U.S. SECURITIES AND
EXCHANGE COMMISSION

Agency Financial Report

FISCAL YEAR 2016

Message from the Chair

The extraordinary women and men of the U.S. Securities and Exchange Commission (SEC) work hard every day in service to investors and our capital markets. Through the staff's tremendous work, the Commission has been able to significantly advance our mission of protecting investors, facilitating capital formation, and promoting fair, orderly, and efficient markets.

In fulfilling this mission, the Commission continued its strong track record of achievements in Fiscal Year (FY) 2016, working to protect and enhance the most robust and reliable markets in the world. The Commission carried out cutting-edge, record-setting enforcement work, reviewed the disclosures in the financial filings of thousands of public companies and registered fund promoted compliance and detected fraud through a far-reaching examination program, and proposed and adopted major reforms to protect investors and promote fairness in the markets.

Since I became Chair in April 2013, completing our mandatory rulemakings has been a top priority. This past year, we continued to aggressively complete our rulemakings required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Fulfilling these mandates is critical for promoting the long-term sustainability of the U.S. financial system, and the Commission has completed more than two dozen since I became Chair—including major rules limiting proprietary trading activities, registering municipal market advisors, reforming the credit rating agencies and asset-backed securities, regulating security-based swaps, and bringing more transparency to executive compensation. So far, in this past year alone, the Commission completed final rules on the regulation of systemically important clearing agencies, key elements of the security-based swap regulatory regime, and disclosures by resource extraction issuers.

With the adoption of final rules on crowdfunding, the Commission completed all rulemakings required under the Jumpstart Our Business Startups Act. The rules we adopted under that Act have created new paths to capital for businesses, especially smaller ones, while maintaining strong anti-fraud and other investor protections. Completing these rulemakings has been no simple task, and the high quality of the final rules is a testament to the tremendous ability of the SEC staff.

We also pressed forward with critical discretionary policy initiatives to address various risks we identified in the markets. In our ongoing effort to

transform the regulation of the asset management industry, we proposed rules that would modernize the regulation of funds' use of derivatives and issued a proposal for business continuity and transition planning by investment advisers. In equity market structure, another area of focus, the Commission issued proposals to give investors more information than ever before about how their orders are handled and update the regulation of alternative trading systems for the first time since rules were originally adopted in 1998. And building on the staff's review of the effectiveness of our disclosure regime, the Commission issued a major concept release on Regulation S-K and proposed discrete updates intended to make disclosure more meaningful for investors.

Our enforcement program continued to protect main street investors by bringing bad actors to justice throughout FY 2016. The most visible face of the SEC is what we do to enforce the law, and a robust and effective enforcement program is essential for protecting investors and giving them the confidence needed to drive capital formation. The program continued its impressive record this year by filing 868 enforcement actions, the most in the SEC's history, and by obtaining orders for more than $4 billion in penalties and disgorgement. Enforcement efforts were focused on critical areas of concern, including market structure issues, particularly those involving alternative trading systems, abusive trading, cyber issues, and the dissemination of false information to the market.

Over the past year, our examination teams conducted more than 2,400 formal examinations of registrants, an increase over each of the prior seven fiscal years. Importantly, our examinations resulted in the return of more than $60 million to investors.

Our work would not be possible without the coordination and cooperation of so many teams across the agency—our facilities and administrative teams, our Information Technology department, the Office of Investor Education and Advocacy, and our Human Resources staff, to name a few. The work of these teams may not always appear in press releases, but it is absolutely essential to the high functioning of our agency.

I would also like to pause to note that one of our proudest achievements at the SEC has been the increase in overall employee satisfaction. According to the Federal Employee Viewpoint Survey, we now rank third of 37 in that category among the large federal agencies. We were the most improved large agency this year with a nine percent increase. Such progress is a testament to the quality and dedication of all of the SEC's employees.

In doing our work, it is critical that we always keep investors at the forefront of everything we do. We were created to protect them, to look out for them, and to ensure that they are given the information they need to make responsible investment choices. The SEC's achievements this fiscal year demonstrate once again our steadfast commitment to investors and to our broader mission.

In 1934, just two days after he signed the Securities Exchange Act, President Roosevelt told Congress that "We have sought to put forward the rule of fair play in finance and industry." We have done much to further fair play in the marketplace this year, and we will continue to do so in the year ahead.

MARY JO WHITE
Chair
November 14, 2016

Contents

Message from the Chair i

Introduction to the Agency Financial Report 1

Management's Discussion and Analysis 3

- Mission, Vision, Values, and Goals 4
- History and Purpose 6
- Organizational Structure and Resources 7
- Fiscal Year 2016 In Review 11
- Looking Forward 30
- Financial Highlights 36
- Performance Highlights 45
  - Verification and Validation of Performance Data 45
  - Strategic and Performance Planning Framework 45
  - Performance Achievements 48
- Management Assurances and Compliance with Laws 52
  - Annual Assurance Statement 53
  - Management's Assessment of Internal Control 54
  - Other Reviews 55
  - Financial Management System Conformance 55
  - Federal Information Security Management Act (FISMA) 56

Financial Section 59

- Message from the Chief Financial Officer 61
- Report of Independent Auditors 62
- Enclosure I: Management's Response to Audit Opinion 68
- SEC Financial Statements 69
- Notes to the Financial Statements 75
- Required Supplementary Information (Unaudited) 108
- Investor Protection Fund Financial Statements 110
- Notes to the Investor Protection Fund Financial Statements 112

Other Information 121

- Combined Schedule of Spending (Unaudited) 122
- Inspector General's Statement on Management and Performance Challenges 124
- Management's Response to Inspector General's Statement 137
- Summary of Financial Statement Audit and Management Assurances 143
- Improper Payments Elimination and Recovery Act Reporting Details 144
- Civil Monetary Penalties Inflation Adjustment 147

Appendices 151

- Appendix A: Chair and Commissioners 152
- Appendix B: Enforcement 155
- Appendix C: SEC Divisions and Offices 160
- Appendix D: Glossary of Selected Terms 163
- Appendix E: Acronyms 172
- Appendix F: References 175

ABOUT THIS REPORT

The U.S. Securities and Exchange Commission's (SEC) Fiscal Year (FY) 2016 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 of 2010
- 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 the Improper Payments Elimination and Recovery Act of 2010, the Improper Payments Elimination and Recovery Improvement Act of 2012, and the Federal Improper Payments Coordination Act of 2015
- Office of Management and Budget Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
- Office of Management and Budget Circular A-136, *Financial Reporting Requirements*
- Recovery Auditing Act, Section 831, Defense Authorization Act, for 2002

The SEC is producing an AFR that primarily focuses on financial results, and an Annual Performance Report (APR) that reviews strategic goals and performance results, in lieu of a combined Performance and Accountability Report. The FY 2016 APR will be included in the SEC's FY 2018 Congressional Budget Justification available in 2017. Additionally, the SEC will publish a Summary of Performance and Financial Information in February 2017. Electronic copies of this AFR and prior year AFRs are available at *www.sec.gov/about/secreports.shtml*.

Certificate of Excellence in Accountability Reporting

The SEC's FY 2015 AFR received the Certificate of Excellence in Accountability Reporting from the Association of Government Accountants. This was the 10th year in a row that the SEC has won this award, which is presented to federal government agencies whose annual reports achieve the highest standards in demonstrating accountability and communicating results.

AGA

CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING

Presented to the

U.S. Securities and Exchange Commission

In recognition of your outstanding efforts in preparing the Agency Financial Report for the fiscal year ended September 30, 2015.

Introduction to the Agency Financial Report

The U.S. Securities and Exchange Commission's (SEC) Agency Financial Report contains three major sections and supplemental appendices.

Management's Discussion and Analysis

This section provides an overview of the SEC's history, mission, organizational structure, strategic goals, and primary objectives, and outlines the agency's performance highlights, significant achievements, financial information, and forward-looking 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 the SEC's 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 of 2010.

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 SEC, followed by the SEC Chair's response outlining the agency's progress with addressing these challenges. Also included is a Summary of Financial Statement Audit and Management Assurances that lists internal control material weaknesses and financial systems non-conformances; a schedule of spending to show 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 provides biographies for the SEC Chair and Commissioners, a list of the divisions and offices within the SEC, a summary of the SEC's major enforcement cases in FY 2016, and a glossary of definitions for select technical terms and acronyms used throughout the report.

Management's Discussion and Analysis

The U.S. Securities and Exchange Commission's (SEC) Management's Discussion and Analysis serves as a brief overview of the agency's mission, organizational structure, goals, and Fiscal Year (FY) 2016 program and financial performance.

Mission, Vision, Values, and Goals

Explains the SEC's mission, vision, values, and four strategic goals, as set forth in the agency's strategic plan.

History and Purpose

Provides background on the SEC and its responsibility to oversee the nation's securities markets and certain primary participants.

Organizational Structure and Resources

Lists the SEC's office locations, organizational structure, and employment statistics, and provides a summary of programs by responsible divisions and offices.

Fiscal Year 2016 in Review

Summarizes efforts made by the SEC in pursuit of its strategic goals in FY 2016.

Looking Forward

Details specific actions on which the SEC will continue to focus as part of its 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 limitations of the financial statements, and the sources and uses of the SEC's funds.

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, displays FY 2016 operating costs by strategic goal, summarizes FY 2016 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 under the Federal Managers' Financial Integrity Act of 1982 (FMFIA), and on the compliance of the SEC's financial systems with federal requirements under the Federal Financial Management Improvement Act of 1996 (FFMIA). This section also addresses the SEC's compliance with the Federal Information Security Management Act of 2002 (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 securities market 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 the goals of the SEC.

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 Great Depression, Congress passed the Securities Act of 1933[1] (Securities Act) and the Securities Exchange Act of 1934[2] (Exchange Act), which established the SEC.

These laws were designed to regulate the financial markets and restore investor confidence in U.S. capital markets by providing investors and the markets with reliable information and clear rules to ensure honest dealings. The main purpose of these laws was to ensure the following:

- Companies that publicly offer securities for investment dollars are forthcoming and transparent about their businesses, the securities they are selling, and the risks involved with investing.
- People who sell and trade securities—brokers, dealers and exchanges—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 the Public Company Accounting Oversight Board (PCAOB). Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010[3] (Dodd-Frank Act), the agency's jurisdiction was expanded to include certain participants in the derivatives markets, private fund advisers, and municipal advisors.

The SEC consists of five presidentially-appointed Commissioners—one of whom is designated as the Chair of the Commission—with staggered five-year terms (see *Appendix A: Chair and Commissioners*). Former 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 on a regular basis, and meetings are open to the public and the news media unless the discussion pertains to a confidential subject, such as whether or not 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 are insider trading, accounting fraud, and providing false or misleading information about securities and/or the issuing companies.

The SEC offers the public a wealth of educational information on its website, Investor.gov, as well as through an online database of disclosure documents that public companies and other market participants are required to file with the SEC. These can be found at www.sec.gov/edgar/searchedgar/companysearch.html.

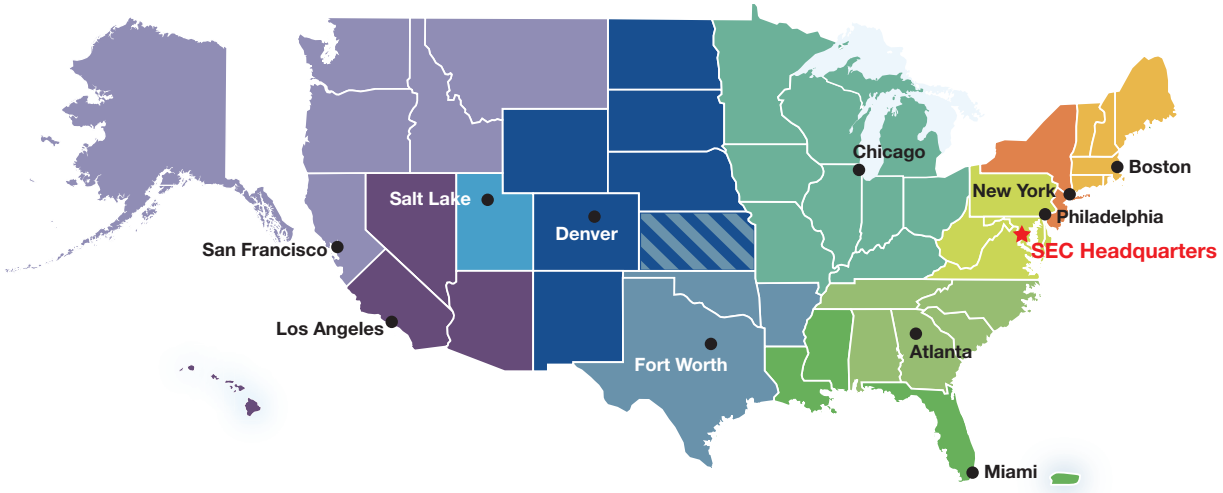
[1] More information about the Securities Act of 1933 can be found at www.sec.gov/about/laws/sa33.pdf
[2] More information about the Securities Exchange Act of 1934 can be found at www.sec.gov/about/laws/sea34.pdf
[3] More information about the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 can be found at 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 to inspect regulated entities such as investment advisers, investment companies, and broker-dealers. The following map illustrates the locations of, and specific states within, each of the regional offices.

Chart 1.1 | SEC Headquarters and Regional Office Locations



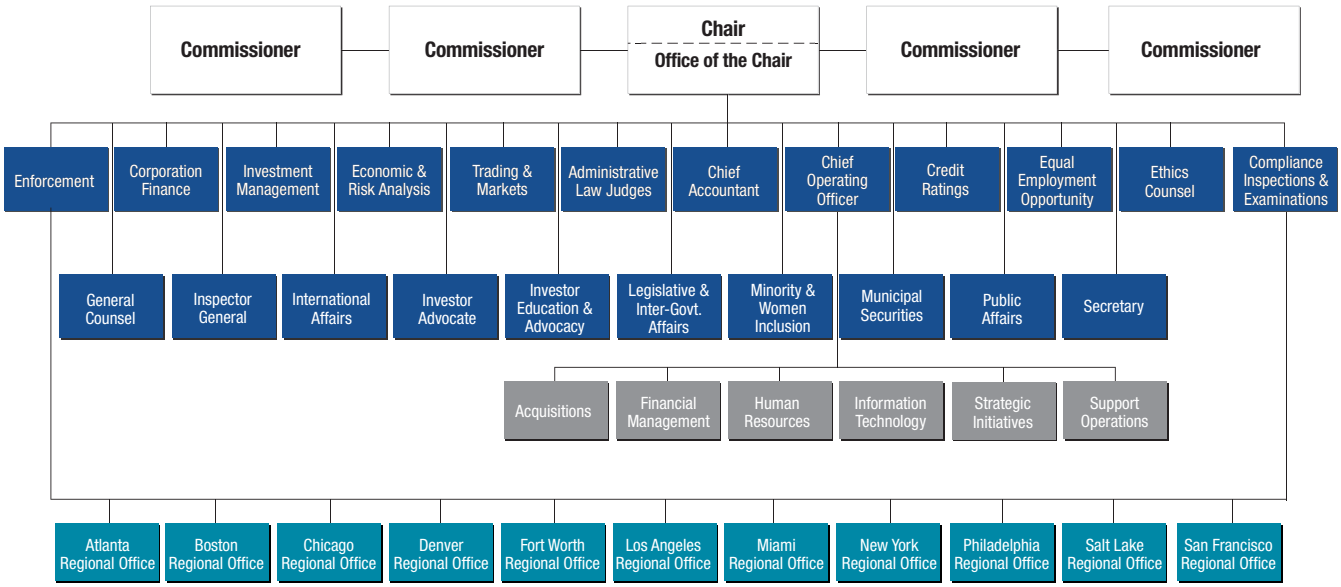
- ★ **SEC Headquarters**
- **Atlanta Regional Office**
  Georgia, North Carolina, South Carolina, Tennessee, Alabama
- **Boston Regional Office**
  Connecticut, Maine, Massachusetts, New Hampshire, Vermont, Rhode Island
- **Chicago Regional Office**
  Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, 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 Organizational Structure

The SEC is an independent federal agency established pursuant to the Exchange Act. It is headed by a bipartisan, five-member Commission composed of the Chair and four Commissioners, as 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 24 offices, each of which is headquartered in Washington, DC. The SEC also has 11 regional offices that are primarily comprised of staff from the national Enforcement and Examination programs.

In FY 2016, the SEC employed 4,554 full-time equivalents (FTE), including 4,404 permanent and 150 other than permanent FTEs. The organization chart below is accurate as of September 30, 2016.

Chart 1.2 | SEC Organization Chart



SEC Programs

The SEC organizes its divisions and offices within 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, which was 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	This program 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. OGC 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.

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 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, as well as the practices of nationally recognized statistical rating organizations (NRSROs) and 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 Strategic Initiatives Office of the Ethics Counsel Office of Minority and Women Inclusion Office of Equal Employment Opportunity	The Chair is responsible for overseeing all aspects of agency operations. The Chair and Commissioners are responsible for reviewing and approving enforcement cases, formal orders of investigation, and the development, consideration, and execution of policies and rules. The other offices in the Agency Direction and Administrative Support program are responsible for: • Working with Members of Congress on issues that affect the Commission; • Coordinating the SEC's communications with the media, general public, and foreign visitors; • Reviewing all documents issued by the Commission, and preparing and maintaining records of Commission actions; • Optimizing the SEC's 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; • Managing key strategic programs and functions in support of the agency, including managing a portfolio of electronic services used across the agency and obtaining data used in analytics and electronic services; 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 the SEC's programs and operations, and investigates allegations of misconduct by staff or contractors. The mission of the 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 70, 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 2016 In Review

Fiscal Year (FY) 2016 was another year of significant accomplishments for the U.S. Securities and Exchange Commission (SEC) under the leadership of Chair Mary Jo White. From prosecuting high-impact, "first-of-their-kind" cases to adopting fundamental reforms to key securities regulations, the Commission continued to pursue a comprehensive program of regulation, enforcement, and examination that protects investors, maintains market integrity, and promotes capital formation. The following sections highlight the SEC's efforts and achievements throughout FY 2016.

The SEC rose to the challenges of a growing mandate and increasingly complex marketplace through innovative strategies for vigorous enforcement; strong and effective rulemakings; enhanced examinations and oversight; a deepened oversight of the most complex and rapidly-evolving corners of the financial markets; enhancing traditional priorities including investor education and international cooperation; and more efficient operations by the agency itself.

Making Safer, Stronger Markets through Focused Rulemaking

The SEC focused on advancing the rules required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), the Jumpstart Our Business Startups (JOBS) Act, the Fixing America's Surface Transportation (FAST) Act of 2015, and other important policy initiatives. Under the Dodd-Frank Act, the Commission completed major new rules for reporting and trading security-based swaps, adopted disclosure rules for resource extraction issuers, and issued a staff report on the "accredited investor" definition. To complete the rulemaking required by the JOBS Act, the Commission adopted new rules to permit crowdfunding and implement changes to issuer reporting requirements. In addition, the Commission adopted amendments to reporting forms for emerging growth companies and smaller reporting companies in response to FAST Act mandates.

Beyond these statutory mandates, the Commission moved forward with a broad policymaking program. These efforts included:

- Enhancing asset management regulations with new proposals on the use of derivatives by investment companies and transition planning by investment advisers and adoption of improved data reporting by investment advisers;[1]
- Continuing efforts on equity market structure with proposals to enhance oversight of alternative trading systems (ATSs) and improve disclosures to investors about how their orders are handled;
- Promoting capital formation, especially for smaller issuers, with proposed rule amendments to facilitate intrastate and regional securities offerings, and to revise the smaller reporting company definition; and
- Bolstering the safety of the national clearing system with the adoption of enhanced risk management standards for the nation's clearing agencies and a proposal to shorten the settlement cycle.

[1] In October 2016, the Commission also adopted transformative rules for liquidity risk management and enhanced reporting by registered investment firms.

Prosecuting a High-Impact, Broad-Based Enforcement Program

The SEC continued to bring impactful and innovative enforcement actions that spanned the spectrum of the securities industry and to do so in record numbers. The SEC's focus on key areas of growing concern, including misconduct in the private equity industry, financial reporting and accounting fraud, and abuses in the public finance space, resulted in actions that have brought public attention to these issues by bringing wrongdoers to account. The SEC also continued to bring important cases involving market structure, insider trading, Foreign Corrupt Practices Act (FCPA) violations, and misconduct related to complex financial instruments. Hundreds of billions of dollars were returned to harmed investors as a result of our aggressive enforcement program.

> The SEC rose to the challenges of a growing mandate and increasingly complex marketplace.

Enhancing a Risk-Based, Data-Driven Examination Program

The Office of Compliance Inspections and Examinations (OCIE) continued to promote compliance and detect fraud by conducting focused and risk-based examinations in addition to expanding its use of technology and data analytics in the examination process. Through these efforts, as well as OCIE's publication of 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 issues at registrants that can most place investors and markets at risk.

Transformative Policy Initiatives for Safer, Stronger Markets

During FY 2016, the Commission advanced critical reforms to protect investors, facilitate capital formation, and build stronger markets, which included addressing products and practices that contributed directly to the financial crisis.

The Commission completed virtually 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; enhanced protections for investors in asset-backed securities; and stronger regulation of credit rating agencies and credit ratings. The SEC continued its process of completing final rules in the remaining two areas: security-based swaps and executive compensation rules, as required by the Dodd-Frank Act.

With the adoption in FY 2016 of final rules for crowdfunding as well as rules related to the thresholds for registration, termination of registration, and suspension of reporting, the Commission also completed its mandatory rulemakings under the JOBS Act.

DISCLOSURE POLICY AND REVIEW

The SEC made significant progress in its disclosure effectiveness initiative, which is a broad-based review of the presentation and delivery of disclosures that public companies make to investors to make them better and more meaningful for investors and more cost effective for companies. For example, the Commission:

- Issued a concept release requesting comment on certain business and financial disclosure requirements in Regulation S-K;

- Proposed rules to modernize property disclosures for mining registrants;
- Proposed amendments to update and simplify disclosure requirements by eliminating redundant, overlapping, outdated, or superseded provisions;
- Issued a request for comment on certain Regulation S-K disclosure requirements relating to management, security holders, and corporate governance matters;
- Proposed to require hyperlinks for exhibits in disclosure submissions; and
- Implemented a voluntary program to allow companies to file structured financial statement data in an Inline XBRL format.

In order to make disclosure more meaningful for investors, the Division of Corporation Finance (Corporation Finance) is considering whether any new disclosure requirements should be added, as well as whether any disclosures that should be eliminated or modified. The staff is seeking input from a broad range of investors, issuers, and other market participants.

The SEC also continued working to ensure that public companies and investment companies disclose material information appropriately and effectively. Through its annual review program of the filings of over 4,800 public companies, Corporation Finance issued focused comments on periodic reports and offering documents, including the registration statements for approximately 400 initial public offerings. The Division of Investment Management's (IM) Disclosure Office also reviewed and commented on disclosures in more than 4,800 filings relating to more than 12,000 registered investment companies, business development companies, and insurance contracts in FY 2016.

The SEC also continued working to ensure that public companies and investment companies disclose material information appropriately and effectively.

The Commission also published significant interpretive guidance to assist companies with improving their disclosures, such as guidance on non-GAAP financial measures and updates to the Corporation Finance Financial Reporting Manual.

EQUITY MARKET STRUCTURE AND CRITICAL MARKET INFRASTRUCTURE

The Commission continued its efforts to strengthen the operational integrity of the securities markets, which were led by the full implementation of Regulation Systems Compliance and Integrity (Regulation SCI), as of November 3, 2015. Adopted in late 2014, Regulation SCI mandates comprehensive new controls to strengthen key technological systems, thereby promoting greater transparency, resiliency, accountability, and compliance. To complement this effort, in FY 2016, the Commission approved rules from the national securities exchanges (exchanges) and the Financial Industry Regulatory Authority (FINRA) designed to address specific areas in which the robustness and resilience of critical market infrastructure can be improved for the equity and options markets. Examples of these rules include mutual backup arrangements for the equity listing exchanges' closing auctions to address situations in which a disruption might prevent the execution of a closing auction on the primary listing exchange, and continuous improvements to the process for opening auctions. The Commission staff also worked with the exchanges and FINRA,

as well as the securities information processors (SIPs), to implement enhancements to the limit-up/limit-down National Market System (NMS) plan after the unusual market volatility of August 24, 2015. In addition, the Commission staff continued to work with the exchanges and FINRA on rule amendments and procedures addressing the issuance, effectiveness, and communication of regulatory halts.

Beyond these efforts to boost operational integrity, the Commission continued its efforts to enhance oversight and operation of the markets, as well as the transparency of key market operations for investors. Among other actions, the Commission:

- Proposed new rules to require NMS stock alternative trading systems to make certain public disclosures about their operations and the activities of their operations and affiliates;
- Proposed new rules to require broker-dealers to provide greater disclosure about their order handling practices, including individualized disclosures for each investor;
- Implemented the data collection requirements for the tick size pilot NMS plan, which began operating on October 3, 2016, by widening the quoting and trading increments for certain small capitalization stocks; and
- Assessed and proposed an NMS 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 order event information for orders in NMS securities from the time of order receipt through routing, cancellation, modification, or execution.

The Commission also continued to advance its consideration of broader market structure changes, including those raised in meetings of the Equity Market Structure Advisory Committee (EMSAC), that provides a formal mechanism through which the Commission can receive advice and recommendations specifically related to equity market structure issues. In July 2016, the EMSAC made recommendations concerning an access fee pilot, changes to the NMS plan governance structure, and linkage of implementation dates with publication of technological specifications changes brought about by self-regulatory organizations' (SRO) rule filings.

ENHANCING RISK MONITORING AND REGULATORY SAFEGUARDS FOR THE ASSET MANAGEMENT INDUSTRY

The SEC also continued to propose and adopt rules as part of its agenda to address the increasing complexity of the asset management industry, including the risks that arise from current portfolio compositions and fund operations.

- In December 2015, the SEC proposed a rule to modernize the regulation of funds' use of derivatives. The proposal is designed to result in better investor protections and safeguard our financial system.
- In June 2016, the SEC proposed a rule that would require registered investment advisers to adopt and implement written business continuity and transition plans. This rule is designed to ensure that investment advisers have a plan in place to mitigate the effects, or minimize the likelihood, of a significant disruption to an adviser's operations so as to minimize investor and market harm. The staff also issued guidance addressing business continuity planning for registered investment companies, including the oversight of operational capabilities of key fund service providers.
- In August 2016, the staff adopted the first set of reforms designed to enhance the reporting and disclosure of information provided by investment advisers. These reforms will improve the quality of information for investors and the Commission, and foster a better understanding of the risk profile of each investment adviser and the industry as a whole.

Beyond this rulemaking, the SEC continued to closely monitor and analyze issues and trends within the asset management industry. IM published a number of Guidance Updates on timely issues for investors in the industry. These updates touched on topics including the importance of promoting transparency and independent oversight of mutual fund fees for investors, and the importance of providing investors with full and accurate information about fund risks.

SECURITY-BASED SWAPS AND IMPLEMENTATION OF THE DODD-FRANK ACT

The Commission completed several major rules in its implementation of the security-based swap provisions of the Dodd-Frank Act, one of the last remaining areas for which Commission rulemaking is mandated. In July 2016, the Commission adopted final amendments to Regulation SBSR—Reporting and Dissemination of Security-Based Swap Information (Regulation SBSR) thereby completing its core rules on security-based swap transaction reporting and dissemination, and setting the stage for reporting to commence in 2017. In addition, the Commission adopted final rules in August 2016 regarding the access of regulators to data obtained by the security-based swap data repositories that will stand at the center of the reporting regime.

The Commission also took major steps toward completing its rules for security-based swap dealers and major security-based swap participants. Specifically:

- In accordance with Title VII, the Commission adopted rules designed to implement business conduct standards and the designation of a chief compliance officer (CCO) for security-based swap dealers and major security-based swap participants;
- The Commission also adopted rules requiring security-based swap dealers and major security-based swap participants to provide trade acknowledgment and verify those trade acknowledgments in security-based swap transactions; and
- Finally, the Commission also adopted 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.

The Commission also advanced its remaining work under the Dodd-Frank Act outside of security-based swaps. In February 2016, the Commission and the Federal Deposit Insurance Commission jointly proposed rules for the orderly liquidation of broker-dealers under Title II of the Dodd-Frank Act. In May 2016, the Commission—together with five other federal regulators—re-proposed rules for incentive-based compensation arrangements under Section 956 of the Dodd-Frank Act. In June 2016, the Commission adopted final rules for the disclosure of payments by resource extraction issuers, and in September 2016, the Commission adopted final rules for enhanced standards for the systemically important financial market utilities that it supervises, as well as certain other designated clearing agencies.

SECURITIES OFFERINGS AND IMPLEMENTATION OF THE JOBS AND FAST ACTS

The Commission continued to implement statutory mandates designed to enhance and facilitate securities offerings, in addition to undertaking discretionary measures to further promote capital formation, especially for smaller issuers.

The Commission completed all of its mandatory rulemaking under the JOBS Act, adopting rules to permit companies to offer and sell securities through crowdfunding. These rules, which allow companies to raise up to $1 million in a 12-month period through crowdfunding offerings, are designed to assist smaller companies with capital formation and provide investors with important

The SEC ended the fiscal year with **548** STAND-ALONE enforcement actions **195** FOLLOW-ON proceedings **125** DELINQUENT FILING proceedings **868** TOTAL ENFORCEMENT ACTIONS

protections. Also under the JOBS Act and the FAST Act, the Commission adopted new rules for registration and reporting thresholds under Exchange Act Section 12(g). In addition, the Commission adopted amendments to reporting forms for emerging growth companies and smaller reporting companies in response to FAST Act mandates.

The Commission also proposed rule amendments to facilitate intrastate and regional securities offerings in October 2015, followed by other amendments to revise the smaller reporting company definition in June 2016.

Continued Impact and Innovation in Enforcement

The Division of Enforcement (Enforcement) continued to build an impressive record of cases that spanned the spectrum of the securities industry. The SEC ended the fiscal year with a record 548 stand-alone enforcement actions, plus 195 follow-on proceedings and 125 delinquent filing proceedings, for a total of 868 enforcement actions. The SEC also obtained judgments and orders for over $4 billion in penalties and disgorgement.

MARKET STRUCTURE, CYBER ISSUES, AND BROKER-DEALERS

During FY 2016, Enforcement continued to prioritize market structure issues, particularly those involving ATSs, abusive trading, cyber issues, and the dissemination of false information to the market. Examples of Enforcement's work in these areas are below.

- Merrill Lynch, Pierce, Fenner & Smith Inc. agreed to pay $415 million and admit wrongdoing to settle charges that it violated the SEC's rules requiring broker-dealers to take certain steps to safeguard the funds and securities entrusted to them by their customers.
- The SEC sanctioned Barclays Capital Inc. and Credit Suisse Securities (USA) LLC for violating the federal securities laws while operating ATSs known as dark pools and Credit Suisse's Light Pool. Barclays agreed to pay a $35 million penalty, which is the largest penalty ever assessed against a dark pool, and admit wrongdoing. Credit Suisse agreed to pay over $54 million in monetary sanctions, representing the largest overall settlement against an ATS operator. This case was the result of a referral from OCIE.
- Merrill Lynch, Pierce, Fenner & Smith Inc. agreed to pay a $12.5 million penalty—the largest ever assessed—to settle charges that it violated the SEC's 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.

INSIDER TRADING

Enforcement continued to pursue corporate insiders, employees of regulated entities, and other individuals who misappropriate or trade unlawfully on material, nonpublic information. In FY 2016, the SEC charged 78 parties in insider trading actions, which brings wrongdoers to account and sends a strong message of deterrence to would-be violators. Notable examples include:

- Charges against a well-known hedge fund manager and his firm, alleging that they generated substantial illicit profits by purchasing securities in Atlas Pipeline Partners in advance of the sale of its natural gas processing facility;

- Charges against a professional sports gambler who allegedly made $40 million based on illegal stock tips, as well as the corporate board member who owed the gambler money and supplied the illegal tips. In that same action, the SEC named a professional golfer as a relief defendant for the purpose of recovering alleged ill-gotten gains from the insider-trading scheme. The golfer agreed to pay over $1 million to settle the matter; and
- Charges against two hedge fund managers for allegedly reaping unlawful profits of nearly $32 million by insider trading on tips received from a former government official accused of deceptively obtaining confidential information from the U.S. Food and Drug Administration.

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 thus must be a priority for Enforcement—and FY 2016 was no exception. The SEC's notable financial fraud actions in FY 2016 include the following:

- Weatherford International Ltd., a large, multinational provider of oil and natural gas equipment and services, agreed to pay a $140 million civil penalty to settle charges that it inflated earnings by using deceptive income tax accounting. Two of the company's senior accounting executives at the time also agreed to settle charges that they were behind the scheme and paid monetary sanctions totaling more than $360,000 and agreed to other ancillary relief; and
- Agribusiness Monsanto Company paid an $80 million penalty to settle charges that it violated accounting rules and misstated company earnings related to its flagship product Roundup. Three Monsanto accounting and sales executives also agreed to pay penalties to settle charges against them.

GATEKEEPERS

Gatekeepers are integral to protecting investors in the U.S. financial system because they are best positioned to detect and prevent the compliance breakdowns and fraudulent schemes that cause investor harm. During FY 2016, Enforcement continued to prioritize cases against gatekeepers, examples of which follow below.

- Grant Thornton LLP agreed to admit wrongdoing, disgorge approximately $1.5 million, pay a $3 million penalty, and improve its quality controls as the result of deficient audits of two publicly traded companies that separately faced SEC enforcement actions for improper accounting and other violations. Two audit partners also agreed to collectively pay $12,500 in penalties, and to be suspended from auditing public companies for a number of years.
- Ernst & Young LLP agreed to pay over $9.3 million in monetary sanctions to settle auditor independence violations arising from close personal relationships between senior management at audit clients and senior engagement personnel. Three firm partners agreed to pay penalties totaling $95,000, and all four partners who were charged agreed to be suspended from auditing public companies for periods ranging from one to three years. These are the first SEC enforcement actions for auditor independence failures predicated on close personal relationships.

ABUSES IN PUBLIC FINANCE

In FY 2016, the SEC brought innovative and path breaking actions in the municipal securities market. Examples of Enforcement's efforts in the public finance area include:

- Enforcement actions against 14 municipal underwriting firms and 71 municipal issuers and other obligated persons for violations in municipal bond offerings as part of the Municipalities Continuing Disclosure Cooperation Initiative, a voluntary self-reporting program targeting material misstatements and omissions in municipal bond offering documents;
- In the first case to enforce the fiduciary duty for municipal advisors created by the 2010 Dodd-Frank Act, which requires these advisors to put their municipal clients' interests ahead of their own, a municipal advisor, its CEO, and two employees agreed to pay more than $435,000 to settle charges that they breached their fiduciary duty by failing to disclose a conflict of interest to a municipal client. The individuals also agreed to suspensions and bars of varying length; and
- In the first enforcement action under the municipal advisor antifraud provisions of the Dodd-Frank Act, two municipal advisory firms agreed to settle charges that they used deceptive practices when soliciting the business of five California school districts.

In FY 2016, the agency brought 160 cases involving investment advisers or investment companies.

INVESTMENT ADVISERS AND COMPANIES

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 2016, during which the agency brought the most ever cases involving investment advisers or investment companies (160). Examples of Enforcement's efforts in this area include:

- Two J.P. Morgan wealth management subsidiaries agreed to pay $267 million and admit wrongdoing to settle the SEC's charges that they failed to disclose conflicts of interest to their clients;
- Four private equity fund advisers affiliated with Apollo Global Management agreed to pay $52.7 million—the largest monetary sanctions ever assessed against a private equity firm—to settle the SEC's charges that they had misled fund investors about fees the advisers collected. This case resulted from a referral from OCIE; and
- A $39 million settlement with three private equity fund advisers within The Blackstone Group to resolve charges that they failed to fully inform investors about benefits the advisers obtained from various fees and discounts.

FOREIGN CORRUPT PRACTICES ACT (FCPA)

Enforcement reached new highs in enforcement of the anti-bribery and anticorruption laws in FY 2016 by bringing the most-ever FCPA-related enforcement actions (21). Examples of Enforcement's impactful work in this priority area included:

- The SEC joined the Department of Justice (DOJ) and Dutch regulators in a $795 million global settlement with telecommunications provider VimpelCom Ltd. to resolve charges that the company paid at least $114 million in bribes to government officials in Uzbekistan;
- In the first FCPA action against a hedge fund and a registered investment adviser, Och-Ziff Capital Management Group LLP and Och-Ziff Management LLP agreed to pay more than $200 million in disgorgement to the SEC and $213 million to the DOJ to resolve anti-bribery and other violations. The SEC separately charged Och-Ziff's CEO and CFO with FCPA violations; and

- Technology firm PTC Inc. and two of the company's Chinese subsidiaries agreed to pay more than $28 million to settle SEC charges that the PTC subsidiaries provided non-business travel and made improper payments to Chinese government officials to win business. The SEC also announced its first deferred prosecution agreement with an individual in an FCPA case.

COMPLEX FINANCIAL INSTRUMENTS

The SEC brought a number of first-of-its-kind actions involving complex financial instruments:

- The SEC announced the first three sets of charges against UBS AG, Merrill Lynch, and UBS Financial Services involving misstatements and omissions by issuers of structured notes, a complex financial product that typically consists of a debt security with a derivative tied to the performance of other securities, commodities, currencies, or proprietary indices; and
- Credit rating agency DBRS Inc. agreed to pay nearly $6 million to settle charges that it misrepresented its surveillance methodology for ratings of certain complex instruments, including residential mortgage-backed securities and re-securitized real estate mortgage investment conduits.

MARKET MANIPULATION

In FY 2016, the SEC took strong action to combat the scourge of stock manipulation. Using a technology- and data-driven approach, Enforcement targeted a variety of manipulation schemes, particularly those involving online intrusions, false statements via social media, and false regulatory filings, examples of which follow below.

- The SEC obtained a court order freezing the profits of a trader who allegedly manipulated the stock of Silicon Valley-based Integrated Device Technology through a false EDGAR filing traced to a computer in Pakistan.
- The SEC obtained an emergency court order freezing the assets of a United Kingdom resident charged with allegedly intruding into the online brokerage accounts of U.S. investors to make unauthorized stock trades that allowed him to profit on trades in his own account.
- The SEC filed securities fraud charges against a Scottish trader whose alleged false tweets caused sharp drops in the stock prices of two companies and triggered a trading halt in one of them.

Using a technology- and data-driven approach, Enforcement targeted a variety of manipulation schemes.

MICROCAP FRAUD

Enforcement broadened its efforts to combat microcap fraud to encompass significant actions involving gatekeepers and professionals associated with microcap frauds. Enforcement's efforts in this area included the following:

- Charges against three company executives for defrauding investors in a purported project to construct the largest movie studio in North America at a suburban location outside Savannah, Georgia, and three company directors—a former New York State governor, a music producer, and a state political finance committee—for failing to timely report their stock transactions in the company while serving on the company's board;
- Charges against four companies and four individuals in an alleged $12.2 million microcap stock scheme involving a Denver, Colorado-based company focused on the development, production and sale of refurbished shipping containers used primarily to grow cannabis; and

- Fraud charges against 10 individuals allegedly involved in providing cash bribes and other kickbacks to registered representatives and unregistered brokers who solicited investors to buy shares of a company's stock.

SECURITIES OFFERING-RELATED VIOLATIONS AND PONZI AND PYRAMID SCHEMES

During FY 2016, the SEC continued its effort to protect investors by filing a number of actions targeting securities offerings, including registration violations, offering frauds, and by thwarting Pyramid and Ponzi schemes, examples of which include:

- Charges against Steve Chen and 13 entities he controlled for allegedly operating a worldwide pyramid scheme that raised more than $32 million from investors by falsely promising that investors would profit from a venture backed by amber deposits worth billions of dollars;
- Charges against the owners of ski resort Jay Peak Inc. and related businesses with fraud for allegedly misusing more than $200 million raised through investments solicited under the EB-5 Immigrant Investor Program; and
- Ethiopia's electric utility agreed to pay nearly $6.5 million to settle charges that it violated the federal securities laws by failing to register bonds it offered and sold to U.S. residents of Ethiopian descent.

WHISTLEBLOWERS

The SEC's whistleblower program awarded over $57 million to 13 whistleblowers in FY 2016, which is more than in all previous years combined. Enforcement also took action to stand up for whistleblowers, including:

- The first stand-alone action for retaliation against a whistleblower; and
- Charges against Anheuser-Busch, Merrill Lynch, Pierce, Fenner & Smith Inc., BlueLinx Holdings Inc., and Health Net Inc. for violating the SEC's rule prohibiting actions to impede someone from communicating with the SEC about a possible securities law violation.

JURY TRIAL VICTORIES

Enforcement's jury trial victories in FY 2016 included the following:

- Following a two week trial, a jury found former stock brokers Daryl Payton and Benjamin Durant liable for insider trading ahead of a $1.2 billion acquisition of SPSS Inc. by IBM Corporation;
- Following a two week trial, a jury found that Stephen Ferrone, the former CEO of biopharmaceutical company Immunosyn Corp., was liable for fraudulently misleading investors about regulatory approval of the company's sole product, and for signing and filing false certifications included with Immunosyn annual and quarterly reports; and
- Following a two and one-half week trial, a jury found the City of Miami and its former Budget Director, Michael Boudreaux, liable for multiple counts of antifraud violations of the federal securities laws in connection with the City's disclosures concerning the deteriorating financial condition of the city during 2007 and 2008 and in three separate offering of municipal securities in 2009. This was the first federal jury trial by the SEC against a municipality or one of its officers for violations of the federal securities laws.

ENFORCEMENT'S CENTER FOR RISK AND QUANTITATIVE ANALYSIS

Enforcement's harnessing of data through innovative analytical tools continued in FY 2016. Enforcement's Center for Risk and Quantitative Analytics supported, coordinated, and enhanced the Enforcement Division's risk-identification, risk

assessment, and data analytic activities in over 75 matters in FY 2016, including actions against 67 entities. The matters involved, among other things, insider trading, hedge funds, municipal issuers, and complex financial instruments.

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 regulated entities, including broker-dealers, investment advisers, investment companies, transfer agents, national securities exchanges, and SROs (including clearing agencies) to evaluate their compliance with applicable regulatory requirements. OCIE uses the findings from these examinations to improve industry compliance, detect and prevent fraud, inform policy, and identify risks.

OCIE conducted more than 2,400 examinations of regulated entities, which is an increase of more than 20 percent over FY 2015 and the highest number of examinations in the preceding seven fiscal years. Notably, the Investment Adviser/Investment Company examination program (IA/IC) completed more than 1,600 exams in FY 2016, an increase of 20 percent over FY 2015. OCIE's examinations resulted in the voluntary return of more than $60 million to investors.

This year, OCIE took steps to improve the ability of its IA/IC program to keep pace with the fast-growing investment management industry. The population of investment advisers has grown rapidly in recent years: more than 2,000 new advisers have registered with the SEC over the past two years. In FY 2016, OCIE took steps to increase staff in the IA/IC examination program by approximately 20 percent through targeted hiring and redeployment of staff from other examination program areas. These changes became effective at the beginning of FY 2017.

OCIE conducted more than
2,400
EXAMINATIONS of REGULATED ENTITIES

20%
over FY 2015

$60M
RETURNED TO INVESTORS

OCIE also optimized its resource allocation in other areas. OCIE redeployed staff to a new FINRA and Securities Industry Oversight office, which is focused on assessing FINRA's fulfillment of its core mission to regulate member broker-dealers. This FINRA-focused team increases the number of staff providing oversight of FINRA, allowing them to more fully examine and evaluate FINRA's operations and regulation of broker-dealers. OCIE's staff of examiners that oversee registered broker-dealers, dual registrants, municipal advisors, transfer agents, exchanges, and other SROs (outside of clearing agencies) have been unified under national leadership in OCIE's Broker-Dealer and Exchange (BDX) office. OCIE's BDX examiners will maintain a significant presence nationwide, including in market centers such as New York and Chicago.

In addition, OCIE created the Office of Risk and Strategy (ORS) to consolidate the various teams that perform risk assessment, monitoring, and surveillance of regulated entities. ORS creates synergies from these teams' varying expertise and allows for closer collaboration, including with examiners. ORS will continue to be a growing presence throughout the examination process to strengthen OCIE's understanding of how firms manage those risks and to better inform the development of risk tools and analytics.

OCIE pursued a number of focused examination initiatives to promote compliance and increase awareness of regulatory risks.

CONTINUING TO PROMOTE AND IMPROVE INDUSTRY COMPLIANCE

OCIE continued its efforts to improve industry risk management practices and compliance with the federal securities laws through examinations, communication, and outreach initiatives. In FY 2016, OCIE published its fourth annual public statement of examination priorities to inform investors and regulated entities about areas that are believed to present heightened risk.[2]

OCIE issued three public risk alerts:

- *Examinations of Advisers and Funds That Outsource Their Chief Compliance Officers*, discussing observations from examinations of investment advisers and funds that outsource the role of CCO to unaffiliated third-parties;[3]
- *OCIE's 2016 Share Class Initiative*, announcing examinations to assess investment adviser recommendations that investors purchase particular share classes of mutual funds or 529 Plan investments;[4]
- *OCIE's Examinations of Supervision Practices at Registered Investment Advisers*, announcing OCIE's examinations of advisers that employ or contract with supervised persons who have a history of disciplinary events.[5]

OCIE conducted over 150 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 communication and coordination among industry participants and regulators. OCIE also engaged directly with senior management, heads of control functions, and independent directors of the largest broker-dealers and their holding companies to emphasize the critical role of compliance within those institutions' enterprise risk management.

OCIE pursued a number of focused examination initiatives to promote compliance and increase awareness of regulatory risks with certain entities. For example, examiners continued assessments of broker-dealers' and investment advisers' cybersecurity compliance and controls, focusing on governance and risk assessment, access rights and controls, data loss prevention, vendor management, training, and incident response.[6]

OCIE's ReTIRE Initiative[7] examinations of investment advisers and broker-dealers assessed the services these registrants offer to investors with

---

[2] *See* "Examination Priorities for 2016," https://www.sec.gov/about/offices/ocie/national-examination-program-priorities-2016.pdf

[3] *See* https://www.sec.gov/ocie/announcement/ocie-2015-risk-alert-cco-outsourcing.pdf, which was issued in November 2015.

[4] *See* https://www.sec.gov/ocie/announcement/ocie-risk-alert-2016-share-class-initiative.pdf, which was issued in July 2016.

[5] *See* https://www.sec.gov/ocie/announcement/ocie-2016-risk-alert-supervision-registered-investment-advisers.pdf, which was issued in September 2016.

[6] *See* OCIE Risk Alert, "OCIE's 2015 Cybersecurity Examination Initiative," September 15, 2015, https://www.sec.gov/ocie/announcement/ocie-2015-cybersecurity-examination-initiative.pdf. These exams were also referenced in OCIE's Examination Priorities for 2016: https://www.sec.gov/about/offices/ocie/national-examination-program-priorities-2016.pdf.

[7] *See* OCIE Risk Alert, "Retirement-Targeted Industry Reviews and Examinations Initiative," June 22, 2015, https://www.sec.gov/about/offices/ocie/retirement-targeted-industry-reviews-and-examinations-initiative.pdf.

retirement accounts, focusing on the reasonable basis for recommendations made to investors, conflicts of interest, supervision, and compliance controls, and marketing and disclosure practices.

CONTINUING TO IDENTIFY AND PREVENT FRAUD

OCIE continued to identify and prevent 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 potential enforcement actions. In FY 2016, OCIE made approximately 200 referrals.

Notable examples of enforcement actions that resulted from OCIE referrals include:

- The Commission charged J.P. Morgan Securities LLC for misleading customers about how it compensates its brokers;
- The Commission charged RiverFront Investment Group, Robert W. Baird & Co., and Raymond James & Associates, Inc. with failing to disclose adequately its practice of "trading away" in wrap fee programs, a practice which increased costs to investors;
- The Commission charged municipal advisor Central States Capital Markets, LLC and three associated individuals with breaching their fiduciary duty by failing to disclose a conflict of interest to a municipal client; and
- The Commission charged Keybanc Capital Markets, Inc. and its former CFO with submitting false and misleading information to the Commission in required filings.

To be more effective in identifying and preventing fraud, OCIE continued to broaden its expertise and capacity. OCIE expanded its Private Funds Unit to bolster the program's subject matter expertise and conduct additional risk-based examinations of private fund advisers. In addition, OCIE has specialized working groups (SWGs) in nine key areas: Equity Market Structure and Trading Practices; Fixed Income and Municipals; Marketing and Sales Practices; Microcap Fraud; New and Structured Products; Valuation; Private Funds; Transfer Agents; and Investment Companies. The SWGs are an invaluable resource to examiners and managers, providing subject matter expertise in their respective areas.

CONTINUING TO INFORM POLICY

OCIE provided support to the SEC's rulemaking activities and guidance provided by the SEC and its divisions and offices. For example, OCIE provided substantial input into the Commission's rulemaking process, participating in working groups to interface with the policy divisions on several rulemaking initiatives, including the advance notice of proposed rulemaking, concept release and request for comment relating to transfer agent regulations.

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

The Division of Economic and Risk Analysis (DERA) continued to expand the critical role that it plays within the SEC by producing high-quality, data-driven analyses that address the economic issues associated with the regulation of the financial markets and the enforcement of federal securities laws. DERA's support for the SEC's programs fell into three main categories: informing policymaking; supporting inspections and enforcement; and enhancing access to, and usability of, data.

DERA was an integral participant in the Commission's equity market structure efforts.

INFORMING POLICYMAKING

DERA continued to provide economic input into policymaking by analyzing the economic effects of rulemaking and other priority initiatives, and by engaging in novel research regarding the regulation of financial markets. In FY 2016, DERA provided theoretical and data-driven economic analyses to support the Commission's broad regulatory agenda. These analyses typically examine the need for regulatory action, consider potential economic effects, which includes collecting and analyzing market data, and evaluating pertinent academic literature—and evaluate public comments. DERA also published related white papers. For example:

- In furtherance of the set of rulemakings designed to enhance the SEC's oversight of the asset management industry, DERA produced economic analyses to support the rules and supplemental research designed to inform policymaking;
- As a part of the Corporation Finance disclosure effectiveness review, DERA produced a full economic analysis to accompany proposed rules to update and simplify disclosure, and also addressed economic issues in concept releases under that initiative; and
- DERA was an integral participant in the Commission's equity market structure efforts. In addition to providing economic analyses as part of related rulemakings, DERA published a white paper that analyzed the causes of August 24, 2015's extreme price volatility that triggered limit up/limit down trading pauses in many exchange traded funds.

DERA also increased its focus on post-implementation review of rules, as the Commission has increasingly directed staff to engage in follow-up monitoring and reviews of market impacts following the adoption of new final rules, such as in the adopting releases for Regulation A+ and crowdfunding.

Finally, DERA economists engage in a wide range of research projects. Through these projects DERA can proactively analyze the securities markets and help detect issues that can inform future SEC policymaking and advance the public's understanding of key securities laws issues. For example, DERA in FY 2016 launched a behavioral and retail working group to bring insights and approaches from behavioral economics to bear on policymaking. DERA economists also continued to be active in publishing their work in top financial economics journals.

ENHANCING INSPECTIONS AND ENFORCEMENT

In addition to informing policymaking, DERA increased its efforts at facilitating the Commission's ongoing filing review, inspections, and enforcement efforts. DERA's continued development of customized analytic tools and analyses enable the proactive detection of market risks indicative of possible violations of the federal securities laws. For example:

- The Corporate Issuer Risk Assessment (CIRA) dashboard was designed to provide SEC staff with a comprehensive overview of the financial reporting environment of Commission issuer filers, and to assist Enforcement in detecting aberrant patterns in financial statements that may warrant additional inquiry. CIRA now produces over 200 customized metrics that the staff can use to analyze issuer behavior;
- The Investment Company Risk Assessment was operationalized in FY 2016, and creates

a system of risk rankings based on detecting anomalous investment company characteristics, allowing Enforcement and OCIE to dig deeper and determine if specific, violative conduct might be occurring at a fund; and

- The Broker-Dealer Risk Assessment tool was developed in conjunction with OCIE and helps prioritize and support examinations in that area and provide key insights into the market. New metrics were added and new examination findings were integrated into the model.

DERA also continued to directly support Enforcement in investigating and prosecuting wrongdoing through rigorous, quantitative analyses that help identify violations of securities laws and measure harm to investors. For example, DERA developed new methods for analyzing accounts to identify advisers engaged in "cherry picking" and for identifying potential market manipulation through high-frequency trading in U.S. Treasuries.

IMPROVING THE USABILITY OF SEC DATA

Evaluating the appropriateness of machine-readable structured data formats is now a routine part of the rulemaking process. DERA worked to develop solutions that help make information accurate, timely, useful, and accessible. Structured data reporting provides easier access for the Commission and users to key information about registrants, their practices, and their offerings.

DERA worked closely with other offices and divisions to design data structuring approaches for required disclosures, and supported the SEC's data collections and data usage by designing taxonomies, validation rules, data quality assessments, and data dissemination tools to facilitate high-quality data analyses.

Also in FY 2016, DERA was instrumental in the ongoing development of Inline XBRL, which has the potential to provide a number of benefits to filers and users of structured financial information. For example, Inline XBRL can decrease filing preparation costs and improve the quality of structured data—and by improving data quality, increase the use of XBRL data by investors and other market participants. To help improve the usefulness of Inline XBRL, DERA developed and released the Inline XBRL Viewer, an open source freely available browser tool to enable search results by reporting topic and analytical filters to quickly identify common errors and reporting risks.

DERA also advanced the SEC's use of XBRL data by developing and releasing the Financial Statement Query Viewer (FSQV) for internal SEC use. The FSQV can search for filing and disclosures elements across multiple XBRL filings (covering all U.S. GAAP filers back to 2009), as well as enable footnote comparisons across different periods. The FSQV thus improves the Commission's ability to make use of structured disclosures in company financial statement XBRL filings in EDGAR. Beyond XBRL, DERA continued to develop processes for ingesting, processing, and storing massive amounts of financial datasets in a reusable format for Commission-wide analytical, rulemaking, and enforcement actions. In FY 2016, DERA processed over 10 petabytes of data to enable agency access to these datasets through readily available formats and applications. DERA also led multiple initiatives to better support data requirements for Commission staff, which included management of metrics and models, as well as the development of other tools as part of the risk assessment programs. Under the Quantitative Research Analytical Data Support program,

DERA developed analytical methods to process high-velocity equity and derivatives market data in a way that makes the information accessible for non-technical agency staff.

Protecting Investors through Education

FY 2016 also marked the SEC's 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 (OIEA) continued to support the Commission's investor protection mission by:

- Launching the SEC's first-ever nationwide public service campaign. Through television, radio, print, and social media, the "Before You Invest, Investor.gov" campaign encouraged investors to research the background of their investment professional. During the campaign's seven-month pilot, unique page views on Investor.gov's homepage increased by 54 percent compared to FY 2015;
- Modernizing the Investor.gov website, which now serves as the SEC's primary landing page for retail investors who wish to conduct an investment professional background search. In FY 2016, Investor.gov continued to receive high customer satisfaction scores that significantly exceeded federal government benchmarks, and attracted over 500,000 new mobile users, an increase of 34 percent compared to FY 2015; and
- Publishing a variety of important investor alerts and bulletins warning investors of possible fraudulent schemes, and educating them on investment-related matters, handling investment-related complaints and questions from individual investors, and participating in over 100 in-person events focused primarily on senior citizens, military personnel, millennials, and affinity groups.

Continued International Collaboration

The SEC's Office of International Affairs (OIA) continues to facilitate the regulation, examination and enforcement of 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.

In FY 2016, OIA continued to work with international counterparts bilaterally and through the International Organization of Securities Commissions, the Financial Stability Board, and other international bodies to coordinate international approaches in key regulatory areas and advance SEC policy objectives. OIA also participated in ongoing assessments and peer reviews of financial regulatory reforms by the international bodies to help promote convergence of high-quality regulatory standards and practices.

In FY 2016, OIA also continued to support the cross-border supervisory efforts of other SEC divisions and offices by coordinating on-site visits to SEC-regulated firms located outside the U.S., helping examinations staff obtain access to records held in foreign jurisdictions, and assisting with asset verification requests to offshore banks, custodians, and fund administrators. OIA made numerous requests to foreign authorities for supervisory cooperation assistance and responded to such requests from foreign regulators.

In FY 2016, OIA provided assistance to Enforcement with cross-border matters. This assistance included obtaining foreign documents and testimony to advance SEC investigations and advising staff on litigation issues such as serving overseas defendants, conducting international discovery, and enforcing judgments abroad. OIA used its expertise to provide guidance to Enforcement on foreign practice and procedure and to raise enforcement cooperation standards and best practices worldwide. OIA also helped foreign authorities with their investigations by securing information located in the U.S., including obtaining formal orders to compel testimony. During FY 2016, OIA's enforcement cooperation and assistance team handled 1,027 requests from Enforcement for international assistance and 636 requests for assistance from foreign regulatory and law enforcement authorities

In addition, OIA provided 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. In FY 2016, the SEC's international technical assistance program provided training on enforcement, examinations, and market development to approximately 2,145 persons from the SEC's international regulatory and law enforcement counterparts.

Office of the Chief Operating Officer (OCOO)

Collectively, the offices and functions that comprise the OCOO organization continued to provide strategic leadership, oversight, and stewardship of the SEC's human, financial, technological, and administrative resources, thus ensuring that key infrastructure and operational activities enable the agency to accomplish its mission. Their interdependent efforts and the SEC's diverse divisions and offices allow innovative, flexible, efficient, and cost-effective capabilities to promulgate across the agency.

> Interdependent efforts and the SEC's diverse divisions and offices allow innovative, flexible, efficient, and cost-effective capabilities.

OFFICE OF ACQUISITIONS (OA)

OA returned more than $40 million to the SEC by de-obligating funds from existing and expired contracts, and obligated contracts in excess of $470 million. OA also awarded enterprise agreements, creating long-term strategic partnerships with vendors and reducing lead time to contract award. OA improved contractor performance reporting for better contract administration. Specialized sourcing techniques including collaboration with vendors, leveraging requirements, market place intelligence, and longer-term contracts, as well as good negotiation outcomes led to reduced prices paid. Extra efforts were made to locate small businesses that could successfully provide products and services to meet the SEC's needs, resulting in one of the highest small-business participation levels across the federal government.

OFFICE OF FINANCIAL MANAGEMENT (OFM)

The SEC advanced several technology initiatives to improve financial operations, internal controls, and service to registrants and internal customers. The agency released a new online calculator tool to help registrants calculate registration fees for

certain form submissions to EDGAR. The tool is intended to improve the accuracy of fee calculations and minimize the need for corrections. OFM also made significant progress on its EDGAR Fee System Modernization to replace the system that supports the SEC's reviews and management of these fees. In addition, initial actions were taken in preparation for building a new disgorgement and penalty sub-ledger system that is expected to improve reporting of enforcement actions both financially and programmatically. Finally, OFM led efforts to deploy new systems governing budget formulation, performance tracking, and cost allocations.

OFFICE OF HUMAN RESOURCES (OHR)

OHR continued to implement a comprehensive talent management approach for the agency in order to attract, develop, motivate, and retain productive, engaged employees. OHR is committed to customer service through consultation and communication with the SEC stakeholders, and improved its operations over the past year.

OHR enhanced and streamlined the hiring process by eliminating the practice of hiring to a deadline and allowed for more fluid and timely hiring that occurs throughout the year. OHR also strived to increase transparency in the hiring process by educating managers and marketing opportunities to SEC staff and further collaborated with the Office of Personnel Management and internal stakeholders to develop the first SEC Workforce Plan. The Workforce Plan provides a framework to help the SEC make well-informed decisions on how to best meet current and future agency workforce needs.

OHR has expanded its focus on developing internal staff to equip them with the knowledge and skills to advance in their careers and compete for leadership positions. The Aspiring Leaders program continued in its second successful year, and executive coaching was increased to 80 participants, positively impacting current SEC managers' effectiveness.

OFFICE OF INFORMATION TECHNOLOGY (OIT)

In FY 2016, OIT delivered more than $80 million in business-critical IT investments while managing the day-to-day operations of a $180 million IT enterprise, with virtually no customer-impacting disruptions to service. OIT also continued to achieve significant operational efficiencies through streamlined operations and by leveraging existing assets.

OIT acted in parallel with the agency's rulemaking efforts to update the SEC's EDGAR system for electronic disclosure, implementing Securities-based Swap Entity registration in support of the Dodd-Frank Act; enabling Crowdfunding Funding Portal registration in support of the JOBS Act; and revising Form N-MFP (Monthly Schedule of Portfolio Holdings of Money Market Funds) in support of Money Market Fund Reform requirements. In addition, OIT implemented the capability for companies to voluntarily file structured financial statement data using Inline XBRL to help facilitate the submission and use of this key data.

Additionally, the SEC reaped significant operational benefits from the enterprise data warehouse (EDW) initiative, delivered by OIT in FY 2015. EDW uses a sophisticated set of data analytics

tools to help the SEC discover suspicious trading patterns and possible wrongdoing. It reduces processing time for billions of Blue Sheet trading records from days to hours and performs 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 addition, OIT continued to staff a Security Operations Center on a 24/7 basis to monitor and respond to all aspects of information security.

OFFICE OF STRATEGIC INITIATIVES (OSI)

Operating directly under the chief operating officer, OSI was established as an independent office in October 2015 with the purpose of managing specific agency-wide functions and key strategic programs. OSI began the enterprise asset management and services program to track and manage the agency's information technology and property plant and equipment assets. The program has completed its first two phases and is now able to efficiently and effectively track individual hardware and software assets through their respective life cycles.

The EDGAR Redesign program, co-chaired by OSI and Corporation Finance, has established a governance board and advisory committee, completed its first phase of cross-agency program alignment and consensus, and developed a scope of work for its second phase in developing functional and non-functional requirements for EDGAR's replacement.

Another program was identified to improve the existing application for tracking and managing disgorgements and penalties. This program began an extensive review to assess and document the as-is environment prior to contractor award.

OFFICE OF SUPPORT OPERATIONS (OSO)

OSO's Freedom of Information Act (FOIA) Office implemented numerous requirements of the FOIA Improvement Act of 2016, which address a range of procedural issues intended to foster transparency in government.

The General Services Administration and OSO partnered to complete leasing activities for the Boston Regional Office. The new space is 31 percent smaller, resulting in rent savings of approximately $2 million per year. Since 2012, the SEC has reduced annual real property expenses by $7.3 million and achieved footprint reductions of 197,000 square feet.

OSO's Office of Records Management Services successfully implemented the email requirements from the Presidential Management Directive (M-12-18). This included the roll out of an initiative to identify high-level officials whose emails will be permanently retained. By adopting the "Capstone approach," the SEC will be able to categorize and manage emails based upon the email account owner's position within the agency.

Looking Forward

In Fiscal Year (FY) 2017, the U.S. Securities and Exchange Commission (SEC) will further enhance its ability to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. The agency will continue to emphasize the use of data analysis and technology in its enforcement and examination programs to better uncover wrongdoing and streamline operations. The SEC will also continue to advance key rulemakings, including the limited set of rulemaking mandates from Congress that still remain, and the rulemakings from Commission-driven initiatives to address mission-critical areas such as asset management, equity market structure, and public company disclosures. Finally, the SEC will concentrate on sophisticated data analytics, investor education and outreach, and operational improvements to enhance its efficiency and effectiveness.

Policy Initiatives for Safer, Stronger Markets

In FY 2017, the Commission will focus on the final areas of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) for which major rulemaking is required. Specifically, the SEC will strive to:

- Finish implementation of a regulatory regime for security-based swaps;
- Adopt final rules on executive compensation in areas such as pay versus performance, employee and director hedging, and compensation clawback policies; and
- Advance the few remaining reviews, studies, and reports required by the Dodd-Frank Act.

The SEC also will continue to implement the remaining mandates under the Fixing America's Surface Transportation (FAST) Act of 2015, particularly the study and report to Congress on Regulation S-K.

Beyond these statutory mandates, the SEC plans to continue developing rules for safer, stronger securities markets. Among other efforts, the SEC aims to:

- Consider significant enhancements to the risk management practices of investment funds and advisers in areas such as liquidity risk management,* stress testing, the use of derivatives, and transition planning;
- Adopt new reporting requirements for mutual funds, investment advisers, exchange-traded funds (ETFs), and other investment companies to facilitate data analysis and risk monitoring;*
- Move forward with the final implementation of new rules on equity market structure such as:
  - expanded public information concerning alternative trading system operations
  - anti-disruptive trading
  - 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
- Advance clearing agency rules to enhance risk management and shorten the settlement cycle;
- Consider rules requiring the use of universal proxies in contested elections so shareholders voting by proxy are able to replicate the vote they would cast if able to vote at the meeting in-person;*

* These actions were completed in early FY 2017.

- Develop amendments to the proxy rules to require additional disclosure about the diversity of board members and nominees;
- Consider final rules to facilitate intrastate and regional securities offerings;*
- Consider enhancing pre-trade transparency in the fixed income markets, including in the trading of municipal securities;
- Continue developing a stronger financial responsibility framework for broker-dealers, including new requirements for capital and liquidity;
- Consider a uniform fiduciary duty for investment advisers and broker-dealers, as well as a program for independent compliance assessments of registered investment advisers; and
- Move forward on 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 Efforts

The Division of Enforcement (Enforcement) will continue to build on its outstanding results from FY 2016 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 continuing to advance the following initiatives:

- Enhancing its capability to process and understand large volumes of data to help identify and investigate potential violations, particularly within high-risk areas that could harm investors, markets, or regulated entities;
- Pursuing market structure cases as a top priority in light of the growing prevalence of new technologies, including algorithmic and high-frequency trading;
- Prioritizing financial reporting and accounting fraud, and placing particular emphasis on areas such as:
  - revenue and expense recognition problems
  - faulty valuations supporting accounting estimates
  - faulty asset impairment conclusions
  - improper acquisition accounting
  - missing or insufficient disclosures
  - insufficient internal controls
  - the role of auditors and other gatekeepers
- Rooting out microcap fraud through its Microcap Fraud Task Force, with particular attention to recidivists, gatekeepers, and cross-border schemes. The Task Force will also continue efforts to suspend trading in shell companies so as to eliminate the next "vehicle" for microcap fraud and thwart ongoing pump-and-dump schemes;
- Focusing on investment advisers, registered investment companies, and private funds. Through data-driven, risk-analytic initiatives, the program will seek to identify issues concerning valuation, performance, fees and expenses, compensation, advertising, governance, portfolio management, and compliance policies and controls;
- Investigating the potential role gatekeepers—including fund boards, auditors, and other fund service providers—may have had in any misconduct;
- 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;
- Focusing on the retail distribution of structured notes and other complex securities and securities-based swaps;
- Looking into deficient disclosure and fraud by municipal issuers with a focus on broker-dealer abuses—including due diligence, pricing and

* These actions were completed in early FY 2017.

suitability failures, pay-to-play, and other public corruption matters—and unlawful conduct by municipal advisors on behalf of municipal securities investors;
- Building on work from the Office of Compliance Inspections and Examinations (OCIE), Enforcement will investigate the anti-money laundering practices and controls of regulated entities; and
- Focusing on brokers selling alternative products and the suitability issues associated with those sales.

Continuing to Refine and Use Cutting-Edge Data Analytics

The SEC will continue to develop and enhance sophisticated models and data analytics that will be used across the agency to assess risk and, more broadly, further its mission. In support of this, the Division of Economic and Risk Analysis (DERA) will:

- Analyze information collected from filings made pursuant to new Regulations A+ and crowdfunding to help determine how those rules are functioning to promote small business access to capital while maintaining important investor protections;
- Continue to devise new methods for identifying risks to investors, enabling the SEC to better deploy scarce resources and target possible misconduct in the corporate issuer, broker-dealer, and fund sectors;
- Seek to build on existing efforts to improve the usability of information drawn from Commission forms and filings to better inform policymaking and increase public access to this information; and
- Further promote public dialogue and stimulate academic debate on matters impacting the financial markets through increased publication of white papers and working papers on a variety of topics that are not the subject of current SEC rulemaking priorities.

Furthering Excellence in the Inspections and Examinations Program

The SEC's National Examination Program (NEP) will continue to improve its technological capabilities and data analysis tools to promote efficiencies and expand the breath of examinations. Specifically, OCIE intends to:

- Continue to enforce and execute an examination program to oversee registrants that promotes compliance, prevents fraud, informs policy, and monitors risk;
- Focus on automated investment services and tools offered by registrants;
- Continue its emphasis on protecting investors' retirement accounts by focusing on sales and marketing practices related to financial advisers' recommendations that retirement plan assets be placed in investment vehicles offered by their firms;
- Focus on risks and disclosures involving the ETF industry—including compliance with exemptive relief and other regulatory requirements—the creation and redemption process, and primary and secondary market trading;
- Focusing on market-wide risks including those targeted by Regulation Systems Compliance and Integrity (Regulation SCI) and registrants' compliance with Regulation SCI;
- Continue its efforts to examine investment advisers that have not yet been examined by the NEP;
- Assess the compliance programs of firms that hire or conduct business with individuals that have prior disciplinary histories and review the Financial Industry Regulation Authority's oversight of such firms and individuals; and
- Continue to examine new municipal advisor registrants and their compliance with SEC and Municipal Securities Rulemaking Board's rules.

Promoting Investor Education

In FY 2017, the SEC will support existing outreach efforts and seek out new and innovative ways to educate investors, including:

- Continuing the "Before You Invest, Investor.gov" public service campaign to educate individual investors in ways to avoid investment fraud; and
- Using feedback from customer satisfaction surveys and other research to inform investor education initiatives, including making it easier for individuals to check the background of investment professionals.

Continuing to Enhance Operations

In FY 2017, in addition to expanding the agency's programs for managing enterprise risk and internal communications, work within the Office of the Chief Operating Officer (OCOO) will continue to enhance the SEC's human capital, financial, and technology infrastructure to effectively advance the agency's mission in a strategically-nimble and cost-efficient way.

Office of Acquisitions (OA)

OA will fully implement eFiling for contract and contracting officer representative (COR) files in a significant push to reduce dependence on paper, provide for a single electronic database, and maximize de-obligations of contract funds through the contract closeout process, giving the SEC additional funds to use toward other priorities. OA will work with divisions and offices to lower SEC costs for new contract services and products, and the office will streamline procurements to reduce contract lead times from initial request to contract award. OA will also maximize the use of quality small, disadvantaged, women, minority, and veteran-owned businesses for the best outcomes to exceed small business goals. OA will provide customized training to all SEC CORs and continue to increase the number of certified program and project managers to improve contract management.

Office of Financial Management (OFM)

OFM will continue to focus its efforts on modernizing its existing technology systems, including the deployment of a new sub-ledger system for filing fees, which will interface with the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system and record amounts received from registrants. In addition, the agency will begin to build a disgorgement and penalty system that is expected to improve reporting of enforcement actions both financially and programmatically. Finally, OFM has begun implementation of the Budget Formulation and Execution Manager, which will replace the SEC's previous system for budget formulation and add capabilities for recording, monitoring and tracking progress on the agency's strategic performance metrics. These initiatives are expected to reduce manual processes and improve data quality and reporting at the SEC.

Office of Human Resources (OHR)

OHR will continue to focus on identifying, recruiting, and retaining a highly skilled and engaged workforce. OHR will leverage technology and improve processes, policies, and procedures to ensure that the SEC remains serviced by a highly motivated and highly capable staff. OHR plans to conduct a comprehensive mission-critical training needs analysis for agency offices and divisions to grow the key skills, core competencies, and technical and industry expertise necessary to deliver upon the SEC mission. OHR also will continue to promote diversity in leadership by launching the Brookings Institute's Women in Leadership program for SEC staff. This program will assist in helping to fill a highly diverse internal candidate pool for leadership positions.

Office of Information Technology (OIT)

OIT will continue its leadership role in driving the strategic direction of the SEC's technology program by placing emphasis on information and cybersecurity, cloud computing strategy and migration, and enterprise architecture to complement mainstay information technology (IT) functions such as capital planning, program management, application development, infrastructure operations and engineering, and user support.

Business-area IT investments planned for FY 2017 will continue to focus on expanding the agency's ability to analyze data to uncover potential violations of the securities laws; implementing systems to support agency business processes, including in the Enforcement and Examinations programs; and improving usability of agency information for the public.

Specific projects include efforts to:

- Enrich the agency's data analytics and reporting by providing web-based solutions that will enable SEC registrant disclosures to be more quickly and comprehensively analyzed;
- Enhance the SEC's quantitative research infrastructure by offering a scalable, multi-tiered solution to identify and analyze key risks within 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 metrics; and
- Implement high-powered data analytical systems for industry-wide investment adviser data.

The SEC also plans IT functional investments to build upon progress made in its information security program. In FY 2017, OIT will further automate security controls, continuing its shift to a posture of information security continuous monitoring, and dedicating resources to enhance the SEC's electronic governance, risk, and compliance software capabilities.

As OIT continues to explore safe cloud computing technologies and solutions based on federal information protection requirements, it will invest toward a cloud-based concept of operations, where appropriate, to increase the agency's ability to improve business operations and take better advantage of commercial best practices.

Office of Strategic Initiatives (OSI)

OSI will continue to manage key strategic agency initiatives that encompass the interests of multiple divisions and offices. These initiatives include continuing to ensure proper optimization of, and access to, the agency's electronic services that support reference and research, as well as overseeing more than 150 electronic services contracts.

With initial implementation planned for 2021, the EDGAR redesign program will continue to be the top priority of OSI. The second phase of the program to develop functional requirements will begin in FY 2017 and continue through FY 2018.

The full implementation of the Enterprise Asset Management System will near completion in FY 2018. This system will ensure proper financial and asset disposition controls, and will accurately track the agency's information technology and property, plant, and equipment assets.

The Disgorgements and Penalties initiative will commence in FY 2017 to deliver a solution that will be able to record, track, and manage judicial awards.

Office of Support Operations (OSO)

OSO and the General Services Administration will continue refining the SEC's comprehensive real-property portfolio strategy based on consolidating and right-sizing rentable square-footage requirements when existing leases expire; as such, the Chicago Regional Office's footprint will be reduced by 25 percent in FY 2017. Lease procurement planning is underway for the Washington, DC headquarters' complex, which currently consists of three buildings with leases that expire in FYs 2019, 2020, and 2021. Similar efforts are underway to address the expiration of the New York Regional Office's lease in FY 2021.

OSO is working with the Office of the General Counsel to revise and update agency regulations in compliance with the Freedom of Information Improvement Act of 2016. The Office of Records Management Services will work with OIT to identify information management solutions that will apply business intelligence technology for managing email, to enable SEC employees to more easily find and categorize email records.

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 Securities and Exchange Commission's (SEC) Fiscal Year (FY) 2016 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 are 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;
- 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 2016

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 2016, the sequestration order was applicable to mandatory appropriations, which included the Reserve Fund and the Investor Protection Fund, of the SEC as follows:

RESERVE FUND

The budget authority of $75 million was reduced by 6.8 percent, or $5.1 million.

Rescission for FY 2016

On December 18, 2015, Congress passed the Consolidated Appropriations Act, 2016. Within the appropriation language, a $25 million rescission was applied to the unobligated balance of the Reserve Fund.

Overview of Financial Position

Assets. At September 30, 2016, the SEC's total assets were $11.6 billion, an increase of $196 million, or two percent, over FY 2015.

Fund Balance with Treasury increased slightly at $11 million between October 1, 2015 and September 30, 2016. The maturity of investments in the Investor Protection Fund contributed to the increase.

Accounts Receivable, Net increased by $168 million as a result of increased custodial Disgorgement and Penalty receivables.

Property and Equipment, Net increased by $22 million due to software modernization efforts including the Electronic Data Gathering, Analysis, and Retrieval (EDGAR); the National Examination Program; and the Tips, Complaints, and Referral intake redesign.

Chart 1.3 | FY 2016 Assets by Type

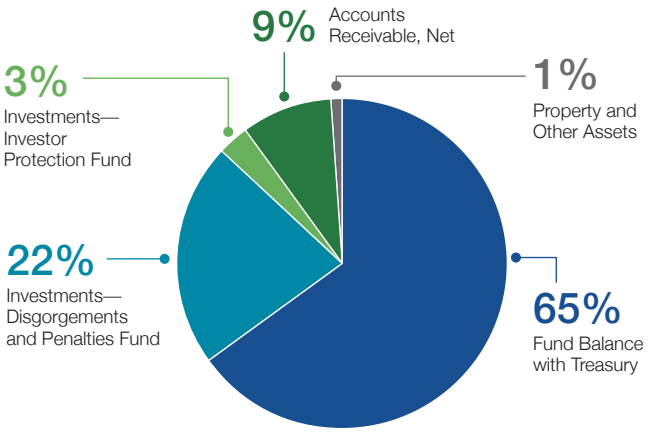


Table 1.2 | Assets as of September 30, 2016 and 2015

(DOLLARS IN MILLIONS)	2016	2015
Fund Balance with Treasury	$ 7,630	$ 7,619
Investments – Disgorgement and Penalty Fund	2,506	2,469
Investments – Investor Protection Fund	350	398
Accounts Receivable, Net	1,028	860
Property and Equipment, Net	126	104
Other Assets	12	6
Total Assets	**$ 11,652**	**$ 11,456**

Liabilities. The SEC's total liabilities were $4 billion as of September 30, 2016, an increase of $242 million or six percent from FY 2015.

For the assets received resulting from enforcement 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.

The increase of $61 million in Liability for Disgorgement and Penalties is due to an increase in penalties recorded between October 1, 2015 and September 30, 2016.

This increase in Liability for Disgorgement and Penalties was partly offset by a reduction in distributions to harmed investors totaling $34 million and a decrease of accounts receivables deemed collectible, leading to a reduction to its corresponding liability.

The increase in Accounts Payable is partly due to a $23 million accrual recorded for a whistleblower award. There was no material whistleblower award payable recorded at the end of FY 2015.

Liabilities related to business support services and information technology (IT) contracts also increased the Accounts Payable balance in FY 2016.

Ending Net Position. The SEC's net position, comprised of both unexpended appropriations and the cumulative results of operations, decreased by $46 million between September 30, 2016 and 2015.

Chart 1.4 | FY 2016 Liabilities by Type

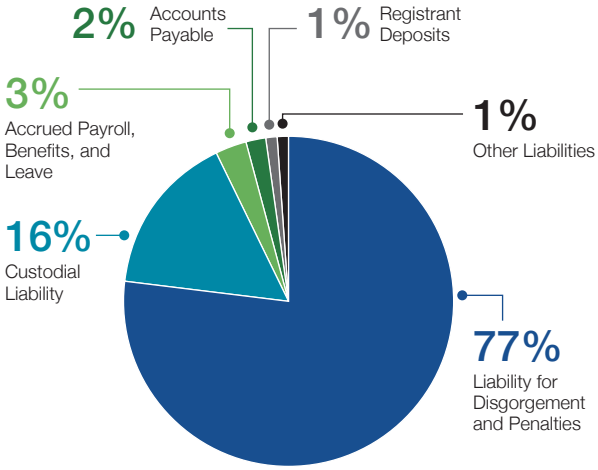


Table 1.3 | Liabilities as of September 30, 2016

(DOLLARS IN MILLIONS)	2016	2015
Liability for Disgorgement and Penalties	$ 3,090	$ 3,029
Custodial Liability	666	500
Accrued Payroll, Benefits, and Leave	115	131
Accounts Payable	81	48
Registrant Deposits	37	35
Other Liabilities	26	30
Total Liabilities	**$ 4,015**	**$ 3,773**

Results of Operations

Earned Revenues. Total earned revenues for the year ended September 30, 2016 decreased by $95 million, or five percent from FY 2015.

The decrease is primarily due to a filing fee rate decrease from $116.20 per million dollars to $100.70 per million dollars.

The Section 31 fee rate was reduced from $22.10 per million to $18.40 per million dollars transacted in February 2015. In February 2016, the Section 31 fee rate increased to $21.80 per million.

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.

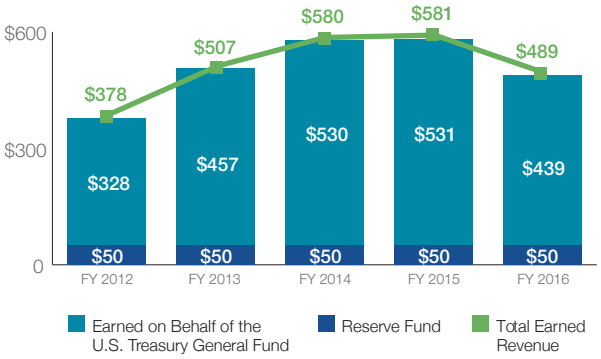
Reserve Fund. Section 991(e) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) authorized the creation of a Securities and Exchange Commission Reserve Fund (Reserve Fund). Funded from filing fee collections, the SEC can deposit up to $50 million per fiscal year, 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 year ended September 30, 2016, filing fee revenues totaled $489 million. Fifty million dollars was deposited into the Reserve Fund, of which $5 million was sequestered. The remainder of $439 million was earned on behalf of the U.S. Treasury General Fund.

Table 1.4 | Earned Revenues
For the years ended September 30, 2016 and 2015

(DOLLARS IN MILLIONS)	2016	2015
Section 31 Securities Transaction Fees	$ 1,486	$ 1,489
Securities Registration, Tender Offer, and Merger Fees (Filing Fees)	489	581
Total Earned Revenues	**$ 1,975**	**$ 2,070**

Chart 1.5 | Reserve Fund Earned Revenue
(DOLLARS IN MILLIONS)



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, for the year ended September 30, 2016, for both capitalized and non-capitalized IT related hardware, software, and contracting, leaving a remaining amount of $2 million of available resources.

Program Costs. Total Program Costs were $1.7 billion for the period ended September 30, 2016, an increase of $152 million, or 10 percent, compared to FY 2015. Salary and Benefit Expenses increased more than $115 million, as the result of increased staffing, compensation, and benefits. Other Expenses increased more than $37 million, which includes $27 million in accrued expenses for Whistleblower payments from the SEC's Investor Protection Fund, and $29 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 in the hiring of full-time equivalent employees; IT service contracts and licensing; capitalized and non-capitalized information systems software and hardware; and whistleblower award payments.

Chart 1.6 | FY 2016 Filing Fee Revenue

(DOLLARS IN MILLIONS)

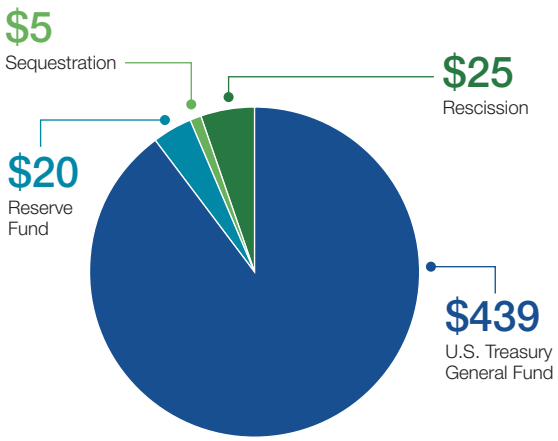
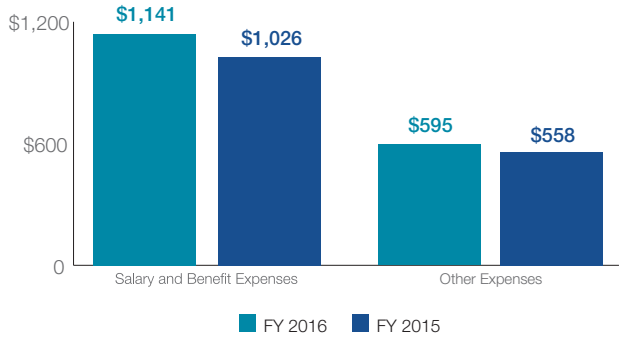


Chart 1.7 | Program Costs

(DOLLARS IN MILLIONS)



Budgetary Resources

In FY 2016, the SEC's total budgetary resources equaled $1.9 billion, a 10 percent increase above FY 2015 of $1.7 billion. Significant components of the SEC's Total Budgetary Resources are described below.

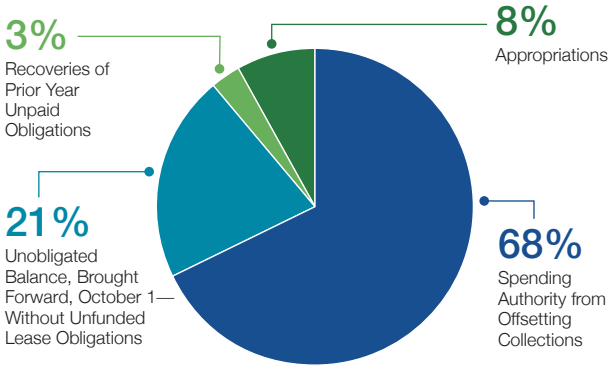
Unobligated Balance Brought Forward—Unfunded Lease Obligations. Unfunded lease obligations totaled $286 million at the beginning of FY 2016. The balance through the year ended September 30, 2016 is $213 million.

Recoveries of Prior Year Obligations. Between September 30, 2016 and 2015, Recoveries of Prior Year Obligations increased $23 million.

In FY 2016, the SEC recovered $19 million from five contracts over $1 million in value, compared to recovering $14 million from five contracts over $1 million in FY 2015.

For obligations ranging between $100 thousand and $1 million in value, the SEC recorded deobligations of $27 million in FY 2016, compared to $15 million in FY 2015.

Chart 1.8 | FY 2016 Sources of Funds



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

Table 1.5 | Total Budgetary Resources
For the years ended September 30, 2016 and 2015

(DOLLARS IN MILLIONS)	2016	2015
Unobligated Balance, Brought Forward, October 1:		
Salaries and Expenses Fund—Without Unfunded Lease Obligations	$ 51	$ 74
Salaries and Expenses Fund—Effect of Change in Legal Interpretation for Lease Obligations	(286)	(358)
Investor Protection Fund	398	408
Total Unobligated Balance, Brought Forward, October 1	163	124
Recoveries of Prior Year Unpaid Obligations	57	34
Other Changes in Unobligated Balance (+ or -)	2	1
Appropriations (Discretionary and Mandatory)		
Salaries and Expenses Fund	129	6
Reserve Fund	50	50
Investor Protection Fund	1	4
Spending Authority from Offsetting Collections	1,477	1,494
Total Budgetary Resources	**$ 1,879**	**$ 1,713**

Spending Authority from Offsetting Collections and Appropriations

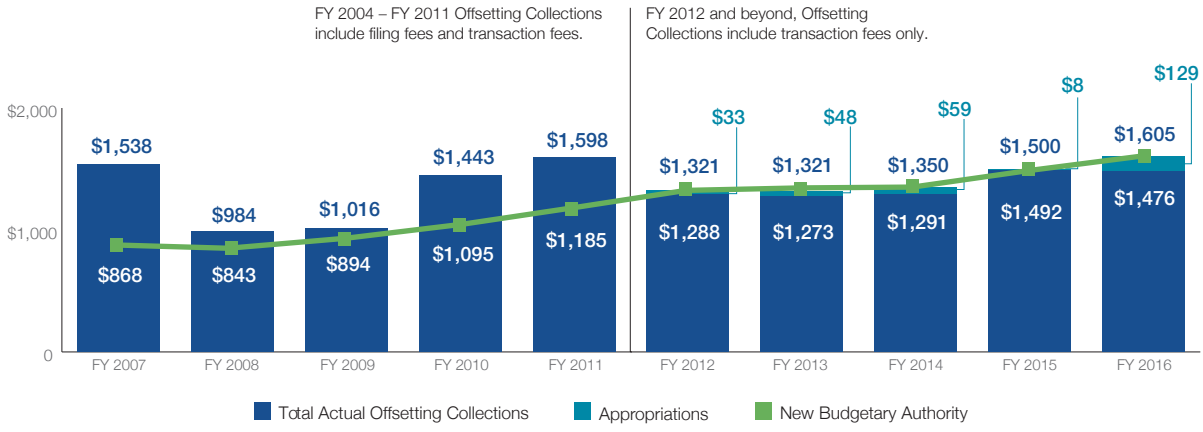
During the fiscal year, the SEC receives an appropriation to fund its operations. This appropriation establishes the SEC's new budget authority in its Salaries and Expenses Fund for the fiscal year. The SEC's new budget authority of $1.6 billion was for FY 2016.

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.

For the year ended September 30, 2016, appropriations was $129 million. This increase over the FY 2015 balance of $8 million is the result of a larger variance between appropriations legislated and offsetting collections.

In FY 2015, the SEC received a $1.5 billion appropriation, offset by collections of $1.492 billion. In FY 2016, the SEC's appropriation was $1.6 billion, which was offset by $1.476 billion in collections.

Chart 1.9 | Offsetting Collections vs. New Budgetary Authority
Section 31 Exchange and Filing Fees
(DOLLARS IN MILLIONS)



FY 2004 – 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 2016.

Chart 1.10 | FY 2016 Total Obligations Incurred by Cost Category

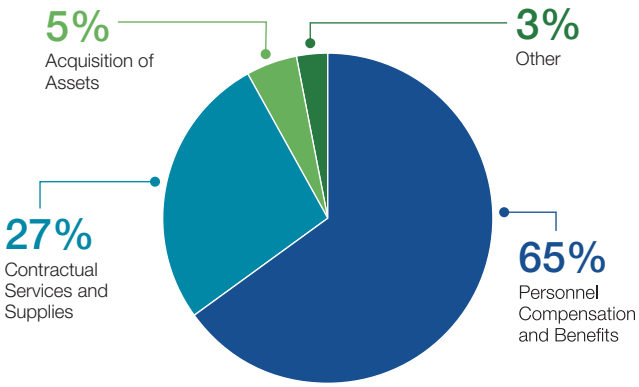


Table 1.6 | Schedule of Spending: Obligations Incurred by Cost Category
For the years ended September 30, 2016 and 2015

(DOLLARS IN THOUSANDS)	2016	2015
Personnel Compensation and Benefits	$ 1,116	$ 996
Contractual Services and Supplies	461	444
Acquisition of Assets	89	95
Other	58	15
Total Obligations Incurred by Cost Category	**$ 1,724**	**$ 1,550**

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 2016, the balance of the Investor Protection Fund decreased by $53 million between October 1, 2015 and September 30, 2016.

The Fund recognized non-exchange revenues totaling $2.4 million, from interest earned on investments in U.S. Treasury Securities. In addition, the Investor Protection Fund incurred expenses of $55 million for whistleblower awards, and $44 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 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, 2016 and 2015

(DOLLARS IN THOUSANDS)	2016	2015
Balance of Fund at beginning of fiscal year, October 1	$ 387,111	$ 414,660
Amount of earnings on investments during the fiscal year	2,413	867
Amount paid from the Fund during the fiscal year to whistleblowers	(55,122)	(28,397)
Amount paid from the Fund during the fiscal year for expenses incurred by Employee Suggestion Program	(44)	(19)
Balance of the Fund at the end of the reporting period	**$ 334,358**	**$ 387,111**

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

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 2016. 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 2016 Annual Performance Report (APR) will be issued with the agency's FY 2018 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 will also be included in the APR. The SEC's APR is expected to be available in 2017 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 make sound 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 in an effort to ensure that performance data is 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

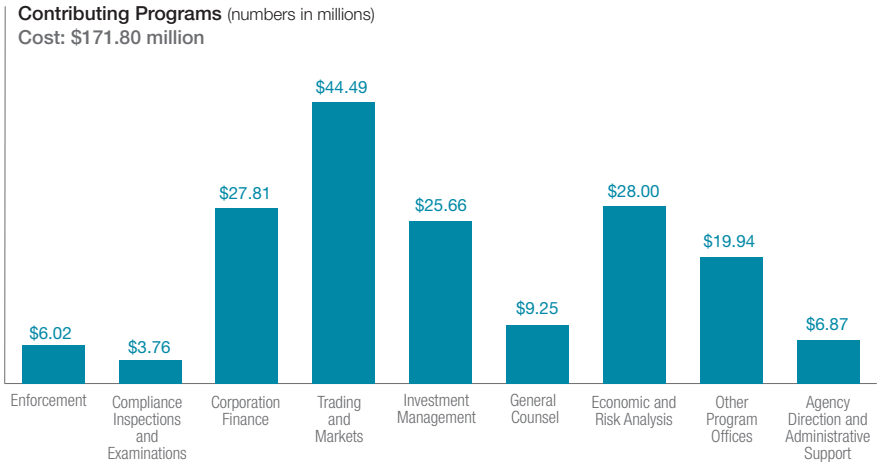
The SEC's FY 2016 strategic and performance planning framework is based on the FY 2014 – FY 2018 Strategic Plan, available at www.sec.gov/about/sec-strategic-plan-2014-2018.pdf. The Strategic Plan outlines the agency's mission, vision, values, strategic goals, and strategic objectives. The SEC's work is structured around four strategic goals and the 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.

Chart 1.11 displays the agency's FY 2016 costs for its four strategic goals and how these costs are divided among the SEC's programs, as previously described in Table 1.1.

Chart 1.11 | FY 2016 Strategic Goals with Contributing Program Costs ($ in millions)

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.

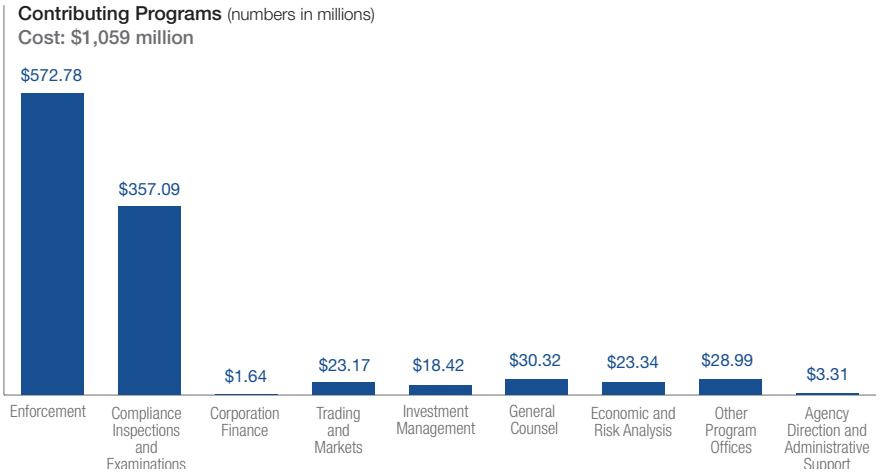


Chart 1.11 | *Continued from previous page*

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.

The SEC expended about $1.7 billion in FY 2016 to achieve its four strategic goals and 12 strategic objectives. 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

The process of developing and administering rules and regulations is one of the principal functions of the SEC and involves staff from virtually every division and office. One of the agency's primary objectives is to maintain a regulatory framework that enables market participants to understand their obligations (Strategic Objective 1.3). The SEC devotes resources from the Divisions of Trading and Markets (TM), Investment Management (IM), and Corporation Finance to respond to no-action letters, exemptive applications, and interpretive and other requests from regulated entities, public companies, and other outside parties. In FY 2016, TM, IM, and Corporation Finance met or exceeded their response rate targets (Performance Goal 1.3.1). Specifically, IM exceeded their targets for initial comments on exemptive applications within 120 days and processed 100 percent of initial comments on no-action letters within three weeks, surpassing its target of 80 percent within three weeks. IM was able to achieve this level of success because of its continued emphasis on providing initial comments within the targeted timeframe as a key priority.

Table 1.8

PERFORMANCE GOAL 1.3.1
Length of time to respond to written requests for no-action letters (NAL), exemptive applications, and written interpretive requests

Description: The SEC staff responds to requests for guidance from individuals and market participants about specific provisions of the federal securities laws. These queries may seek interpretations of the securities laws or regulations, or assurances that no enforcement action will be taken if the individual or market participant engages in a specified activity. The staff also reviews applications for exemptions from the securities laws. Written responses to such requests for guidance, when provided, generally are publicly available, as are applications and related notices and orders, when issued. This metric gauges the timeliness of initial comments issued by the Divisions of Trading and Markets, Investment Management, and Corporation Finance.

Fiscal Year	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016 Plan	FY 2016 Actual	FY 2016 Results
Division of Trading and Markets								
Percentage within required timeframe	98.5%	89%	93%	83%	88%	80%	81%	Exceeded
Responsible Division/Office: Division of Trading and Markets								
Data Source: TM Request Tracking Log								
Division of Investment Management								
Exemptive applications	100%	100%	99%	99%	100%	80%	100%	Exceeded
Responsible Division/Office: Division of Investment Management								
Data Source: Microsoft Office Suite Tools								

continued »

Table 1.8 | *Continued from previous page*

PERFORMANCE GOAL 1.3.1
Length of time to respond to written requests for no-action letters (NAL), exemptive applications, and written interpretive requests

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016 Plan	FY 2016 Actual	FY 2016 Results
Division of Corporation Finance								
No-action letters and interpretive requests	97%	98%	98%	97%	94%	90%	93%	Exceeded
Shareholder proposals	100%	100%	100%	100%	100%	100%	100%	Met

Responsible Division/Office: Division of Corporation Finance

Data Source: Division NAL database and Division Shareholder Proposal database

Building and maintaining examination coverage of the industry helps the Commission promptly detect violations of federal securities laws and promote compliance with such laws (Strategic Objective 2.2). The agency's National Examination Program (NEP) continued to exert considerable time and attention during the year on enhancing its risk assessment efforts to ensure that the program is spending its limited time and resources on those firms presenting the highest risk. Overall, the program met expectations and continued to increase examination levels (Performance Goal 2.2.1). The program focused particular efforts in the investment adviser space and was able to improve coverage even as the number of registered advisers has continued to grow. In addition to this examination work, program 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.

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 an 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, and oversight examinations of broker-dealers to test compliance and the quality of examinations by FINRA.

Fiscal Year	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016 Plan	FY 2016 Actual	FY 2016 Results
Investment advisers	8%	8%	9%	10%	10%	11%	11%	Met
Investment companies	13%	12%	11%	10%	15%	15%	17%	Exceeded
Broker-Dealers (exams by SEC and SROs)	58%	49%	46%	49%	51%	50%	50%	Met

Responsible Division/Office: Office of Compliance Inspections and Examinations

Data Source: Tracking and Reporting Exam National Documentation System (TRENDS) (investment adviser [IA], investment company [IC], and broker-dealer [BD] SEC data) and SRO Databases (BD self-regulatory organization [SRO] Data)

Key parts of investor protection are to quickly and appropriately sanction those who prey on investors and to successfully litigate cases (Strategic Objective 2.3). The Division of Enforcement strives to obtain swift and strong judgment orders, consistent with fairness and due process. 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 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 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016 Plan	FY 2016 Actual	FY 2016 Results
Percentage	93%	89%	93%	94%	95%	92%	97%	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, allowing investors to make wise investment decisions (Strategic Objective 3.1). The starting point for shaping company disclosure is remembering its purpose—that is, to provide investors the information they need to make informed investment and voting decisions. 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 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016 Plan	FY 2016 Actual	FY 2016 Results
Division of Investment Management								
Investment Company Portfolios	33%	36%	34%	35%	35%	33%	36%	Exceeded
Responsible Division/Office: Division of Investment Management								
Data Source: Microsoft Office Suite Tools								
Division of Corporation Finance								
Corporations	48%	48%	52%	52%	51%	33%	56%	Exceeded
Responsible Division/Office: Division of Corporation Finance								
Data Source: Electronic, Data Gathering, Analysis, and Retrieval (EDGAR)/Filing Activity Tracking System								

Management Assurances and Compliance with Laws

In Fiscal Year (FY) 2016, 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 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 mis-appropriation; 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 Enterprise Risk Management and Internal Control*, which OMB updated on July 15, 2016.

Section 963 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (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 controls that meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). In accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, 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, 2016, the SEC is able to provide reasonable assurance that the internal controls for the agency 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, 2016.

Assurance Statement on Internal Control Over Financial Reporting (ICFR): In accordance with OMB Circular A-123 Appendix A, *Internal Control Over Reporting*, 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, 2016. 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*. 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, 2016.

MARY JO WHITE
Chair
November 10, 2016

KENNETH A. JOHNSON
Chief Financial Officer
November 10, 2016

Management's Assessment of Internal Control

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 FY 2016 Chair and CFO's annual assurance statements for FMFIA and internal controls over reporting (ICR) provided reasonable assurance that the necessary objectives (effective and efficient operations, compliance with applicable laws and regulations, and reliability of reporting) are achieved.

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*;
- Reports pursuant to the Federal Information Security Management Act (FISMA) and OMB Circular A-130, *Management of Federal Information Resources*;
- Annual reviews on improper payments;
- 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 unmodified, modified, or no assurance.

This report provides a Summary of Financial Statement Audits and Management Assurances under the section entitled Other 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, the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012, and the Federal Improper Payments Coordination Act (FIPCA) of 2015, 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 improper payments.

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, *Compliance with the Federal Financial Management Improvement Act,* and other federal financial system requirements.

SUMMARY OF CURRENT FINANCIAL SYSTEM AND FUTURE STRATEGIES

The FY 2016 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 2016, the SEC continued to work with its FSSP, the Department of Transportation's Enterprise Services Center (ESC), to enhance its existing systems and implement additional financial and mixed systems. For example, the SEC made significant progress in implementing the EDGAR Filing System Modernization, which will be completed in FY 2017, and launched a project to create a new Disgorgements and Penalties System over the next couple of years. The SEC believes that continuing to invest in technology based solutions will help to put its controls on a more sustainable path.

The SEC continues to work to increase transparency and accuracy of agency spending data in compliance with applicable laws and regulations. For example, the SEC performs a quarterly reconciliation of data on the USASpending.gov site with the information in the SEC general ledger.

In addition, the SEC continues to work with its shared service provider to meet the requirements set forth in the Digital Accountability and Transparency Act.

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 2016 report to OMB in November.

OVERSIGHT AND COMPLIANCE

The SEC's Office of Information Technology (OIT), in partnership with business owners, completed assessment and authorization activities for 29 FISMA reportable systems. 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 2016, OIT security performed physical site assessments in accordance with National Institute of Standards and Technology (NIST) SP 800-53 for seven regional offices and two vendor sites. OIT facilitated the remediation of 180 self-identified deficiencies associated with the SEC's network infrastructure and major applications and submitted materials demonstrating successful corrective action for all 66 open audit recommendations. To date, GAO and OIG have closed 35 recommendations and are currently reviewing previously-provided corrective actions to address the remaining recommendations.

OIT conducted 94 privacy reviews, which included the approval and publication of 15 privacy impact assessments.

TRAINING AND COMMUNICATIONS

As of September 30, 2016, OIT developed and delivered privacy and information security awareness training the SEC user community and achieved 86 percent completion. The Privacy Office conducted four on-site regional office assessments. In-person privacy training, which focused on the safe handling of personally identifiable information (PII), was delivered to 100 percent of users in the four 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 that 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 continued to enhance its operational security capabilities though the continued development of an Information Security Continuous Monitoring Program and the continued investment and implementation of proactive security capabilities and detection mechanisms as well as numerous

application and database security and vulnerability assessment tools. In support of the Continuous Monitoring Program, OIT deployed an integrated information security compliance management capability to serve as a centralized repository for the management of the Commission's FISMA compliance obligations, information system Plans of Action and Milestones, and incident tracking and response efforts. The SEC is well positioned to continue the transition to continuous monitoring and is an active participant in interagency cyber-security 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 six cloud service providers that have been through the Federal Risk and Authorization Management Program (FedRAMP) and is exploring opportunities to leverage additional cloud service providers in accordance with emerging agency objectives.

Financial Section

This section contains the U.S. Securities and Exchange Commission's (SEC) financial statements and additional information for Fiscal Years (FYs) 2016 and 2015. 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 of 2010 (Dodd-Frank Act). The SEC prepares these statements and accompanying notes in compliance 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, the amount of resources that embody economic benefits or services owned or managed by the SEC (assets); amounts owed by the SEC (liabilities); and amounts that comprise the difference (net position).

Statements of Net Cost

Presents the gross cost incurred by the SEC, less exchange revenue earned from its activities. The SEC presents cost of operations by program to provide cost information at the program level, and 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, including changes to Cumulative Results of Operations and Unexpended Appropriations.

Statements of Budgetary Resources[1]

Provides information about how budgetary resources were made available, and reports their status at year-end.

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.

continued »

[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.

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.

[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 pleased to join Chair White in presenting the SEC's Agency Financial Report (AFR) for Fiscal Year (FY) 2016. We hope the AFR proves to be a useful summary of the SEC's financial picture, operating performance, and internal controls.

Our independent auditor, the U.S. Government Accountability Office (GAO), released an unmodified opinion of our financial statements and internal controls, in which no significant issues were identified. The SEC successfully maintained a strong internal control posture through the hard work and dedication of staff in the Office of Financial Management (OFM), the Office of Information Technology, and the agency as a whole. I am deeply appreciative of their efforts, day-in and day-out, to exercise strong stewardship over the public funds entrusted to the SEC.

While we are pleased with these results, the SEC nevertheless remains committed to making further improvements to our internal controls environment. A key ongoing priority for OFM is to build out its in-house internal controls program, aimed toward the early identification and resolution of internal control issues. The SEC will also continue to formalize its enterprise risk management program in response to updated guidance from GAO and the Office of Management and Budget.

In addition, the SEC will continue to focus its energies on modernizing the technology systems supporting key areas of our finances. OFM made significant progress on the implementation of its Edgar Fee System Modernization, which will replace the current system supporting the SEC's management of registration fees once the new platform is deployed in FY 2017. OFM also began implementing the Budget Formulation and Execution Manager, a shared-service offering of the Bureau of the Fiscal Service, to replace the SEC's legacy system for budget formulation and add capabilities for tracking the agency's strategic performance metrics. Finally, in FY 2017, the SEC will begin building a disgorgement and penalties system to improve both financial and programmatic reporting of enforcement actions. Together, these initiatives will help the agency reduce manual processes and improve data quality and reporting.

The following pages present information about the SEC's finances and its internal controls over financial reporting. Also included in this section are details regarding the Investor Protection Fund, as required under Section 922 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the results of the FY 2016 audit conducted by GAO, and the agency's response.

Thank you for taking the time to learn about the SEC's activities in FY 2016. We hope you find these materials both useful and informative.

KENNETH A. JOHNSON
Chief Financial Officer
November 14, 2016

Report of Independent Auditors

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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 fiscal years 2016 and 2015 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, 2016, and 2015, 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, 2016; and
- no reportable noncompliance for fiscal year 2016 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.

---

[1] Section 963 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), requires that (1) SEC annually submit a report 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 report; and (3) GAO assess the effectiveness of the SEC's internal control over financial reporting and assess, attest to, and report on the assessment made by SEC. Pub. L. No. 111-203, § 963 (a), (b), 124 Stat. 1376, 1910 (July 21, 2010), *classified at* 15 U.S.C. § 78d-8(a), (b). 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 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act.

[2] IPF was established by section 922 of the Dodd-Frank 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 the Dodd-Frank Act. IPF is a separate SEC fund and its financial statements present SEC's financial activity associated with its whistleblower and Inspector General employee suggestion programs. Accordingly, IPF's financial transactions are also included in SEC's overall financial statements. Pub. L. No. 111-203, § 922(a), 124 Stat. 1376, 1844 (July 21, 2010), *classified at* 15 U.S.C. § 78u-6(g).

[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.

Report on the 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 section 922 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), requires SEC to annually submit a complete set of 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 by the Chief Financial Officers Act of 1990, as amended by the Government Management 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 and reporting on SEC's assessment of its internal control over financial reporting. SEC's financial statements comprise the balance sheets as of September 30, 2016, and 2015; 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, 2016, and 2015; 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, 2016, 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 SEC's 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, 2016, based on its evaluation, included in the Management Assurance section of the agency financial report.

---

[5] Pub. L. No. 107-289, § 2, 116 Stat. 2049-50 (Nov. 7, 2002), *amending* 31 U.S.C. § 3515.

[6] Dodd-Frank Act, § 922(g)(5), 124 Stat. 1844 (July 21, 2010), *adding* § 21F(g)(5) of the Securities Exchange Act of 1934, *classified at* 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).

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 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;

[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.

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.

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, 2016, and 2015, 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, 2016, and 2015, 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.

Opinion 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, 2016, 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, 2016, and that no material weaknesses were found in the design or operation of the controls.

During our 2016 audit, we identified deficiencies in SEC's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies.[9] 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 required supplementary information (RSI) be presented to supplement the financial statements. Although 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 required supplementary information 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

[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.

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 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 to 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 2016 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 expressed pleasure that GAO found that SEC's financial statements and notes were presented fairly, in all material respects, and in conformity with U.S. generally accepted accounting principles. SEC stated that it will continue to build upon this strong audit result by modernizing the technology platforms supporting key areas of its finances. SEC added that these initiatives will help the agency reduce manual processes and improve data quality and reporting. SEC also stated that it will continue to formalize its enterprise risk management program in response to updated guidance from GAO and the Office of Management and Budget. The complete text of SEC's response is reprinted in enclosure I.

James R. Dalkin
Director
Financial Management and Assurance

November 14, 2016

Enclosure I: Management's Response to Audit Opinion

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

THE CHAIR

November 10, 2016

Mr. James R. Dalkin
Director
Financial Management and Assurance
United States Government Accountability Office
441 G Street, NW
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 2016 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.

In the coming year, the SEC will continue to build upon this strong audit result by modernizing the technology platforms supporting key areas of our finances. The agency is making significant progress on the Edgar Fee System Modernization (EFSM), which will support the SEC's management of registration fees once the new platform is deployed in FY 2017. In FY 2017, the SEC will begin building a disgorgement and penalties system (DPS) to improve both financial and programmatic reporting of enforcement actions. Finally, the SEC will work to replace the SEC's legacy system for budget formulation and add capabilities for tracking the agency's strategic performance metrics. Together, these initiatives will help the agency reduce manual processes and improve data quality and reporting. The SEC also will continue to formalize its enterprise risk management program in response to updated guidance from GAO and the Office of Management and Budget.

I very much appreciate the professional manner in which you and your team conducted the audit for FY 2016. I look forward to continuing our productive dialogue in the coming months on the SEC's efforts to address the areas noted in your report. If you have any questions, please feel free to contact me.

Sincerely,

Mary Jo White
Chair

SEC Financial Statements

U.S. SECURITIES AND EXCHANGE COMMISSION

Balance Sheets

As of September 30, 2016 and 2015

(DOLLARS IN THOUSANDS)	2016	2015
ASSETS (NOTE 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 7,629,504	$ 7,618,768
Investments, Net (Note 5)	2,856,588	2,867,146
Accounts Receivable (Note 6)	25	26
Advances and Prepayments	11,991	6,213
Total Intragovernmental	10,498,108	10,492,153
Cash and Other Monetary Assets (Note 4)	27	39
Accounts Receivable, Net (Note 6)	1,027,779	860,022
Property and Equipment, Net (Note 7)	125,908	103,604
Advances and Prepayments	3	4
Total Assets	$ 11,651,825	$ 11,455,822
LIABILITIES (NOTE 8):		
Intragovernmental:		
Accounts Payable	$ 5,381	$ 3,027
Employee Benefits	6,991	5,068
Unfunded FECA and Unemployment Liability	949	1,182
Custodial Liability	665,507	500,238
Liability for Non-Entity Assets	2,225	1,802
Total Intragovernmental	681,053	511,317
Accounts Payable	76,200	44,380
Actuarial FECA Liability	5,558	6,054
Accrued Payroll and Benefits	35,387	58,165
Accrued Leave	72,836	67,635
Registrant Deposits	36,652	35,050
Liability for Disgorgement and Penalties (Note 16)	3,089,688	3,028,960
Contingent Liabilities (Note 10)	10,800	14,555
Other Accrued Liabilities (Note 8)	6,409	6,496
Total Liabilities	4,014,583	3,772,612
Commitments and Contingencies (Note 10)		
NET POSITION:		
Cumulative Results of Operations – Funds from Dedicated Collections (Note 11)	7,637,242	7,683,210
Total Net Position	$ 7,637,242	$ 7,683,210
Total Liabilities and Net Position	$ 11,651,825	$ 11,455,822

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

Statements of Net Cost

For the years ended September 30, 2016 and 2015

(DOLLARS IN THOUSANDS)	2016	2015
PROGRAM COSTS (NOTE 12):		
Enforcement	$ 602,923	$ 549,396
Compliance Inspections and Examinations	375,888	325,745
Corporation Finance	163,607	156,327
Trading and Markets	92,689	86,219
Investment Management	65,788	61,807
Economic and Risk Analysis	66,669	63,701
General Counsel	51,389	50,244
Other Program Offices	83,316	69,926
Agency Direction and Administrative Support	218,724	208,334
Inspector General	14,928	11,922
Total Program Costs	1,735,921	1,583,621
Less: Earned Revenue Not Attributed to Programs (Note 12)	1,974,920	2,070,235
Net (Income) Cost from Operations (Note 15)	$ (238,999)	$ (486,614)

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

Statements of Changes in Net Position

For the years ended September 30, 2016 and 2015

(DOLLARS IN THOUSANDS)	2016		
	Funds from Dedicated Collections	All Other Funds	Consolidated Total
CUMULATIVE RESULTS OF OPERATIONS:			
Beginning Balances	$ 7,683,210	$ —	$ 7,683,210
Budgetary Financing Sources:			
Appropriations Used	128,529	—	128,529
Non-Exchange Revenue	2,413	—	2,413
Other Financing Sources:			
Transfers In/Out without Reimbursement	—	—	—
Imputed Financing (Note 13)	34,360	—	34,360
Other (Note 17)	—	(450,269)	(450,269)
Total Financing Sources	165,302	(450,269)	(284,967)
Net Income (Cost) from Operations	(211,270)	450,269	238,999
Net Change	(45,968)	—	(45,968)
Cumulative Results of Operations (Note 11)	7,637,242	—	7,637,242
UNEXPENDED APPROPRIATIONS:			
Beginning Balances	—	—	—
Budgetary Financing Sources:			
Appropriations Received	128,529	—	128,529
Other Adjustments	-	—	—
Appropriations Used	(128,529)	—	(128,529)
Total Budgetary Financing Sources	—	—	—
Total Unexpended Appropriations	—	—	—
Net Position, End of Period	$ 7,637,242	$ —	$ 7,637,242

Statements of Changes in Net Position *(continued)*

For the years ended September 30, 2016 and 2015

(DOLLARS IN THOUSANDS)	2015		
	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

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

Statements of Budgetary Resources

For the years ended September 30, 2016 and 2015

(DOLLARS IN THOUSANDS)	2016	2015
BUDGETARY RESOURCES:		
Unobligated Balance, Brought Forward, October 1	$ 162,555	$ 123,644
Recoveries of Prior Year Unpaid Obligations	56,948	34,261
Other Changes in Unobligated Balance	2,233	673
Unobligated Balance from Prior Year Budget Authority, Net	221,736	158,578
Appropriations (Discretionary and Mandatory)	179,605	60,052
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,476,708	1,494,196
Total Budgetary Resources	$ 1,878,049	$ 1,712,826
STATUS OF BUDGETARY RESOURCES:		
New Obligations and Upward Adjustments (Total) (Note 14)	$ 1,724,034	$ 1,550,271
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	358,864	433,657
Exempt from Apportionment, Unexpired Accounts	1,848	328
Unapportioned, Unexpired Accounts	(206,697)	(271,430)
Unobligated Balance, End of Year (Total)	154,015	162,555
Total Budgetary Resources	$ 1,878,049	$ 1,712,826
CHANGE IN OBLIGATED BALANCE:		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1 (Gross)	$ 905,843	$ 915,846
New Obligations and Upward Adjustments	1,724,034	1,550,271
Outlays (Gross)	(1,720,483)	(1,526,013)
Recoveries of Prior Year Unpaid Obligations	(56,948)	(34,261)
Unpaid Obligations, End of Year	852,446	905,843
Uncollected Payments:		
Uncollected Payments, Federal Sources, Brought Forward, October 1	(26)	(435)
Change in Uncollected Payments, Federal Sources	1	409
Uncollected Payments, Federal Sources, End of Year	(25)	(26)
Obligated Balance, End of Year	852,421	905,817
Memorandum (non-add) entries:		
Obligated Balance, Start of Year	$ 905,817	$ 915,411
Obligated Balance, End of Year	$ 852,421	$ 905,817
BUDGET AUTHORITY AND OUTLAYS, NET:		
Budget Authority, Gross (Discretionary and Mandatory)	$ 1,656,313	$ 1,554,248
Actual Offsetting Collections (Discretionary and Mandatory)	(1,469,825)	(1,493,660)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory)	1	409
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory)	2,233	1,437
Budget Authority, Net (Discretionary and Mandatory)	$ 188,722	$ 62,434
Outlays, Gross (Discretionary and Mandatory)	$ 1,720,483	$ 1,526,013
Actual Offsetting Collections (Discretionary and Mandatory)	(1,469,825)	(1,493,660)
Outlays, Net (Discretionary and Mandatory)	250,658	32,353
Distributed Offsetting Receipts	(1,588)	1,659
Agency Outlays, Net (Discretionary and Mandatory)	$ 249,070	$ 34,012

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

Statements of Custodial Activity

For the years ended September 30, 2016 and 2015

(DOLLARS IN THOUSANDS)	2016	2015
REVENUE ACTIVITY:		
Sources of Cash Collections:		
Disgorgement and Penalties	$ 1,611,289	$ 764,052
Other	1,543	1,505
Total Cash Collections	1,612,832	765,557
Accrual Adjustments	165,270	276,874
Total Custodial Revenue	1,778,102	1,042,431
DISPOSITION OF COLLECTIONS:		
Amounts Transferred to:		
Department of the Treasury	1,612,832	765,557
Amounts Yet to be Transferred	165,270	276,874
Total Disposition of Collections	1,778,102	1,042,431
NET CUSTODIAL ACTIVITY	$ —	$ —

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

Notes to the Financial Statements

As of September 30, 2016 and 2015

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. 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. See *Note 1.S, Investor Protection Fund*.

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 U.S. Treasury General Fund 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 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.

Certain prior year amounts presented on the Statement of Budgetary Resources and Required Supplementary Information have been reclassified to conform to the current year presentation required by OMB Circular A-136.

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 Wall Street Reform and Consumer Protection Act of 2010 (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 Investor Protection 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 Investor Protection 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:
   - 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. The SEC has custodial responsibilities, as disclosed in *Note 1.L, Liabilities*.

3. Deposit Funds:
   - 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.

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 to use in its operations. 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 U.S. Department of the Treasury's 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

The 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 that are delinquent for 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. See *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. See *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, and custodial liabilities for collections on behalf of the U.S. Treasury General Fund. Liabilities that do not require the use of budgetary resources are covered by assets that do not represent budgetary resources to the SEC. See *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 also created a supplemental retirement contribution program that matches an employee's TSP contribution of up to 1 percent of the employee's salary on a dollar-for-dollar basis retroactive to January 13, 2013, within the IRS contribution guidelines. The new supplemental retirement match was increased from 1 percent to 3 percent for SEC supervisors and managers effective January 2014. Beginning October 5, 2014, the new supplemental retirement match was increased from 1 percent to 3 percent for bargaining unit employees.

Employees participating in FERS are subject to Social Security payroll taxes and are eligible for Social Security benefits based upon their federal employment. The SEC contributes the employer's matching amount for Social Security to the Social Security Administration under the Federal Insurance Contributions Act, which fully covers FERS participating employees.

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. In accordance with federal accounting standards, the SEC recognizes costs incurred by the SEC but financed 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. See *Note 13, Imputed Financing*.

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." See *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 an accounts payable to the SEC because registrants cannot obtain refunds of fees or additional services in relation to securities that remain unsold.

These exchange revenues are a means to recover all or most of the total cost of all SEC programs and to deposit excess filing fee collections to the U.S. 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 the 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. See *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 Investor Protection 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. See *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. See *Note 1.E, Fund Accounting Structure*.

BORROWING AUTHORITY

The SEC's borrowing authority is limited to authority to borrow funds from the U.S. Treasury in order to loan funds to the Securities Investor Protection Corporation, as discussed in *Note 10.A, Commitments: Securities Investor Protection Act*.

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. See *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, 2016, SEC entity and non-entity assets consisted of the following:

(DOLLARS IN THOUSANDS)	Entity	Non-Entity	Total
INTRAGOVERNMENTAL:			
Fund Balance with Treasury:			
SEC Funds	$ 7,241,081	$ —	$ 7,241,081
Registrant Deposits	—	36,652	36,652
Disgorgement and Penalties (Note 16)	—	351,735	351,735
Custodial and Other Non-Entity Assets	—	36	36
Investments, Net:			
Disgorgement and Penalties (Note 16)	—	2,506,317	2,506,317
Investor Protection Fund	350,271	—	350,271
Accounts Receivable	25	—	25
Advances and Prepayments	11,991	—	11,991
Total Intragovernmental Assets	7,603,368	2,894,740	10,498,108
Cash and Other Monetary Assets:			
SEC Funds	—	—	—
Disgorgement and Penalties (Note 16)	—	27	27
Other Non-Entity Assets	—	—	—
Accounts Receivable, Net:			
SEC Funds	128,419	—	128,419
Disgorgement and Penalties (Note 16)	—	896,328	896,328
Custodial and Other Non-Entity Assets	—	3,032	3,032
Property and Equipment, Net (Note 7)	125,908	—	125,908
Advances and Prepayments	3	—	3
Total Assets	$ 7,857,698	$ 3,794,127	$ 11,651,825

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

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, 2016 and 2015 consists of the following:

(DOLLARS IN THOUSANDS)	2016	2015
FUND BALANCES:		
General Funds	$ 7,139,871	$ 7,174,713
Special Funds	101,163	87,976
Other Funds	388,470	356,079
Total Fund Balance with Treasury	$ 7,629,504	$ 7,618,768
STATUS OF FUND BALANCE WITH TREASURY:		
Unobligated Balance:		
Available	$ 15,303	$ 38,854
Unavailable	100,175	109,218
Obligated Balance not Yet Disbursed	639,394	619,338
Non-Budgetary Fund Balance with Treasury	6,874,632	6,851,358
Total Status of Fund Balance with Treasury	$ 7,629,504	$ 7,618,768

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. See *Note 14.C, Other Budgetary Disclosures, Change in Legal Interpretation for Lease Obligations*.

Non-Budgetary Fund Balance with Treasury consists 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 with Treasury reflected in the SEC's financial statements and the corresponding balance in the U.S. Treasury Department accounts.

Note 4. Cash and Other Monetary Assets

The SEC had a cash balance of $27 thousand as of September 30, 2016. 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 $39 thousand as of September 30, 2015.

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 U.S. Treasury Department's 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, 2016, 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	$ 2,504,983	S/L	$ (1,673)	$ 3,007	$ 2,506,317	$ 2,487,799
Investor Protection Fund – Entity	353,742	S/L	(6,277)	2,806	350,271	347,759
Total	$ 2,858,725		$ (7,950)	$ 5,813	$ 2,856,588	$ 2,835,558

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

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, 2016, accounts receivable consisted of the following:

(DOLLARS IN THOUSANDS)	Gross Receivables	Allowance	Net Receivables
Intragovernmental Entity Accounts Receivable:			
Reimbursable Activity	$ 25	$ —	$ 25
Entity Accounts Receivable:			
Securities Transaction Fees	$ 127,874	$ —	$ 127,874
Other	545	—	545
Non-Entity Accounts Receivable:			
Disgorgement and Penalties	3,075,435	2,179,107	896,328
Filing Fees	2,249	24	2,225
Other	6,203	5,396	807
Subtotal Non-Intragovernmental Accounts Receivable	3,212,306	2,184,527	1,027,779
Total Accounts Receivable	$ 3,212,331	$ 2,184,527	$ 1,027,804

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	3,256,097	2,517,392	738,705
Filing Fees	4,080	2,278	1,802
Other	2,842	2,174	668
Subtotal Non-Intragovernmental Accounts Receivable	3,381,866	2,521,844	860,022
Total Accounts Receivable	$ 3,381,892	$ 2,521,844	$ 860,048

Refer to *Note 1.I, Accounts Receivable and Allowance for Uncollectible Accounts* for methods used to estimate allowances. The SEC does not recognize interest revenue on accounts considered to be uncollectible. The SEC estimates that accumulated interest on accounts receivable considered to be uncollectible is $5.4 million and $2.2 million, respectively, as of September 30, 2016 and 2015. This estimate does not include interest accumulated on debts written off or officially waived.

As of September 30, 2016 and 2015, the balances include disgorgement and penalty accounts receivable, net of allowance, of $664.7 million and $499.6 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, 2016, 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	$ 126,467	$ 107,649	$ 18,818
Software	S/L	300	300	3-5	245,231	158,891	86,340
Leasehold Improvements	S/L	300	N/A	10	108,476	87,726	20,750
Total					$ 480,174	$ 354,266	$ 125,908

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

Bulk purchases are acquisitions of a quantity of similar items that individually cost less than the threshold for individual purchases 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 are covered by assets that do not represent budgetary resources to the SEC. 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*.

At September 30, 2016, 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	$ 5,381	$ —	$ —	$ 5,381
Other Intragovernmental Liabilities				
Accrued Employee Benefits	6,991	—	—	6,991
Unfunded FECA and Unemployment Liability	—	949	—	949
Custodial Liability	—	—	665,507	665,507
Liability for Non-Entity Assets	—	—	2,225	2,225
Subtotal – Other Intragovernmental Liabilities	6,991	949	667,732	675,672
Total Intragovernmental	12,372	949	667,732	681,053
Accounts Payable	76,200	—	—	76,200
Actuarial FECA Liability	—	5,558	—	5,558
Other Liabilities				
Accrued Payroll and Benefits	35,387	—	—	35,387
Accrued Leave	—	72,836	—	72,836
Registrant Deposits	—	—	36,652	36,652
Liability for Disgorgement and Penalties (Note 16)	—	—	3,089,688	3,089,688
Contingent Liabilities (Note 10)	—	10,800	—	10,800
Other Accrued Liabilities				
Recognition of Lease Liability (Note 9)	—	6,307	—	6,307
Other	—	—	102	102
Subtotal – Other Liabilities	35,387	89,943	3,126,442	3,251,772
Total Liabilities	$ 123,959	$ 96,450	$ 3,794,174	$ 4,014,583

Other Liabilities (intragovernmental and governmental) totaled $3.9 billion as of September 30, 2016, of which all but $90 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 $424 thousand as of September 30, 2016.

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 $3.7 billion as of September 30, 2015, of which all but $89 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 $446 thousand as of September 30, 2015.

Note 9. Leases

Operating Leases

At September 30, 2016, the SEC leased office space at 15 locations under operating lease agreements that expire between FY 2015 and FY 2029. The SEC paid $97 million and $97.5 million for rent for the year ended September 30, 2016 and 2015, 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 leases with terms of more than one year. "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 2022 and thereafter are as follows:

FISCAL YEAR *(DOLLARS IN THOUSANDS)*	Non-Cancelable Expected Future Lease Payments
2017	82,844
2018	83,178
2019	69,227
2020	38,413
2021	19,825
2022 and thereafter	13,247
Total	306,734

As discussed in *Note 14.C, Other Budgetary Disclosures*, $213 million of the above $306.7 million are unfunded obligations.

Expense Recognition of "Rent Holiday"

In May 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 is expected to total $533 thousand in each year. The unamortized balance of this location's discount totaled $2.4 million and $2.9 million at September 30, 2016 and 2015, 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 $721 thousand and $863 thousand at September 30, 2016 and 2015, 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 $398 thousand and $552 thousand at September 30, 2016 and 2015, 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 10 years. The unamortized balance of this location's discount totaled $2.6 million and $2.1 million at September 30, 2016 and 2015, respectively.

In September 2016, the SEC executed an occupancy agreement with GSA to lease office space in Boston, Massachusetts. The occupancy agreement includes a 12 month rent payment holiday. The SEC expects to amortize $2.8 million of rent expense discount over the non-cancelable term of the lease which is 10 years. As of September 30, 2016, the SEC has accumulated $236 thousand in rent expense discount for this site. The unamortized balance of this location's discount totaled $213 thousand at September 30, 2016.

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, 2016 (amounts in thousands)

Location	Total Discount	Amortized Discount	Accrued Lease Liability
New York, New York	7,995	5,596	2,399
Atlanta, Georgia	1,420	699	721
Miami, Florida	835	437	398
Los Angeles, California	3,220	644	2,576
GSA Boston	236	23	213
Total (See Note 8)	13,706	7,399	6,307

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

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 U.S. 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, 2016, 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 discussed 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, 2016 of $10.8 million. The SEC recognized a contingent liability for potential whistleblower award for the period ended September 30, 2015 of $13.6 million.

As of September 30, 2016, potential whistleblower payments for cases where positive Preliminary Determinations have not been made, but are reasonably possible, are estimated to range from $303.9 million to $911.7 million given the amount

of current collections on those cases. Such claims do not meet the criteria for recognition as contingent liabilities in FY 2016. As of September 30, 2016, 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 million the Investor Protection Fund will be replenished, as described in the *Note 1.S, Investor Protection Fund*.

As of September 30, 2015, potential whistleblower payments that were reasonably possible, but did not meet the criteria for recognition as contingent liabilities, were estimated to range from $224.8 million to $674.4 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, 2016 net obligations for all of the SEC's activities were $852.4 million, of which $124.0 million was delivered and unpaid. As of September 30, 2015, net obligations for all of SEC's activities were $905.8 million, of $110.6 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, 2016, no contingent liabilities of this type were recognized. As of September 30, 2015, the SEC recognized $990 thousand in other contingent liabilities.

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* and *Note 5, Investments*, for additional information about intragovernmental investments in Treasury securities.

For FY 2016, 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, 2016					
ASSETS					
Fund Balance with Treasury	$ 7,139,871	$ 17,845	$ 83,318	$ —	$ 7,241,034
Cash and Other Monetary Assets	—	—	—	—	—
Investments, Net	—	350,271	—	—	350,271
Accounts Receivable, Net	128,444	—	—	—	128,444
Property and Equipment, Net	66,999	—	58,909	—	125,908
Advances and Prepayments	11,994	—	—	—	11,994
Total Assets	$ 7,347,308	$ 368,116	$ 142,227	$ —	$ 7,857,651
LIABILITIES					
Accounts Payable	$ 54,192	$ 22,958	$ 4,431	$ —	$ 81,581
FECA and Unemployment Liability	6,507	—	—	—	6,507
Accrued Payroll and Benefits	42,378	—	—	—	42,378
Accrued Leave	72,836	—	—	—	72,836
Contingent Liabilities	—	10,800	—	—	10,800
Other Accrued Liabilities	6,307	—	—	—	6,307
Total Liabilities	182,220	33,758	4,431	—	220,409
NET POSITION					
Cumulative Results of Operations	7,165,088	334,358	137,796	—	7,637,242
Total Net Position	7,165,088	334,358	137,796	—	7,637,242
Total Liabilities and Net Position	$ 7,347,308	$ 368,116	$ 142,227	$ —	$ 7,857,651
Statement of Net Cost for the year ended September 30, 2016					
Gross Program Costs	$ 1,648,723	$55,166	$34,330	$(44)	$ 1,738,175
Less Earned Revenues Not Attributable to Program Costs	1,476,949	—	50,000	(44)	1,526,905
Net (Income) Cost from Operations	$ 171,774	$ 55,166	$ (15,670)	$ —	$ 211,270

(continued on next page)

Note 11. Funds from Dedicated Collections *(continued)*

(DOLLARS IN THOUSANDS)	Salaries & Expenses	Investor Protection Fund	Reserve Fund	Eliminations	Total Funds From Dedicated Collections
Statement of Changes in Net Position for the year ended September 30, 2016					
Cumulative Results of Operations:					
Net Position, Beginning of Period	$ 7,173,973	$ 387,111	$ 122,126	$ —	$ 7,683,210
Budgetary Financing Sources:					
Appropriations Used	128,529	—	—	—	128,529
Non-Exchange Revenue	—	2,413	—	—	2,413
Other Financing Sources:					
Transfers In/Out Without Reimbursement	—	—	—	—	—
Imputed Financing	34,360	—	—	—	34,360
Net Income (Cost) from Operations	(171,774)	(55,166)	15,670	—	(211,270)
Net Change	(8,885)	(52,753)	15,670	—	(45,968)
Cumulative Results of Operations	7,165,088	334,358	137,796	—	7,637,242
Unexpended Appropriations:					
Budgetary Financing Sources:					
Appropriations Received	128,529	—	—	—	128,529
Other Adjustments (Recissions, etc.)	—	—	—	—	—
Appropriations Used	(128,529)	—	—	—	(128,529)
Total Unexpended Appropriations	—	—	—	—	—
Net Position, End of Period	$ 7,165,088	$ 334,358	$ 137,796	$ —	$ 7,637,242

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

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 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 U.S. 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, 2016 and 2015, with a breakout of intragovernmental and public costs is presented below.

(DOLLARS IN THOUSANDS)	2016		
	Intragovernmental Gross Cost	Gross Cost with the Public	Total
SEC Programs:			
Enforcement	$ 87,838	$ 515,085	$ 602,923
Compliance Inspections and Examinations	64,220	311,668	375,888
Corporation Finance	29,233	134,374	163,607
Trading and Markets	15,970	76,719	92,689
Investment Management	11,504	54,284	65,788
Economic and Risk Analysis	8,701	57,968	66,669
General Counsel	9,054	42,335	51,389
Other Program Offices	13,810	69,506	83,316
Agency Direction and Administrative Support	38,231	180,493	218,724
Inspector General	3,072	11,856	14,928
Total Program Costs	$ 281,633	$ 1,454,288	$ 1,735,921
Less: Exchange Revenues			
Securities Transaction Fees			1,485,828
Securities Registration, Tender Offer, and Merger Fees			488,844
Other			248
Total Exchange Revenues			1,974,920
Net (Income) Cost from Operations			$ (238,999)

(DOLLARS IN THOUSANDS)	2015		
	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)

Intragovernmental exchange revenue was $193 thousand for the year ended September 30, 2016.

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

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 financed by OPM on behalf of the SEC were $34.4 million and $31.3 million in FY 2016 and FY 2015, 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, 2016 and 2015, the SEC incurred obligations against Category A, Category B, and Exempt funds as follows:

New Obligations and Upward Adjustments *(DOLLARS IN THOUSANDS)*	2016	2015
Direct New Obligations and Upward Adjustments		
Category A	$ 1,612,813	$ 1,481,665
Category B — Investor Protection Fund	57,932	14,851
Exempt From Apportionment — Reserve Fund	53,050	53,452
Direct New Obligations and Upward Adjustments	1,723,795	1,549,968
Reimbursable New Obligations and Upward Adjustments		
Category B	239	303
Total New Obligations and Upward Adjustments	$ 1,724,034	$ 1,550,271

UNDELIVERED ORDERS AT THE END OF THE PERIOD

Undelivered orders consist of orders of goods and services that the SEC has not received. The SEC's total undelivered orders are $740.5 million and $801.4 million for the years ended September 30, 2016 and 2015, respectively. The total undelivered orders contain unpaid and paid undelivered orders, with unpaid orders making up the majority of the total. The SEC's total unpaid undelivered orders are $728.5 and $795.2 for the years ended September 30, 2016 and 2015, respectively.

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

A comparison between the FY 2016 SBR and the actual FY 2016 data in the President's budget cannot be presented, as the FY 2018 President's budget which will contain FY 2016 actual data is not yet available. The comparison will be presented in next year's financial statements. The comparison as of September 30, 2015 is presented below:

(DOLLARS IN MILLIONS)	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Outlays, Net
Combined Statement of Budgetary Resources	$ 1,713	$ 1,550	$ (2)	$ 32
FY 2015 Ending Balance: Comptroller General Decision B 322160, *Recording of Obligation for Multiple Year Contract*	286	—	—	—
Rounding	1	—	—	—
Budget of the U.S. Government	$ 2,000	$ 1,550	$ (2)	$ 32

The differences between the FY 2015 SBR and the prior year column in the FY 2017 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."

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 2015, the SEC's SBR included $286 million in remaining unfunded obligations after the SEC funded $72 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 2015 funding of the deficiency of $72 million) = FY 2015 Ending Balance of $286 million). The SEC SBR for FY 2016 presents this balance as part of the beginning of the year unobligated balance brought forward.

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 dues, and representation expenses. The Act also requires the SEC to fund its Office of Inspector General with a minimum of $11,315,971 and the Division of Economic and Risk Analysis with a minimum of $68,223,000 in new budget authority.

The SEC returned $764 thousand to the U.S. 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.

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 $213 million and $286 million as of September 30, 2016 and 2015, respectively. The change in unfunded obligations is due to the SEC funding previously unfunded obligations totaling $73 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.

BORROWING AUTHORITY

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, 2016 and 2015:

(DOLLARS IN THOUSANDS)	2016	2015
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated:		
New Obligations and Upward Adjustments (Note 14)	$ 1,724,034	$ 1,550,271
Less: Spending Authority from Offsetting Collections, Recoveries, and Downward Adjustments to Prior Year Unfunded Lease Obligations	(1,526,772)	(1,527,512)
Less: Reserve Fund Appropriations	(50,000)	(50,000)
Net Obligations	147,262	(27,241)
Other Resources:		
Imputed Financing from Cost Absorbed by Others (Note 13)	34,360	31,316
Total Resources Used to Finance Activities	181,622	4,075
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	60,942	3,470
Resources that Finance the Acquisition of Assets Capitalized on the Balance Sheet	(69,066)	(48,761)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(8,124)	(45,291)
Total Resources Used to Finance the Net Cost of Operations	173,498	(41,216)
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	5,201	9,137
Change in Revenue Receivables Not Generating Resources Until Collected	(9,572)	3,290
Change in Lease Liability	(133)	1,264
Change in Unfunded Liability	(4,484)	13,684
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	(8,988)	27,375
Components not Requiring or Generating Resources:		
Depreciation and Amortization	46,743	58,275
Revaluation of Assets or Liabilities	17	174
Non-Entity Filing Fee Revenue, Net	(450,214)	(531,192)
Other Costs that will not Require or Generate Resources	(55)	(30)
Total Components of Net Cost of Operations that will not Require or Generate Resources in Future Periods	(403,509)	(472,773)
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	(412,497)	(445,398)
Net (Income) Cost from Operations	$ (238,999)	$ (486,614)

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 budget-

ary 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."

An example of a revenue that does not generate budgetary resources 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. See *Note 1.R, Disgorgement and Penalties*, and *Note 2, Entity and Non-Entity Assets*.

In FY 2016, total Disgorgement and Penalties assets of $3.8 billion include $3.1 billion held for distribution to harmed investors and $665 million to be transferred to the U.S. Treasury General Fund. In FY 2015, total Disgorgement and Penalties assets of $3.5 billion included $3.0 billion held for distribution to harmed investors and $500 million to be transferred to the U.S. Treasury General Fund.

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)	2016	2015
Fund Balance with Treasury:		
Beginning Balance	$ 321,000	$ 933,447
Collections	1,710,192	1,314,854
Purchases and Redemptions of Treasury Securities	(30,204)	(1,107,064)
Disbursements	(37,964)	(56,185)
Transfers and Deposits to the U.S. Treasury General Fund	(1,611,289)	(764,052)
Total Fund Balance with Treasury (Note 2)	351,735	321,000
Cash and Other Monetary Assets:		
Beginning Balance	13	710
Net Activity	14	(697)
Total Cash and Other Monetary Assets (Notes 2 and 4)	27	13
Investments, Net:		
Beginning Balance	2,468,813	1,360,520
Net Activity	37,504	1,108,293
Total Investments, Net (Notes 2 and 5)	2,506,317	2,468,813
Accounts Receivable, Net:		
Beginning Balance	738,705	380,583
Net Activity	157,623	358,122
Total Accounts Receivable, Net (Notes 2 and 6)	896,328	738,705
Total Disgorgement and Penalties	$ 3,754,407	$ 3,528,531

Note 17. Statement of Changes in Net Position

In FY 2016, the negative $450,269 thousand in "Other" Financing Sources reported in the Statement of Changes in Net Position consists of $450,214 thousand in securities registration, tender offer, merger, and other fees from registrants ("filing fees") and $55 thousand in Freedom of Information Act (FOIA) fees collected, or to be collected, for deposit into the U.S. Treasury General Fund.

In FY 2015, the negative $531,222 thousand consists $531,192 thousand in filing fees and $30 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*. Certain prior year amounts in the Required Supplementary Information have been reclassified to conform to the current year presentation required by OMB Circular A-136.

U.S. SECURITIES AND EXCHANGE COMMISSION

Combining Statements of Budgetary Resources by Fund

For the year ended September 30, 2016

(DOLLARS IN THOUSANDS)	Salaries and Expenses and Other Funds	Investor Protection Fund	Reserve Fund	Total
	X0100, 09/10 0100, 1435, 3220, 3875	5567	5566	
BUDGETARY RESOURCES:				
Unobligated Balance, Brought Forward, October 1	$ (235,222)	$ 397,449	$ 328	$ 162,555
Recoveries of Prior Year Unpaid Obligations	52,753	–	4,195	56,948
Other Changes in Unobligated Balance	2,233	–	-	2,233
Unobligated Balance from Prior Year Budget Authority, Net	(180,236)	397,449	4,523	221,736
Appropriations (Discretionary and Mandatory)	128,528	701	50,376	179,605
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,476,708	–	–	1,476,708
Total Budgetary Resources	$ 1,425,000	$ 398,150	$ 54,899	$ 1,878,049
STATUS OF BUDGETARY RESOURCES:				
New Obligations and Upward Adjustments (Total) (Note 14)	$ 1,613,052	$ 57,931	$ 53,051	$ 1,724,034
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	18,645	340,219	–	358,864
Exempt from Apportionment, Unexpired Accounts	–	–	1,848	1,848
Unapportioned, Unexpired Accounts	(206,697)	–	–	(206,697)
Unobligated Balance, End of Year (Total)	(188,052)	340,219	1,848	154,015
Total Budgetary Resources	$ 1,425,000	$ 398,150	$ 54,899	$ 1,878,049
CHANGE IN OBLIGATED BALANCE:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1 (Gross)	$ 851,013	$ 17	$ 54,813	$ 905,843
New Obligations and Upward Adjustments	1,613,052	57,931	53,051	1,724,034
Outlays (Gross)	(1,633,195)	(34,990)	(52,298)	(1,720,483)
Recoveries of Prior Year Unpaid Obligations	(52,753)	–	(4,195)	(56,948)
Unpaid Obligations, End of Year	778,117	22,958	51,371	852,446
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	(26)	–	–	(26)
Change in Uncollected Payments, Federal Sources	1	–	–	1
Uncollected Payments, Federal Sources, End of Year	(25)	–	–	(25)
Obligated Balance, End of Year	778,092	22,958	51,371	852,421
Memorandum (non-add) entries:				
Obligated Balance, Start of Year	$ 850,987	$ 17	$ 54,813	$ 905,817
Obligated Balance, End of Year	$ 778,092	$ 22,958	$ 51,371	$ 852,421
BUDGET AUTHORITY AND OUTLAYS, NET:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 1,605,236	$ 701	$ 50,376	$ 1,656,313
Actual Offsetting Collections (Discretionary and Mandatory)	(1,469,825)	–	–	(1,469,825)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory)	1	–	–	1
Recoveries of prior year paid obligations (Discretionary and Mandatory)	2,233	–	–	2,233
Budget Authority, Net (Discretionary and Mandatory)	$ 137,645	$ 701	$ 50,376	$188,722
Outlays, Gross (Discretionary and Mandatory)	$ 1,633,195	$ 34,990	$ 52,298	$ 1,720,483
Actual Offsetting Collections (Discretionary and Mandatory)	(1,469,825)	–	–	(1,469,825)
Outlays, Net (Discretionary and Mandatory)	163,370	34,990	52,298	250,658
Distributed Offsetting Receipts	(836)	(752)	–	(1,588)
Agency Outlays, Net (Discretionary and Mandatory)	$ 162,534	$ 34,238	$ 52,298	$ 249,070

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

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, 3875	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	673	—	—	673
Unobligated Balance from Prior Year Budget Authority, Net	(253,154)	407,877	3,855	158,578
Appropriations (Discretionary and Mandatory)	5,704	4,423	49,925	60,052
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,494,196	—	—	1,494,196
Total Budgetary Resources	$ 1,246,746	$ 412,300	$ 53,780	$ 1,712,826
STATUS OF BUDGETARY RESOURCES:				
New Obligations and Upward Adjustments (Total) (Note 14)	$ 1,481,968	$ 14,851	$ 53,452	$ 1,550,271
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	36,208	397,449	—	433,657
Exempt from Apportionment, Unexpired Accounts	—	—	328	328
Unapportioned, Unexpired Accounts	(271,430)	—	—	(271,430)
Unobligated Balance, End of Year (Total)	(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
New Obligations and Upward Adjustments	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)
Obligated Balance, End of Year	850,987	$ 17	54,813	905,817
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)	$ 1,499,900	$ 4,423	$ 49,925	$ 1,554,248
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
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory)	1,437	—	—	1,437
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.

Investor Protection Fund Financial Statements

U.S. SECURITIES AND EXCHANGE COMMISSION
INVESTOR PROTECTION FUND

Balance Sheets

As of September 30, 2016 and 2015

(DOLLARS IN THOUSANDS)	2016	2015
ASSETS:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 17,845	$ 2,360
Investments, Net (Note 3)	350,271	398,333
Total Assets	$ 368,116	$ 400,693
LIABILITIES (NOTE 4):		
Accounts Payable	$ —	$ 17
Total Intragovernmental	—	17
Accounts Payable	22,958	—
Contingent Liabilities (Note 5)	10,800	13,565
Total Liabilities	33,758	13,582
Commitments and Contingencies (Note 5)		
NET POSITION:		
Cumulative Results of Operations – Funds from Dedicated Collections	334,358	387,111
Total Net Position – Funds from Dedicated Collections	334,358	387,111
Total Net Position	334,358	387,111
Total Liabilities and Net Position	$ 368,116	$ 400,693

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, 2016 and 2015

(DOLLARS IN THOUSANDS)	2016	2015
PROGRAM COSTS (NOTE 6):		
Awards to Whistleblowers	$ 55,122	$ 28,397
Employee Suggestion Program	44	19
Total Program Costs	55,166	28,416
Net (Income) Cost from Operations	$ 55,166	$ 28,416

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, 2016 and 2015

(DOLLARS IN THOUSANDS)	2016	2015
CUMULATIVE RESULTS OF OPERATIONS – FUNDS FROM DEDICATED COLLECTIONS:		
Beginning Balances	$ 387,111	$ 414,660
Budgetary Financing Sources:		
Non-Exchange Revenue	2,413	867
Total Financing Sources	2,413	867
Net Income (Cost) from Operations	(55,166)	(28,416)
Net Change	(52,753)	(27,549)
Cumulative Results of Operations	334,358	387,111
Net Position, End of Period	$ 334,358	$ 387,111

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, 2016 and 2015

(DOLLARS IN THOUSANDS)	2016	2015
BUDGETARY RESOURCES:		
Unobligated Balance, Brought Forward, October 1	$ 397,449	$ 407,877
Appropriations (Discretionary and Mandatory)	701	4,423
Total Budgetary Resources	$ 398,150	$ 412,300
STATUS OF BUDGETARY RESOURCES:		
New Obligations and Upward Adjustments (Total)	$ 57,931	$ 14,851
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	340,219	397,449
Unobligated Balance, End of Year (Total)	340,219	397,449
Total Budgetary Resources	$ 398,150	$ 412,300
CHANGE IN OBLIGATED BALANCE:		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1 (Gross)	$ 17	$ 23,136
New Obligations and Upward Adjustments	57,931	14,851
Outlays (Gross)	(34,990)	(37,970)
Unpaid Obligations, End of Year	$ 22,958	$ 17
BUDGET AUTHORITY AND OUTLAYS, NET:		
Budget Authority, Gross (Discretionary and Mandatory)	$ 701	$ 4,423
Budget Authority, Net (Discretionary and Mandatory)	$ 701	$ 4,423
Outlays, Gross (Discretionary and Mandatory)	$ 34,990	$ 37,970
Outlays, Net (Discretionary and Mandatory)	34,990	37,970
Distributed Offsetting Receipts	(752)	2,057
Agency Outlays, Net (Discretionary and Mandatory)	$ 34,238	$ 40,027

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, 2016 and 2015

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 the Dodd-Frank Whistleblower Program and finances the operations of the SEC Office of Inspector General's 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 the Office of Management and Budget (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 the 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, 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 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.

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, 2016 and 2015 consisted of the following:

(DOLLARS IN THOUSANDS)	2016	2015
Fund Balances:		
Special Fund	$ 17,845	$ 2,360
Total Fund Balance with Treasury	$ 17,845	$ 2,360
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	(5,165)	2,343
Unavailable	52	—
Obligated Balance not Yet Disbursed	22,958	17
Total Status of Fund Balance with Treasury	$ 17,845	$ 2,360

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 2016 consisted of:

- Net cash outflows for purchases of investments of $49.7 million;
- Net cash inflows for investment interest of $752 thousand (which includes $9.1 million of interest collections, less $8.4 million of premiums paid, and $48 thousand in discounts received); and
- Net cash outflows for payment of whistleblower awards totaling $17 thousand for amounts that were awarded during FY 2015 and $34.9 million for amounts that were awarded during FY 2016, and payment of expenses of operating the Office of Inspector General's Employee Suggestion Program of $44 thousand.

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 Office of Inspector General's Employee Suggestion Program of $19 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, 2016, 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	$ 353,742	S/L	$ (6,277)	$ 2,806	$ 350,271	$ 347,759

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

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, 2016, liabilities consisted of the following:

(DOLLARS IN THOUSANDS)	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total
Accounts Payable	$ 22,958	$ —	$ 22,958
Contingent Liabilities	—	10,800	10,800
Total Liabilities	$ 22,958	$ 10,800	$ 33,758

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	$ —	$ 13,582

Note 5. Commitments and Contingencies

Commitments and Contingencies: Dodd-Frank Whistleblower Program

As discussed 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 of $10.8 million and $13.6 million for the periods ended September 30, 2016 and 2015, respectively.

As of September 30, 2016, potential whistleblower payments for cases where positive Preliminary Determinations have not been made, but are reasonably possible, are estimated to range from $303.9 million to $911.7 million given the amount of current collections on those cases. Such claims do not meet the criteria for recognition as contingent liabilities in FY 2016. As of September 30, 2016, 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 million, 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, 2015, potential whistleblower payments that were reasonably possible, but did not meet the criteria for recognition as contingent liabilities, were estimated to range from $224.8 million to $674.4 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 that arise from the purchase of goods and services from non-federal entities. Awards to whistleblowers are categorized as "costs with the public."

In FY 2016, the Employee Suggestion Program incurred $44 thousand of intragovernmental costs. The Dodd-Frank Whistleblower Program incurred $55.1 million of costs with the public (awards to whistleblowers) in FY 2016.

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.

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 2016 Statement of Budgetary Resources and the actual FY 2016 data in the President's budget cannot be presented, as the FY 2018 President's budget which will contain FY 2016 actual data is not yet available; the comparison will be presented in next year's financial statements. There are no differences between the FY 2015 Statement of Budgetary Resources and the FY 2015 data in the President's budget.

B. Other Budgetary Disclosures

There were no budgetary resources obligated for undelivered orders as of September 30, 2016 and 2015.

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, 2016 and 2015:

(DOLLARS IN THOUSANDS)	2016	2015
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated:		
New Obligations and Upward Adjustments (Total)	$ 57,931	$ 14,851
Total Resources Used to Finance the Net Cost of Operations	57,931	14,851
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	(2,765)	13,565
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	(2,765)	13,565
Net (Income) Cost from Operations	$ 55,166	$ 28,416

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, 2016, the SEC awarded $57.9 million in new whistleblower awards, of which $22.9 million was payable at September 30, 2016, and recognized $10.8 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, 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.

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, including on what and/or where the money was spent.

Inspector General's Statement on Management and Performance Challenges

Summarizes 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 with addressing these challenges.

Summary of Financial Statement Audit and Management Assurances

Reveals each material weakness and non-conformance found and/or resolved during the U.S. Government Accountability Office's (GAO) audit, as well as those 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 about the SEC's commitment to, and progress with, reducing improper payments, and outlines the efforts taken to recapture improperly-made payments.

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, 2016 and 2015

(DOLLARS IN THOUSANDS)	2016	2015
What Money is Available to Spend?		
Total Resources	$ 1,878,049	$ 1,712,826
Less Amount Available but Not Agreed to be Spent	360,712	433,985
Less Amount Not Available to be Spent	(206,697)	(271,430)
Total Amounts Agreed to be Spent	$ 1,724,034	$ 1,550,271
How was the Money Spent/Issued?		
Enforcement		
Personnel Compensation and Benefits	$ 344,563	$ 316,710
Contractual Services	177,965	180,666
Acquisition of Assets	18,052	34,685
Other	57,882	14,853
	598,462	546,914
Compliance Inspections and Examinations		
Personnel Compensation and Benefits	253,248	216,971
Contractual Services	88,848	74,879
Acquisition of Assets	22,250	19,152
Other	—	14
	364,346	311,016
Corporation Finance		
Personnel Compensation and Benefits	118,100	108,257
Contractual Services	34,253	36,377
Acquisition of Assets	9,166	7,909
Other	—	—
	161,519	152,543

(continued on next page)

Combined Schedule of Spending *(continued)*

(DOLLARS IN THOUSANDS)	2016	2015
Trading and Markets		
Personnel Compensation and Benefits	64,787	58,298
Contractual Services	23,034	21,139
Acquisition of Assets	4,462	4,342
Other	—	—
	92,283	83,779
Investment Management		
Personnel Compensation and Benefits	47,527	42,904
Contractual Services	11,945	14,111
Acquisition of Assets	2,230	3,158
Other	—	—
	61,702	60,173
Economic and Risk Analysis		
Personnel Compensation and Benefits	39,150	31,712
Contractual Services	29,204	20,689
Acquisition of Assets	4,917	2,537
Other	—	—
	73,271	54,938
General Counsel		
Personnel Compensation and Benefits	36,351	34,147
Contractual Services	10,386	11,528
Acquisition of Assets	2,216	2,504
Other	444	497
	49,397	48,676
Other Program Offices		
Personnel Compensation and Benefits	55,484	47,477
Contractual Services	23,754	21,383
Acquisition of Assets	4,462	3,662
Other	—	—
	83,700	72,522
Agency Direction and Administrative Support		
Personnel Compensation and Benefits	146,262	131,460
Contractual Services	58,517	60,716
Acquisition of Assets	20,478	16,049
Other	13	—
	225,270	208,225
Inspector General		
Personnel Compensation and Benefits	10,349	7,872
Contractual Services	2,854	2,685
Acquisition of Assets	881	928
Other	—	—
	14,084	11,485
Total Amounts Agreed to be Spent	$ 1,724,034	$ 1,550,271
Who did the Money go to?		
Non-Federal Individuals and Organizations	$ 1,502,217	$ 1,359,946
Federal Agencies[1]	221,817	190,325
Total Amounts Agreed to be Spent	$ 1,724,034	$ 1,550,271

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

Inspector General's Statement on Management and Performance Challenges

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

OFFICE OF
INSPECTOR GENERAL

MEMORANDUM

October 7, 2016

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, October 2016*

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 our past and ongoing audit, evaluation, investigation, and review 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 of this statement to SEC officials and considered all comments received when finalizing the statement. As we begin fiscal year (FY) 2017, we identified the following areas where the SEC faces management and performance challenges to varying degrees:

- Meeting Expanded Regulatory Oversight Responsibilities
- Ensuring an Effective Information Security Program
- Improving Contract Management
- Ensuring Effective Human Capital Management

In prior years, we reported that Financial Management also posed a management and performance challenge for the agency due primarily to significant deficiencies and other financial reporting internal control weaknesses identified during GAO's annual financial statement audit. We are pleased to remove Financial Management from this year's statement. In GAO's audits of the 2014 and 2015 financial statements of the SEC and the Investor Protection Fund, GAO found (1) the SEC's and the Investor Protection Fund's financial statements for the FYs ended September 30, 2014, and September 30, 2015, were presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles; (2) the SEC maintained, in all material respects, effective internal control over financial reporting for the SEC and Investor Protection Fund as of September 30, 2015;

(3) no reportable noncompliance for FY 2015 with provisions of applicable laws, regulations, contracts, and grant agreements tested; and (4) during FY 2015, the SEC made progress in addressing internal control deficiencies GAO had reported in FY 2014, specifically in the agency's accounting for disgorgement and penalty transactions, such that GAO no longer considers the remaining control deficiencies in this area to represent a significant deficiency as of September 30, 2015.[1]

Each of the remaining challenges and corresponding audit, evaluation, investigation, or review work is discussed in the attachment. If you have any questions, please contact Rebecca L. Sharek, Deputy Inspector General for Audits, Evaluations, and Special Projects.

Attachment

cc: Andrew Donohue, Chief of Staff, Office of the Chair
Michael Liftik, Deputy Chief of Staff, Office of the Chair
Nathaniel Stankard, Deputy Chief of Staff, Office of the Chair
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
Anne K. Small, General Counsel
Rick Fleming, Investor Advocate
Keith Cassidy, Director, Office of Legislative and Intergovernmental Affairs
John J. Nester, Director, Office of Public Affairs
Jeffery Heslop, Chief Operating Officer
Pamela C. Dyson, Director/Chief Information Officer, Office of Information Technology
Vance Cathell, Director, Office of Acquisitions
Lacey Dingman, Chief Human Capital Officer, Office of Human Resources
Darlene L. Pryor, Management and Program Analyst, Office of the Chief Operating Officer

[1] U.S. Government Accountability Office, *Financial Audit: Securities and Exchange Commission's Fiscal Years 2015 and 2014 Financial Statements* (GAO-16-145R, November 16, 2015).

Attachment. THE INSPECTOR GENERAL'S STATEMENT ON THE SEC'S MANAGEMENT AND PERFORMANCE CHALLENGES, OCTOBER 2016

CHALLENGE: Meeting Expanded Regulatory Oversight Responsibilities

Budgetary Resources. As we have previously reported, 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. The SEC has reported record numbers of enforcement actions and orders directing the payment of penalties and disgorgement, an increase in the number of examinations performed, and progress in rulemakings and initiatives to use data, analytics, and risk-based approaches to further the agency's mission. However, throughout 2016, the SEC Chair provided congressional testimony, similar to testimony provided in 2015, identifying a lack of sufficient resources as a continuing challenge. Specifically, in her June 14, 2016, testimony before the United States Senate Committee on Banking, Housing, and Urban Affairs, the SEC Chair stated the following:

> While the Commission today is stronger and more effective than ever before, challenges remain if we are to continue our current trajectory and address the growing size and complexity of the securities markets. We now oversee approximately 28,000 market participants and selectively review the disclosures and financial statements of over 9,000 reporting companies. From 2001 to 2015, assets under management of SEC-registered advisers more than tripled from approximately $21.5 trillion to approximately $66.8 trillion, and assets under management of mutual funds more than doubled from $7 trillion to over $15 trillion. Trading volume in the equity markets from 2001 through 2015 nearly tripled to over $70 trillion. And, as this Committee knows, the SEC's responsibilities have also significantly increased, with new or expanded responsibilities for security-based derivatives, hedge fund and other private fund advisers, credit rating agencies, municipal advisors, clearing agencies, and crowdfunding portals. As I have testified before both the House and Senate, the SEC is significantly under-resourced for the extensive responsibilities it has, even though our budget is deficit neutral and funded by very modest transaction fees.[2]

In 2014 and 2015, we reported that the SEC (specifically, the SEC Chair and the agency's Investor Advocate) had identified resource constraints and an immediate and pressing need for ensuring sufficient examination coverage of registered investment advisers (IAs) as a

---

[2] Chair Mary Jo White testimony on "Oversight of the Securities and Exchange Commission," June 14, 2016, before the United States Senate Committee on Banking, Housing, and Urban Affairs. The Chair provided similar testimony and before the United States House of Representatives Subcommittee on Financial Services and General Government, Committee on Appropriations on March 22, 2016, and before the United States Senate Subcommittee on Financial Services and General Government, Committee on Appropriations on April 12, 2016. Senior Officers from the Division of Economic and Risk Analysis, Office of Compliance Inspections and Examinations, Office of Credit Ratings, and Office of the Whistleblower also provided similar testimony before the United States House of Representatives Subcommittee on Capital Markets and Government Sponsored Enterprises, Committee on Financial Services on April 21, 2016.

challenge and a "substantial and continuing risk to investors."[3] The SEC must continue to find ways to use its limited resources to keep pace with changes in the size and complexity of the securities markets and the market participants the SEC oversees and regulates, absent additional funding increases.

To assess the agency's progress in this area, in FY 2015, we initiated an evaluation of the Office of Compliance Inspections and Examinations' (OCIE) efficiency and effectiveness in managing its human resources to address mission priorities and long-term goals, particularly for IA examinations. In our report titled *Office of Compliance Inspections and Examinations' Management of Investment Adviser Examination Coverage Goals*, Report No. 533, issued March 10, 2016, we reported that OCIE has worked to increase its examination coverage of IAs, including creating an Office of Risk Analysis and Surveillance and enhancing its use of advanced quantitative techniques, and continues to seek new ways to increase its efficiency. However, we found that improvements were needed to assess OCIE's progress toward meeting strategic objectives and long-term IA examination coverage goals. Specifically, we found that: (1) OCIE's performance measure—percentage of IAs examined each year—may not provide meaningful information because of variations in examination types, examination candidates, and regional office processes; and (2) the IA/Investment Company program may benefit from adopting the GAO risk management framework.

Furthermore, we found that OCIE's management of IA examination goals and performance metrics can be more consistent with Federal internal control and risk management standards. Greater consistency will help ensure that examinations conducted support OCIE's examination priorities, as well as OCIE's long-term goal and the SEC's strategic plan. In addition, we reported that management should ensure that OCIE's performance metrics allow management to assess performance and ensure efficient and effective use of OCIE's limited resources across regional offices. In September 2015, OCIE hired a consultant to help identify ways OCIE can more efficiently use its resources. In addition, we made two specific recommendations for corrective action. As of the date of this memorandum, management had not received the consultant's results, and both our recommendations for corrective action remained open.

We also reviewed relevant policies and procedures and the Division of Enforcement's (Enforcement) internal coordination of investigations after a Federal court suggested that such an examination was warranted to ensure that (1) Enforcement investigations with overlapping factual circumstances are properly coordinated, and (2) scarce agency resources are deployed efficiently. In a management letter titled *Final Management Letter: Evaluation of the SEC Division of Enforcement's Coordination Related to a Federal Civil Action*, issued June 30, 2016, we reported that the SEC has processes and systems for coordinating Enforcement investigations internally and, when appropriate, across agency divisions and offices. However, we found that staff judgment, which is central to the SEC's processes for coordinating investigations, led to an instance of untimely information-sharing. We made three recommendations designed to further strengthen the SEC's policies and procedures for coordinating investigations and making efficient use of limited resources. Management

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

concurred with our recommendations and has taken action sufficient to close one of the recommendations. As of the date of this memorandum, the other two recommendations remained open.

Technology Enhancements. The SEC continues to recognize the need for "harnessing technology to better identify risks, uncover frauds, sift through large volumes of data, inform policymaking, and streamline operations"[4] as a way to achieve its expanding regulatory responsibilities and keep pace with the markets and market participants. According to the Chair's testimony, the emphasis on technological improvements continues to pay dividends, improving efficiencies while allowing the agency to cover more ground than ever before. Key information technology (IT) initiatives included the following:

- expanding data analytics tools;
- improving enforcement investigation and litigation tracking;
- redesigning the Electronic Data Gathering, Analysis and Retrieval (EDGAR) system;
- improving examinations through risk assessment and surveillance tools;
- investing in further business process automation and improvements; and
- enhancing the Tips, Complaints, and Referrals (TCR) system.

We continue to focus our efforts on assessing the agency's progress in enhancing its technology. For example, in 2015, we identified various factors that led to schedule delays and cost increases in the agency's project to elicit requirements, design, and deploy the redesigned TCR system, which was originally scheduled to "go-live" in July 2014. At the time we issued our management letter on the subject (*Final Management Letter: Observations Noted During TCR System Audit Support Engagement*, issued 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. As of the date of this memorandum, agency management expected the redesigned TCR system to "go live" in January 2017, 2.5 years later than planned.

In addition, during FY 2016, we assessed the SEC's IT requirements-gathering process, which impacts the agency's IT investments, including those to modernize the agency's systems and improve the efficiency of the SEC's programs. Because the majority of the agency's IT investments involve contracting, we discuss the results of our work in this area under the challenge titled "Improving Contract Management."

For FY 2017, we are planning additional work to assess how well the SEC achieves its expanding regulatory oversight responsibilities by: reviewing the agency's approaches for improving examination programs, including examinations intended to strengthen the

[4] Chair Mary Jo White testimony on "Oversight of the Securities and Exchange Commission," June 14, 2016, before the United States Senate Committee on Banking, Housing, and Urban Affairs.

technology infrastructure of the U.S. securities markets; ensuring investor access to material information; and modernizing its IT infrastructure, including EDGAR, to improve efficiencies and increase the effectiveness of its programs.

CHALLENGE: Ensuring an Effective Information Security Program

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. In April 2016, the Chair testified that the ability to monitor and avoid advanced persistent threats was a top priority and that the SEC's IT security program planned to focus its efforts on improved risk management and monitoring.[5]

In addition, during her keynote address at the Security Traders Association 83rd Annual Market Structure Conference, the Chair discussed the importance of the consolidated audit trail (CAT) and the challenges of ensuring the security of CAT data. The CAT will be a comprehensive audit trail that will allow regulators to more efficiently and accurately track activity in national market system securities throughout the U.S. markets. The CAT is being created by a joint plan of the 18 national securities exchanges and the Financial Industry Regulatory Authority, pursuant to SEC Rule 613. Although the CAT Plan Processor (and not the SEC) is responsible for developing, managing, and monitoring the CAT, the SEC is responsible for ensuring the security of CAT data that may be accessed by agency employees and/or stored on the agency's network to support regulatory activities. In her address, the Chair stated:

> There is no higher market structure priority for me than to ensure Commission consideration of a final CAT plan before the end of the year. One of the major issues raised in comments has been the need for robust controls to protect sensitive personal information and proprietary data from cybersecurity threats. I share this priority, especially given the breadth of data that will be collected by the CAT. The Commission is carefully assessing the security requirements of the CAT plan and evaluating comments on optimal approaches to address data security concerns. The Commission, of course, must ensure that it has strong measures in place to protect the sensitive, non-public information it handles, and I am strongly committed to implementing such measures in conducting our regulatory oversight responsibilities using CAT data.[6]

The SEC has made progress in some areas of information security. For example, to comply with Homeland Security Presidential Directive 12, in summer 2016 the SEC began requiring employees and contractors at certain locations to use their Personal Identify Verification (PIV) cards for network access. The agency anticipates mandatory usage of PIV cards by all employees and contractors by November 2016. In addition, the SEC's Office of Information

---

[5] Chair Mary Jo White "Testimony on the Fiscal Year 2017 Budget Request of the U.S. Securities and Exchange Commission," April 12, 2016, before the United States Senate Subcommittee on Financial Services and General Government, Committee on Appropriations.

[6] Chair Mary Jo White keynote address "Equity Market Structure in 2016 and for the Future," at 83rd Annual Market Structure Conference, Washington, DC; September 14, 2016.

Technology (OIT) addressed many recommendations from prior audits and evaluations, as discussed further below. However, we continue to identify and assess weaknesses in the agency's information security controls.

For example, we completed our FY 2015 audit of the effectiveness of the SEC's information security and privacy programs and whether OIT has policies, procedures, and practices consistent with Federal Information Security Modernization Act requirements (*Audit of the SEC's Compliance with the Federal Information Security Modernization Act for Fiscal Year 2015*, Report No. 535, issued June 2, 2016). Overall, we found that OIT improved in key information security program areas, including implementing PIV to the maximum extent practicable, establishing multi-factor authentication for external systems, and improving identity and access management.

However, we determined that (1) OIT's risk management program did not effectively monitor risks associated with system authorizations, and (2) OIT's configuration management program did not ensure that system owners adhered to baseline configuration requirements. In addition, as in FYs 2013 and 2014, we found that OIT had not fully addressed some areas of potential risk identified in prior Federal Information Security Management Act evaluations. Specifically, SEC systems continued to operate without current authorizations, user accounts were not always deactivated in accordance with policy, continuous monitoring review procedures were developed but not consistently implemented, and some policies and procedures remained outdated or inconsistent.

In addition, we identified three other matters of interest related to the agency's information technology environment. Specifically, we determined that the SEC did not always (1) update Business Impact Analyses to reflect major system changes, (2) update contingency planning documents to reflect changes in alternate site locations, or (3) track security awareness training. We made four recommendations that address support for risk-based decisions, OIT Risk Committee functionality, and configuration management requirements. Management concurred with these recommendations and has already taken action on two of them. As of the date of this memorandum, two recommendations from the FY 2015 audit remained open, as did one recommendation from the FY 2014 evaluation. However, management had sufficiently addressed all recommendations from the FY 2013 evaluation.

In addition, during FY 2016, management sufficiently addressed two recommendations we made in FY 2015 to review data security controls and complete required security assessments and privacy impact assessments of third party fund administrators used to distribute disgorgement and penalty amounts collected to harmed investors.[7]

In our report titled *Audit of the SEC's Process for Reviewing Self-Regulatory Organizations' Proposed Rule Changes*, Report No. 537, issued September 23, 2016, we reported that information security controls for the system used to submit and track self-regulatory organizations' proposed rule changes needed improvement. We made four recommendations to improve the system's information security and contingency planning documents. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

---

[7] U.S. Securities and Exchange Commission, Office of Inspector General, *Improvements Needed in the Division of Enforcement's Oversight of Fund Administrators* (Report No. 531, September 30, 2015).

In FY 2016, we completed two investigations related to information security. In one matter, we discovered that an employee sent nonpublic information to a personal e-mail account on 26 occasions and to the employee's spouse's e-mail account on 2 occasions. In the other matter, an SEC attorney transmitted nonpublic information from a personal non-secure e-mail account to the attorney's official SEC e-mail account. The OIG reported the results of these investigations to SEC management to determine whether corrective administrative actions may be warranted.

Finally, as part of its audit of the SEC's FYs 2014 and 2015 financial statements, GAO reported in April 2016[8] that the SEC improved its information security by addressing weaknesses GAO had previously identified. However, according to GAO, weaknesses continue to limit the effectiveness of other security controls. In particular, GAO found that the SEC did not consistently protect access to its systems; did not consistently manage the configuration of its systems; did not always appropriately separate incompatible duties; and did not ensure that contingency and disaster recovery plans for its information systems were fully reviewed, completed, or up-to-date. According to GAO, these weaknesses existed in part because the SEC had not fully implemented an organization-wide information security program, as called for by Federal law and guidance. In particular, the agency had not (1) consistently reviewed and updated its information security policies in a timely manner, (2) completely documented plans of action to address weaknesses, (3) documented a physical inventory of its systems and applications, and (4) fully implemented a program to continuously monitor the security of its systems and networks. In addition to 15 prior recommendations that had not been fully implemented as of the date of GAO's report, GAO recommended that the SEC take 6 additional actions to more fully implement its information security program. In a separate report with limited distribution, GAO recommended that the SEC take 30 actions to address newly identified control weaknesses. SEC management concurred with GAO's recommendations. According to agency management, OIT has implemented corrective actions to address GAO's recommendations.

The OIG has established a working group consisting of OIG auditors, special agents, and IT specialists, and we will leverage the expertise of this working group to assist us in continuing to assess the SEC's information security program.

CHALLENGE: Improving Contract Management

According to the agency's 2015 Agency Financial Report (AFR), the Office of Acquisitions (OA) continues to enhance the planning, award, and administration of contracts by focusing on long-term scalable enterprise contracts, increasing collaboration and early involvement in planning SEC procurements, and leveraging SEC buying to obtain better business deals and pricing with longer term contracts.[9] We have observed efforts to consolidate contracts (specifically, for Oracle-related investments) to achieve efficiencies. In addition, OA reported returning nearly $31 million to SEC budgets in FY 2015 through its de-obligation and closeout process, and estimates returning more than $40 million for FY 2016. Also, OA reported surpassing all small business goals set for the agency in FY 2015 and anticipates that it will

---

[8] U.S. Government Accountability Office, *INFORMATION SECURITY: Opportunities Exist for SEC to Improve Its Controls over Financial Systems and Data* (GAO-16-493, April 28, 2016).
[9] U.S. Securities and Exchange Commission Agency Financial Report, Fiscal Year 2015.

meet or exceed its FY 2016 goals. Although OA continues to improve its processes, we continue to identify areas of needed improvements in other offices' and divisions' contract management.

For example, as previously discussed, there have been repeated delays and contract extensions related to the agency's effort to elicit requirements, design, and deploy the redesigned TCR system. Various factors, including unacceptable contractor performance and a lack of adequate contractor and Government resources to timely address concerns, led to the project's schedule delays and cost increases. As we reported last year, 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.[10] 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.

As a result, we initiated an audit to assess the SEC's IT requirements-gathering process. We determined that, between October 1, 2013, and November 25, 2015, the SEC obligated more than $521 million for 692 IT investments. The SEC has engaged contractors to manage many of these IT investments. In our report titled *Audit of the SEC's Information Technology Requirements-Gathering Process*, Report No. 538, issued September 30, 2016, we found that the SEC initiated efforts in September 2015 to establish an IT Requirements Center of Excellence. By August 2016, OIT had rolled-out the Requirements Center of Excellence framework. However, OIT has not fully designed and implemented the SEC's IT requirements-gathering process, and opportunities exist to improve OIT's oversight of the SEC's IT investments and their underlying requirements. Specifically, we reviewed a sample of 17 development, modernization, and enhancement (DME) investments and 8 steady state investments and found that OIT did not consistently document or validate detailed, measurable requirements, particularly for DME investments. In addition, OIT did not always ensure that investments were managed by integrated project teams and certified individuals, where necessary, or define project team members' roles and responsibilities for IT requirements-gathering. We also found that investment documents did not always demonstrate that OIT integrated security requirements into DME investment planning and initiation phases.

Furthermore, OIT did not consistently review and coordinate IT investments—particularly steady state investments, investments to acquire technology equipment, and Oracle support services investments—to prevent redundancy; and for two investments, governance authorities did not review and approve changes to the investments' baselines before implementation. As a result, (1) OIT did not always comply with Federal regulations, Federal and industry guidelines it recognizes in its own policies and procedures, and its own policies

---

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

and procedures; (2) two contractor–managed IT investments we reviewed were delayed between 6 and 15 months from their initial completion dates (one of them incurred about $1.9 million in additional costs to further define requirements and continue project development and implementation); and (3) the SEC may not realize any cost savings from an effort to consolidate some contracts for Oracle support services.

Additionally, the SEC may not have optimized its technology equipment purchases. We also question $24,230 paid to a contractor hired to gather requirements during a period when the corresponding project had no specific requirements-gathering activity. Finally, we determined that the SEC paid one contractor about $1 million to develop requirements that, according to the business sponsor, may in part need to be re-worked once a dependency (a separate system component) is completed, and paid another contractor about $600,000 for a project that was put on hold. We made seven recommendations for corrective action. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

Also, in FY 2016, OA improved the SEC's Contracting Officer's Representative (COR) Program by sufficiently addressing all six recommendations from an OIG audit completed in 2015.[11] However, we identified additional concerns with the performance of COR duties for one contract. In our report titled *Management of the SEC's Protective Security Force Contract Needs Improvement* (Report No. 536, issued June 22, 2016), we found that the Office of Security Services (OSS) did not ensure that the contractor responsible for providing Special Police Officers (SPO) to perform guard duties at the SEC's Headquarters met all contract terms and Federal best practices. Specifically, the COR allowed the contractor to deviate from contract terms about SPO training and testing and Federal best practices, and relied instead on the less stringent SPO licensing requirements of the District of Columbia Metropolitan Police Department. The SEC also paid for SPO training that the contractor did not provide. Based on information provided by OA and OSS, the difference in contractually required versus actual training hours resulted in questioned costs of about $177,000.

Moreover, we found that OSS did not ensure the contractor met all contract terms relating to contract deliverables, quality control practices, and weapons inventories. For example, the contractor did not provide some required periodic reports, including reports about SPO training and weapons, and maintained incomplete and inaccurate firearms information, including inaccurate firearm serial numbers. The COR did not have an accurate list of all firearms on-site for almost a year. As a result, the SEC did not ensure that the contractor performed adequate quality inspections or provided accurate information for proper contract oversight.

Furthermore, we found that post orders, which define the specific duties that SPOs are to perform at certain locations throughout the SEC's Headquarters, needed improvement. Although most of the information in the post orders appeared sufficient and appropriate for SPOs to understand their duties, some information was inconsistent among all post orders, post orders for one post conflicted with the contract, and post orders for another post were incomplete. This could result in inconsistent or improper performance of SPO duties or responses to emergencies. To improve the SEC's oversight of its protective security force contract, we made four recommendations. The recommendations address improvements to

[11] U.S. Securities and Exchange Commission, Office of Inspector General, *Audit of the SEC's Contracting Officer's Representative Program* (Report No. 530, September 18, 2015).

ensure contractor compliance with contract terms and communication between OA and OSS. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

Based on (1) observations from our prior work, (2) GAO's recognition of IT acquisition as a 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 2017 to assess the SEC's continued progress in improving its contract management broadly and its IT acquisitions specifically. To assist in this effort, the OIG established an internal acquisition task force in FY 2016 to analyze and track information related to the SEC's acquisition activities.

CHALLENGE: Ensuring Effective Human Capital Management

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.[12] To that end, we noted that the SEC has sufficiently addressed all recommendations from a 2014 OIG audit of the agency's representation of minorities and women in its workforce.[13] Also in 2016, based on the results of its Federal Employee Viewpoint Survey, the SEC was ranked 3 out of the 37 large agencies on the Office of Personnel Management's Global Satisfaction Index rankings. In addition, according to the agency's 2015 AFR, the SEC established a new Expert Inventory/Skills Database, known as Talent Profile, 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," and a new Career Horizons program that "further helps employees advance their careers through a systematic skills and training acquisition strategy." The 2015 AFR also discusses the launch of the Aspiring Leaders Program to promote and build leadership competencies of senior employees.

During 2016, the Office of Human Resources (OHR) released a Human Capital Strategic Plan to align the agency's human capital with the achievement of its mission, goals, and objectives. The agency also released an SEC Strategic Workforce Plan, which "provides an overview of the current workforce; identifies critical workforce competencies for SEC mission critical occupations; and identifies perceived workforce competency gaps from supervisors/managers." Based on the competency gaps identified from supervisors and managers, the Plan established the following three primary goals:

- Goal 1: Reduce gaps in core/professional competencies across mission-critical occupations.
- Goal 2: Reduce gaps in technical competencies across mission-critical occupations.
- Goal 3: Increase leadership-ready talent pools across all SK grade levels.

---

[12] U.S. Securities and Exchange Commission Strategic Plan, Fiscal Years 2014 – 2018.
[13] U.S. Securities and Exchange Commission, Office of Inspector General, *Audit of the Representation of Minorities and Women in the SEC's Workforce* (Report No. 528, November 20, 2014).

The Plan also outlines strategies to begin addressing the competency gaps and includes tasks that should be initiated or completed in the next 2 years. However, as we stated in FY 2015, human capital management remains a challenge.

In its 2015 AFR, the SEC stated that, in FY 2016, OHR would continue to streamline the hiring process, allowing OHR to recruit staff quickly and efficiently in response to the demands of the mission. On November 30, 2015, we announced an audit to determine whether the SEC's hiring process facilitated the efficient selection of high-quality candidates. Because OHR had not fully implemented systems to reliably monitor the timeliness and quality of agency hiring, and because OHR planned to reassess the SEC's hiring process and predetermined hiring timelines, we terminated the audit. In our resulting management letter, we reported observations based on the work completed (*Final Closeout Memorandum: Audit of the SEC's Hiring Practices*, issued August 19, 2016). We found that in the last few years, OHR has improved the SEC's hiring process by, among other things, developing a Service Level Commitment that established the service levels (that is, hiring timelines), monitoring methods, and organizational responsibilities for the SEC's hiring process; developing quality-of-new-hire surveys; and implementing the Workforce Transformation Tracking System to monitor agency hiring from end to end.

However, we identified opportunities for further improvements. Specifically, we determined that OHR did not have an effective method for assessing the timeliness of the SEC's hiring process, including maintaining reliable hiring data and monitoring hiring actions according to timelines established in the Service Level Commitment. Furthermore, OHR did not analyze quality-of-new-hire survey results to improve the SEC's hiring process. As part of OHR's reassessment of the agency's hiring process, we urged OHR to implement an effective system based on reliable data to conduct comprehensive assessments of the SEC's hiring process. Doing so could further improve the hiring process and increase the likelihood that SEC divisions and offices timely hire highly qualified candidates to meet mission requirements.

In addition, in March 2016, we reported that the SEC is one of the Federal agencies that consistently uses student loan repayments the most to recruit or retain highly qualified personnel (*Audit of the SEC's Student Loan Repayment Program*, Report No. 534, issued March 31, 2016). In 2014 and 2015, OHR implemented significant changes to the SEC's Student Loan Repayment Program (SLRP). However, we identified internal controls weaknesses impacting the SLRP Program Office's ability to effectively manage the program. Specifically, Program Office personnel did not (1) maintain complete and accurate participant information, (2) implement or enforce effective approval and verification controls, or (3) update the SEC's SLRP policy and ensure the policy complied with certain Federal requirements. A prior OIG audit, an Office of Personnel Management evaluation, and an internal OHR assessment identified similar issues. As a result, we were not able to determine whether the SEC always complied with statutory annual and lifetime SLRP limits ($10,000 and $60,000, respectively).

Furthermore, although we verified that the SEC either collected or was collecting repayments from 95 former employees, Program Office personnel were unaware of 17 other individuals who had left the SEC and Federal service between January 2007 and June 2015 before fulfilling their service agreements. These 17 individuals owed the SEC a total of about $216,000. In addition, SLRP Program Office personnel did not always implement or enforce effective approval and verification controls. To improve the SEC's management of its SLRP,

thereby improving its likelihood of retaining highly qualified personnel, we made nine recommendations for corrective action. Management concurred with the recommendations, and has already taken action to close one that led to recouping the funds owed by individuals who left the agency before fulfilling their service agreements. As of the date of this memorandum, the other eight recommendations remained open.

In FY 2017, we will continue to monitor the SEC's human capital management, including its progress toward (1) addressing competency gaps identified by supervisors and managers, and (2) meeting the goals established in the agency's new Human Capital Strategic Plan.

Management's Response to Inspector General's Statement

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

THE CHAIR

November 2, 2016

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 October 7, 2016. We remain committed to enhancing the programmatic 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 and technology in order to successfully meet the SEC's mission.

Budgetary Resources

We agree the SEC continues to need additional resources in order to keep pace with securities markets that have been growing rapidly in size and complexity. While the SEC has made significant strides forward in recent years in strengthening our operations and programs, challenges remain in our efforts to fulfill our broad mandates and responsibilities.

The SEC is charged with overseeing 26,000 market participants, including investment advisers, mutual funds and exchange traded funds, broker-dealers, transfer agents, clearing agencies, national securities exchanges, credit rating agencies, and clearing agencies. 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 for additional resources becomes even more acute.

The President's Budget Request for the SEC in FY 2017 seeks additional resources for several key priorities, including increasing examination coverage of investment advisers, leveraging cutting-edge technology, strengthening the SEC's enforcement program, bolstering the SEC's economic and risk analysis functions, and hiring highly skilled experts.

The Office of Compliance Inspections and Examinations' leadership is actively working on both of the OIG's recommendations set forth in Report No. 533 entitled "Office of Compliance Inspections and Examinations' Management of Investment Adviser Examination Coverage Goals." With respect to Recommendation 1, the engagement with the consultant conducting the "efficiency study" has been extended to November 18, 2016. OCIE leadership expects to receive the study on or before this date and will share the study with the OIG soon thereafter. OCIE's Exam Process Steering Committee provided OCIE leadership an overview of its recommendations to improve investment adviser/investment company (IA/IC) program planning. OCIE leadership will review the recommendations of the consultant and its Exam Process Steering Committee once both are complete. With respect to Recommendation 2, OCIE is continuing to consider the GAO risk management framework and how it may implement additional aspects of the framework within its IA/IC program. Furthermore, OCIE leadership has taken steps to use its limited resources to increase its examination coverage of investment advisers by reallocating examiners to its IA/IC program.

Your statement references the OIG's letter report titled "Final Management Letter: Evaluation of the SEC Division of Enforcement's Coordination Related to a Federal Civil Action" issued on June 30, 2016. As the letter notes, the SEC has strong processes and systems to facilitate coordination across related matters, and earlier information sharing in the matter reviewed would not have changed the theory of liability or the remedies sought in that matter. Over the past five fiscal years, Enforcement has made numerous improvements to its case tracking systems to increase the Division's ability to timely share information across related inquiries and investigations. Management will continue to consider and review processes and systems to ensure that information is shared appropriately across related matters.

Technology Enhancements

The TCR 3.0 modernization project experienced improvement in FY 2016. The contractor has remediated the majority of code defects we identified in 2015 UAT and has added a new and effective "search" function. To enhance project oversight, the Division of Enforcement detailed an Assistant Director with significant TCR experience to DERA to identify and address substantive issues within the system. A full UAT was conducted in August that identified a limited number of remaining defects, which are in the process of being remediated, and created an opportunity to include minor change requests during the remediation window. The UAT also identified a platform performance issue, which is in the process of being remediated. A final UAT to confirm platform performance, defect correction, and change request effectiveness is scheduled in November 2016 which, if successful, will enable TCR 3.0 to go live in January 2017.

Information Security

The Office of Information Technology has made tremendous strides in addressing audit recommendations to enhance the SEC's Information Security Program. OIT continues to prioritize providing timely support for all of our audit partners, including OIG's Offices of Audit and Investigations and the Government Accountability Office. In fiscal year 2016, OIT submitted materials demonstrating successful corrective action for all 66 open audit recommendations. To date, GAO and OIG have closed 35 recommendations and are currently

reviewing previously provided corrective actions to address the remaining recommendations. In addition to supporting and remediating OIG and GAO audit recommendations related to the SEC's implementation of the Federal Information Security Modernization Act of 2014, OIT provided support for eight ad-hoc requests from OIG's Office of Audits, and over 30 ad-hoc requests from OIG's Office of Investigations. OIT also provided timely support for the OIG's Cybersecurity Act of 2015 review, and two additional information security-related audits while managing its obligations to support many other important agency initiatives and regulatory priorities.

In addition to OIT's significant efforts meeting with and providing materials and expertise to the OIG and the GAO, OIT made significant progress towards enhancing the Commission's operational security capabilities. Specifically, in support of its Information Security Continuous Monitoring Program, OIT deployed an integrated information security compliance management capability to serve as a centralized repository for the management of the Commission's FISMA compliance obligations, information system Plans of Action and Milestones, incident tracking, and continuous monitoring efforts. OIT also implemented numerous enhanced security controls and detection mechanisms as well as numerous application and database security tools. Further, OIT made significant progress towards previously identified opportunities to improve agency compliance with personal identity verification controls.

OIT is committed to protecting information originating from within the SEC as well as data provided to the SEC from registrants and other parties by adhering to a framework that focuses on implementing management, operational and technical security controls when implementing technologies or information systems. While OIT stands ready to support current and future needs of our audit partners, in fiscal year 2017 OIT will remain focused on efforts to continuously strengthen the SEC's cybersecurity posture and protect information stored, processed, and transmitted by information systems.

Acquisition Management

I appreciate that your statement recognizes the significant improvements the SEC continues to make in the acquisition management area. In your statement, you discuss the SEC's IT requirements-gathering process and management of the SEC's protective security force contract.

The SEC is committed to ensuring its information technology projects are managed in a responsible, consistent and effective manner, following federal requirements and proven project management best practices. As you recognize in your statement, OIT began work on a new IT Requirements Center of Excellence (RCoE) before the OIG initiated its review of the IT requirements-gathering process. The RCoE will enable the SEC to improve the quality of project management practices while helping to ensure OIT can continue to deliver quality and effective information technology solutions. Specifically, the RCoE will enhance OIT's

requirements development capabilities through the implementation of a robust project management framework, development of standardized templates and project reporting tools, and definition of performance metrics. OIT is on schedule to fully deploy the RCoE by December 2016.

With regard to the SEC's protective security force contract, the Office of Security Services worked with the Office of Acquisitions to issue a contract modification effective August 31, 2016, which revised the statement of work to clarify and strengthen the requirements for training, medical compliance, weapons training and accountability, and accuracy of post orders. OSS will ensure the Contracting Officer Representative monitors the contractor sufficiently for compliance with the stated terms and conditions of the contract. OSS anticipates completing all corrective actions by July 2017.

Human Capital Management

The SEC strives to enhance organizational performance through the implementation of human capital strategies that align with the agency's mission, goals, and objectives. The agency is committed to consistently attracting, hiring, developing and retaining a high-performing and diverse and engaged workforce. The SEC continues to address the challenges around human capital management with a number of strategic initiatives outlined in the Human Capital Strategic Plan, SEC Strategic Workforce Plan and specific improvements to operation and controls of human resource programs.

To address the recommendations for improvement identified in the OIG's 2016 review of the SEC's hiring process, OHR took the following actions:

- OHR improved the reliability of hiring data and thereby enhanced its ability to monitor hiring actions through various stages of the process. Recent corrective measures include development of system job aids and targeted training of OHR employees to improve data integrity of the Workforce Transformation Tracking System (WTTS); implementation of quality reviews and monitoring of WTTS data and modified data fields to capture key steps of the service level commitment; and improved controls over the records management process for hiring case files.

- OHR examined the use of the Quality of Hire Survey results to enhance the hiring process. OHR will continue to conduct quarterly meetings to review the results of the Quality of Hire Survey and potential enhancements to the hiring process; perform mid-year human capital reviews with all SEC Division Directors and Office Heads to discuss human capital related activities in their respective organizations, including the Quality-of-Hire Survey results and their recommendations for improving the hiring process; and hold recurring meetings with the Office of General Counsel to address employee conduct or performance issues identified in the Quality of Hire Survey.

- OHR enhanced the SEC Quality of Hire Survey tool to include identification of targets for survey participation rates and meeting performance expectations, and development of

a process for measurement. OHR deployed the revised survey in early September 2016. This version provides the level of detail needed to assess the technical competence of new hires help ensure the SEC is hiring people with the appropriate level of competence for the agency's mission-critical occupations.

- OHR used the mission-critical occupations technical competencies from the newly developed SEC Workforce Plan to develop and enhance survey questions that assess the core, professional and technical competence of new hires. Also, OHR developed survey questions that identify the hiring manager's role in the hiring process. This allows OHR to identify a correlation between hiring management involvement and the quality of the new hire. The enhanced Quality of Hire Survey closed in late September 2016. Overall, OHR met and exceeded the targeted hiring manager survey participation rate of 90 percent with an overall survey completion rate of 93 percent. OHR will analyze the results of the survey against the performance expectation target goals of 85 percent and use the results to discuss possible improvements to the hiring process, as applicable. Additionally, OHR will continue to update all quality of hire standard operating procedures accordingly.

Also, with regard to the SEC's Student Loan Repayment Program, the SEC is actively addressing the OIG's recommendations for improvements in this area. OHR has already strengthened controls around debt collection from employees who separate from the SEC before fulfilling their service agreements. Ongoing efforts are focused on (1) maintaining complete and accurate information of all SLRP participants who have participated in the program, participants who left the agency to go to another federal agency and participants who received waivers; (2) updating the student loan repayment policy and developing standard operating procedures and service level commitments that reflect the current program processes and procedures; and (3) obtaining evidence that the calendar year 2015 participants provided documentation that their lender(s) received and properly credited the payment to the employee's account. Some efforts require OHR to obtain the concurrence of the Union, which we are actively seeking.

In addition to the OIG recommendations discussed above, OHR is addressing the 2014 OPM evaluation and the 2015 OHR Human Capital Strategy assessment to require written justifications from recommending officials to support that an employee is likely to leave the SEC for outside employment if student loan repayment benefits are not approved.

In FY 2017, OHR will make ongoing improvements to talent management, including implementation of an integrated Enterprise Talent Management System, and continue to make progress towards addressing competency gaps identified by supervisors and managers and meeting the goals and objectives established in the Human Capital Strategic Plan.

* * * *

I hope that the actions outlined in this letter demonstrate our commitment to

Mr. Carl Hoecker
Page 6

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 1.12 | 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 1.13 | 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, the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012, and the Federal Improper Payments Coordination Act (FIPCA) of 2015 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, *Requirements for Effective Estimation and Remediation of Improper Payments*, requires agencies to report detailed information related to the U.S. Securities and Exchange Commission's (SEC) Improper Payments Elimination Program, which is outlined below.

Risk Assessment

In Fiscal Year (FY) 2016, the 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 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, thrift savings plans, and supplemental retirement); 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 percent-

ages 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 2017 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 2016, 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, intragovernmental 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 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. The dollar amounts and the number of payments reviewed for improper payments utilizing the DNP system between October 1, 2015, and August 31, 2016, are shown in Table 1.12 below. The September results were not available at the time of this report.

Table 1.14 | 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 Do Not Pay databases	23,536	$ 584.59	0	$ —	0	$ —
Reviews with databases not listed in IPERIA as Do Not Pay databases	0	$ —	0	$ —	0	$ —

Note 1: This table is identified as Table 7 per the revised OMB Circular A-136, *Financial Reporting Requirements*.
Note 2: Databases used in row 1 above are SAM, LEIE, DMF, CAIVRS, Debt Check, EPLS, OFAC.

Civil Monetary Penalties Inflation Adjustment

The Federal Civil Penalties Inflation Adjustment Act of 1990 (FCPIA), 28 U.S.C. 2461 note, as amended by the Debt Collection Improvement Act of 1996 (DCIA) and the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 (the 2015 Act), requires agencies to annually adjust for inflation any civil monetary penalties that are assessed or enforced by that agency. This adjustment must be performed for any penalty where either the amount of the penalty or the maximum penalty is set by law. The 2015 Act replaces the inflation adjustment mechanism previously contained in the FCPIA and all previous inflation adjustments made pursuant to the FCPIA with a new mechanism for calculating the inflation-adjusted amount of civil monetary penalties. The 2015 Act implemented this change by first requiring that each agency perform a "catch-up adjustment" to be published by July 1, 2016. Thereafter, agencies will adjust their penalty amounts in January of every calendar year, starting in January 2017.

The FCPIA directs the Commission to include in its Agency Financial Report information about the civil monetary penalties within the jurisdiction of the agency, including the adjustment of the civil monetary penalties for inflation under the FCPIA. Further, the FCPIA directs the Comptroller General of the United States to annually submit to Congress a report assessing compliance of agencies with the inflation adjustments required by the FCPIA.

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.

In addition, the Sarbanes-Oxley Act of 2002 provides the Public Company Accounting Oversight Board (the "PCAOB") authority to levy civil monetary penalties in its disciplinary proceedings. These penalties are established by federal law and are "enforced" by the Commission for purposes of the FCPIA because the Commission may by order affirm, modify, remand, or set aside civil monetary penalties, imposed by the PCAOB and may enforce the PCAOB's civil monetary penalty orders in federal district court.

These penalties will be adjusted for inflation every year in January and will be published in the Federal Register. The "catch-up adjustment," in July 2016, was published in the Federal Register, Volume 81, No. 127, on July 1, 2016 (81 FR 43042).

Civil Monetary Penalties Inflation Adjustment

U.S. Code citation	Civil monetary penalty description	Year penalty amount was established or last adjusted*	Maximum penalty amount when established or last adjusted	Maximum penalty amount in effect on November 2, 2015	New adjusted maximum penalty amount effective August 1, 2016
Securities and Exchange Commission:					
15 U.S.C. 77h-1(g)	For natural person	2010	$ 7,500	$ 7,500	$ 8,156
	For any other person	2010	75,000	80,000	81,559
	For natural person/fraud	2010	75,000	80,000	81,559
	For any other person/fraud	2010	375,000	400,000	407,794
	For natural person/ substantial losses or risk of losses to others or gains to self.	2010	150,000	160,000	163,118
	For any other person/ substantial losses or risk of losses to others or gain to self.	2010	725,000	775,000	788,401
15 U.S.C. 77t(d)	For natural person	1990	5,000	7,500	8,908
	For any other person	1990	50,000	80,000	89,078
	For natural person/fraud	1990	50,000	80,000	89,078
	For any other person/fraud	1990	250,000	400,000	445,390
	For natural person/substantial losses or risk of losses to others.	1990	100,000	160,000	178,156
	For any other person/ substantial losses or risk of losses to others.	1990	500,000	775,000	890,780
15 U.S.C. 78ff(b)	Exchange Act/failure to file information documents, reports.	1936	100	210	525
15 U.S.C. 78ff(c)(1)(B)	Foreign Corrupt Practices—any issuer	1988	10,000	16,000	19,787
15 U.S.C. 78ff(c)(2)(B)	Foreign Corrupt Practices—any agent or stockholder acting on behalf of issuer.	1988	10,000	16,000	19,787
15 U.S.C. 78u-1(a)(3)	Insider Trading—controlling person	1988	1,000,000	1,525,000	1,978,690
15 U.S.C. 78u-2	For natural person	1990	5,000	7,500	8,908
	For any other person	1990	50,000	80,000	89,078
	For natural person/fraud	1990	50,000	80,000	89,078
	For any other person/fraud	1990	250,000	400,000	445,390
	For natural person/substantial losses or risk of losses to others or gains to self.	1990	100,000	160,000	178,156
	For any other person/ substantial losses or risk of losses to others or gain to self.	1990	500,000	775,000	890,780

(continued on next page)

Civil Monetary Penalties Inflation Adjustment *(continued)*

U.S. Code citation	Civil monetary penalty description	Year penalty amount was established or last adjusted*	Maximum penalty amount when established or last adjusted	Maximum penalty amount in effect on November 2, 2015	New adjusted maximum penalty amount effective August 1, 2016
Securities and Exchange Commission:					
15 U.S.C. 78u(d)(3)	For natural person	1990	5,000	7,500	8,908
	For any other person	1990	50,000	80,000	89,078
	For natural person/fraud	1990	50,000	80,000	89,078
	For any other person/fraud	1990	250,000	400,000	445,390
	For natural person/substantial losses or risk of losses to others.	1990	100,000	160,000	178,156
	For any other person/ substantial losses or risk of losses to others.	1990	500,000	775,000	890,780
15 U.S.C. 80a-9(d)	For natural person	1990	5,000	7,500	8,908
	For any other person	1990	50,000	80,000	89,078
	For natural person/fraud	1990	50,000	80,000	89,078
	For any other person/fraud	1990	250,000	400,000	445,390
	For natural person/substantial losses or risk of losses to others or gains to self.	1990	100,000	160,000	178,156
	For any other person/ substantial losses or risk of losses to others or gain to self.	1990	500,000	775,000	890,780
15 U.S.C. 80a-41(e)	For natural person	1990	5,000	7,500	8,908
	For any other person	1990	50,000	80,000	89,078
	For natural person/fraud	1990	50,000	80,000	89,078
	For any other person/fraud	1990	250,000	400,000	445,390
	For natural person/substantial losses or risk of losses to others.	1990	100,000	160,000	178,156
	For any other person/ substantial losses or risk of losses to others.	1990	500,000	775,000	890,780

(continued on next page)

Civil Monetary Penalties Inflation Adjustment *(continued)*

U.S. Code citation	Civil monetary penalty description	Year penalty amount was established or last adjusted*	Maximum penalty amount when established or last adjusted	Maximum penalty amount in effect on November 2, 2015	New adjusted maximum penalty amount effective August 1, 2016
Securities and Exchange Commission:					
15 U.S.C. 80b-3(i)	For natural person	1990	5,000	7,500	8,908
	For any other person	1990	50,000	80,000	89,078
	For natural person/fraud	1990	50,000	80,000	89,078
	For any other person/fraud	1990	250,000	400,000	445,390
	For natural person/substantial losses or risk of losses to others or gains to self.	1990	100,000	160,000	178,156
	For any other person/ substantial losses or risk of losses to others or gain to self.	1990	500,000	775,000	890,780
15 U.S.C. 80b-9(e)	For natural person	1990	5,000	7,500	8,908
	For any other person	1990	50,000	80,000	89,078
	For natural person/fraud	1990	50,000	80,000	89,078
	For any other person/fraud	1990	250,000	400,000	445,390
	For natural person/substantial losses or risk of losses to others.	1990	100,000	160,000	178,156
	For any other person/ substantial losses or risk of losses to others.	1990	500,000	775,000	890,780
15 U.S.C. 7215(c)(4)(D)(i)	For natural person	2002	100,000	130,000	131,185
	For any other person	2002	2,000,000	2,525,000	2,623,700
15 U.S.C. 7215(c)(4)(D)(ii)	For natural person	2002	750,000	950,000	983,888
	For any other person	2002	15,000,000	18,925,000	19,677,750

* Adjustments include any revisions by Congress in statute, or by the agency through regulation, other than pursuant to the Inflation Adjustment Act.

Appendices

Appendix A: Chair and Commissioners
Provides biographies of the presidentially-appointed Chair and Commissioners

Appendix B: Enforcement
Outlines the major Enforcement cases of FY 2016

Appendix C: SEC Divisions and Offices
Lists contact information for the SEC's divisions and offices

Appendix D: Glossary of Selected Terms
Provides definitions for technical terms used throughout this report

Appendix E: Acronyms
Defines acronyms cited in this report

Appendix F: References
Provides links from Inspector General's Statement on Management and Performance Challenges

Appendix A: Chair and Commissioners

Mary Jo White
CHAIR

Mary Jo White was sworn in as the 31st Chair of the U.S. Securities and Exchange Commission on April 10, 2013. She was nominated to be 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-plus-year 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.

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.

While at the SEC, Commissioner Stein has advocated for strong investor protections and for initiatives to further increase competition and facilitate capital formation. Commissioner Stein has focused on identifying ways to enhance our securities market structure to promote efficiency and resiliency. She also has advocated for updating the Commission's rules and practices for the Digital Age, including calling for the formation of a Digital Disclosure Task Force to aid in the Commission's assessment of the nature, timing, and delivery of information to a variety of investors and other market participants. In addition, Commissioner Stein has advocated for the formation of an Office of Data Strategy and a Chief Data Officer to concentrate on the governance and utilization of information in a data-driven environment. She is also a strong advocate for the timely completion of the consolidated audit trail (CAT); the shortening of the settlement cycle for equities and fixed income; enhanced clearing agency standards; and the further development of tools that facilitate the use of machine readable disclosures.

Commissioner Stein serves as the Commission's liaison to the North American Securities Administrators Association (NASAA), represents the Commission at meetings of the International Organization of Securities Commissions (IOSCO), and is an ardent supporter of furthering diversity and inclusion initiatives at the SEC. Currently, Commissioner Stein sponsors the SEC's LGBT and the Disability Interests Advisory Committees, and she serves as the Chair of the SEC's Diversity Council.

Commissioner Stein joined the Commission after serving as 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, Commissioner Stein played an integral role in drafting and negotiating significant provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

During her tenure in the U.S. Senate, Commissioner Stein also served as Staff Director of the Banking Committee's Subcommittee on Housing and Transportation, as Legal Counsel to Senator Jack Reed, and a Legislative Assistant to Senator Chris Dodd.

Before working in the U.S. Senate, Commissioner Stein was an associate at the law firm of Wilmer, Cutler & Pickering, an assistant professor with the University of Dayton School of Law, an Advocacy Fellow with the Georgetown University Law Center, and a Skadden Public Interest Fellow.

Commissioner 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: Enforcement

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. 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) 2016, 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 the Foreign Corrupt Practices Act (FCPA), and the investment adviser and broker-dealer community. This section highlights some of the significant enforcement cases filed or instituted by the SEC in FY 2016. For further information on selected enforcement cases, please see "Litigation Releases" at www.sec.gov/litigation/litreleases.shtml or "Administrative Proceedings" at www.sec.gov/litigation/admin.shtml.

Actions Related to Market Structure and Broker-Dealers

Name	Date	Link to Release
Barclays Capital Inc. and Credit Suisse Securities (USA) LLC	January 31, 2016	https://www.sec.gov/news/pressrelease/2016-16.html
Albert Fried & Company, LLC	June 1, 2016	https://www.sec.gov/news/pressrelease/2016-102.html
Morgan Stanley Smith Barney LLC	June 8, 2016	https://www.sec.gov/news/pressrelease/2016-112.html
Merrill Lynch, Pierce, Fenner & Smith Incorporated, et al.	June 23, 2016	https://www.sec.gov/news/pressrelease/2016-128.html
Citigroup Global Markets, Inc.	July 12, 2016	https://www.sec.gov/news/pressrelease/2016-138.html
Merrill Lynch, Pierce, Fenner & Smith Incorporated	September 26, 2016	https://www.sec.gov/news/pressrelease/2016-192.html

Actions Related to Insider Trading

Name	Date	Link to Release
SEC v. Yue Han, et al.	November 25, 2015	https://www.sec.gov/news/pressrelease/2015-267.html
SEC v. William T. Walters, et al.	May 19, 2016	https://www.sec.gov/news/pressrelease/2016-92.html
SEC v. Sanjay Valvani, et al.	June 15, 2016	https://www.sec.gov/news/pressrelease/2016-119.html
SEC v. Leon G. Cooperman, et al.	September 21, 2016	https://www.sec.gov/news/pressrelease/2016-189.html
SEC v. Robert Gadimian	September 29, 2016	https://www.sec.gov/news/pressrelease/2016-205.html

Actions Related to Financial Reporting/Accounting and Disclosure Fraud

Name	Date	Link to Release
The St. Joe Company, et al.	October 27, 2015	https://www.sec.gov/news/pressrelease/2015-247.html
SEC v. Martin Shkreli, et al.	December 17, 2015	https://www.sec.gov/news/pressrelease/2015-282.html
SEC v. Charles S. Bailey, et al.	January 13, 2016	https://www.sec.gov/news/pressrelease/2016-7.html
Monsanto Company, et al.	February 9, 2016	https://www.sec.gov/news/pressrelease/2016-25.html
SEC v. Reed J. Killion, et al.	March 9, 2016	https://www.sec.gov/news/pressrelease/2016-45.html
Navistar International Corporation	March 31, 2016	https://www.sec.gov/news/pressrelease/2016-62.html
Logitech International, et al.	April 19, 2016	https://www.sec.gov/news/pressrelease/2016-74.html
ENER1, Inc., et al.	April 19, 2016	https://www.sec.gov/news/pressrelease/2016-74.html
SEC v. First Mortgage Corporation, Inc., et al.	May 31, 2016	https://www.sec.gov/news/pressrelease/2016-97.html
IEC Electronics Corp., et al.	June 8, 2016	https://www.sec.gov/news/pressrelease/2016-110.html
SEC v. RPM International Inc., et al.	September 9, 2016	https://www.sec.gov/litigation/litreleases/2016/lr23639.htm
Weatherford International PLC, et al.	September 27, 2016	https://www.sec.gov/news/pressrelease/2016-194.html

Actions Related to Gatekeepers

Name	Date	Link to Release
Grant Thornton India LLP, et al.	October 1, 2015	https://www.sec.gov/news/pressrelease/2015-225.html
Grant Thornton LLP, et al.	December 2, 2015	https://www.sec.gov/news/pressrelease/2015-272.html
SEC v. Hui Feng, et al.	December 7, 2015	https://www.sec.gov/news/pressrelease/2015-274.html
Magnum Hunter Resources Corporation, et al.	March 10, 2016	https://www.sec.gov/news/pressrelease/2016-48.html
APEX Fund Services (US), Inc.	June 16, 2016	https://www.sec.gov/news/pressrelease/2016-120.html
Ernst & Young LLP, et al.	September 19, 2016	https://www.sec.gov/news/pressrelease/2016-187.html

Actions Related to Abuses in Public Finance

Name	Date	Link to Release
State Street Bank and Trust Company, et al.	January 14, 2016	https://www.sec.gov/news/pressrelease/2016-8.html
Municipalities Continuing Disclosure Cooperation Initiative	February 2, 2016 and August 24, 2016	https://www.sec.gov/news/pressrelease/2016-18.html and https://www.sec.gov/news/pressrelease/2016-166.html
Westlands Water District, et al.	March 9, 2016	https://www.sec.gov/news/pressrelease/2016-43.html
Central States Capital Markets, LLC., et al.	March 15, 2016	https://www.sec.gov/news/pressrelease/2016-54.html
SEC v. Town of Ramapo, New York, et al.	April 14, 2016	https://www.sec.gov/news/pressrelease/2016-68.html
Keygent LLC, et al.	June 13, 2016	https://www.sec.gov/news/pressrelease/2016-118.html

Actions Related to Investment Advisers and Companies

Name	Date	Link to Release
Blackstone Management Partners L.L.C., et al.	October 7, 2015	https://www.sec.gov/news/pressrelease/2015-235.html
Fenway Partners LLC, et al.	November 3, 2015	https://www.sec.gov/news/pressrelease/2015-250.html
Cherokee Investment Partners, LLC, et al.	November 5, 2015	https://www.sec.gov/litigation/admin/2015/ia-4258.pdf
JH Partners LLC	November 23, 2015	https://www.sec.gov/litigation/admin/2015/ia-4276.pdf
JPMorgan Chase Bank, N.A., et al.	December 18, 2015	https://www.sec.gov/news/pressrelease/2015-283.html
Morgan Stanley Investment Management, Inc., et al.	December 22, 2015	https://www.sec.gov/news/pressrelease/2015-287.html
SEC v. Aequitas Management, LLC., et al.	March 10, 2016	https://www.sec.gov/news/pressrelease/2016-49.html
Royal Alliance Associates, Inc., et al.	March 14, 2016	https://www.sec.gov/news/pressrelease/2016-52.html
Blackstreet Capital Management, LLC., et al.	June 1, 2016	https://www.sec.gov/news/pressrelease/2016-100.html
Apollo Management V, L.P.	August 23, 2016	https://www.sec.gov/news/pressrelease/2016-165.html
WL Ross & Co. LLC	August 24, 2016	https://www.sec.gov/litigation/admin/2016/ia-4494.pdf
AssetMark, Inc., et al.	August 25, 2016	https://www.sec.gov/news/pressrelease/2016-167.html
First Reserve Management, L.P.	September 14, 2016	https://www.sec.gov/litigation/admin/2016/ia-4529.pdf

Actions Related to the Foreign Corrupt Practices Act (FCPA)

Name	Date	Link to Release
Ignacio Cueto Plaza	February 4, 2016	https://www.sec.gov/litigation/admin/2016/34-77057.pdf
PTC Inc.	February 16, 2016	https://www.sec.gov/news/pressrelease/2016-29.html
SEC v. VimpelCom Ltd.	February 18, 2016	https://www.sec.gov/news/pressrelease/2016-34.html
Qualcomm Incorporated	March 1, 2016	https://www.sec.gov/news/pressrelease/2016-36.html
Las Vegas Sands Corp.	April 7, 2016	https://www.sec.gov/news/pressrelease/2016-64.html
LAN Airline S.A.	July 25, 2016	https://www.sec.gov/news/pressrelease/2016-151.html
Astrazeneca PLC	August 30, 2016	https://www.sec.gov/litigation/admin/2016/34-78730.pdf
Anheuser-Busch InBev SA/NV	September 28, 2016	https://www.sec.gov/news/pressrelease/2016-196.html
Och-Ziff Capital Management Group LLC, et al.	September 29, 2016	https://www.sec.gov/news/pressrelease/2016-203.html
GlaxoSmithKline plc	September 30, 2016	https://www.sec.gov/litigation/admin/2016/34-79005.pdf

Actions Related to Complex Financial Instruments

Name	Date	Link to Release
UBS AG	October 13, 2015	https://www.sec.gov/news/pressrelease/2015-238.html
DBRS Inc.	October 26, 2015	https://www.sec.gov/news/pressrelease/2015-246.html
Merrill Lynch, Pierce, Fenner & Smith Incorporated	June 23, 2016	https://www.sec.gov/news/pressrelease/2016-128.html
UBS Financial Services Inc.	September 28, 2016	https://www.sec.gov/news/pressrelease/2016-197.html

Actions Related to Market Manipulation

Name	Date	Link to Release
Briargate Trading LLC, et al.	October 8, 2015	https://www.sec.gov/news/pressrelease/2015-236.html
SEC v. James Alan Craig	November 5, 2015	https://www.sec.gov/news/pressrelease/2015-254.html
SEC v. Jammin' Java Corp., et al.	November 17, 2015	https://www.sec.gov/news/pressrelease/2015-259.html
Behruz Afshar, et al.	December 3, 2015	https://www.sec.gov/news/pressrelease/2015-273.html and https://www.sec.gov/litigation/admin/2016/33-10094.pdf
SEC v. Nauman A. Aly	May 24, 2016	https://www.sec.gov/news/pressrelease/2016-95.html
SEC v. Idris Dayo Mustapha	June 22, 2016	https://www.sec.gov/news/pressrelease/2016-127.html

Actions Related to Microcap Fraud

Name	Date	Link to Release
Business Marketing Services, Inc. et al.	April 11, 2016	https://www.sec.gov/litigation/suspensions/2016/34-77574.pdf
SEC v. Richard St. Julien, et al.	May 3, 2016	https://www.sec.gov/news/pressrelease/2016-80.html
Fusion Pharm, Inc., et al.	September 16, 2016	https://www.sec.gov/news/pressrelease/2016-186.html
SEC v. Medient Studios, Inc., et al.	September 23, 2016	https://www.sec.gov/news/pressrelease/2016-191.html

Actions Related to Securities Offering-Related Violations and Ponzi and Pyramid Schemes

Name	Date	Link to Release
SEC v. Steve Chen et al.	October 1, 2015	https://www.sec.gov/news/pressrelease/2015-227.html
SEC v. Vu H. Le, et al.	December 17, 2015	https://www.sec.gov/litigation/litreleases/2015/lr23432.htm
SEC v. Daniel Rivera, et al.	March 30, 2016	https://www.sec.gov/litigation/litreleases/2016/lr23506.htm
SEC v. Ariel Quiros, et al.	April 14, 2016	https://www.sec.gov/news/pressrelease/2016-69.html
SEC v. PLCMGMT LLC, et al.	April 15, 2016	https://www.sec.gov/news/pressrelease/2016-72.html
Ethiopian Electric Power	June 8, 2016	https://www.sec.gov/news/pressrelease/2016-113.html

Actions Related to Whistleblowers

Name	Date	Link to Release
Merrill Lynch, Pierce, Fenner & Smith Incorporated, et al.	June 23, 2016	https://www.sec.gov/news/pressrelease/2016-128.html
BlueLinx Holdings Inc.	August 10, 2016	https://www.sec.gov/news/pressrelease/2016-157.html
Health Net Inc.	August 16, 2016	https://www.sec.gov/news/pressrelease/2016-164.html
Anheuser-Busch InBev SA/NV	September 28, 2016	https://www.sec.gov/news/pressrelease/2016-196.html
International Game Technology	September 29, 2016	https://www.sec.gov/news/pressrelease/2016-204.html

Jury Trial Victories

Name	Date	Link to Release
SEC v. Bonan Huang, et al.	February 26, 2016	https://www.sec.gov/litigation/litreleases/2016/lr23476.htm
SEC v. Daryl M. Payton, et al.	March 2, 2016	https://www.sec.gov/litigation/litreleases/2016/lr23478.htm
SEC v. Stephen D. Ferrone, et al.	May 3, 2016	https://www.sec.gov/litigation/litreleases/2016/lr23528.htm
SEC v. City of Miami, Florida, et al.	September 14, 2016	https://www.sec.gov/news/statement/ceresney-statement-2016-09-14.html

Appendix C: SEC Divisions and Offices

Headquarters Offices

DIVISION OF CORPORATION FINANCE
Keith F. Higgins, Director
(202) 551-3110

DIVISION OF ENFORCEMENT
Andrew Ceresney, Director
(202) 551-4500

DIVISION OF INVESTMENT MANAGEMENT
David Grim, Director
(202) 551-6720

DIVISION OF ECONOMIC AND RISK ANALYSIS
Mark Flannery, Director/Chief Economist
(202) 551-6600

DIVISION OF TRADING AND MARKETS
Stephen Luparello, Director
(202) 551-5500

OFFICE OF ACQUISITIONS
Vance Cathell, Director
(202) 551-7300

OFFICE OF ADMINISTRATIVE LAW JUDGES
Brenda P. Murray,
Chief Administrative Law Judge
(202) 551-6030

OFFICE OF THE CHIEF ACCOUNTANT
Wesley Bricker, Interim Chief Accountant
(202) 551-5300

OFFICE OF THE CHIEF OPERATING OFFICER
Jeffery Heslop, Chief Operating Officer
(202) 551-2200

OFFICE OF COMPLIANCE INSPECTIONS AND EXAMINATIONS
Marc Wyatt, Director
(202) 551-6200

OFFICE OF CREDIT RATINGS
Thomas J. Butler, Director
(212) 336-9080

OFFICE OF EQUAL EMPLOYMENT OPPORTUNITY
Peter Henry, Acting Director
(202) 551-6040

OFFICE OF THE ETHICS COUNSEL
Shira Pavis Minton, Ethics Counsel and
Designated Agency Ethics Official
(202) 551-5170

OFFICE OF FINANCIAL MANAGEMENT
Kenneth A. Johnson, Chief Financial Officer
(202) 551-7840

OFFICE OF THE GENERAL COUNSEL
Anne K. Small, General Counsel
(202) 551-5100

OFFICE OF HUMAN RESOURCES
Lacey Dingman,
Chief Human Capital Officer
(202) 551-7500

OFFICE OF INFORMATION TECHNOLOGY
Pamela Dyson, Director/Chief Information Officer
(202) 551-8800

OFFICE OF INSPECTOR GENERAL
Carl W. Hoecker, Inspector General
(202) 551-6061

OFFICE OF INTERNATIONAL AFFAIRS
Paul A. Leder, Director
(202) 551-6690

OFFICE OF THE INVESTOR ADVOCATE
Rick Fleming, Investor Advocate
(202) 551-3302

OFFICE OF INVESTOR EDUCATION AND ADVOCACY
Lori Schock, Director
(202) 551-6500

OFFICE OF LEGISLATIVE AND INTERGOVERNMENTAL AFFAIRS
Keith Cassidy, Director
(202) 551-2010

OFFICE OF MINORITY AND WOMEN INCLUSION
Pamela A. Gibbs, Director
(202) 551-6046

OFFICE OF MUNICIPAL SECURITIES
Jessica Kane, Director
(202) 551-5680

OFFICE OF PUBLIC AFFAIRS
John Nester, Director
(202) 551-4120

OFFICE OF THE SECRETARY
Brent Fields, Secretary
(202) 551-5400

OFFICE OF STRATEGIC INITIATIVES
Mark Ambrose, Director
(202) 551-7792

OFFICE OF SUPPORT OPERATIONS
Barry Walters, Director/Chief FOIA Officer
(202) 551-8400

Regional Offices

ATLANTA REGIONAL OFFICE
Walter E. Jospin, Regional Director
950 East Paces Ferry Road NE, Suite 900
Atlanta, GA 30326
(404) 842-7600
e-mail: atlanta@sec.gov

BOSTON REGIONAL OFFICE
Paul Levenson, Regional Director
33 Arch Street, 24th Floor
Boston, MA 02110
(617) 573-8900
e-mail: boston@sec.gov

CHICAGO REGIONAL OFFICE
David Glockner, Regional Director
175 W. Jackson Boulevard, Suite 900
Chicago, IL 60604
(312) 353-7390
e-mail: chicago@sec.gov

DENVER REGIONAL OFFICE
Julie K. Lutz, Regional Director
1961 Stout Street, Suite 1700
Denver, CO 80294
(303) 844-1000
e-mail: denver@sec.gov

FORT WORTH REGIONAL OFFICE
Shamoil Shipchandler, Regional Director
Burnett Plaza
801 Cherry Street
Suite 1900, Unit 18
Fort Worth, TX 76102
(817) 978-3821
e-mail: dfw@sec.gov

LOS ANGELES REGIONAL OFFICE
Michele Wein Layne, Regional Director
444 South Flower Street, Suite 900
Los Angeles, CA 90071
(323) 965-3998
e-mail: losangeles@sec.gov

MIAMI REGIONAL OFFICE
Eric I. Bustillo, Regional Director
801 Brickell Avenue, Suite 1800
Miami, FL 33131
(305) 982-6300
e-mail: miami@sec.gov

NEW YORK REGIONAL OFFICE
Andrew M. Calamari, Regional Director
Brookfield Place
200 Vesey Street, Suite 400
New York, NY 10281
(212) 336-1100
e-mail: newyork@sec.gov

PHILADELPHIA REGIONAL OFFICE
Sharon Binger, Regional Director
One Penn Center
1617 John F. Kennedy Boulevard
Suite 520
Philadelphia, PA 19103
(215) 597-3100
e-mail: philadelphia@sec.gov

SALT LAKE REGIONAL OFFICE
Richard Best, Regional Director
351 S. West Temple Street
Suite 6.100
Salt Lake City, UT 84101
(801) 524-5796
e-mail: saltlake@sec.gov

SAN FRANCISCO REGIONAL OFFICE
Jina L. Choi, Regional Director
44 Montgomery Street, Suite 2800
San Francisco, CA 94104
(415) 705-2500
e-mail: sanfrancisco@sec.gov

Appendix D: Glossary of Selected Terms

Accountability of Tax Dollars Act of 2002
A federal law requiring most federal agencies that are not subject to the Chief Financial Officers Act of 1990 (CFO Act) to prepare annual audited financial statements.

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)
Any organization, association, person, group of persons, or system that constitutes, maintains, or provides a market place or facilities for bringing together purchasers and sellers of securities or for otherwise performing with respect to securities the functions commonly performed by a stock exchange, and that does not set rules governing the conduct of subscribers other than the conduct of such subscribers' trading on such organization, association, person, group of persons, or system, or discipline subscribers other than by exclusion from trading.

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
A resource that embodies economic benefits or services that the reporting entity controls.

Asset-Backed Security (ABS)
A security that is primarily serviced by the cash flows of a discrete pool of receivables or other financial assets other than securities, such as loans.

Backtesting
Testing a predictive model using existing historic data.

Chief Financial Officers Act of 1990 (CFO Act)
The goal of the CFO Act is to improve government's financial management, performance, and disclosure.

Clawback Policies
Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, listed companies will eventually be required to institute a mechanism for reclaiming executive pay was inflated by 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.

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 Jumpstart Our Business Startups (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

An Alternative Trading System (ATS) that does not display quotations or subscribers' orders to any person or entity either internally within the ATS dark pool or externally beyond the ATS dark pool (other than employees of the ATS) and opts to have its data included in published aggregate trading volume data.

Deferred Prosecution Agreement (DPA)

A deferred prosecution agreement is a written agreement between the Commission and a potential cooperating individual or company in which the Commission agrees to forego an enforcement action against the individual or company if the individual or company agrees to, among other things: (1) cooperate truthfully and fully in the Commission's investigation and related enforcement actions; (2) enter into a long-term tolling agreement; (3) comply with express prohibitions and/or undertakings during a period of deferred prosecution; and (4) in most cases, agree either to admit or not to contest underlying facts that the Commission could assert to establish a violation of the federal securities laws. If the agreement is violated during the period of deferred prosecution, the staff may recommend an enforcement action to the Commission against the individual or company without limitation for the original misconduct as well as any additional misconduct. Furthermore, if the Commission authorizes the enforcement action, the staff may use any factual admissions made by the cooperating individual or company to file a motion for summary judgment while maintaining the ability to bring an enforcement action for any additional misconduct at a later date.

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

In civil court actions or in administrative hearings, the defendant (or respondent) can be ordered to pay disgorgement—a measure of the ill-gotten gains from the fraud. Where disgorgement is ordered, the judge or the Commission may also order that any money collected, including fines paid, be placed in a Fair Fund for distribution to

investors who were the victims of the violation. Under this process, a plan for the administration and distribution of the funds will be developed. A claims administrator or disbursement agent often oversees the plan.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act)

Legislation that enforces transparency and accountability while implementing rules for consumer protection.

EB-5 Immigrant Investor Program

A program created by Congress in 1990 to stimulate the U.S. economy through capital investment by foreign nationals seeking a legal path to U.S. residency. The program provides for residency if a person can support that their investments provide jobs in the U.S. The SEC has no role in administering or overseeing the EB-5 program.

Electronic Data Gathering, Analysis, and Retrieval System (EDGAR)

The system that all public companies use to transmit required filings to the SEC.

Enterprise Data Warehouse (EDW)

A system used for reporting and analyzing.

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.

Equity Market Structure Advisory Committee (EMSAC)

Established by the SEC to provide the Commission with diverse perspectives on the structure and operations of the U.S. equities markets.

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.

eXtensible Business Reporting Language (XBRL)

XBRL defines or "tags" data using standard definitions to establish a consistent structure of identity and context for financial information; this "machine-readable" information can then be recognized and processed by a variety of different software applications. Inline XBRL allows XBRL data to be embedded directly into a HyperText Markup Language (HTML) document.

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 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 (FINRA)

A private corporation that acts as a self-regulatory organization (SRO). FINRA is the successor to the National Association of Securities Dealers, Inc. and is a non-governmental organization that performs financial regulation of member brokerage firms and exchange markets. The government organization that acts as the ultimate regulator of the securities industry, including FINRA, is the SEC.

Fixing America's Surface Transportation (FAST) Act of 2015

Signed on December 4, 2015, the FAST Act provides long-term funding for surface transportation, and included several amendments to the federal securities laws.

Foreign Corrupt Practices Act (FCPA)

Enacted in 1977, the FCPA generally prohibits the payment of bribes to foreign officials to assist in obtaining or retaining business. The FCPA can apply to prohibited conduct anywhere in the world, and extends to publicly-traded companies and their officers, directors, employees, stockholders, and agents. Agents can include third-party agents, consultants, distributors, joint-venture partners, and others. The FCPA also requires issuers to maintain accurate books and records and have a system of internal controls sufficient to—among other things—provide reasonable assurances that transactions are executed and assets are accessed and accounted for in accordance with management's authorization.

Fund Balance with Treasury (FBWT)

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 Wall Street Reform and Consumer Protection Act of 2010.

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)

A 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 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. 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 illegal 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.

Investment Advisers Act of 1940 (Advisers Act)
The federal law that was created to regulate the actions of investment advisers. Advisers must register with the SEC in an effort to protect investors.

Investment Adviser
An adviser who provides investment advice to clients.

Investor.gov
An online resource to educate investors.

Investor Protection Fund (IPF)
A fund established by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 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 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 Companies
Low-priced stocks issued by the smallest of companies, including penny stocks (the very lowest-priced stocks).

Microcap Fraud
Fraud involving microcap companies.

Microcap Securities
Securities issued by the smallest public companies that tend to be low-priced and have low trading volumes.

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.

Municipal Securities Rulemaking Board (MSRB)

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 Stock Market

An American stock exchange that is the second-largest by market capitalization in the world after the New York Stock Exchange. NASDAQ originally stood for National Association of Securities Dealers Automated Quotations.

National Market System (NMS)

National system for trading equities.

Non-Entity Assets

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 Inspector General (OIG) SEC Employee Suggestion Program

As required by Section 966 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, this program allows employees to submit suggestions concerning improvements in the SEC's work efficiency, effectiveness and productivity, and use of its resources. The OIG also receives allegations by employees of waste, abuse, misconduct, or mismanagement within the SEC through the program.

Office of Management and Budget (OMB)

OMB helps the President in overseeing the federal budget and supervising federal agencies.

OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*

Provides an overview of the budget process, the basic laws that regulate the budget process, and the development of the President's budget. This includes how to prepare and submit materials required for agency budget requests and instructions on budget execution. OMB Circular A-11 also describes requirements under GPRA Modernization Act and the administration's approach to performance management.

OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

Defines management's responsibilities for internal financial controls in federal agencies.

OMB Circular A-136, *Financial Reporting Requirements*

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, 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 the Annual Management Reports under the Government Corporations Control Act.

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 fraudulent scheme in which returns are paid to established investors with funds from new investors rather than from profits.

Presidential Management Directive (M-12-18)
The Office of Management and Budget (OMB) and National Archives and Records Administration (NARA) released Memorandum M-12-18, *Managing Government Records Directive*, on August 24, 2012, which outlines goals for agencies to develop a 21st-century framework for the management of government records. More information can be found at the following link: https://www.archives.gov/files/records-mgmt/email-management/2016-email-mgmt-success-criteria.pdf.

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
"Pump-and-dump" schemes involve the touting of a company's stock (typically Microcap Companies) through false and misleading statements to the marketplace. These false claims could be made on social media such as Facebook and Twitter, as well as on bulletin boards and chat rooms. Pump-and-dump schemes often occur on the Internet where it is common to see messages posted that urge readers to buy a stock quickly or to sell before the price goes down, or a telemarketer will call using the same sort of pitch. Often the promoters will claim to have "inside" information about an impending development or to use an "infallible" combination of economic and stock market data to pick stocks. In reality, they may be company insiders or paid promoters who stand to gain by selling their shares after the stock price is "pumped" up by the buying frenzy they create. Once these fraudsters "dump" their shares and stop hyping the stock, the price typically falls, and investors lose their money.

Pyramid Scheme
A scheme in which participants attempt to make money solely by recruiting new participants into the program. The hallmark of these schemes is the promise of sky-high returns in a short period of time for doing nothing other than handing over your money and getting others to do the same.

Quantitative Research Analytical Data Support
A program within the Division of Economic and Risk Analysis (DERA) that helps implement the Commission's "big data" strategy, including through developing large and sophisticated datasets that are key inputs into DERA's expanding data analytics initiatives.

Regulation A
An exemption from the Securities Act of 1933's required registration for offerings of up to $50 million of securities in a 12-month period.

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.

Regulation SBSR
Rules and guidance related to increased awareness and transparency in the security-based swap market.

Regulation S-K
The central repository for the SEC's non-financial statement disclosure requirements.

Regulation Systems Compliance and Integrity (Regulation SCI)
Aims at strengthening the technology structure of the securities market.

Reserve Fund
A fund established by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 that may be used by the SEC to obligate amounts up to $100 million in one fiscal year as the SEC determines is necessary to carry out its functions.

ReTIRE Initiative
A multi-year initiative launched by the Office of Compliance Inspections and Examination to examine advisers and broker-dealers with respect to issues relating to retail investors, investing for retirement.

Sarbanes-Oxley Act of 2002
An Act aimed at enhancing corporate responsibility and financial disclosures, and fighting corporate and accounting fraud that 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 (SRO) 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 Act of 1933 (Securities Act)
One of the primary federal securities laws, its basic objectives are to require that investors receive financial and other significant information about securities being offered for public sale, and prohibit deceit, misrepresentation and other fraud in the sale of securities.

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 SEC. The Exchange Act and related statutes form the basis of regulation of the financial markets and their participants in the United States.

Securities Information Processor (SIP)
A system to consolidate the best quotes among the exchanges.

Security-Based Swap
A contract in which two parties agree to exchange or "swap" payments based on changes or defaults in an underlying security or securities.

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.

Statement of Cash Flows

Reports a company's inflows and outflows of cash over time by classification.

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 strategic 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*.

Tick Size Pilot

A data driven assessment of securities for companies with smaller capitalization.

USASpending.gov

An online resource that provides information to the public of how tax dollars are spent.

U.S. Commodity Futures Trading Commission (CFTC)

An independent federal agency 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)

An independent agency of the U.S. Government established pursuant to the Securities Act of 1933 (Securities Act) and 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.

Whistleblower

A person who voluntarily provides original information regarding possible violations of the federal securities laws that have occurred, are ongoing, or are about to occur.

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
DOL	U.S. Department of Labor
DOJ	U.S. Department of Justice
EDGAR	Electronic Data Gathering, Analysis, and Retrieval
ESC	Enterprise Service Center
ETF	Exchange-Traded Funds
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
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
IPF	Investor Protection Fund
IT	Information Technology
MIDAS	Market Information Data and Analytics System
MSRB	Municipal Securities Rulemaking Board
NASDAQ	National Association of Securities Dealers Automated Quotations
NEP	National Examination Program
NIST	National Institute of Standards and Technology
NRSRO	Nationally Recognized Statistical Rating Organization
OA	Office of Acquisitions
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
PCAOB	Public Company Accounting Oversight Board
PII	Personally Identifiable Information
RAE	Risk Analysis Examination Team
RAS	Risk Analysis and Surveillance Group
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

Appendix F: References

Links from Inspector General's Statement on Management and Performance Challenges

Reference	URL
Financial Audit: Securities and Exchange Commission's Fiscal Years 2015 and 2014 Financial Statements	http://gao.gov/assets/680/673672.pdf
Chair Mary Jo White testimony on "Oversight of the Securities and Exchange Commission," June 14, 2016, before the United States Senate Committee on Banking, Housing, and Urban Affairs	https://www.sec.gov/news/testimony/testimony-white-oversight-sec-06-14-2016.html
March 22, 2016	https://www.sec.gov/news/testimony/testimony-white-sec-fy-2017-budget-request.html
April 12, 2016	https://www.sec.gov/news/testimony/testimony-white-budget-request-2017-senate.html
April 21, 2016	https://www.sec.gov/news/testimony/testimony-04-21-16.html
Office of Compliance Inspections and Examinations' Management of Investment Adviser Examination Coverage Goals	https://www.sec.gov/oig/reportspubs/Office-of-Compliance-Inspections-and-Examinations-Management-of-Investment-Adviser-Examination-Coverage-Goals.pdf
Final Management Letter: Evaluation of the SEC Division of Enforcement's Coordination Related to a Federal Civil Action	https://www.sec.gov/oig/reportspubs/OIG-Final-Management-Letter---Evaluation-of-the-SEC-Division-of-Enforcements-Coordination-Related-to-a-Federal-Civil-Action.pdf
Report on Objectives Fiscal Year 2015	https://www.sec.gov/reportspubs/annual-reports/sec-office-investor-advocate-report-on-objectives-fy2015.pdf
Final Management Letter: Observations Noted During TCR System Audit Support Engagement	https://www.sec.gov/oig/reportspubs/tcr-system-audit-observations.pdf
Chair Mary Jo White "Testimony on the Fiscal Year 2017 Budget Request of the U.S. Securities and Exchange Commission," April 12, 2016, before the United States Senate Subcommittee on Financial Services and General Government, Committee on Appropriations	https://www.sec.gov/news/testimony/testimony-white-budget-request-2017-senate.html
Chair Mary Jo White keynote address "Equity Market Structure in 2016 and for the Future," at 83rd Annual Market Structure Conference, Washington, DC; September 14, 2016	https://www.sec.gov/news/speech/white-equity-market-structure-2016-09-14.html
Audit of the SEC's Compliance with the Federal Information Security Modernization Act for Fiscal Year 2015	https://www.sec.gov/oig/reportspubs/Audit-of-the-SECs-Compliance-with-the-Federal-Information-Security-Modernization-Act-for-Fiscal-Year-2015.pdf
Audit of the SEC's Process for Reviewing Self-Regulatory Organizations' Proposed Rule Changes	https://www.sec.gov/oig/reportspubs/Audit-of-the-SECs-Process-for-Reviewing-Self-Regulatory-Organizations-Proposed-Rule-Changes.pdf
Improvements Needed in the Division of Enforcement's Oversight of Fund Administrators	https://www.sec.gov/oig/reportspubs/Improvements-Needed-in-the-Division-of-Enforcements-Oversight-of-Fund-Administrators.pdf

Links from Inspector General's Statement on Management and Performance Challenges *(continued)*

Reference	URL
Information Security: Opportunities Exist for SEC to Improve Its Controls over Financial Systems and Data	http://www.gao.gov/assets/680/676876.pdf
U.S. Securities and Exchange Commission Agency Financial Report, Fiscal Year 2015	https://www.sec.gov/about/secpar/secafr2015.pdf
Audit of the SEC's Information Technology Requirements-Gathering Process	https://www.sec.gov/oig/reportspubs/Audit-of-the-SECs-Information-Technology-Requirements-Gathering-Process.pdf
High-Risk Series An Update	http://www.gao.gov/assets/670/668415.pdf
Management of the SEC's Protective Security Force Contract Needs Improvement	https://www.sec.gov/oig/reportspubs/Management-of-the-SECs-Protective-Security-Force-Contract-Needs-Improvement-Report-No.-536.pdf
Audit of the SEC's Contracting Officer's Representative Program	https://www.sec.gov/oig/reportspubs/Audit-of-the-SECs-Contracting-Officers-Representative-Program.pdf
U.S. Securities and Exchange Commission Strategic Plan, Fiscal Years 2014 – 2018	https://www.sec.gov/reportspubs/strategic-plan/sec-strategic-plan-2014-2018.pdf
Audit of the Representation of Minorities and Women in the SEC's Workforce	https://www.sec.gov/oig/reportspubs/528.pdf
Final Closeout Memorandum: Audit of the SEC's Hiring Practices	https://www.sec.gov/oig/reportspubs/OIG-Final-Closeout-Memorandum---Audit-of-the-SECs-Hiring-Practices-08-19-16.pdf
Audit of the SEC's Student Loan Repayment Program	https://www.sec.gov/oig/reportspubs/Audit-of-the-SECs-Student-Loan-Repayment-Program.pdf

This Agency Financial Report was produced through the energies and talents of SEC staff. To these individuals, we offer our sincerest thanks and acknowledgment. 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 2016 financial statements. To comment on this report, please send an e-mail to SECAFR@sec.gov.

U.S. Securities and
Exchange Commission
100 F Street NE
Washington, DC 20549
www.sec.gov