years 2014 – 2018.

[12] U.S. Government Accountability Office, *Securities and Exchange Commission Improving Personnel Management Is Critical for Agency's Effectiveness*, GAO-13-621 (July 2013).

[13] GAO first recommended that the SEC develop such a plan in 2001. See GAO-01-947.

incorporate all elements of effective workforce planning into the overall plan, to be completed by the end of FY 2015. However, as of September 30, 2015, the SEC did not expect to complete the comprehensive workforce plan until Spring 2016.

In FY 2016, we will continue to monitor the SEC's implementation of corrective actions from OIG, GAO, and OPM reviews and the steps taken to improve the agency's human capital management, including its efforts to hire and retain a skilled and diverse workforce.

Management's Response to Inspector General's Statement

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

THE CHAIR

November 10, 2015

Mr. Carl W. Hoecker
Inspector General
U.S. Securities and Exchange Commission
Washington, D.C. 20549

Dear Mr. Hoecker:

Thank you for your "Statement on the SEC's Management and Performance Challenges," issued on September 30, 2015. We remain committed to enhancing the financial and operational effectiveness of the SEC and appreciate the Office of Inspector General's role in the effort. Below is an overview of the actions—taken and planned to be taken—to address each of the challenges identified in your statement.

Regulatory Oversight

Management continues to address the regulatory challenges faced in the areas of budget, technology and Enforcement operations in order to successfully meet the SEC's mission.

Budgetary Resources

The SEC agrees with the assessment of the increasing size and complexity of the SEC's regulatory responsibilities. As we have indicated previously, the agency will not be able to adequately handle its new and expanding responsibilities with the agency's existing resource levels. If the SEC does not receive additional resources, over time our ability to be the strong, vigilant regulator that the nation's investors expect and deserve will be diminished.

While the SEC has made critical enhancements, challenges remain in our efforts to address the growing size and complexity of the securities markets and fulfill our broad mandates and responsibilities. In recent years, those responsibilities have dramatically increased, with new or expanded jurisdiction over securities-based derivatives, hedge fund and other private fund advisers, credit rating agencies, municipal advisors, and clearing agencies, as well as a requirement to implement and oversee a new regime for crowdfunding offerings, among other changes. As the size and complexity of the entities in the SEC's jurisdiction grows, the agency's need to hire industry experts and build out its technology becomes even more acute.

The President's Budget Request for the SEC in FY 2016 seeks additional staff to allow the SEC to accomplish several key and pressing priorities, including bolstering examination coverage for investment advisers and other key areas; continuing the agency's investments in the technologies needed to keep pace with today's high-tech, high-speed markets; strengthening our

enforcement program's efforts to detect, investigate, and prosecute wrongdoing; and enhancing the agency's oversight of the rapidly changing markets and ability to carry out its increased regulatory responsibilities.

Technology Enhancements

Advanced data analytics are crucial to the SEC's ability to analyze the complex and high-volume data generated by high frequency trading. OIT is continuing to develop and add value to existing advanced data analytics capabilities and the underlying storage and compute infrastructure. Additionally, OIT is supporting the Enforcement Division and Office of Compliance Inspections and Examinations in developing a FedRAMP-certified, cloud deployment of a High Performance Compute Infrastructure (HPCI) for "Big Data" analytics.

As part of SEC's plans to modernize key information technology systems, the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) redesign project will use advanced technology to reduce filer burden, improve communications, structure data to be more useful to staff and investors, eliminate complexities and lower costs. The program has been working to develop requirements for the re-designed system, in conjunction with an Executive Governance Board and a Staff Advisory Committee. This year we will continue to work with senior SEC officials to refine our requirements, strategic vision and priorities, and finalize a timeline for delivering a modernized environment that will benefit filers, SEC reviewing staff, and investors who rely on the data to make sound investment decisions.

The Enterprise Data Warehouse (EDW) is an organized central data repository that allows enhanced analytical capabilities, predictive modeling, and strengthened governance of data controls and quality standards. It is a critical step in combining disparate sources of data from EDGAR filings, exam reports, investigations and external vendors. The EDW is being implemented in phases. The first two phases have been completed, establishing the base infrastructure, piloting platform projects, and provisioning data from select SEC mission critical applications including TCR, TRENDS, HUB, EDGAR Enterprise Data Repository and Blue Sheets. The next phase is underway and includes establishing unstructured data analytics, enterprise search capabilities, data visualization, and enhancements to data integration and quality assurance.

OIG Audit of Enforcement's Controls over Collections and Distributions

Over the past five fiscal years, the Enforcement Division made significant improvements designed to streamline the distribution of funds to harmed investors, and implemented significant controls over those processes. These changes include the formation of a dedicated office, the Office of Distributions, to centralize the handling of distributions and make the distribution process more efficient. In addition, the Division created a comprehensive manual documenting the policies and procedures for distribution activities, among other process and control improvements. Because the SEC needs to rely on the work of third-party fund administrators, the Office of Distributions routinely assesses possible risks associated with engaging third parties to administer payments to harmed investors. Management will continue to consider risks and review processes to make amendments as appropriate.

Information Security

The Office of Information Technology (OIT) continues to take corrective actions on issues identified during prior Federal Information Security Management Act (FISMA) evaluations. Specifically, OIT Operations has enabled the use of personal identity verification (PIV) cards for logical access across the entire agency and is in the final stages of requiring their use to the maximum extent practicable, supplementing other forms of multi-factor authentication on external systems where needed. OIT Operations completed a project begun last year to centralize account validation, ensuring proper review of user accounts.

To address the required insider threat training, OIT Security assisted the Office of Personnel Security in offering training designed around the Presidential Memorandum on National Insider Threat Policy and Minimum Standards for Executive Branch Insider Threat Programs, issued on November 21, 2012. This training is considered "role based" and only for personnel granted clearances to access classified national security information—a relatively small number of people.

OIT Security continues to actively participate with the Department of Homeland Security as part of their Continuous Diagnostics and Mitigation Program. As one of our most strategic security programs, OIT Security has dedicated both federal and contractor resources to adhering to the joint agency timeline leading to full implementation of continuous monitoring by September 30, 2017. In addition, projects to aggressively review all system assessments and authorizations, along with security policies and procedures, are in their final stages and are on schedule to be completed by the end of the year.

OIT takes the monitoring and resolution of information system vulnerabilities and weaknesses seriously, with active oversight by all levels of management. As outlined in OMB Memorandum 04-25, FY 2004 Reporting Instructions for the Federal Information Security Management Act, agency plan of action and milestones (POA&Ms) permit agency officials and oversight authorities to identify when documented corrective actions are both timely and untimely. In either circumstance, the POA&M has served its intended purpose and agency managers can use the POA&M process to focus resources appropriately.

In support of the Division of Enforcement, OIT Security is on track to complete required assessments of all nine fund administrators by December 31, 2015.

In response to the Government Accountability Office's (GAO) audits of the financial statements in FY 2013 and FY 2014, OIT completed numerous corrective actions to address all but a small number of identified weaknesses. Those that remain are actively being addressed and are expected to be remediated in the coming months. As noted in their reports on the financial audit for 2014 and 2015, the GAO no longer considers the remaining control deficiencies in this area, individually or collectively, to represent a significant deficiency.

OIT agrees with the GAO's assessment that advances in technology have dramatically enhanced the challenges to ensuring the privacy and security of PII at all federal agencies. The recent incidents at the Office of Personnel Management (OPM) and the Internal Revenue Service serve to further highlight the need for continued vigilance as well as increased investment in the

areas of information privacy and security. With the support of the Office of the Chief Operating Officer, OIT Security's privacy team established an online SEC Privacy Resource Center, published eight privacy compliance reminders (PCR), with an additional seven PCRs to be published in the agency's *SEC Today* daily newsletter, and an active training campaign as part of an effort to continuously raise privacy awareness.

Acquisition Management

I appreciate that your statement recognizes the significant improvements the SEC continues to make in the acquisition management area. With respect to the agency's Contracting Officer's Representative (COR) Program, the Office of Acquisitions (OA) and Office of Ethics Counsel have implemented a more defined process for ensuring CORs file a confidential financial disclosure report (OGE Form 450) within the allotted timeframe. In addition, training materials have been updated to stress the importance of avoiding conflicts of interest, and all certification letters now emphasize Form 450 filing.

On a monthly basis, OA plans to conduct refresher training for CORs on approving contractor invoices within required timeframes, completing Contractor Performance Assessment Reporting System evaluations in a timely manner, and using the agency's Contractor Time Management System for monitoring on-site contractor time and attendance when required by the contract.

With respect to the issues you identified regarding certain aspects of the Tips, Complaints and Referrals system (TCR) the relevant SEC officials report that the current TCR system is functioning and meeting the agency's needs. SEC management, of course, takes very seriously the task of modernizing the TCR system and remains committed to making the requisite improvements noted in the OIG's management letter.

Financial Management

The annual audit by GAO, as included elsewhere in the Annual Financial Report, found that the SEC maintained effective internal controls over financial reporting during FY 2015, with no material weaknesses or significant deficiencies. The report indicates the SEC made progress in remediating the one significant deficiency from the 2014 audit, in the area of disgorgements and penalties. The SEC had worked diligently to address GAO's recommendations in this highly complex area. We reevaluated our business processes and bolstered controls related to the timely recording of court judgments impacting the financial statements. In addition, we developed the requirements for a new disgorgement and penalty sub-ledger system, and the effort to implement the system will commence in FY 2016. This system is expected to improve the effectiveness and efficiency of the accounting and financial reporting for disgorgements and penalties by providing more comprehensive information in a more automated fashion.

In the FY 2014 audit, the GAO identified control deficiencies in SEC's internal controls over financial reporting that were not considered to be material weaknesses or significant deficiencies.

The SEC made significant improvements to remediate these control deficiencies, as specified below:

- Reinvestment of disgorgement funds: The SEC's Office of Financial Management (OFM) revised and implemented a procedure to monitor daily investment activities, including identifying changes to investment balances as well as validating applicable changes.

- Maintaining ongoing accuracy of property and equipment inventory records: The SEC updated its policies and procedures to better clarify roles and responsibilities with respect to maintaining updated and accurate inventory records.

- Documenting disposal of property and equipment: The SEC issued a new asset management policy directive that better defines roles and responsibilities and enforces accountability measures, and trained relevant staff on the new requirements.

- Ensuring existence of capitalized bulk purchases: The SEC issued a new policy directive to provide additional controls and further clarification of existing policies with respect to bulk purchases.

- Identifying and summarizing uncorrected misstatements: OFM tightened controls around quarterly monitoring and reporting to detect and report any errors on a timely basis.

The SEC remains committed to upholding a strong control regime over its financial reporting. While actively remediating deficiencies identified by GAO, we continue to monitor all internal controls over financial reporting to self-assess and proactively address any control weaknesses that may arise.

Human Capital Management

The SEC strives to enhance its performance through effective management of human capital and by aligning human capital strategies with the agency's mission, goals, and objectives. The agency is committed to consistently attracting, hiring, developing, and retaining a high-performing and diverse workforce.

In response to the OIG's assessment of diversity at the SEC, the Office of Minority and Women Inclusion (OMWI) is developing policies and procedures using GAO's "Standards for Internal Control in the Federal Government" and "Performance Measurement and Evaluation" literature. OMWI has already completed a "Guide to Performance Measurement and Evaluation" to document its systematic and comprehensive methods to monitor and evaluate the effectiveness of workforce diversity programmatic efforts. OMWI plans to complete additional policies and procedures in 2016 using these same GAO publications.

The Office of Equal Employment Opportunity completed the barrier analysis in October 2015. A formal closure request, including evidence of completion of corrective actions, has been provided to OIG staff.

With respect to the agency's workforce planning efforts, the Office of Human Resources (OHR) has developed a comprehensive project plan to identify the timeframes for development and implementation of the SEC's workforce plan, including a succession plan. The project plan has been provided to the GAO with timeframes for project milestone completion.

In addition, the SEC has entered into an Inter-agency Agreement (IAA) with OPM to develop the SEC's workforce plan. As part of this effort, OPM and OHR will assess the competencies of the SEC's four mission-critical occupations: accountants, attorneys, economists, and securities and compliance examiners. The results of the competency assessment will serve as the basis for a gap analysis and the follow-on work plan. OPM will begin execution of the IAA in October 2015.

The workforce plan is expected to be completed in February 2016. Subsequently, OHR will conduct periodic reviews to assess whether the plan aligns with current agency workforce and succession planning efforts. OHR will continue implementing recommendations from all oversight organizations.

* * * *

I hope that the actions outlined in this letter demonstrate our commitment to strengthening internal control and improving the agency's performance. We look forward to working with you to further address these challenges.

Sincerely,

Mary Jo White
Chair

Summary of Financial Statement Audit and Management Assurances

TABLE 3.1
SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion: Unmodified

Restatement: No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Internal Control over Financial Reporting	—	—	—	—	—
Total Material Weaknesses	—	—	—	—	—

TABLE 3.2
SUMMARY OF MANAGEMENT ASSURANCES

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)

Statement of Assurance: Unqualified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Internal Control over Financial Reporting	—	—	—	—	—	—
Total Material Weaknesses	—	—	—	—	—	—

Effectiveness of Internal Control over Operations (FMFIA § 2)

Statement of Assurance: Unqualified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	—	—	—	—	—	—

Conformance with Financial Management System Requirements (FMFIA § 4)

Statement of Assurance: Systems conform

Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Federal Financial Management System Requirements	—	—	—	—	—	—
Total Non-Conformances	—	—	—	—	—	—

Improper Payments Elimination and Recovery Act Reporting Details

The Improper Payments Information Act (IPIA) of 2002, as amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010 and Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012, requires agencies to review all programs and activities they administer and identify those which may be susceptible to significant erroneous payments. For all programs and activities in which the risk of erroneous payments is significant, agencies are to estimate the annual amount of erroneous payments made in those programs. The Office of Management and Budget (OMB) guidance provided in Circular A-136, *Financial Reporting Requirements*, and Appendix C of Circular A-123, *Management's Responsibility for Internal Control*, require agencies to report detailed information related to SEC's Improper Payments Elimination Program, which is outlined below.

Risk Assessment

In Fiscal Year (FY) 2015, the U.S. Securities and Exchange Commission (SEC) reviewed the programs and activities it administers to identify those which may be susceptible to significant erroneous payments. To perform its risk assessment, the SEC instituted a systematic method of reviewing each program and activity by considering risk factors likely to contribute to significant improper payments. The risk assessment encompassed a review of existing data that included the Government Accountability Office (GAO) and the SEC Office of Inspector General (OIG) audit reports, prior internal controls over financial reporting (ICFR) assessments and the results of improper payments testing performed in prior years. The risk assessment was performed for the following programs:

- Vendor payments (includes travel and credit card payments);
- Disgorgement and penalty distributions (made by SEC to fund and tax administrators and directly to harmed investors);
- Returned deposits of registration filing fees under Section 6b of the Securities Act of 1933 and Sections 13 and 14 of the Securities Exchange Act of 1934;
- Payroll and benefit payments (includes base pay, overtime pay, and agency contributions to retirement plans, health plans, and thrift savings plans); and
- Whistleblower payments.

Based on the historically low volume of improper payments and the low risk of improper payments given the controls and processes in place, the SEC determined that none of its programs and activities are susceptible to significant improper payments at or above the threshold levels set by OMB. Significant erroneous payments are defined as annual erroneous payments in the program exceeding both $10 million and 1.5 percent of total program outlays, or $100 million of improper payments if less than 1.5 percent of total annual program outlays. In accordance with Appendix C of Circular A-123, the SEC is not required to determine a statistically valid estimate of erroneous payments or develop a corrective action plan if the program is not susceptible to significant improper payments.

In FYs 2007 and 2008, SEC's testing of its largest programs resulted in improper payment percentages that were well below one-half percent and less than $30,000 for each program. In FYs 2009 through 2014, the SEC performed a risk assessment and transaction testing on a sample basis for all programs and determined that its programs are not susceptible to significant erroneous payments.

If the level of risk in each program is determined to be low and baseline estimates have been established, the SEC is only required to conduct a formal risk assessment every three years unless the program experiences a significant change in legislation and/or a significant increase in funding level. The SEC will conduct a follow on review in FY 2016 of its programs and activities to determine whether the programs have experienced any significant changes in legislation or funding levels. If so, the SEC will re-assess the programs' risk susceptibility and make a statistically valid estimate of erroneous payments for any programs determined to be susceptible to significant erroneous payments.

Recapture of Improper Payments

In FY 2015, the SEC did not administer any grant, benefit or loan programs. Implementation of recapture auditing, if determined to be cost-effective, would apply to vendor payments, disgorgement and penalty distributions, refunds of registration filing fee deposits, payroll, and whistleblower payments. Because the definition of payment in the IPERA legislation means any payment or transfer of Federal funds to any non-Federal person or entity, the SEC is not required to review, and has not reviewed, intra-governmental transactions.

The SEC has determined that implementing a payment recapture audit program for vendor payments, disgorgement and penalty distributions, refunds of registration filing fee deposits, payroll, and whistleblower payments is not cost-effective and the OMB was notified in September 2015. That is, the benefits or recaptured amounts associated with implementing and overseeing the program do not exceed the costs, including staff time and payments to contractors, of a payment recapture audit program. In making this determination, the SEC considered its low improper payment rate based on testing conducted over the past eight years. For example, the SEC identified only $449 of vendor overpayment in FY 2014 from statistical sample testing under the IPIA. The SEC also considered whether sophisticated software and other cost-efficient matching techniques could be used to identify significant overpayments at a low cost per overpayment, or if labor intensive manual reviews of paper documentation would be required. In addition, the SEC considered the availability of tools to efficiently perform the payment recapture audit and minimize payment recapture audit costs.

The SEC will continue to monitor its improper payments across all programs and activities it administers and assess whether implementing payment recapture audits for each program is cost-effective. If the SEC determines, through future risk assessments, that a program is susceptible to significant improper payments and implementing a payment recapture program may be cost-beneficial, the SEC will implement a pilot payment recapture audit to gauge whether such audits would be cost-effective on a larger scale.

Do Not Pay (DNP)

The DNP solution is a government-wide initiative mandated by the IPERIA to screen payment recipients before a contract award or payment is made, to eliminate payment errors before they occur. The SEC, in coordination with its Federal Shared Service Provider (FSSP) and the Do Not Pay Business Center, has incorporated pre-award, pre-payment, and post-payment reviews into its existing business processes and programs. In July 2015, the FSSP completed development of Payment Automation Manager (PAM) format and started fully utilizing the DNP Portal. During FY 2015, such processes identified approximately 38 payments that required follow-up. Through further analysis, the SEC identified that each matched recipient was indeed eligible for payment under a Federal benefit program. The dollar amounts and the number of payments reviewed for improper payments utilizing the Do Not Pay system between October 1, 2014, and September 30, 2015, are shown in Table 3.3 below.

TABLE 3.3

RESULTS OF THE DO NOT PAY INITIATIVE IN PREVENTING IMPROPER PAYMENTS *(DOLLARS IN MILLIONS)*

	Number (#) of Payments Reviewed for Possible Improper Payments	Dollars ($) of Payments Reviewed for Possible Improper Payments	Number (#) of Payments Stopped	Dollars ($) of Payments Stopped	Number (#) of Potential Improper Payments Reviewed and Determined Accurate	Dollars ($) of Potential Improper Payments Reviewed and Determined Accurate
Reviews with the Death Master File Only	7,552	$ 213.37	0	$ —	0	$ —
Reviews with Other Sources	7,552	$ 213.37	0	$ —	38	$ 0.04

Civil Monetary Penalties Inflation Adjustment

The Federal Civil Penalties Inflation Adjustment Act of 1990 (FCPIA) requires agencies to periodically adjust civil penalties for inflation if either the amount of the penalty or the maximum penalty is set by law. In addition, the President is required to report certain information to Congress either annually or every five years. The FCPIA was amended by the Debt Collection Improvement Act of 1996 (DCIA). The DCIA amended the FCPIA to require each Federal agency to adopt regulations at least once every four years that adjust for inflation the maximum amount of the civil monetary penalties under the statutes administered by the agency.

The SEC administers four statutes that provide for civil monetary penalties:

- The Securities Act of 1933;
- The Securities Exchange Act of 1934;
- The Investment Company Act of 1940; and
- The Investment Advisers Act of 1940.

The penalties are reviewed every four years. The notice of the most recent update, in 2013, was published in the Federal Register, Volume 78, No. 43, on March 5, 2013 (78 FR 14181). The previous Federal Civil Penalties Inflation Adjustment Act review and update was in March 2009; however, certain fees may be updated at other times in the normal course of business.

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Civil Monetary Penalties Inflation Adjustment

U.S. Code Citation	Civil Monetary Penalty Description	Year Penalty Amount was Last Adjusted	Maximum Penalty Amount Pursuant to Last Adjustment	2013 Adjusted Maximum Penalty Amount
Securities and Exchange Commission:				
15 U.S.C. 77h-1(g)	For natural person	2010	$ 7,500	$ 7,500
	For any other person	2010	75,000	80,000
	For natural person/fraud	2010	75,000	80,000
	For any other person/fraud	2010	375,000	400,000
	For natural person/substantial losses or risk of losses to others	2010	150,000	160,000
	For any other person/substantial losses or risk of losses to others	2010	725,000	775,000
15 U.S.C. 77t(d)	For natural person	2009	7,500	7,500
	For any other person	2009	75,000	80,000
	For natural person/fraud	2009	75,000	80,000
	For any other person/fraud	2009	375,000	400,000
	For natural person/substantial losses or risk of losses to others	2009	150,000	160,000
	For any other person/substantial losses or risk of losses to others	2009	725,000	775,000

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U.S. SECURITIES AND EXCHANGE COMMISSION

Civil Monetary Penalties Inflation Adjustment *(continued)*

U.S. Code Citation	Civil Monetary Penalty Description	Year Penalty Amount was Last Adjusted	Maximum Penalty Amount Pursuant to Last Adjustment	2013 Adjusted Maximum Penalty Amount
Securities and Exchange Commission:				
15 U.S.C. 78ff(b)	Exchange Act/failure to file information documents, reports	1996	110	210
15 U.S.C. 78ff(c)(1)(B)	Foreign Corrupt Practices – any issuer	2009	16,000	16,000
15 U.S.C. 78ff(c)(2)(B)	Foreign Corrupt Practices – any agent or stockholder acting on behalf of issuer	2009	16,000	16,000
15 U.S.C. 78u-1(a)(3)	Insider Trading – controlling person	2009	1,425,000	1,525,000
15 U.S.C. 78u-2	For natural person	2009	7,500	7,500
	For any other person	2009	75,000	80,000
	For natural person/fraud	2009	75,000	80,000
	For any other person/fraud	2009	375,000	400,000
	For natural person/substantial losses to others/gains to self	2009	150,000	160,000
	For any other person/substantial losses to others/gain to self	2009	725,000	775,000
15 U.S.C. 78u(d)(3)	For natural person	2009	7,500	7,500
	For any other person	2009	75,000	80,000
	For natural person/fraud	2009	75,000	80,000
	For any other person/fraud	2009	375,000	400,000
	For natural person/substantial losses or risk of losses to others	2009	150,000	160,000
	For any other person/substantial losses or risk of losses to others	2009	725,000	775,000
15 U.S.C. 80a-9(d)	For natural person	2009	7,500	7,500
	For any other person	2009	75,000	80,000
	For natural person/fraud	2009	75,000	80,000
	For any other person/fraud	2009	375,000	400,000
	For natural person/substantial losses to others/gains to self	2009	150,000	160,000
	For any other person/substantial losses to others/gain to self	2009	725,000	775,000

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U.S. SECURITIES AND EXCHANGE COMMISSION

Civil Monetary Penalties Inflation Adjustment *(continued)*

U.S. Code Citation	Civil Monetary Penalty Description	Year Penalty Amount was Last Adjusted	Maximum Penalty Amount Pursuant to Last Adjustment	2013 Adjusted Maximum Penalty Amount
Securities and Exchange Commission:				
15 U.S.C. 80a-41(e)	For natural person	2009	7,500	7,500
	For any other person	2009	75,000	80,000
	For natural person/fraud	2009	75,000	80,000
	For any other person/fraud	2009	375,000	400,000
	For natural person/substantial losses or risk of losses to others	2009	150,000	160,000
	For any other person/substantial losses or risk of losses to others	2009	725,000	775,000
15 U.S.C. 80b-3(i)	For natural person	2009	7,500	7,500
	For any other person	2009	75,000	80,000
	For natural person/fraud	2009	75,000	80,000
	For any other person/fraud	2009	375,000	400,000
	For natural person/substantial losses to others/gains to self	2009	150,000	160,000
	For any other person/substantial losses to others/gain to self	2009	725,000	775,000
15 U.S.C. 80b-9(e)	For natural person	2009	7,500	7,500
	For any other person	2009	75,000	80,000
	For natural person/fraud	2009	75,000	80,000
	For any other person/fraud	2009	375,000	400,000
	For natural person/substantial losses or risk of losses to others	2009	150,000	160,000
	For any other person/substantial losses or risk of losses to others	2009	725,000	775,000
15 U.S.C. 7215(c)(4)(D)(i)	For natural person	2009	120,000	130,000
	For any other person	2009	2,375,000	2,525,000
15 U.S.C. 7215(c)(4)(D)(ii)	For natural person	2009	900,000	950,000
	For any other person	2009	17,800,000	18,925,000

APPENDICES

APPENDIX A: Chair and Commissioners

Provides biographies of the presidentially appointed Chair and Commissioners.

APPENDIX B: Major Enforcement Cases

Outlines the major enforcement cases of FY 2015.

APPENDIX C: SEC Divisions and Offices

Provides contact information for the SEC's divisions and offices.

APPENDIX D: Glossary of Selected Terms

Definitions provided of technical terms used throughout the report.

APPENDIX E: Acronyms

Defines acronyms cited in the report. Acronyms are listed in alphabetical order.

Appendix A: Chair and Commissioners

Mary Jo White

CHAIR

Mary Jo White was sworn in as the 31st Chair of the SEC on April 10, 2013. She was nominated to be SEC Chair by President Barack Obama on February 7, 2013, and confirmed by the U.S. Senate on April 8, 2013.

Chair White arrived at the SEC with decades of experience as a federal prosecutor and securities lawyer. As the U.S. Attorney for the Southern District of New York from 1993 to 2002, she specialized in prosecuting complex securities and financial institution frauds and international terrorism cases. Under her leadership, the office earned convictions against the terrorists responsible for the 1993 bombing of the World Trade Center and the bombings of American embassies in Africa. She is the only woman to hold the top position in the 200-year-plus history of that office.

Prior to becoming the U.S. Attorney for the Southern District of New York, Chair White served as the First Assistant U.S. Attorney and later Acting U.S. Attorney for the Eastern District of New York from 1990 to 1993. She previously served as an Assistant U.S. Attorney for the Southern District of New York from 1978 to 1981 and became Chief Appellate Attorney of the Criminal Division.

After leaving her U.S. Attorney post, Chair White became chair of the litigation department at Debevoise & Plimpton in New York, where she led a team of more than 200 lawyers. Chair White previously was a litigation partner at the firm from 1983 to 1990 and worked as an associate from 1976 to 1978.

Chair White earned her undergraduate degree, Phi Beta Kappa, from William & Mary in 1970, and her master's degree in psychology from The New School for Social Research in 1971. She earned her law degree in 1974 at Columbia Law School, where she was an officer of the Law Review. She served as a law clerk to the Honorable Marvin E. Frankel of the U.S. District Court for the Southern District of New York.

Chair White has won numerous awards in recognition of her outstanding work both as a prosecutor and a securities lawyer. The 2012 Chambers USA Women in Law Awards named her Regulatory Lawyer of the Year. Among other honors she has received are the Margaret Brent Women Lawyers of Achievement Award, the George W. Bush Award for Excellence in Counterterrorism, the Sandra Day O'Connor Award for Distinction in Public Service, and the "Women of Power and Influence Award" given by the National Organization for Women.

Chair White is a fellow in the American College of Trial Lawyers and the International College of Trial Lawyers. She also has served as a director of The NASDAQ Stock Exchange and on its executive, audit, and policy committees. Chair White is a member of the Council on Foreign Relations.

Luis A. Aguilar
COMMISSIONER

Luis A. Aguilar has been a Commissioner at the U.S. Securities and Exchange Commission since July 31, 2008. He was appointed by President George W. Bush and was reappointed by President Barack Obama.

Prior to his appointment, his practice included matters pertaining to general corporate and business law, international transactions, investment companies and investment advisers, securities law, and corporate finance.

Commissioner Aguilar represents the Commission as its liaison to both the North American Securities Administrators Association and to the Council of Securities Regulators of the Americas.

Commissioner Aguilar has received various honors and awards, including: recipient of Honorary Doctor of Public Service, awarded by Georgia Southern University (2013); recipient of the Atlanta Falcons "2012 NFL Hispanic Heritage Leadership Award" (2012); named by Poder.Hispanic Magazine as one of the "100 Most Influential Hispanics in the Nation" (2011); named by Latino Leaders Magazine as one of the "Top 101 Most Influential Latinos in the United States" (2009 through 2012); named to the NACD Directorship 100, the Who's Who of the Boardroom (2009 through 2015); recipient of The Center for Accounting Ethics, Governance, and the Public Interest "Accounting in the Public Interest Award" (2010); and listed in Best Lawyers in America (2005 through 2008).

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

Commissioner Aguilar serves as sponsor of the SEC's Hispanic and Latino Opportunity, Leadership, and Advocacy Committee, the African American Council, and the Caribbean American Heritage Committee.

Daniel M. Gallagher
COMMISSIONER

Commissioner Gallagher was confirmed by the Senate on October 21, 2011, and returned to the Securities and Exchange Commission, where he had previously served, on November 7, 2011.

Commissioner Gallagher was on the staff of the SEC beginning in January 2006, when he served as a counsel to SEC Commissioner Paul S. Atkins and later as a counsel to SEC Chairman Christopher Cox. He worked primarily on major matters before the Commission involving the Division of Trading and Markets and the Division of Enforcement.

He joined the Division of Trading and Markets as a Deputy Director in 2008, where he played a key role in the SEC's response to the financial crisis and other significant issues before the Commission, including those involving credit rating agencies and credit default swaps. He served as an Acting Director of the Trading and Markets Division from April 2009 to January 2010, after which he left the agency to become a partner in the Washington, DC office of WilmerHale.

Prior to his initial SEC service, Commissioner Gallagher was the General Counsel and Senior Vice President of Fiserv Securities, Inc., where he was responsible for managing all of the firm's legal and regulatory matters. Commissioner Gallagher began his career in private practice, advising clients on broker-dealer regulatory issues and representing clients in SEC and SRO enforcement proceedings.

Commissioner Gallagher earned his J.D. degree, magna cum laude, from the Catholic University of America, where he was a member of the law review. He graduated from Georgetown University with a B.A. degree in English.

Kara M. Stein
COMMISSIONER

Kara M. Stein was appointed by President Barack Obama to the U.S. Securities and Exchange Commission and was sworn in on August 9, 2013.

Ms. Stein joined the Commission after serving as Legal Counsel and Senior Policy Advisor for securities and banking matters to Senator Jack Reed. From 2009 to 2013, she was Staff Director of the Securities, Insurance, and Investment Subcommittee of the Senate Committee on Banking, Housing, and Urban Affairs. During that time, Ms. Stein played an integral role in drafting and negotiating significant provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

As Staff Director for the Senate Banking Subcommittee of primary jurisdiction over the SEC, Ms. Stein also organized and participated in over twenty hearings on such issues as the:

- evolution of market microstructure,
- regulation of exchange traded products,
- state of the securitization markets,
- risks to investors in capital raising processes, including through public offerings,
- role of the accounting profession in preventing another financial crisis,
- establishment of swap execution facilities, and
- role of the tri-party repurchase markets in the financial marketplace.

Ms. Stein was Legal Counsel and Senior Policy Advisor to Senator Reed from 2007 to 2009 and served as both the Majority and Minority Staff Director on the Banking Committee's Subcommittee on Housing and Transportation from 2001 to 2006. She served as Legal Counsel to Senator Reed from 1999 to 2000, following two years as a Legislative Assistant to Senator Chris Dodd.

Before working on Capitol Hill, Ms. Stein was an associate at the law firm of Wilmer, Cutler & Pickering, a Skadden Public Interest Fellow, an Advocacy Fellow with the Georgetown University Law Center, and an assistant professor with the University of Dayton School of Law.

Ms. Stein received her B.A. from Yale College and J.D. from Yale Law School.

Michael S. Piwowar
COMMISSIONER

Michael S. Piwowar was appointed by President Barack Obama to the U.S. Securities and Exchange Commission and was sworn in on August 15, 2013.

Most recently, Dr. Piwowar was the Republican chief economist for the U.S. Senate Committee on Banking, Housing, and Urban Affairs under Senators Mike Crapo and Richard Shelby. He was the lead Republican economist on the four SEC-related titles of the Dodd-Frank Act and the JOBS Act. Dr. Piwowar also worked on a number of important SEC-related oversight issues under the jurisdiction of the Committee.

During the financial crisis and its immediate aftermath, Dr. Piwowar served in a one-year fixed-term position at the White House as a senior economist at the President's Council of Economic Advisers (CEA) in both the George W. Bush and Barack Obama Administrations. While at the CEA, he also served as a staff economist for the Financial Regulatory Reform Working Group of the President's Economic Recovery Advisory Board (PERAB). Before joining the White House, Dr. Piwowar worked as a Principal at the Securities Litigation and Consulting Group (SLCG).

Dr. Piwowar's first tenure at the SEC was in the Office of Economic Analysis (now called the Division of Economic and Risk Analysis) as a visiting academic scholar on leave from Iowa State University and as a senior financial economist. Dr. Piwowar was an assistant professor of finance at Iowa State University where he focused his research on market microstructure and taught undergraduate and graduate courses in corporate finance and investments. He published a number of articles in leading academic publications and received several teaching and research awards.

Dr. Piwowar received a B.A. in Foreign Service and International Politics from the Pennsylvania State University, an M.B.A. from Georgetown University, and a Ph.D. in Finance from the Pennsylvania State University.

Appendix B: Major Enforcement Cases

Introduction

The U.S. Securities and Exchange Commission's (SEC) Division of Enforcement (Enforcement), the SEC's largest division, investigates potential violations of the Federal securities laws and files civil charges in Federal district court and administrative proceedings (APs). Each year, the SEC brings hundreds of civil enforcement actions against individuals and entities that violate the Federal securities laws. Through these enforcement efforts, the SEC stops fraud; obtains sanctions such as penalties, disgorgement of ill-gotten gains, and industry bars; and returns funds to harmed investors. In Fiscal Year (FY) 2015, Enforcement leveraged in house expertise to bring a significant number of cutting-edge and first-of-their-kind actions in key areas, such as market structure, financial reporting and accounting fraud, microcap fraud, enforcement of Federal anti-bribery laws, and the investment adviser and broker-dealer community. This section highlights some of the significant enforcement cases filed in FY 2015. For further information on selected enforcement cases, please see "Litigation Releases" at *www.sec.gov/litigation/litreleases.shtml*.

Actions Related to Market Structure, Exchanges, and Broker-Dealers

Actions involving market structure, exchanges, and broker-dealers were a priority for Enforcement during FY 2015. These actions help to ensure that our markets continue to operate fairly and efficiently to promote capital formation while protecting investors.

In December 2014, June 2015 and September 2015, the SEC instituted three settled enforcement proceedings for violations of the market access rule. The rule, adopted in 2010 as Rule 15c3-5, requires firms to have adequate risk controls in place before providing customers with access to the market. In the first proceeding, the SEC penalized Morgan Stanley & Co. LLC for violating the market access rule when it failed to uphold credit limits for a customer firm with a rogue trader who engaged in fraudulent trading of Apple stock. Morgan Stanley agreed to pay a $4 million penalty.[1]

In the second action, the SEC charged Goldman, Sachs & Co. with violating the market access rule in connection with a trading incident that resulted in erroneous executions of options contracts. Goldman Sachs agreed to pay a $7 million penalty.[2]

In the third action, the SEC charged Latour Trading LLC, a high-frequency proprietary trading firm, with violating the rule by failing to maintain control over safeguards in its trading software. Latour agreed to pay a penalty of $5 million and more than $3 million in disgorgement of gross trading profits, rebates paid to it by exchanges, and prejudgment interest.[3]

In January and August 2015, the SEC also instituted settled proceedings against two brokerage firms that operated alternative trading systems (ATS) known as "dark pools" with disclosure failures. In the first proceeding, the SEC charged a subsidiary of UBS with disclosure failures and other securities law violations related to the operation and marketing of its dark pool. According to the SEC's order, UBS Securities LLC failed to properly disclose to all subscribers the existence of an order type that it pitched almost exclusively to market makers and high-frequency trading firms. The firm also failed to disclose the existence of a restriction that would ensure that select orders would not execute against orders placed by market makers and high-frequency trading firms until approximately 30 months after the restriction was launched. UBS Securities LLC agreed to settle the charges by paying more than $14.4 million, including a $12 million penalty.[4]

In the second action, the SEC announced that ITG Inc. and its affiliate AlterNet Securities have agreed to pay

[1] *In the Matter of Morgan Stanley & Co. LLC, Press Rel. 2014-274 (December 10, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370543668817*

[2] *In the Matter of Goldman, Sachs & Co., Press Rel. 2015-133 (June 30, 2015) www.sec.gov/news/pressrelease/2015-133.html*

[3] *In the Matter of Latour Trading LLC, Press Rel. 2015-221 (September 30, 2015) www.sec.gov/news/pressrelease/2015-221.html*

[4] *In the Matter of UBS Secs. LLC, Press Rel. 2015-7 (January 15, 2015) www.sec.gov/news/pressrelease/2015-7.html*

$20.3 million to settle charges that they operated a secret trading desk and misused the confidential trading information of dark pool subscribers. ITG and AlterNet agreed to a settlement that included a penalty of $18 million, representing the highest penalty assessed against an ATS to date, $2 million in disgorgement, and factual admissions.[5]

In October 2014, in the first case involving high frequency trading manipulation, the SEC sanctioned a New York City-based high frequency trading firm for placing a large number of aggressive, rapid-fire trades in the final two seconds of almost every trading day during a six-month period to manipulate the closing prices of thousands of NASDAQ-listed stocks. The firm, Athena Capital Research, agreed to pay a $1 million penalty to settle the charges.[6]

In November 2014, the SEC charged HSBC's Swiss-based private banking arm with violating Federal securities laws by failing to register with the SEC before providing cross-border brokerage and investment advisory services to U.S. clients. HSBC settled the SEC's charges by acknowledging that its conduct violated the Federal securities laws and agreeing to pay $5.7 million in disgorgement, $4.2 million in prejudgment interest, and a $2.6 million penalty.[7]

In January 2015, in the first case principally focusing on stock exchange order types, two exchanges formerly owned by Direct Edge Holdings agreed to pay a $14 million penalty to settle the SEC's charges that their rules failed to accurately describe the order types being used on the exchanges. An SEC investigation found that while operating under rules that described a single "price sliding" process for handling buy or sell orders, the EDGA Exchange and EDGX Exchange actually offered three variations of "price sliding" order types. The exchanges' rules did not completely and accurately describe the prices at which those orders would be ranked and executable in certain circumstances, and they also failed to describe the execution priority of the three order types relative to each other and other order types. The SEC's investigation further found that the exchanges separately disclosed information about how those order types operated to some but not all of their members. To settle the charges, the two exchanges agreed to pay a $14 million penalty and to comply with various undertakings, including a requirement that they develop new policies and procedures relating to the development of, rule filing process for, and communication of information regarding order types.[8]

Also in January 2015, the SEC charged Oppenheimer & Co. with violating Federal securities laws while improperly selling penny stocks in unregistered offerings on behalf of customers. Oppenheimer agreed to admit wrongdoing and pay $10 million to settle the SEC's charges and an additional $10 million to settle a parallel action by the Treasury Department's Financial Crimes Enforcement Network. Oppenheimer also agreed to undertake remedial measures such as retaining an independent consultant to review its policies and procedures over a five-year period.[9]

In June 2015, the SEC charged two Merrill Lynch entities with using inaccurate data in the course of executing short sale orders. Merrill Lynch agreed to admit wrongdoing, pay nearly $11 million, and retain an independent compliance consultant in order to settle the charges.[10]

In July 2015, the SEC charged OZ Management LP with providing inaccurate trade data to four prime brokers, causing inaccuracies in the brokers' books and records and in data provided to the SEC in investigations. OZ Management, an investment adviser for numerous Och-Ziff funds, admitted wrongdoing and agreed to pay a $4.25 million penalty to settle the charges.[11]

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[5] *In the Matter of ITG Inc. et al., Press Rel. 2015-164 (August 12, 2015) www.sec.gov/news/pressrelease/2015-164.html*

[6] *In the Matter of Athena Capital Research, LLC, Press Rel. 2014-229, www.sec.gov/News/PressRelease/Detail/PressRelease/1370543184457*

[7] *In the Matter of HSBC Private Bank (Suisse), SA, Press Rel. 2014-266 (November 25, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370543534789*

[8] *In the Matter of EDGA Exchange Inc. et al., Press Rel. 2015-2 (January 12, 2015) www.sec.gov/news/pressrelease/2015-2.html*

[9] *In the Matter of Oppenheimer & Co. Inc., Press Rel. 2015-14 (January 27, 2015) www.sec.gov/news/pressrelease/2015-14.html*

[10] *In the Matter of Merrill Lynch, Pierce, Fenner & Smith Inc., et al., Press Rel. 2015-105 (June 1, 2015) www.sec.gov/news/pressrelease/2015-105.html*

[11] *In the Matter of OZ Management, LP, Press Rel. 2015-145 (July 14, 2015) www.sec.gov/news/pressrelease/2015-145.html*

Actions Related to Financial Fraud, Issuer Disclosure, and Gatekeepers

Financial reporting, accounting and disclosure fraud, and the role of gatekeepers continued to be a high priority for the SEC in FY 2015. The SEC brought a number of high impact cases in this area.

In December 2014, the SEC instituted proceedings against two former top executives at Assisted Living Concepts Inc. (ALC), a Wisconsin-based assisted living provider accused of listing fake occupants at some senior residences in order to meet the requirements of a lease to operate the facilities. The SEC's Enforcement Division alleged that the former executives devised a scheme involving false disclosures and manipulation of internal books and records when it appeared likely that ALC would default on financial promises known as covenants in a lease agreement with a Chicago-based real estate investment trust that owned the facilities. Following the institution of proceedings, one of the former executives agreed to a settlement that included a $100,000 penalty; the proceedings against the other former executive were not completed during FY 2015.[12]

The SEC brought a number of significant actions involving violations of auditor independence rules. In December 2014, the SEC sanctioned eight firms for violating auditor independence rules when they prepared the financial statements of brokerage firms that were their audit clients. SEC investigations found that the audit firms, which agreed to settle the cases, generally took data from financial documents provided by clients during audits and used it to prepare their financial statements and notes to the financial statements. Under auditor independence rules, firms cannot jeopardize their objectivity and impartiality in the auditing process by providing such non-audit services to audit clients. By preparing the financial statements, these particular firms essentially put themselves in the position of auditing their own work, and they inappropriately aligned themselves more closely with the interests of clients' management teams in helping prepare the books rather than strictly auditing them. The audit firms each settled, agreed to remedial undertakings, and agreed to pay a total of $140,000 in penalties.[13]

Later, in July 2015, the SEC charged Deloitte & Touche LLP with violating auditor independence rules when its consulting affiliate maintained a business relationship with a trustee serving on the boards and audit committees of three funds it audited. According to the SEC's order, despite the independence-impairing relationship, Deloitte represented in audit reports that it was independent of the three client funds. The SEC also charged the trustee with causing related reporting violations by the funds, and the funds' administrator with causing related compliance violations. Deloitte, the trustee and the funds' administrator settled with the Commission; Deloitte agreed to a censure, cease-and-desist order, and payment of more than $1 million in disgorgement, prejudgment interest and penalties, and the trustee and funds' administrator collectively agreed to pay more than $100,000 in disgorgement, prejudgment interest and penalties.[14]

In February 2015, the SEC charged two former Chief Financial Officers (CFOs) of Saba Software under Section 304 of the Sarbanes-Oxley Act of 2002, which requires officers to reimburse the company for bonuses and stock sale profits received while the misconduct occurred. According to the SEC's order, Saba Software overstated its pre-tax earnings and made material misstatements about its revenue recognition practices while William Slater served as CFO from December 2008 to October 2011 and while Peter Williams, III served as CFO from October 2011 to January 2012. The SEC's order found that Messrs. Slater and Williams received $337,375 and $141,992 respectively during time periods when Saba Software presented materially false and misleading financial statements. While not personally charged with the company's misconduct, Messrs. Slater and Williams were still required under Section 304 of the Sarbanes-Oxley Act to reimburse the company for bonuses and stock sale profits received while the fraud occurred. To settle the SEC's charges, the two agreed to forfeit these amounts.[15]

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[12] *In the Matter of Laurie Bebo, et al., Press. Rel. 2014-269 (December 3, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370543576909*

[13] *In the Matter of BKD, LLP, et al., Press Rel. 2014-272 (December 8, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370543608588*

[14] *In the Matter of Deloitte & Touche, LLP, et al., Press Rel. 2015-137 (July 1, 2015) www.sec.gov/news/pressrelease/2015-137.html*

[15] *In the Matter of William Slater, CPA et al., Press. Rel. 2015-28 (February 10, 2015) www.sec.gov/news/pressrelease/2015-28.html*

In April 2015, the SEC charged W2007 Grace Acquisition I Inc., a real estate investment firm, with failing to make required public filings. W2007 Grace, which is indirectly owned by one or more private equity funds affiliated with The Goldman Sachs Group Inc., agreed to pay $640,000 to settle the SEC's charges relating to eight missed filings.[16]

In May 2015, the SEC charged ITT Educational Services Inc., its Chief Executive Officer (CEO) Kevin Modany, and its Chief Financial Officer (CFO) Daniel Fitzpatrick with engaging in a fraudulent scheme to conceal significant defaults associated with ITT's student loan programs. The SEC's complaint alleges that the national operator of for-profit colleges and the two executives fraudulently concealed from ITT's investors the poor performance and looming financial impact of two student loan programs that ITT financially guaranteed.[17] The SEC's action is ongoing and was not resolved during FY 2015.

Also in May 2015, the SEC charged Deutsche Bank AG with filing misstated financial reports during the height of the financial crisis that failed to take into account a material risk for potential losses estimated to be in the billions of dollars. The company settled to charges under the reporting provisions and paid a $55 million penalty.[18]

In June 2015, the SEC charged Computer Sciences Corporation (CSC) and eight former executives with manipulating financial results and concealing significant problems about the company's contract with the United Kingdom's National Health Service. CSC paid a $190 million penalty to settle the charges; the executives, all of whom have now settled the SEC's charges, paid over $5 million in clawbacks, disgorgement, prejudgment interest, and penalties.[19]

In August 2015, the SEC instituted proceedings against Miller Energy Resources Inc., its former CFO, and its current Chief Operating Officer (COO) with allegedly inflating values of oil and gas properties, resulting in fraudulent financial reports for the Tennessee-based company. Enforcement also alleged that the fiscal 2010 audit of Miller Energy's financial statements was deficient due to the failure of Carlton W. Vogt III, the partner in charge of the audit.[20] The proceedings in this matter are ongoing.

In September 2015, the SEC brought a number of charges involving accounting and disclosure issues. First, the SEC charged Denver-based sports supplement and nutrition company MusclePharm Corp. with committing a series of accounting and disclosure violations, including the failure to properly report nearly a half-million dollars' worth of perks bestowed on its executives. MusclePharm agreed to settle the charges along with three current or former executives and the company's former audit committee chair who were found to have been involved in various aspects of the company's misconduct. MusclePharm agreed to pay a $700,000 penalty and hire an independent monitor for one year, among other undertakings; the executives and former audit committee chair agreed to pay penalties totaling $210,000.[21]

Second, the SEC brought charges against Bankrate Inc. and three former executives alleging accounting fraud related to the fraudulent manipulations of the company's financial results to meet analyst expectations. To settle the charges, Bankrate agreed to pay a $15 million penalty and former vice president of finance Hyunjin Lerner agreed to pay $180,000 in disgorgement and a penalty and agreed to be barred from serving as an officer.[22] The SEC's action against former CEO Edward DiMaria and former director of accounting Matthew Gamsey is ongoing.

Third, the SEC charged national audit firm BDO USA with dismissing red flags and issuing false and misleading audit opinions about the finances of staffing services company General Employment Enterprises. The SEC also charged

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[16] *In the Matter of W2007 Grace Acquisition I, Inc., Press Rel. 2015-74 (April 22, 2015) www.sec.gov/news/pressrelease/2015-74.html*

[17] *SEC v. ITT Educ. Servs. et al., Press. Rel. 2015-86 (May 12, 2015) www.sec.gov/news/pressrelease/2015-86.html*

[18] *In the Matter of Deutsche Bank AG, Press Rel. 2015-99 (May 16, 2015) www.sec.gov/news/pressrelease/2015-99.html*

[19] *In the Matter of Computer Scis. Corp., et al., Press Rel. 2015-111 (June 5, 2015) www.sec.gov/news/pressrelease/2015-111.html*

[20] *In the Matter of Miller Energy Res., Inc., et al., Press Rel. 2015-161 (August 6, 2015) www.sec.gov/news/pressrelease/2015-161.html*

[21] *In the Matter of MusclePharm Corp., et al., Press Rel. 2015-179 (September 8, 2015) www.sec.gov/news/pressrelease/2015-179.html*

[22] *In the Matter of Bankrate, Inc., et al., Press Rel. 2015-180 (September 8, 2015) www.sec.gov/news/pressrelease/2015-180.html*

five of the firm's partners for their roles in the deficient audits, and filed fraud charges against General Employment Enterprises' then-chairman Stephen Pence, also a former U.S. attorney and former lieutenant governor of Kentucky. BDO agreed to admit wrongdoing, to disgorge its audit fees, and to pay a $1.5 million penalty to settle the charges. The five partners also agreed to settle the charges. Two former CEOs of General Employment agreed to settle separate charges, and the litigation continues against Mr. Pence.[23]

Fourth, the SEC charged Trinity Capital Corporation and five of its current or former executives for having materially misstated its provision for loan losses and its allowance for loan and lease losses in its quarterly and annual filings with the Commission during 2010, 2011, and the first two quarters of 2012. Trinity and three of the executives agreed to settle the SEC's charges; Trinity agreed to a $1.5 million penalty, one of the executives agreed to pay a $250,000 penalty and a bar from serving as an officer or director at a public company for five years. The other two executives are cooperating with the SEC in its ongoing litigation and agreed to books-and-records, reporting, and internal control violations with the amount of any penalty to be determined later.[24] The SEC's litigation continues against the two non-settling executives.

Finally, the SEC charged several former executives of Penson Financial Services, Inc., which was once the second largest clearing broker-dealer in the U.S., its parent, Penson Worldwide, Inc., and its largest shareholder for their role in the firm's failure to disclose the nature of certain loans or to timely recognize losses on the loans. The settling individuals collectively paid $175,000 in penalties to settle the matter and agreed to other ancillary relief.[25]

Actions Related to Insider Trading

The SEC continued its impressive record in bringing high-impact cases in the area of insider trading. In FY 2015, the SEC leveraged in-house expertise and data analytics to search for connections between trades and traders to root out this abusive form of trading.

In December 2014, the SEC charged a California-based attorney and his wife with insider trading on confidential information obtained from a corporate client. Both the attorney and his wife agreed to pay $90,000 to settle the SEC's charges, and Shivbir Grewal, the attorney, also agreed to be suspended from practicing as an attorney before the SEC on behalf of any publicly traded company or other entity regulated by the agency.[26]

In April 2015, the SEC charged two longtime friends who illegally profited from insider trading on news of a proposed acquisition of Cooper Tire and Rubber Company by Apollo Tyres, Ltd. The SEC alleged that Amit Kanodia tipped Iftikar Ahmed after learning about the deal from his wife, then the general counsel at Apollo Tyres. Mr. Ahmed purchased Cooper Tire stock and options which he liquidated immediately after news of the deal was made public, reaping more than $1.1 million in illicit profits, $220,000 of which he then transferred to Mr. Kanodia by donating to a supposed charity that Mr. Kanodia controlled. Proceedings in this matter were not resolved during FY 2015.[27]

The SEC in May 2015 charged Sean R. Stewart and his father Robert K. Stewart with allegedly conducting a serial insider trading scheme involving tips of key nonpublic information in coded email messages disguised at discussions about golf. The SEC alleged that Sean Stewart, managing director at a prominent investment bank, routinely passed to his father confidential information about future mergers and acquisitions involving clients of the investment banks where

[23] *In the Matter of BDO USA, LLP, et al., Press Rel. 2015-184 (September 9, 2015) www.sec.gov/news/pressrelease/2015-184.html*

[24] *In the Matter of Trinity Capital Corp., In the Matter of William C. Enloe, In the Matter of Daniel R. Bartholomew, et al., SEC v. Jill D. Cook, et al., Press Rel. 2015-215 (September 28, 2015) www.sec.gov/news/pressrelease/2015-215.html*

[25] *In the Matter of Philip A. Pendergraft, et al., Press Rel. 2015-194 (September 17, 2015) www.sec.gov/news/pressrelease/2015-194.html*

[26] *SEC v. Shivbir S. Grewal, et al., Press Rel. 2014-290 (December 22, 2014) www.sec.gov/news/pressrelease/2014-290.html*

[27] *SEC v. Amit Kanodia, et al., Press Rel. 2015-56 (April 2, 2015) www.sec.gov/news/pressrelease/2015-56.html*

he had worked. Robert Stewart then made highly profitable trades, generating approximately $1.1 million in illicit profits over a four-year period. Proceedings in this matter were not resolved during FY 2015.[28]

In June 2015, the SEC announced insider trading charges against four individuals who allegedly stole confidential information from investment banks and their public company clients in order to trade in advance of secondary stock offerings. The scheme allegedly involved at least 15 stocks and generated more than $4.4 million in illegal trading profits. The SEC's action against the four individuals and against three associated entities is ongoing.[29]

Later that month, the SEC filed settled charges against Helmut Anscheringer, a Swiss trader who had garnered more than $1.8 million in illicit profits by trading on nonpublic information ahead of a Florida-based biometrics company's acquisition by Apple Inc. According to the SEC's order, Mr. Anscheringer purchased stock and call options in AuthenTec after he learned of the proposed acquisition from a longtime friend who was related to an AuthenTec executive. Mr. Anscheringer agreed to settle the charges by paying more than $2.8 million in disgorgement, prejudgment interest, and penalties.[30]

In August 2015, the SEC filed settled charges against Citigroup Global Markets for failing to enforce policies and procedures to prevent and detect securities transactions that could involve the misuse of material, nonpublic information. An investigation found that Citigroup illegally failed to take reasonable steps to prevent the misuse of material nonpublic information when technological errors caused the firm to omit information about thousands of trades from electronically-generated reports to review trades executed by several of its trading desks. Citigroup agreed to pay a $15 million penalty to settle these charges.[31]

In August and September 2015, the SEC brought two matters that arose from trading data analysis tools employed by the Analysis and Detection Center in Enforcement's Market Abuse Unit. In August 2015, the SEC charged a former investment bank analyst with illegally tipping his close friend with confidential information about clients involved in impending mergers and acquisitions of technology companies. The SEC also charged his friend and another individual with trading on the inside information.[32] Proceedings in this matter were not resolved during FY 2015.

In September 2015, the SEC charged a consultant and his friend with insider trading in the options of P.F. Chang's China Bistro based on nonpublic information about an impending acquisition offer. The SEC also charged another trader as a relief defendant who agreed to pay $19,829.[33] Proceedings in this matter were not resolved during FY 2015.

Actions Related to Enforcement of the Foreign Corrupt Practices Act (FCPA)

FCPA enforcement continued to be a high priority area for the SEC's enforcement program in FY 2015.

In November 2014, the SEC charged clinical diagnostic and life science research company Bio-Rad Laboratories with violating the FCPA when its subsidiaries made illegal payments to officials in Russia, Vietnam, and Thailand to win business in those countries. The SEC's investigation found that Bio-Rad lacked sufficient internal controls to prevent or detect approximately $7.5 million in improper payments over a five-year period, which enabled the company to earn $35 million in illicit profits. Bio-Rad self-reported its misconduct and cooperated extensively with the SEC's investigation, in addition to paying $55 million to settle the charges.[34]

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[28] *SEC v. Sean R. Stewart, et al., Press Rel. 2015-90 (May 14, 2015) www.sec.gov/news/pressrelease/2015-90.html*

[29] *SEC v. Steven Fishoff, et al., Press Rel. 2015-107 (June 3, 2015) www.sec.gov/news/pressrelease/2015-107.html*

[30] *In the Matter of Helmut Anscheringer, Press Rel. 2015-119 (June 15, 2015) www.sec.gov/news/pressrelease/2015-119.html*

[31] *In the Matter of Citigroup Global Mkts., Inc., Press Rel. 2015-171 (August 19, 2015) www.sec.gov/news/pressrelease/2015-171.html*

[32] *SEC v. Asish Aggarwal, et al., Press Rel. 2015-174 (August 25, 2015) www.sec.gov/news/pressrelease/2015-174.html*

[33] *SEC v. Richard G. Condon, et al., Press Rel. 2015-205 (September 23, 2015) www.sec.gov/news/pressrelease/2015-205.html*

[34] *In the Matter of Bio-Rad Labs., Inc., Press Rel. 2014-245 (November 3, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370543347364*

Also in November 2014, the SEC sanctioned two former employees in the Dubai office of a U.S.-based defense contractor for violating the FCPA by taking government officials in Saudi Arabia on a "world tour" to help secure business for the company. The two employees later falsified records in an attempt to hide their misconduct. Stephen Timms and Yasser Ramahi, who worked in sales at FLIR Systems Inc., agreed to settle the SEC's charges and pay financial penalties of $50,000 and $20,000 respectively.[35]

In December 2014, the SEC charged global beauty company Avon Products Inc. with violating the FCPA by failing to put controls in place to detect and prevent payments and gifts to Chinese government officials from employees and consultants at a subsidiary. According to the SEC's complaint, Avon's subsidiary in China made $8 million worth of payments in cash, gifts, travel, and entertainment to gain access to Chinese officials implementing and overseeing direct selling regulations in China. Avon sought to be among the first allowed to test the regulations, and eventually received the first direct selling business license in China in March 2006. The improper payments also were made to avoid fines or negative news articles that could have impacted Avon's clean corporate image required to retain the license. Avon and its subsidiaries agreed to settle the charges by paying a total of $135 million in disgorgement, prejudgment interest, and penalties in the SEC action and a parallel criminal matter.[36]

In January 2015, the SEC charged a former officer at a Tampa, Fla.-based engineering and construction firm with violating the FCPA by offering and authorizing bribes and employment to foreign officials to secure Qatari government contracts. Without admitting or denying the findings, Mr. Hatoum agreed to pay a penalty of $50,000. The SEC also announced a deferred prosecution agreement (DPA) with The PBSJ Corporation that defers FCPA charges for a period of two years and requires the company to comply with certain undertakings. PBSJ paid $3.4 million in financial remedies as part of the agreement, which reflected the company's significant cooperation with the SEC investigation.[37]

The SEC in February 2015 charged Goodyear Tire & Rubber Company with violating the FCPA when its subsidiaries paid bribes to land tire sales in Kenya and Angola. According to the SEC's order instituting a settled administrative proceeding, Goodyear failed to prevent or detect more than $3.2 million in bribes during a four-year period due to inadequate FCPA compliance controls at its subsidiaries in sub-Saharan Africa. Goodyear agreed to pay more than $16 million to settle the SEC's charges.[38]

In May 2015, the SEC charged global resources company BHP Billiton with FCPA violations when it sponsored the attendance of foreign government officials at the Summer Olympics. An SEC investigation found that BHP Billiton failed to devise and maintain sufficient internal controls over its global hospitality program connected to the company's sponsorship of the 2008 Summer Olympic Games in Beijing. BHP Billiton agreed to pay a $25 million penalty to settle the SEC's charges.[39]

In August 2015, the SEC announced that BNY Mellon had agreed to pay $14.8 million to settle charges that it had violated the FCPA by providing valuable student internships to family members of foreign government officials affiliated with a Middle Eastern sovereign wealth fund. The investigation found that BNY Mellon lacked sufficient internal controls to prevent and detect the improper hiring practices, which circumvented the rigorous standards of the highly-competitive internship programs to corruptly influence foreign officials and win or retain contracts to manage the assets of the sovereign wealth fund.[40]

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[35] *In the Matter of Stephen Timms, et al., Press Rel. 2014-257 (November 17, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370543472839*

[36] *SEC v. Avon Prods., Inc., Press Rel. 2014-185 (December 17, 2014) www.sec.gov/news/pressrelease/2014-285.html*

[37] *In the Matter of Walid Hatoum, Press Rel. 2015-13 (January 22, 2015) www.sec.gov/news/pressrelease/2015-13.html*

[38] *In the Matter of the Goodyear Tire & Rubber Co., Press Rel. 2015-38 (February 24, 2015) www.sec.gov/news/pressrelease/2015-38.html*

[39] *In the Matter of BHP Billiton Ltd., et al., Press Rel. 2015-93 (May 20, 2015) www.sec.gov/news/pressrelease/2015-93.html*

[40] *In the Matter of the Bank of New York Mellon Corp., Press Rel. 2015-170 (August 18, 2015) www.sec.gov/news/pressrelease/2015-170.html*

Also in August 2015, the SEC announced that a former executive at a worldwide software manufacturer has agreed to settle charges that he violated the FCPA by bribing Panamanian government officials through an intermediary to procure software license sales. Vicente E. Garcia consented to the entry of the cease-and-desist order and agreed to pay disgorgement of $85,965, which is the total amount of kickbacks he received, plus prejudgment interest of $6,430 for a total of $92,395.[41]

In September 2015, the SEC charged Tokyo-based conglomerate Hitachi, Ltd. with violating the FCPA when it made and inaccurately recorded improper payments to South Africa's ruling political party in connection with contracts to build two multi-billion dollar power plants. Hitachi has agreed to pay $19 million to settle the SEC charges.[42]

Actions Related to Market Manipulation and Microcap Fraud

Market manipulation and microcap fraud remained a priority for the SEC in FY 2015, with the SEC bringing many high-impact cases involving cross-border schemes and gatekeepers in this space. In the beginning of FY 2015, the SEC charged current and former brokerage subsidiaries of E*Trade Financial Corporation that failed in their gatekeeper roles and improperly engaged in unregistered sales of microcap stocks on behalf of their customers. E*Trade Securities and G1 Execution Services agreed to settle the matter by paying back more than $1.5 million in disgorgement and prejudgment interest from commissions they earned on the improper sales and a combined penalty of $1 million.[43]

The SEC in February 2015 charged five offshore entities with offering and selling unregistered penny stocks into the public markets and obtained an emergency asset freeze to protect investor funds. According to the SEC's complaint, Cayman Islands-based, Caledonian Bank Ltd. and Caledonian Securities Ltd., Belize-based, Clear Water Securities, Inc. and Legacy Global Markets S.A., and Panama-based, Verdmont Capital S.A. conducted unregistered sales of securities, reaping over $75 million in illegal sales proceeds. The SEC's action in this matter was not resolved during FY 2015.[44]

In May 2015, the SEC announced fraud charges against securities lawyer Adam S. Gottbetter for orchestrating promotional campaigns that touted the prospects of microcap companies and enticed investors to buy stock at inflated prices so he and his cohorts could sell shares they controlled and reap massive profits. Gottbetter agreed to pay $4.6 million to settle the SEC's charges. Mr. Gottbetter's associate David Stevenson also agreed to settle the charges, and the SEC's action against another associate, Mitchell Adam, was not resolved during FY 2015.[45]

The SEC in June 2015 announced an emergency asset freeze of two U.S. brokerage accounts, containing approximately $2 million in assets, which were connected to schemes to manipulate Avon and other stocks. According to an SEC complaint filed in Federal court in Manhattan, the agency has tracked a filing on its Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system last month about a false Avon tender offer to a foreign entity using an IP address located in Sofia, Bulgaria. A Bulgarian trader named Nedko Nedev controlled at least one of the two now-frozen brokerage accounts, and his account held a substantial position in Avon contracts-for-difference (CFDs) that were losing value in recent months. The SEC alleges that Mr. Nedev generated approximately $5,000 in excess profits by selling almost half of the account's Avon CFDs at inflated prices after the EDGAR filing led to a 20 percent increase in the value of Avon stock on May 14.[46] The SEC's action was not resolved during FY 2015.

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[41] *In the Matter of Vicente E. Garcia, Press Rel. 2015-165 (August 18, 2015) www.sec.gov/news/pressrelease/2015-165.html*

[42] *SEC v. Hitachi, Ltd., Press Rel. 2015-212 (September 28, 2015) www.sec.gov/news/pressrelease/2015-212.html*

[43] *In the Matter of E*Trade Secs., LLC, et al., Press Rel. 2014-225 (October 9, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370543133526*

[44] *SEC v. Caledonian Bank Ltd., et al., Lit. Rel. No. 23195 (February 11, 2015) www.sec.gov/litigation/litreleases/2015/lr23195.htm*

[45] *SEC v. Adam S. Gottbetter, et al., Press Rel. 2015-100 (May 26, 2015) www.sec.gov/news/pressrelease/2015-100.html*

[46] *SEC v. PTG Capital Partners, Ltd, et al., Press Rel. 2015-110 (June 4, 2015) www.sec.gov/news/pressrelease/2015-110.html*

Also in June 2015, the SEC charged microcap promoter Gregg Mulholland with illegally selling more than 83 million penny stock shares that he secretly obtained through at least 10 different offshore front companies. According to the SEC's complaint, Mulholland accumulated at least 84 percent of the issued and outstanding shares of Vision Plasma Systems Inc., which he then liquidated for proceeds of at least $21 million.[47] The SEC's action was not resolved during FY 2015.

In July 2015, the SEC brought charges against 15 individuals and 19 entities for their roles in alleged schemes to manipulate the trading of microcap stocks. The 34 defendants include six firms alleged to have acted as unregistered broker-dealers, owners and employees at the six firms, stock promoters, and two microcap issuers – Warrior Girl Corp. and Nature's Peak.[48] The SEC's action was not resolved during FY 2015.

In July 2015, the SEC charged Canadian citizen Philip Thomas Kueber with conducting a scheme to conceal his control and ownership of microcap company Cynk Technology Corp, the shares of which spiked to $21 from less than 10 cents per share. The SEC suspended trading in Cynk before Mr. Kueber could profit on the gains from the stock's rise.[49] The SEC's action was not resolved during FY 2015.

In August 2015, the SEC announced fraud charges and an asset freeze against 34 defendants for allegedly taking part in a massive international cyber-hacking scheme to profit from nonpublic information about corporate earnings announcements.[50] Since filing the emergency action, the SEC has obtained a $30 million settlement from two defendants who made approximately $25 million buying and selling CFDs on the basis of the hacked press releases.[51] The SEC's litigation continues against the remaining 32 defendants.

The SEC in September 2015 announced fraud charges against a Wall Street CEO and his company, family members, and business associates for allegedly secretly obtaining control and manipulating the stock of Chinese companies they were purportedly guiding through the process of raising capital and becoming publicly-traded in the United States.[52] The SEC's action was not resolved during FY 2015.

Actions Related to Municipal Securities

During FY 2015, the SEC brought a number of cutting-edge and first-of-their kind cases involving municipal securities. In November 2014, the SEC filed its first enforcement actions under Municipal Securities Rulemaking Board Rule G-15(f) when it sanctioned 13 firms for violating the rule, which establishes a "minimum denomination" requirement that is the smallest amount of a municipal bond offering that a firm is allowed to sell to an investor in a single transaction. This rule is designed to protect retail investors by requiring municipal bond issuers that set high minimum denomination amounts for high-risk "junk bonds." The SEC detected improper sales below a $100,000 minimum denomination set in a $3.5 billion offering of junk bonds by the Commonwealth of Puerto Rico earlier in 2014. The SEC's subsequent investigation identified a total of 66 occasions when dealer firms sold the Puerto Rico bonds to investors in amounts below $100,000. Each of the 13 bond dealers agreed to settle the SEC's charges by paying penalties ranging from $54,000 to $130,000.[53]

Later that same month, the SEC announced charges against the City of Allen Park, Michigan, and two former city leaders in connection with false and misleading statements made in documents provided to investors during the city's sale of $31 million in general obligation bonds to finance a movie studio and full-service media center. The city and the two officials, former city mayor Gary Burtka

[47] *SEC v. Gregg R. Mulholland, Press Rel. 2015-129 (June 23, 2015) www.sec.gov/news/pressrelease/2015-129.html*

[48] *SEC v. Harold Bailey "B.J." Gallison, II (AKA Bart Williams), et al., Press Rel. 2015-146 (July 14, 2015) www.sec.gov/news/pressrelease/2015-146.html*

[49] *SEC v. Philip Thomas Kueber, Press Rel. 2015-157 (July 31, 2015) www.sec.gov/news/pressrelease/2015-157.html*

[50] *SEC v. Arkadiy Dubovoy, et al., Press Rel. 2015-163 (August 11, 2015) www.sec.gov/news/pressrelease/2015-163.html*

[51] *SEC v. Arkadiy Dubovoy, et al., Press Rel. 2015-191 (September 14, 2015) www.sec.gov/news/pressrelease/2015-191.html*

[52] *SEC v. Benjamin Wey, et al., Press Rel. 2015-189 (September 10, 2015) www.sec.gov/news/pressrelease/2015-189.html*

[53] *Press Rel. 2014-246 (November 3, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370543350368*

and former city administrator Eric Waidelich, have agreed to settle the charges. The SEC alleged that Mr. Burtka was in a position to control the actions of the city and Mr. Waidelich with respect to the fraudulent bond issuances, making this action instance of the SEC charging a municipal official under a Federal statute that provides for "control person" liability.[54]

In June and September 2015, the SEC announced the first series of actions brought against municipal underwriters in the Municipalities Continuing Disclosure Cooperation (MCDC) Initiative, a voluntary self-reporting program targeting material misstatements and omissions in municipal bond offering documents. The MCDC initiative, announced in March 2014, offered favorable settlement terms to municipal bond underwriters and issuers who self-reported securities law violations to the SEC. In the first two sets of enforcement actions, the SEC announced charges against 58 firms for violating Federal securities laws by selling municipal bonds using offering documents that contained materially false statements or omissions about the bond issuers' compliance with continuing disclosure obligations. Under the terms of the ongoing initiative, the firms agreed to cease and desist from such violations in the future and to pay penalties based on the number and size of the fraudulent offerings. The underwriters also agreed to retain an independent consultant to review its policies and procedures on due diligence for municipal securities underwriting.[55]

Also in June 2015, the SEC announced its first case against an underwriter for pricing-related fraud in the primary market for municipal securities. The SEC charged brokerage firm Edward Jones and the former head of its municipal underwriting desk, Stina Wishman, with violations related to its failure to offer new bonds to customers at the "initial offering price," which is negotiated with the bond issuer. According to the SEC's order, Edward Jones and Ms. Wishman offered bonds to customers at improperly inflated prices, in some cases waiting to offer the bonds until after trading had commenced in the secondary market, causing the firm's customers to pay at least $4.6 million more than they should have for the new bonds. Edward Jones agreed to settle the case by paying more than $20 million, which includes nearly $5.2 million in disgorgement and prejudgment interest that will be distributed to current and former customers who were overcharged for the bonds. Ms. Wishman agreed to pay $15,000 and will be barred from working in the securities industry for at least two years.[56]

Actions Related to Investment Advisers and Investment Companies

FY 2015 was also an active year for the SEC in matters involving investment advisers and investment companies. In December 2014, the SEC charged the Investment Manager F-Squared with fraud in connection with false performance advertising about its flagship product.[57] The SEC separately charged the firm's co-founder and former CEO Howard Present with making false and misleading statements to investors as the public face of F-Squared.[58] According to the SEC's order, the adviser falsely advertised a successful seven-year track record for its investment strategy and stated that these results were "not backtested," when in reality the algorithm in question had not been in existence for that period of time. Moreover, the backtested data contained a substantial calculation error that inflated the results by approximately 350 percent. The firm agreed to pay disgorgement of $30 million, to pay a penalty of $5 million, admit wrongdoing, and to hire an independent consultant. Litigation against Mr. Present is ongoing.

In January 2015, the SEC charged Massachusetts-based investment advisers, their principal, and others with misap-

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[54] *In the Matter of City of Allen Park, Michigan, et al., Press Rel. 2014-249 (November 6, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370543373355*

[55] *Press Rel. 2015-125 (June 18, 2015) www.sec.gov/news/pressrelease/2015-125.html; Press Rel. 2015-220 (September 30, 2015) www.sec.gov/news/pressrelease/2015-220.html*

[56] *In the Matter of Edward D. Jones & Co., L.P., et al., Press Rel. 2015-166 (August 13, 2015) www.sec.gov/news/pressrelease/2015-166.html*

[57] *In the Matter of F-Squared Invs. Inc., Press Rel. 2014-289 (December 22, 2014) www.sec.gov/news/pressrelease/2014-289.html*

[58] *SEC v. Howard Present, Press Rel. 2014-289 (December 22, 2014) www.sec.gov/news/pressrelease/2014-289.html*

propriation of at least $16 million belonging to an investment fund managed by some of the defendants.[59] The SEC charged Daniel Thibeault and various related entities with fraud, and charged his wife and an entity as relief defendants.

The following month, the SEC announced fraud charges against a New York City-based financial advisor accused of allegedly stealing at least $20 million from customers to fund his own brokerage accounts and then squandering the bulk of the money in highly unprofitable options trading. The SEC alleges that Michael J. Oppenheim abused his position as a private client advisor at a global bank and persuaded some customers to withdraw millions of dollars out of their accounts by promising he would purchase safe and secure municipal bonds on their behalf. Instead, Mr. Oppenheim bought himself cashier's checks and deposited them into his own brokerage account or his wife's account that he controlled. Almost immediately after each theft and deposit, Oppenheim allegedly embarked on sizeable trading of stocks and options including Tesla, Apple, Google, and Netflix. Mr. Oppenheim typically lost the entire amount of each deposit, and his brokerage accounts currently show minimal cash balances. On occasions when his accounts did have positive cash balances, he allegedly wired money to bank accounts in his or his wife's name.[60] The SEC's litigation in this matter is ongoing and was not resolved during FY 2015.

In the first case to charge violations for failing to report a material compliance matter to a fund board, the SEC in April 2015 filed charges against BlackRock Advisors, LLC for breaching its fiduciary duty to investors by failing to disclose a conflict of interest created by a BlackRock account manager who was also general partner in an oil-and-gas company that became the largest holding in BlackRock's Energy & Resources Portfolio. BlackRock agreed to settle the charges and to pay a $12 million penalty. The SEC also charged Blackrock's former Chief Compliance Officer, Bartholomew Battista, with causing Blackrock's violations; he agreed to pay a $60,000 penalty to settle the SEC's charges against him.[61]

In June 2015, the SEC charged a Massachusetts-based investment advisory firm and its owner for funneling more than $17 million in client assets into four financially troubled Canadian penny stock companies in which the owner had undisclosed business and financial interests.[62] Interinvest Corp. and its owner, Hans Peter Black, funneled over $17 million in client assets into four financially troubled Canadian penny stock companies in which Mr. Black had served on the board of directors and that had collectively paid an entity controlled by Mr. Black approximately $1.7 million – without disclosing the conflict of interest. InterInvest's clients may have lost as much as $12 million of their $17 million investment. The SEC's litigation is ongoing and was not resolved during FY 2015.

Also in June 2015, the SEC charged a mutual fund adviser, its principal, and three mutual fund board members with failing to satisfy their statutory obligations in connection with the evaluation and approval of mutual fund advisory contracts. Richmond, Va.-based advisory firm Commonwealth Capital Management was charged with violating Section 15(c) of the Investment Company Act of 1940 for providing incomplete or inaccurate information to two mutual fund boards, and the firm's majority owner John Pasco III was charged with causing the violations. They and former trustees J. Gordon McKinley III, Robert R. Burke, and Franklin A. Trice III agreed to settle the SEC's charges.[63]

Later in June 2015, the SEC announced fraud charges against a Wisconsin-based investment advisory firm and its owner accused of improperly allocating to his personal and business accounts certain options trades that appreciated in value during the course of a trading day while allocating to his clients other trades that depreciated in value.[64] According to the order instituting proceedings,

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[59] *SEC v. Daniel Thibeault, et al., Litigation Rel. No. 23171 (January 9, 2015) www.sec.gov/litigation/litreleases/2015/lr23171.htm*

[60] *SEC v. Michael J. Oppenheim, Press. Rel. 2015-68 (April 16, 2015) www.sec.gov/news/pressrelease/2015-68.html*

[61] *In the Matter of BlackRock Advisors, LLC, et al., Press Rel. 2015-71 (April 20, 2015) www.sec.gov/news/pressrelease/2015-71.html*

[62] *SEC v. Interinvest Corp. Inc., et al., Press Rel. 2015-122 (June 17, 2015) www.sec.gov/news/pressrelease/2015-122.html*

[63] *In the Matter of Commonwealth Capital Mgmt., LLC, et al., Press Rel. 2015-124 (June 17, 2015) www.sec.gov/news/pressrelease/2015-124.html*

[64] *In the Matter of Welhouse & Assocs., Inc., Press Rel. 2015-132 (June 29, 2015) www.sec.gov/news/pressrelease/2015-132.html*

Enforcement alleged that the firm, Welhouse & Associates Inc., owned by Mark P. Welhouse, purchased options in a master account for the firm and then waited until later in the day, once he knew whether the securities had appreciated, to allocate the purchases to his or his client's accounts. By cherry-picking trades, he illegally obtained over $400,000 in profits. After running a simulation test one million times, Enforcement (with assistance from the SEC's Division of Economic and Risk Analysis) concluded that the profitability in these accounts could not have resulted from a coincidental or lucky combination of trades.

Also later in June 2015, the SEC charged private equity firm Kohlberg Kravis Roberts & Co. (KKR) with breaching its fiduciary duty to investors by misallocating more than $17 million in "broken deal" expenses. According to the SEC's order, KKR did not allocate to its co-investors any portion of the expenses incurred from broken deals or diligence expenses related to unsuccessful buyout opportunities and did not disclose this practice to investors in its offering materials. KKR agreed to pay nearly $30 million to settle the charges, including a penalty of $10 million.[65]

In July 2015, the SEC charged a Greenwich, Conn.-based investment advisory firm and its two owners with fraudulently inflating the prices of securities in hedge fund portfolios they managed. An SEC investigation found that AlphaBridge Capital Management told investors and its auditor that it obtained independent price quotes from broker-dealers for certain unlisted, thinly-traded residential mortgage-backed securities (RMBS). AlphaBridge instead gave internally-derived valuations to broker-dealer representatives to pass off as their own. The inflated valuation of these assets caused the funds to pay higher management and performance fees to AlphaBridge. AlphaBridge and its owners Thomas T. Kutzen and Michael J. Carino agreed to pay $5 million combined to settle the charges.[66]

In September 2015, the SEC charged a New York-based investment adviser and its affiliated distributor with improperly using mutual fund assets to pay for the marketing and distribution of fund shares. First Eagle Investment Management and FEF Distributors agreed to pay nearly $40 million to settle the SEC's charges. The money will be returned to the accounts of affected shareholders. The case is the first arising out of a recent SEC initiative to protect mutual fund shareholders from bearing the costs when firms improperly use fund assets to pay for distribution-related services. Known as the Distribution-in-Guise Initiative, the SEC is seeking to determine whether some mutual fund advisers are improperly using fund assets to pay for distribution by masking the payments as sub-transfer agency payments.[67]

Actions Related to Complex Financial Instruments

In January 2015, the SEC announced three settled actions against ratings agency Standard & Poor's related to alleged misconduct at S&P's commercial mortgage-backed securities (CMBS) trading desk, were the SEC's first enforcement actions against one of the "Big Three" credit ratings agencies. S&P agreed to pay more than $58 million to settle the SEC's charges, plus an additional $19 million to settle parallel cases announced by the Attorney General's offices of New York and Massachusetts. The SEC also announced the institution of proceedings against the former head of S&P's CMBS group, Barbara Duka; the proceedings are ongoing.[68]

Later in March 2015, the SEC announced fraud charges against an investment adviser and her New York-based firms accused of allegedly hiding the poor performance of loan assets in three collateralized loan obligation (CLO) funds they managed. The Enforcement Division alleged that Lynn Tilton and her Patriarch Partners firms breached their fiduciary duties and defrauded clients by allegedly failing

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[65] *In the Matter of Kohlberg Kravis Roberts & Co., L.P., Press Rel. 2015-131 (June 29, 2015) www.sec.gov/news/pressrelease/2015-131.html*

[66] *In the Matter of AlphaBridge Capital Mgmt., LLC, et al., Press Rel. 2015-134 (July 1, 2015) www.sec.gov/news/pressrelease/2015-134.html*

[67] *In the Matter of First Eagle Inv. Mgmt., et al., Press Rel. 2015-198 (September 21, 2015) www.sec.gov/news/pressrelease/2015-198.html*

[68] *In the Matter of Standard & Poor's Rating Servs.; In the Matter of Barbara Duka, Press Rel. 2015-52 (January 21, 2015) www.sec.gov/news/pressrelease/2015-10.html*

to value assets using the methodology described to investors in offering documents for the CLO funds, which have portfolios comprised of loans to distressed companies.[69] The SEC's proceedings are ongoing and were not resolved during FY 2015.

In June 2015, the SEC announced an enforcement action against a company that illegally offered complex derivatives products to retail investors. An SEC investigation found that Silicon Valley-based Sand Hill Exchange was offering and selling security-based swaps contracts to retail investors outside the regulatory framework of a national securities exchange and without the required registration statements in effect. According to the SEC's order, the violations were detected shortly after the offering process began, and with cooperation from the company the platform was shut down before any investor harm occurred. Sand Hill agreed to settle the SEC's charges by payment of a $20,000 penalty.[70]

In September 2015, the SEC charged three traders with repeatedly lying to customers in order to illicitly generate millions of dollars in additional revenue for Nomura Securities International. The SEC alleged that the traders misrepresented the bids and offers being provided to Nomura for RMBS as well as the prices at which Nomura bought and sold RMBS and the spreads the firm earned by intermediating RMBS trades. The SEC separately entered into DPAs with three other individuals who cooperated extensively with the investigation. The SEC's action is ongoing.[71]

Also in September 2015, the SEC announced that investment advisory firm Taberna Capital Management had agreed to pay more than $21 million to settle charges that it had fraudulently retained millions of dollars in "exchange fees" belonging to collateralized debt obligation (CDO) clients. According to the SEC's order, Taberna retained the fees, which were collected in connection with restructuring transactions, despite the fact that doing so was in violations of the CDOs' governing documents and did so without disclosing the practice to investors. The firm's former managing director and former COO, also charged for their roles in the misconduct, agreed to settle the SEC's charges.[72]

Actions Related to Offering Frauds and Ponzi and Pyramid Schemes

The SEC acted decisively in FY 2015 to protect investors from offering frauds and pyramid schemes. In April 2015 the SEC charged a former professional football player and others, alleging they operated a Ponzi scheme that raised more than $31 million from investors who were promised profits from loans to professional athletes. Will Allen and a partner allegedly raised over $31 million that was to be loaned to pro athletes who were short of cash for use in the off season, but allegedly misled investors about the loans and misused the proceeds.[73]

In May 2015, the SEC obtained an asset freeze against a North Dakota entity, North Dakota Developments, LLC, and two principals for defrauding investors in short-term housing facilities, known as "man camps," for oil and gas workers. North Dakota Developments, LLC, and its two owners raised over $62 million for interests in one of four housing projects, on the basis of unrealistic projected returns, and while making misstatements about when the projects would be operational.[74]

In July 2015, the SEC announced charges against a Bay Area oil and gas company and its CEO with running a $68 million Ponzi-like scheme and affinity fraud that targeted the Chinese-American community in California and investors in Asia, including some solicited as part of the EB-5 Immigrant Investor Program. According to the SEC's complaint, Luca International Group's CEO misrepresented that the company was profitable while knowing that the oil and gas drilling operations were losing money and sinking in debt. To keep

[69] *In the Matter of Lynn Tilton, et al., Press Rel. 2015-52 (March 30, 2015) www.sec.gov/news/pressrelease/2015-52.html*

[70] *In the Matter of Sand Hill Exch., et al., Press Rel. 2015-123 www.sec.gov/news/pressrelease/2015-123.html*

[71] *SEC v. Ross B. Shapiro, et al., Press Rel. 2015-181 (September 8, 2015) www.sec.gov/news/pressrelease/2015-181.html*

[72] *In the Matter of Taberna Capital Mgmt., LLC, et al., Press Rel. 2015-177 (September 2, 2015) www.sec.gov/news/pressrelease/2015-177.html*

[73] *SEC v. Capital Fin. Partners, LLC, et al., Press Rel. 2015-58 (April 7, 2015) www.sec.gov/news/pressrelease/2015-58.html*

[74] *SEC v. North Dakota Devs., Litigation Rel. No. 23252 (May 6, 2015) www.sec.gov/litigation/litreleases/2015/lr23252.htm*

the scheme from collapsing, the CEO commingled investor funds and used new investor money to make sham payments to earlier investors, all while diverting millions of dollars for her personal use. The company's CFO settled and agreed to pay a $25,000 penalty. In addition, as part of a related AP, the SEC charged Hiroshi Fujigami and his company Wisteria Global with acting as unregistered broker-dealers. Mr. Fujigami and Wisteria settled the charges by agreeing to pay disgorgement of almost $1.1 million and Mr. Fujigami agreed to permanent industry and penny stock bars.[75]

In August 2015, the SEC charged a Houston-area businessman with operating a $114 million Ponzi scheme that defrauded investors, some of whom were told that their money would fund technology to prevent accidents caused by drowsy driving. Starting in October 2014, Frederick A. Voight falsely promised annual returns of as much as 42 percent for investments that would be used to fund publicly traded research and design company InterCore. Mr. Voight, a member of InterCore's board at all relevant times, knew there was no business prospect for InterCore, that it was insolvent, that it had no means of paying promised returns, and that the only returns paid to investors would be Ponzi payments. Mr. Voight and DayStar agreed to partially settle the charges; both Mr. Voight and DayStar consented to permanent injunctions and Mr. Voight consented to an officer and director bar; with the penalty amount to be litigated.[76]

Other Significant Matters

In April 2015, the SEC announced its first enforcement action against a company for using improperly restrictive language in confidentiality agreements with the potential to stifle the whistleblowing process. The SEC charged Houston-based global technology and engineering firm KBR Inc. with violating whistleblower protection Rule 21F-17 enacted under the Dodd-Frank Act. According to the SEC's order, KBR required witnesses in certain internal investigations interviews to sign confidentiality statements with language warning that they could face discipline and even be fired if they discussed the matters with outside parties without the prior approval of KBR's legal department. Since these investigations included allegations of possible securities law violations, the SEC found that these terms violated Rule 21F-17, which prohibits companies from taking any action to impede whistleblowers from reporting possible securities violations to the SEC. KBR agreed to pay a $130,000 penalty to settle the charges, and voluntarily undertook to amend its confidentiality statements by adding language clarifying that employees are free to report possible violations to the SEC and other Federal agencies without KBR approval and without fear of retaliation.[77]

FY 2015 included a number of trial victories for Enforcement.

Following a five-day trial in November 2014, a jury in the U.S. District Court in New Mexico returned a verdict finding Charles Kokesh, who was CEO of defunct investment-adviser firms Technology Funding Ltd. and Technology Funding, Inc., liable for defrauding his firms' advisory clients and for making false public filings with the SEC. In spite of the duty of trust and confidence that he owed to his clients, Kokesh systematically looted approximately $35 million from client funds over many years. Following the remedies phase of the proceedings, the court in April entered a final judgment against Mr. Kokesh, ordering him to pay $55 million in penalties, disgorgement, and prejudgment interest.[78]

In December 2014, a jury in the U.S. District Court in the Southern District of Florida returned a verdict finding that BankAtlantic Bancorp, Inc., now known as BBX Capital Corporation, and its CEO Alan Levan committed securities fraud by misleading investors with fraudulent statements made during an earnings conference call that understated the Bank's losses that year by approximately $53 million. The jury's verdict followed a six-week trial.[79] Following the remedies phase of the proceedings, the court entered final

[75] *In the Matter of Wisteria Global Inc., et al., Press Rel. 2015-141 (July 6, 2015) www.sec.gov/news/pressrelease/2015-141.html*

[76] *SEC v. Frederick Alan Voight, et al., Press Rel. 2015-158 (August 3, 2015) www.sec.gov/news/pressrelease/2015-158.html*

[77] *In the Matter of KBR, Inc., Press Rel. 2015-54 (April 1, 2015) www.sec.gov/news/pressrelease/2015-54.html*

[78] *SEC v. Charles R. Kokesh, Litigation Rel. No. 23228 (April 2, 2015) www.sec.gov/litigation/litreleases/2015/lr23228.htm*

[79] *SEC v. BankAtlantic Bancorp, Inc., et al., Public Statement by Andrew Ceresney (December 15, 2014) www.sec.gov/news/statement/bankatlantic-statement.html*

judgments against BBX and Mr. Levan ordering permanent injunctive relief as to both BBX and Levan, a $4.55 million penalty as to BBX, and a two year officer-and-director bar (effective 90 days from the court's ruling) and a $1.3 million penalty as to Mr. Levan.[80]

In March 2015, a jury in the U.S. District Court in the Central District of California returned a verdict finding former Chicago Bears player Willie Gault guilty for filing false certifications with the SEC and for knowingly circumventing the internal controls of HeartTronics, Inc., a public company where Mr. Gault served as co-CEO.[81]

In April 2015, a jury in the U.S. District Court in the Southern District of Florida found George Levin liable of committing securities fraud in connection with two private investment funds that raised more than $157 million from over 150 investors to purchase non-existent, discounted legal settlements from convicted Ponzi-schemer Scott Rothstein. The SEC presented evidence that Mr. Levin falsely told investors that the funds had several safeguards to protect their investments, while knowing that the funds were not following those safeguards and procedures.[82]

In September 2015, a jury in the Northern District of Illinois found Ralph Pirtle, the former Director of Real Estate for Philips Electronics North America, Inc., a wholly-owned subsidiary of Royal Philips, N.V., and his friend and business associate, Morando Berrettini, liable for insider trading in the securities of three companies that were acquisition targets for Philips. Proceedings regarding remedies are ongoing and were not resolved during FY 2015.[83]

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[80] *SEC v. BankAtlantic Bancorp, Inc., et al., Public Statement by Andrew Ceresney (September 24, 2015) www.sec.gov/news/statement/statement-on-final-judgment-entered-against-bbx-capital-.html*

[81] *SEC v. HeartTronics, Inc., et al., Public Statement by Andrew Ceresney (March 18, 2015) www.sec.gov/news/statement/statement-on-jury-verdict-in-willie-gault-heart-tronics-case.html*

[82] *SEC v. George G. Levin, et al., Public Statement by Andrew Ceresney (April 1, 2015) www.sec.gov/news/statement/statement-on-jury-verdict-in-trial-of-george-levin.html*

[83] *SEC v. Morando Berrettini, et al., Public Statement by Andrew Ceresney (September 24, 2015) www.sec.gov/news/statement/statement-on-pirtle-and-berrettini-insider-trading-case.html*

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Appendix D: Glossary of Selected Terms

Advisers Act

The Investment Advisers Act of 1940 is a U.S. Federal law that was created to regulate the actions of investment advisers.

Agency Financial Report (AFR)

An annual requirement that provides financial and high-level performance results that enable the President, Congress, and the public to assess an agency's accomplishments each fiscal year (October 1 through September 30). This report includes audited financial statements and provides an overview of an agency's programs, accomplishments, challenges, and management's accountability for entrusted resources. The report is prepared in accordance with the requirements of Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. Under Circular A-136, agencies may prepare an Agency Financial Report (AFR) and Annual Performance Report (APR), or may combine these two reports into the Performance and Accountability Report (PAR).

Alternative Trading System (ATS)

A privately operated platform to trade securities outside of traditional exchanges.

Annual Performance Report (APR)

A report that outlines goals and intended outcomes of an agency's programs and initiatives. This report provides program performance and financial information that enables the President, Congress, and the public to assess an agency's performance and accountability over entrusted resources.

Asset

An asset is a resource that embodies economic benefits or services that the reporting entity controls.

Backtesting

Testing a predictive model using existing historic data.

Statement of Cash Flows

Reports a company's inflows and outflows of cash over time by classification.

Clawback Policies

Under the Dodd-Frank Act, all listed companies will eventually be required to institute a mechanism for reclaiming executive pay that had been granted under misstated earnings.

Collateralized Debt Obligation (CDO)

A type of structured asset-backed security (ABS) with multiple "tranches" that are issued by special purpose entities and collateralized by debt obligations including bonds and loans. Each tranche offers a varying degree of risk and return so as to meet investor demand.

Contracts-For-Difference (CFD)

An agreement between two parties to exchange the difference between the opening price and closing price of a contract.

Credit Default Swap (CDS)

A financial swap agreement that the seller of the CDS will compensate the buyer (usually the creditor of the reference loan) in the event of a loan default (by the debtor) or other credit event.

Custodial Activity

Revenue that is collected, and its disposition, by a Federal agency on behalf of other entities is accounted for as a custodial activity of the collecting entity. SEC custodial collections include amounts collected from violators of securities laws as a result of enforcement proceedings.

Crowdfunding

In the JOBS Act, a new means of raising capital enabling the raising of small amounts of equity capital without having to register with the SEC.

Dark Pool

Alternative trading systems (ATS) that display little or no information about customer orders are known as dark pools.

Deferred Prosecution Agreement (DPA)

An agreement where the defendant is granted certain provisions providing the defendant fulfills specified requirements.

Deposit Fund

Consists of funds that do not belong to the Federal Government, such as 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.

Derivative

A contract between two parties that specifies conditions (dates, resulting values of the underlying variables, and notional amounts) under which payments are to be made between the parties.

Disgorgement

A repayment of funds received or losses forgone, with interest, as a result of illegal or unethical business transactions. Disgorged funds are normally distributed to those affected by the action, but in certain cases may be deposited in the U.S. Treasury General.

Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act)

A Federal law that regulates the U.S. financial industry. The legislation, enacted in July 2010, created new financial regulatory processes that enforce transparency and accountability while implementing rules for consumer protection.

EDGA and EDGX Exchanges

EDGA and EDGX are a type of electronic communication network (ECN) that allows traders to trade with one another directly on an exchange instead of having to go through a middleman.

Entity Assets

Assets that an agency is authorized to use in its operations. For example, the SEC is authorized to use all funds in the Investor Protection Fund (IPF) for its operations.

Entity Accounts Receivable

Monies owed to the SEC generated from securities transaction fees and filing fees paid by registrants.

Exchange Revenue

Exchange revenues are inflows of earned resources to an entity. Exchange revenues arise from exchange transactions, which occur when each party to the transaction sacrifices value and receives value in return. Examples include the sale of goods and services, entrance fees and most interest revenue.

Fair Fund

A fund created by the SEC to return money to harmed investors.

Federal Accounting Standards Advisory Board (FASAB)

A U.S. Federal advisory committee sponsored by the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States, whose mission is to develop generally accepted accounting principles (GAAP) for the Federal Government.

Federal Civil Penalties Inflation Adjustment Act

Requires agencies to adjust its civil monetary penalties (CMP) for inflation and requires them to make adjustments at least once every four years thereafter.

Federal Information Security Management Act (FISMA)

A law that requires Federal agencies to conduct annual assessments of their information security and privacy programs, develop and implement remediation efforts for identified weaknesses and vulnerabilities, and report on compliance to the Office of Management and Budget (OMB).

Financial Industry Regulatory Authority, Inc. (FINRA)

A private corporation that acts as a self-regulatory organization (SRO). FINRA is the successor to the National Association of Securities Dealers, Inc. (NASD) and is a non-governmental organization that performs financial regulation of member brokerage firms and exchange markets. The Government organization which acts as the ultimate regulator of the securities industry, including FINRA, is the SEC.

Foreign Corrupt Practices Act (FCPA)

Addresses transparency requirements under the Securities Exchange Act of 1934 and improper payments to foreign officials.

Fund Balance with Treasury (FBWT)

A Federal entity's fund balance with the U.S. Treasury (FBWT) is the amount of funds in the entity's accounts with the U.S. Treasury for which the entity is authorized to make expenditures and pay liabilities and that have not been invested in Federal securities.

Funds from Dedicated Collections

Accounts containing specifically identified revenues, often supplemented by other financing sources, that are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the Government's general revenues. For example, Investor Protection Fund (IPF) resources are funds from dedicated collections and may only be used for the purposes specified by the Dodd-Frank Act.

Gatekeepers

Enlistment of professionals such as attorneys, accountants and other consultants, in helping to protect investors in our financial systems in the detection and prevention of compliance breakdowns and fraudulent schemes that cause investor harm.

General Funds – Salaries and Expenses

Appropriations by Congress that are used to carry out the agency's mission and day to day operations that may be used in accordance with spending limits established by Congress.

Generally Accepted Accounting Principles (GAAP)

Framework of accounting standards, rules, and procedures defined by the professional accounting industry. The Federal Accounting Standards Advisory Board (FASAB) is the body designated by the American Institute of Certified Public Accounting (AICPA) as the source of GAAP for Federal reporting entities.

Imputed Financing

Financing provided to the reporting entity by another Federal entity covering certain costs incurred by the reporting entity. For example, some Federal employee retirement benefits are paid by the Federal Government's central personnel office, the Office of Personnel Management (OPM). The SEC recognizes a financing source and corresponding expense to represent its share of the cost of providing pension and post-retirement health and life insurance benefits to all eligible SEC employees.

Insider Trading

The buying or selling of a security by someone who has access to material, nonpublic information about the security.

Intragovernmental Costs

Costs that arise from the purchase of goods and services from other components of the Federal Government.

Investor Protection Fund (IPF)

A fund established by the Dodd-Frank Act to pay awards to whistleblowers. The program requires the Commission to pay an award, under regulations prescribed by the Commission and subject to certain limitations, to eligible whistleblowers who voluntarily provide the Commission with original information about a violation of Federal securities laws that leads to the successful enforcement of a covered judicial or administrative action, or a related action.

Jumpstart Our Business Startups (JOBS) Act

A Federal law enacted on April 5, 2012 intended to encourage small businesses within the U.S. by easing securities regulations for those businesses.

Liability

A liability is a present obligation of the reporting entity to provide assets or services to another entity at a determinable date, when a specified event occurs, or on demand.

Market Based Treasury Securities

Debt securities that the U.S Treasury issues to Federal entities without statutorily determined interest rates.

Microcap Securities

Low priced stocks issued by the smallest of companies.

Miscellaneous Receipt Account

A fund used to collect non-entity receipts from custodial activities that the SEC cannot deposit into funds under its control or use in its operations. These amounts are forwarded to the U.S. Treasury General Fund and are considered to be non-entity assets of the SEC.

Municipalities Continuing Disclosure Cooperation (MCDC)

An Enforcement initiative that offers favorable settlement to municipal bond underwrites and issuers who self-report violations of Federal securities laws to the SEC.

Municipal Securities Rulemaking Board

Writes investor protection rules and other rules regulating broker-dealers and banks in the United States municipal securities market, including tax-exempt and taxable municipal bonds, municipal notes, and other securities issued by states, cities, and counties or their agencies to help finance public projects or for other public policy.

NASDAQ

The NASDAQ Stock Market, also known as simply NASDAQ, is an American stock exchange. NASDAQ originally stood for National Association of Securities Dealers Automated Quotations. It is the second-largest stock exchange by market capitalization in the world, after the New York Stock Exchange.

Non-Entity Assets

Those assets that are held by an entity but are not available to the entity. Examples of non-entity assets are disgorgement, penalties, and interest collected and held on behalf of harmed investors.

Office of Management and Budget (OMB) Circular A-123

Defines management's responsibilities for internal financial controls in Federal agencies.

Office of Management and Budget (OMB) Circular A-136

Establishes a central point of reference for all Federal financial reporting guidance for Executive Branch departments, agencies, and entities required to submit audited financial statements, interim financial statements, and Performance and Accountability Reports (PAR), and Agency Financial Reports (AFR) under the Chief Financial Officers Act of 1990 (CFO Act), the Accountability of Tax Dollars Act of 2002, and Annual Management Reports under the Government Corporations Control Act.

Operation Shell-Expel

A microcap fraud fighting initiative utilizing technology to scour the over-the-counter marketplace and identify dorment companies ripe for abuse.

Performance and Accountability Reports (PAR)

An annual report that provides program performance and financial information that enables Congress, the President, and the public to assess an agency's performance and accountability over entrusted resources.

Ponzi Scheme

A Ponzi scheme is a fraudulent scheme where returns to established investors are paid with funds from new investors rather than from profits.

Public Company Accounting Oversight Board (PCAOB)

A nonprofit corporation established by Congress to oversee the audits of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports. The PCAOB also oversees the audits of broker-dealers, including compliance reports filed pursuant to Federal securities laws, to promote investor protection.

Pump and Dump Schemes

A form of micro stock fraud involving artificially inflating the price of an owned stock through false and misleading positive statements.

Regulation A+

Expands Regulation A to enable smaller companies to offer and sell up to $50 million of securities in a 12 month period, subject to eligibility, disclosure and reporting requirements.

Reserve Fund

A fund established by the Dodd-Frank Act that may be used by the SEC to obligate amounts up to a total of $100 million in one fiscal year as the SEC determines it necessary to carry out its functions.

Sarbanes-Oxley Act of 2002

An Act aimed at enhancing corporate responsibility, financial disclosures, and fighting corporate and accounting fraud. The Act created the Public Company Accounting Oversight Board (PCAOB).

Section 31 Fees

Transaction fees paid to the SEC based on the volume of securities that are sold on various markets. Under Section 31 of the Securities Exchange Act of 1934 (Exchange Act), self-regulatory organizations (SROs) – such as the Financial Industry Regulatory Authority (FINRA) and all of the national securities exchanges (including the New York Stock Exchange) – must pay transaction fees to the SEC based on the volume of securities that are sold on their markets. These fees recover the costs incurred by the Government, including the SEC, for supervising and regulating the securities markets and securities professionals.

Securities Exchange Act of 1934 (Exchange Act)

A law governing the secondary trading of securities (stocks, bonds, and debentures) in the United States. It was this piece of legislation that established the Securities and Exchange Commission. The Exchange Act and related statutes form the basis of regulation of the financial markets and their participants in the United States.

Self-Regulatory Organization (SRO)

An organization that exercises some degree of regulatory authority over an industry or profession. The regulatory authority could be applied in addition to some form of Government regulation, or it could fill the vacuum of an absence of Government oversight and regulation. The ability of an SRO to exercise regulatory authority does not necessarily derive from a grant of authority from the Government.

Strategic Plan

A report initially required by the Government Performance and Results Act (GPRA) that defines the agency mission, long-term goals, strategies planned, and the approaches it will use to monitor its progress in addressing specific national problems, needs, challenges, and opportunities related to its mission. The Plan also presents general and long term goals the agency aims to achieve, what actions the agency will take to realize those goals, and how the agency will deal with challenges and risks that may hinder achieving result. Requirements for the Strategic Plan are presented in OMB Circular A-11, *Preparation, Submission and Execution of the Budget*.

U.S. Commodity Futures Trading Commission (CFTC)

An independent agency of the U.S. Government that regulates futures and option markets.

U.S. Exchanges

A place (physical or virtual) where stock traders come together to decide on the price of securities.

U.S. Securities and Exchange Commission (SEC)

The SEC is an independent agency of the U.S. Government established pursuant to the Securities Exchange Act of 1934 (Exchange Act), charged with regulating the country's capital markets. It is charged with protecting investors, maintaining fair, orderly and efficient markets; and facilitating capital formation.

Appendix E: Acronyms

ADA	Antideficiency Act
AFR	Agency Financial Report
AP	Administrative Proceeding
APR	Annual Performance Report
ATS	Alternative Trading Systems
CAT	Consolidated Audit Trail
CCO	Chief Compliance Officer
CDO	Collateralized Debt Obligation
CDS	Credit Default Swap
CEAR	Certificate of Excellence in Accountability Reporting
CEO	Chief Executive Officer
CFD	Contracts-For-Difference
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CFTC	Commodities Futures Trading Commission
CMBS	Commercial Mortgage-Backed Securities
CLO	Collateralized Loan Obligation
COO	Chief Operating Officer
COR	Contracting Officers Representative
CSRS	Civil Service Retirement System
DCIA	Debt Collection Improvement Act
DERA	Division of Economic and Risk Analysis
DNP	Do Not Pay
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
DOL	U.S. Department of Labor
DOJ	U.S. Department of Justice
DPA	Deferred Prosecution Agreement
EDGAR	Electronic Data Gathering, Analysis and Retrieval
ESC	Enterprise Service Center
ETF	Exchange-Traded Funds
Exchange Act	Securities Exchange Act of 1934
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FCPA	Foreign Corrupt Practices Act
FCPIA	Federal Civil Penalties Inflations Adjustment Act
FECA	Federal Employees' Compensation Act
FedRAMP	Federal Risk and Authorization Management Program
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FINRA	Financial Industry Regulatory Authority
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act of 1982
FOIA	Freedom of Information Act
FSB	Financial Stability Board
FSSP	Federal Shared Service Provider
FTC	Federal Trade Commission
FTE	Full-Time Equivalents
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GPRA	Government Performance and Results Act
GSA	U.S. General Services Administration
ICFR	Internal Control over Financial Reporting
IOSCO	International Organization of Securities Commissions

IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
IP	Internet Protocol (address)
IPF	Investor Protection Fund
IT	Information Technology
JOBS Act	Jumpstart Our Business Startups Act
MCDC	Municipalities Continuing Disclosure Cooperation (Enforcement Initiative)
MD&A	Management's Discussion and Analysis
MIDAS	Market Information Data and Analytics System
MSRB	Municipal Securities Rulemaking Board
NASDAQ	National Association of Securities Dealers Automated Quotations
NEAT	National Exam Analytics Tool
NEP	National Examination Program
NIST	National Institute of Standards and Technology
NRSRO	Nationally Recognized Statistical Rating Organization
OA	Office of Acquisitions
QAU	Quantitative Analytics Unit
OCIE	Office of Compliance Inspections and Examinations
OCOO	Office of the Chief Operating Officer
OD	Office of Distributions
OFM	Office of Financial Management
OGC	Office of the General Counsel
OHR	Office of Human Resources
OIA	Office of International Affairs
OIEA	Office of Investor Education and Advocacy
OIG	Office of Inspector General
OIT	Office of Information Technology
OMB	Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
OPM	Office of Personnel Management
ORA	Office of Risk Assessment
OSI	Office of Strategic Initiatives
OSO	Office of Support Operations
OTC	Over-the-Counter (trading)
PCAOB	Public Company Accounting Oversight Board
PII	Personally Identifiable Information
QAU	Quantitative Analysis Unit
QRADS	Quantitative Research Analytical Data Support (program)
RAE	Risk Analysis Examination Team
RAS	Risk Analysis and Surveillance Group
Reserve Fund	Securities and Exchange Commission Reserve Fund
RMBS	Residential Mortgage-Backed Securities
S&P	Standard & Poor
S/L	Straight-Line
SBR	Statement of Budgetary Resources
SEC	U.S. Securities and Exchange Commission
SFFAS	Statement of Federal Financial Accounting Standards
SIP	Securities Information Processor
SIPA	Securities Investor Protection Act of 1970
SIPC	Securities Investor Protection Corporation
SPFI	Summary of Performance and Financial Information
SRO	Self-Regulatory Organization
SWG	Specialized Working Groups
TCP	Technology Controls Program
TCR	Tips, Complaints and Referrals
TSP	Thrift Savings Plan
UDO	Undelivered Order
XBRL	eXtensible Business Reporting Language

This Agency Financial Report was produced through the energies and talents of the SEC staff. To these individuals we offer our sincerest thanks and acknowledgement. We would also like to acknowledge the Government Accountability Office and the SEC 's Office of Inspector General for the professional manner in which they conducted the audit of the FY 2015 financial statements. Finally, we offer special thanks to AOC Solutions and The DesignPond for their contributions in the design and production of this report. To comment on this report, please send an e-mail to SECAFR@sec.gov.

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