FISCAL YEAR
2019

Agency Financial Report

PROTECT
INVESTORS

U.S. SECURITIES AND EXCHANGE COMMISSION

“

The rules and interpretations we are adopting today address issues that the Commission has been actively considering for nearly two decades.

—Chairman Jay Clayton

AGA

Certificate of Excellence in Accountability Reporting

presented to the

U.S. Securities and Exchange Commission

in recognition of outstanding effort in preparing the Agency Financial Report for fiscal year 2018

CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING

The SEC's fiscal year 2018 Agency Financial Report received the Certificate of Excellence in Accountability Reporting from the Association of Government Accountants. This was the 13th 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.

MESSAGE FROM THE CHAIRMAN

Our Vision

To promote capital markets that inspire public confidence and provide a diverse array of financial opportunities to retail and institutional investors, entrepreneurs, public companies and other market participants.

This year we celebrated 85 years since the enactment of the Securities Exchange Act of 1934, which created the Commission. That document, crafted with purpose and foresight in the wake of the market crash of 1929, entrusted us with broad authority over all aspects of our securities markets and its participants. Much has changed since 1934, both at the Commission and in our markets. But the commitment of the Commission and its staff to our mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation, with that same purpose and foresight, remains steadfast. This report details several notable Commission accomplishments in Fiscal Year (FY) 2019.

It continues to be a privilege for me to chair this Commission, whose more than 4,000 women and men come to work every day with the interests of our long-term Main Street investors at the top of their minds. I say it often, but that's because it is important to me to emphasize whenever I have the opportunity: the SEC's most critical resource is our people. They are the most direct connection we have with investors, and they enable all of the work that is described in this report. It is one of my priorities as Chairman to continue to foster a community of care for investors, professionalism, diversity, inclusion, and opportunity within the agency.

Over the past fiscal year, we have reached significant milestones in pursuit of the goals of the Commission as outlined in our Strategic Plan for 2018–2022.

Our first goal is to **focus on the long-term interests of Main Street investors.** This year we have continued to place a high priority on direct engagement with investors and other market participants. Staff in divisions and offices traveled around the country to attend events to both educate investors and listen to the challenges they have experienced first-hand in our markets. It is invaluable for us to hear from them, in their own words, how our capital markets are working for them and how we can improve.

In perhaps the longest awaited investor-focused rulemaking in our 85-year history, this year we also adopted a package of initiatives designed to enhance the quality and transparency of retail investors' relationships with investment professionals. These actions represent decades of work on these issues by the agency's expert staff and reflect their unique understanding of a diverse and

complex marketplace. I'm very proud of the staff's work to get this package across the finish line.

Just a small sample of the other work done by the Commission on behalf of Main Street investors over the past year includes:

- forming the Teachers Initiative and Military Service Members Initiative, which focus additional enforcement and investor education resources on instructing and protecting those groups from investment fraud;
- continuing the Division of Investment Management's modernization of the design, delivery, and content of fund disclosures;
- facilitating capital formation in our public markets, including by expanding important JOBS Act initiatives to all companies, such as the "testing the waters" exemption and proposing additional amendments designed to recognize that a one-size regulatory structure for public companies does not fit all;
- improving Investor.gov, including short, educational videos created with retail investors in mind; and
- proposing amendments to enhance retail investor protections in the over-the-counter securities market, part of the Commission's ongoing effort to better address risks to retail investors and promote market efficiency.

Our second goal is to **be responsive and innovative** in the face of significant market developments and trends. The Commission advanced this goal on several fronts in FY 2019, including:

- **Cryptocurrencies and Digital Assets –** We launched the Strategic Hub for Innovation and Financial Technology (FinHub), a resource for public engagement on the Commission's FinTech related issues and initiatives. The Cyber Unit also continued to investigate and recommend enforcement actions against fraudulent ICOs and in other cryptocurrency-related cases.
- **Modernizing our Regulatory Framework –** We adopted and proposed several rules and amendments designed to streamline the regulatory framework for exchange-traded funds, "fund of funds," and closed-end funds. We also took important steps toward improving the proxy voting process and Regulation NMS.

Our third goal is to **elevate the agency's performance** by enhancing our analytical capabilities and developing the human talent I mentioned previously. This year we focused on the recruitment and retention of staff in certain areas that are critical to our mission such as quantitative analysts with expertise in Treasury and fixed-income markets; an equity market microstructure expert; a former FINRA senior investigator; a trading practices compliance expert; an expert in clearing agency risk management practices for the Division of Trading and Markets; financial economists in the Division of Economic and Risk Analysis; and compliance examiners with experience working in the credit rating sector, with particular expertise in the municipal market, fixed income, and structured finance offerings. We also dedicated resources to improving and updating our information technology systems, including through encouraging interoffice collaboration.

This year's Agency Financial Report also includes the results of the independent audit of our FY 2019 financial statements, which is once again an unmodified opinion. The financial and performance data in this report are also complete and accurate under the Office of Management and Budget guidance. While the SEC has remediated the previously reported material weakness in cybersecurity risks following meaningful action on the part of the SEC, we recognize that we must continue to work to improve the security of the agency's information systems and overall cybersecurity risk profile.

I am enormously proud of the work of the Commission over the past year as detailed in this report, and to be a part of the dedicated team that made it all possible. I look forward to accomplishing even more in the days ahead.

JAY CLAYTON
Chairman
November 13, 2019

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Small Business Advocate Martha Miller speaks with entrepreneurs and small business owners in Kansas City.

INTRODUCTION

The SEC's fiscal year (FY) 2019 Agency Financial Report (AFR) provides detailed financial and performance information that enables the President, Congress, and the public to assess the agency's accomplishments and understand its financial and operational picture. In lieu of a combined Performance and Accountability Report, the SEC will also publish an Annual Performance Report (APR) to provide a more in-depth review of strategic goals and performance results. The APR will be included in the FY 2021 Congressional Budget Justification Report available in 2020.

The FY 2019 AFR satisfies the requirements contained in the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, and contains three main sections and supplemental appendices.

Management's Discussion and Analysis

Provides a high-level overview of the SEC—its history, mission, and organizational structure—and the agency's FY 2019 overall performance as related to its strategic goals and initiatives. This section also includes management's assurances on internal controls; an analysis of the SEC's financial position and operations; and the agency's FY 2020 outlook.

Financial Section

Contains audited financial statements, accompanying notes, and required supplementary information, as well as the independent auditor's report on these statements and management's response to that report. Also included are comparative financial statements and accompanying notes for the Investor Protection Fund.

Electronic copies of this AFR and prior year budget reports are available at SEC.gov/reports.

Other Information

Details the agency's compliance with, and commitment to, specific regulations. Included in this section are performance and management analyses and recommendations from the Office of Inspector General, and the SEC's response to that information in accordance with the Reports Consolidation Act of 2000; a detailed explanation of any significant erroneous payments and overpayments recaptured as required by the Improper Payments Information Act of 2002, as amended; recent inflationary adjustments made to civil monetary penalties in accordance with the Federal Civil Penalties Inflation Adjustment Act of 1990, as amended; and the agency's Fraud Reduction Report.

Appendices

Offers additional resources related to the agency and this report: a glossary of selected terms, frequently used acronyms and abbreviations, biographies, and contact information.

Chairman Jay Clayton (center) and Senior Advisor to the Chairman Sebastian Gomez Abero (right) tour an Opportunity Zone in Omaha, Nebraska.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section provides a high-level overview of the agency, its FY 2019 program and financial performance, and FY 2020 outlook.

Mission, Vision, Values, and Goals

Explains the SEC's mission, vision, values, and three 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 summarizes the 10 major programs by responsible divisions and offices.

Our Year in Review and the Year Ahead

Summarizes efforts made by the SEC in pursuit of its strategic goals in FY 2019, and details specific areas that the SEC will continue to focus on 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

Discusses the SEC's strategic and performance planning framework; the process used to verify and validate the performance results; the FY 2019 performance results by strategic goal; and 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, and on the compliance of the SEC's financial systems with federal requirements under the Federal Financial Management Improvement Act of 1996. It also addresses the SEC's compliance with the Federal Information Security Modernization Act of 2014 and other laws and regulations.

Our Mission

To protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.

Our Vision

To promote capital markets that inspire public confidence and provide a diverse array of financial opportunities to retail and institutional investors, entrepreneurs, public companies and other market participants.

Our Values

INTEGRITY

We inspire public confidence and trust by adhering to the highest ethical standards.

EXCELLENCE

We are committed to excellence in pursuit of our mission on behalf of the American public.

ACCOUNTABILITY

We embrace our responsibilities and hold ourselves accountable to the American public.

TEAMWORK

We recognize that success depends on a skilled, diverse, coordinated team committed to the highest standards of trust, hard work, cooperation, and communication.

FAIRNESS

We treat investors, market participants, and others fairly and in accordance with the law.

EFFECTIVENESS

We strive for innovative, flexible, and pragmatic regulatory approaches that achieve our goals and recognize the ever-changing nature of our capital markets.

Strategic Goals and Strategic Initiatives

STRATEGIC GOAL 1
Focus on the long-term interests of our Main Street investors.

Strategic Initiative 1.1: Enhance our understanding of the channels retail and institutional investors use to access our capital markets to more effectively tailor our policy initiatives.

Strategic Initiative 1.2: Enhance our outreach, education, and consultation efforts, including in ways that are reflective of the diversity of investors and businesses.

Strategic Initiative 1.3: Pursue enforcement and examination initiatives focused on identifying and addressing misconduct that impacts retail investors.

Strategic Initiative 1.4: Modernize design, delivery, and content of disclosure so investors, including in particular retail investors, can access readable, useful, and timely information to make informed investment decisions.

Strategic Initiative 1.5: Identify ways to increase the number and range of long-term, cost-effective investment options available to retail investors, including by expanding the number of companies that are SEC-registered and exchange-listed.

STRATEGIC GOAL 2

Recognize significant developments and trends in our evolving capital markets and adjust our efforts to ensure we are effectively allocating our resources.

Strategic Initiative 2.1: Expand market knowledge and oversight capabilities to identify, understand, analyze, and respond effectively to market developments and risks.

Strategic Initiative 2.2: Identify, and take steps to address, existing SEC rules and approaches that are outdated.

Strategic Initiative 2.3: Examine strategies to address cyber and other system and infrastructure risks faced by our capital markets and our market participants.

Strategic Initiative 2.4: Promote agency preparedness and emergency response capabilities.

STRATEGIC GOAL 3

Elevate the SEC's performance by enhancing our analytical capabilities and human capital development.

Strategic Initiative 3.1: Focus on the SEC's workforce to increase our capabilities, leverage our shared commitment to investors, and promote diversity, inclusion, and equality of opportunity among the agency's staff.

Strategic Initiative 3.2: Expand the use of risk and data analytics to inform how we set regulatory priorities and focus staff resources, including developing a data management program that treats data as an SEC-wide resource with appropriate data protections, enabling rigorous analysis at reduced cost.

Strategic Initiative 3.3: Enhance our analytics of market and industry data to prevent, detect, and prosecute improper behavior.

Strategic Initiative 3.4: Enhance the agency's internal control and risk management capabilities, including developing a robust and resilient program for dealing with threats to the security, integrity, and availability of the SEC's systems and sensitive data.

Strategic Initiative 3.5: Promote collaboration within and across SEC offices to ensure we are communicating effectively across the agency, including through evaluation of key internal processes that require significant collaboration.

History and Purpose

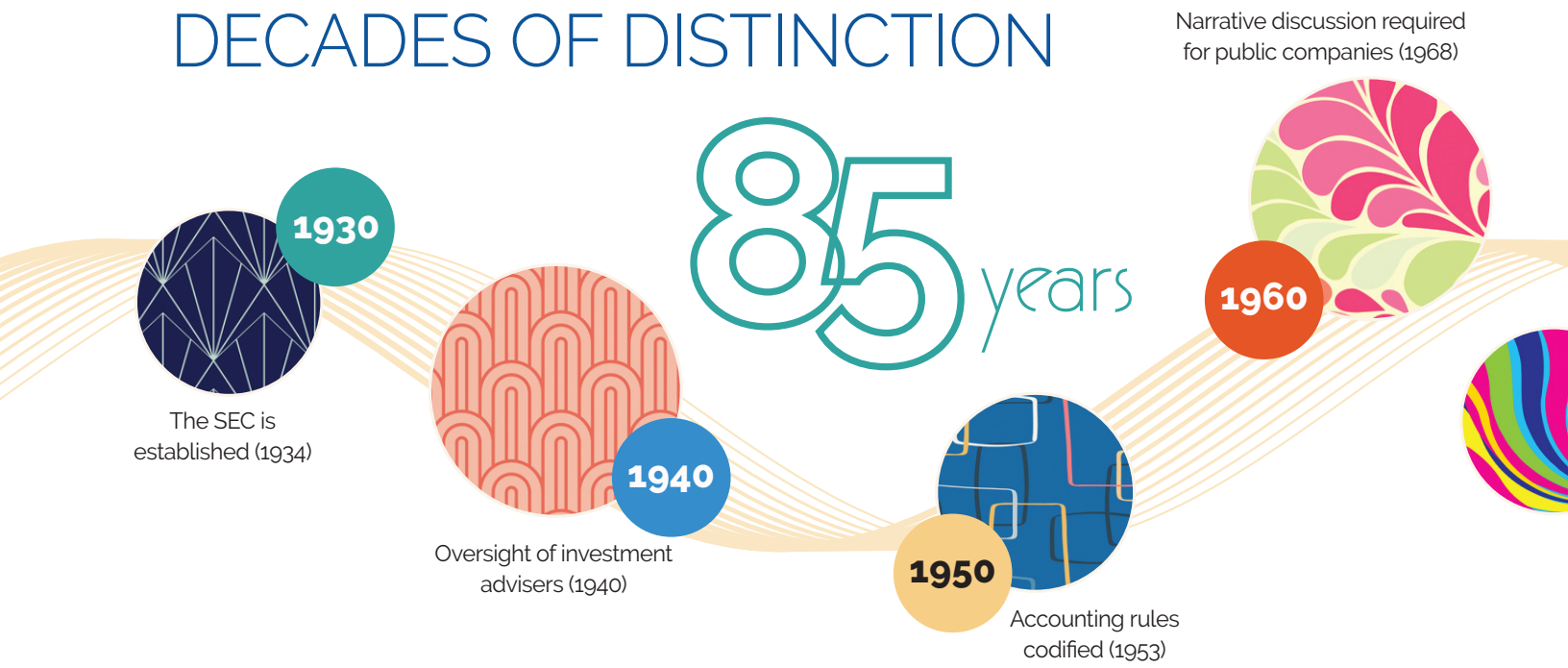
Prior to the Great Crash of 1929, there was little support for federal regulation of the securities markets. This was particularly obvious during the post-World War I surge of securities activity. Proposals that the federal government require financial disclosure and prevent the fraudulent sale of stock were never seriously pursued.

Tempted by promises of "rags to riches" transformations and easy credit, most investors gave little thought to the systemic risk that arose from widespread abuse of margin financing and unreliable information about the securities in which they were investing. During the 1920s, approximately 20 million shareholders took advantage of post-war prosperity and set out to make their fortunes in the stock market. It is estimated that one-half of the $50 billion in new securities offered during this period became worthless.

When the stock market crashed in October 1929, public confidence in the markets plummeted. Investors and banks lost great sums of money in the ensuing Great Depression, and restoring faith in the capital markets was essential to economic recovery. Congress held hearings to identify problems and search for solutions.

Based on those hearings, Congress passed the Securities Act of 1933[1] (Securities Act)—the first federal law to regulate the issuance of securities—followed by the Securities Exchange Act of 1934[2] (Exchange Act).

The SEC was established to regulate and enforce this legislation.



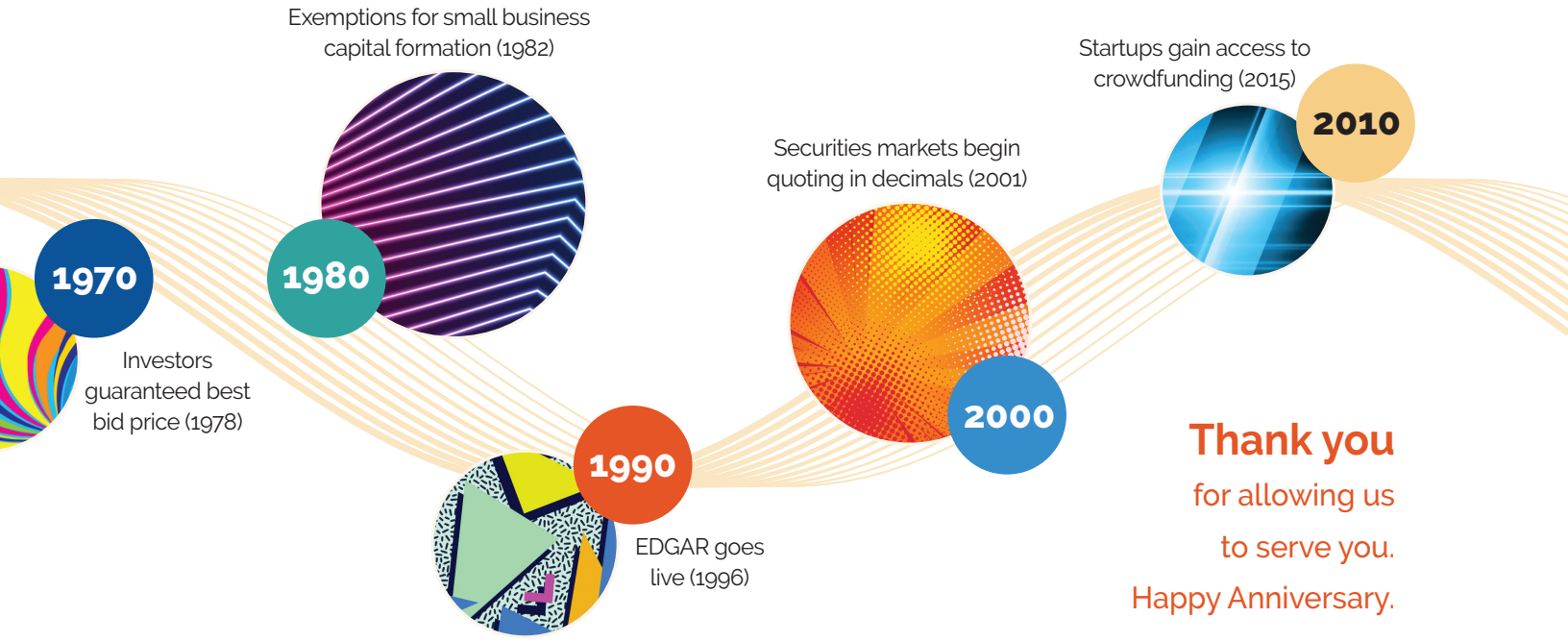
1 More information about the Securities Act of 1933 can be found at SEC.gov/about/laws/sa33.pdf
2 More information about the Securities Exchange Act of 1934 can be found at SEC.gov/about/laws/sea34.pdf

These laws aim to provide investors and the markets with reliable information, clear rules for honest dealing, and specifically ensure the following:

- A company that publicly offers securities for investment dollars is forthcoming and transparent about its business, the securities it is selling, and the risks involved with investing; and
- A person who sells and trades securities does so in a fair and honest manner.

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, Municipal Securities Rulemaking Board, and the Public Company Accounting Oversight Board. 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.

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, market manipulation, and providing false or misleading information about securities and/or the issuing companies.



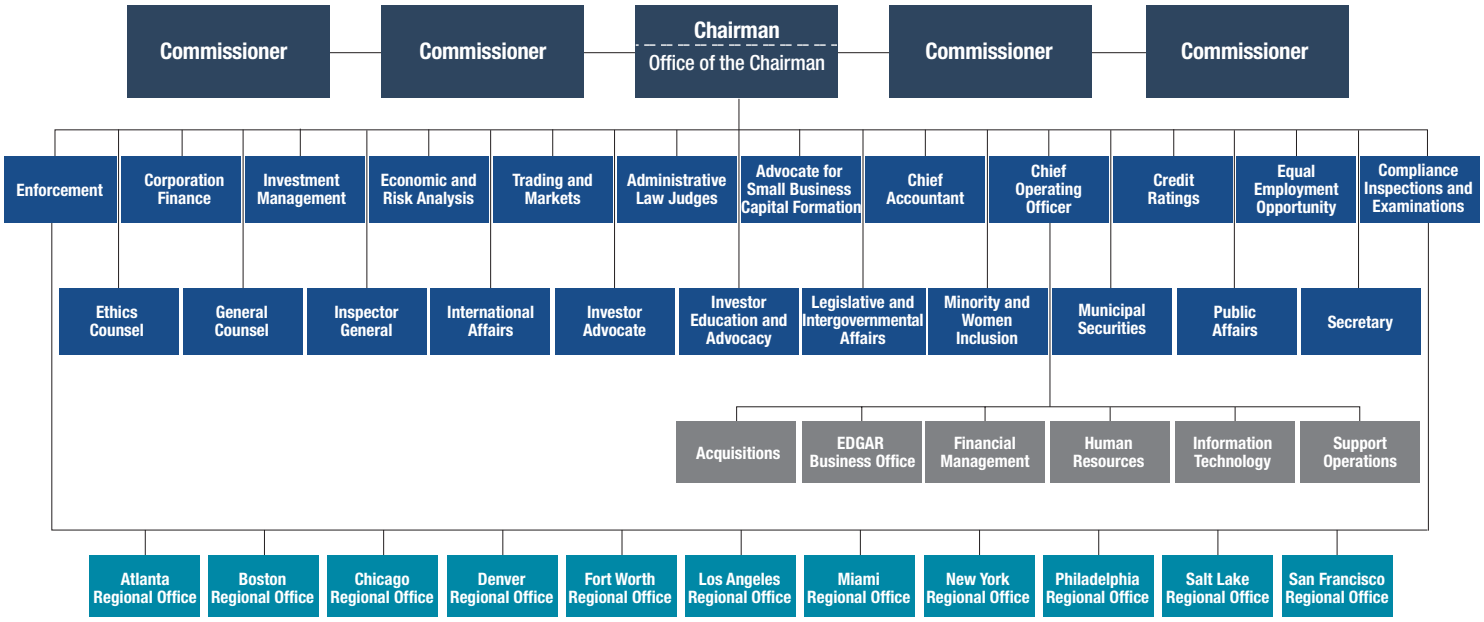
3 More information about the Dodd-Frank Act can be found at SEC.gov/about/laws/wallstreetreform-cpa.pdf

Organizational Structure and Resources

The agency's functional responsibilities are organized into 5 divisions and 25 offices. In FY 2019, the SEC employed 4,350 full-time equivalents.

The following chart is accurate as of September 30, 2019.

Chart 1.1 | Organization Chart



Note: This is the official SEC organization chart. All divisions and offices indirectly report to the Office of the Chairman. Offices within the Office of the Chief Operating Officer are in gray. Regional offices are in teal.

The SEC is an independent federal agency led by a bipartisan, five-member Commission—one of whom is designated as the Chairman—with staggered five-year terms.

Each member of the Commission is appointed by the President and confirmed by the Senate (see *Appendix A: Chairman and Commissioner Biographies*).

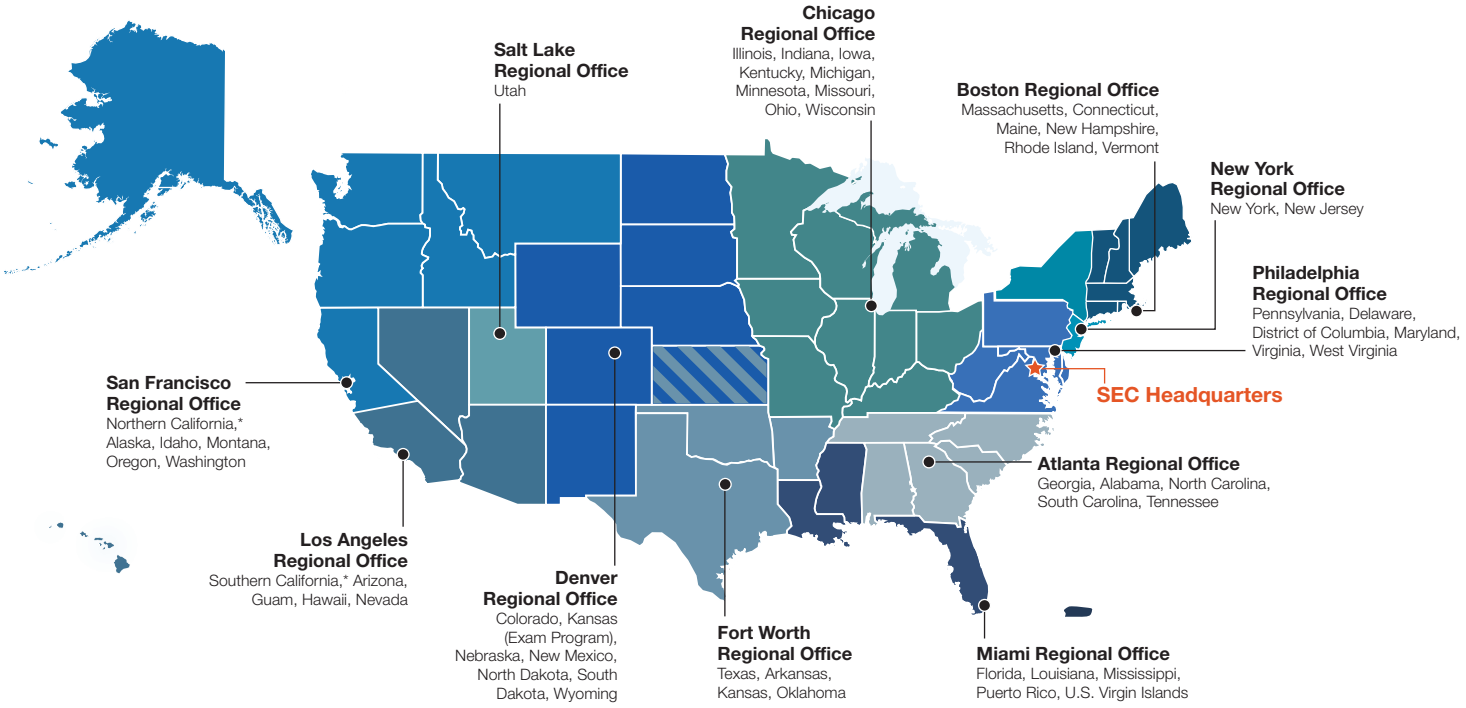
The Chairman serves as the chief executive and, by law, no more than three of the Commissioners may belong to the same political party.

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 to begin an enforcement investigation.

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 regional offices also have enforcement and examination staff to inspect regulated entities such as investment advisers, investment companies, and broker-dealers. The following chart illustrates the location of each regional office and their areas of jurisdiction.

Chart 1.2 | Headquarters and Regional Office Locations



* Northern California includes ZIP codes 93600 and above, and 93200–93299
Southern California includes ZIP codes 93599 and below, except 93200–93299

Programs

The SEC organizes its divisions and offices within the 10 major programs outlined below.

Table 1.1 | SEC Programs and Program Descriptions

ENFORCEMENT	
Division of Enforcement	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 this program's function is seeking penalties and the disgorgement of ill-gotten gains in order to return funds to harmed investors. Also within this program is the Office of the Whistleblower, which rewards individuals who provide the agency with tips that lead to successful enforcement actions.
COMPLIANCE INSPECTIONS AND EXAMINATIONS	
Office of Compliance Inspections and Examinations	Conducts examinations of registrants such as investment advisers, investment companies, broker-dealers, self-regulatory organizations (SRO), transfer agents, and clearing agencies.
CORPORATION FINANCE	
Division of Corporation Finance	Helps investors gain access to materially complete and accurate information about companies and the securities they offer and sell, to facilitate capital formation and to deter fraud and misrepresentation in the public offering, trading, voting, and tendering of securities.
TRADING AND MARKETS	
Division of Trading and Markets	Supervises major market participants and conducts activities to maintain fair, orderly, and efficient standards that foster investor protection and confidence in the markets.
INVESTMENT MANAGEMENT	
Division of Investment Management	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	Provides economic analyses as part of the Commission's rulemaking process and supports its rule review, examination, and enforcement programs with data-driven, risk-based analytical methods.
GENERAL COUNSEL	
Office of the General Counsel	Serves as the chief legal officer of the Commission and provides independent legal analysis and advice to the Chairman, Commissioners, and operating divisions on all aspects of Commission activities. This office also defends the Commission in federal district courts.

Table 1.1 | *Continued from previous page*

OTHER PROGRAM OFFICES	
Office of Administrative Law Judges	Conducts public hearings throughout the United States in a manner similar to non-jury trials in the federal district courts. As independent adjudicators, administrative law judges issue initial decisions on allegations set out in Commission Orders Instituting Proceedings, issue subpoenas, hold prehearing conferences, and rule on motions and the admissibility of evidence.
Office of the Advocate for Small Business Capital Formation	Helps small businesses and investors resolve significant problems incurred with the SEC or SROs, and analyzes the potential impact of current and proposed regulations.
Office of the Chief Accountant	Establishes accounting and auditing policies, and works to improve the professional performance of public company auditors to ensure that financial statements used for investment decisions are presented fairly and have credibility.
Office of Credit Ratings	Administers the rules of the Commission with respect to the practices of nationally recognized statistical rating organizations (NRSRO) in determining ratings; protects the users of credit ratings; promotes accuracy in credit ratings issued by NRSROs; and ensures that such ratings are not unduly influenced by conflicts of interest.
Office of International Affairs	Advances international regulatory, supervisory, and enforcement cooperation; promotes converged high regulatory standards worldwide; and facilitates technical assistance programs in foreign countries.
Office of the Investor Advocate	Helps investors resolve significant problems with the SEC or with SROs, and identifies areas in which investors would benefit from changes to federal laws or to SEC regulations or SRO rules.
Office of Investor Education and Advocacy	Serves investors who complain to the SEC about investment fraud or the mishandling of their investments by securities professionals; ensures the views of retail investors inform the Commission's regulatory policies and disclosure programs; and works to improve investors' financial literacy.
Office of Municipal Securities	Oversees the municipal securities market and administers the agency's rules pertaining to municipal securities brokers and dealers, advisors, investors, and issuers. This office also coordinates with the Municipal Securities Rulemaking Board on rulemaking and enforcement actions.
AGENCY DIRECTION AND ADMINISTRATIVE SUPPORT	
EDGAR Business Office	Provides direct executive-level oversight for the ongoing transformation of specific functions and programs to include business ownership of the Electronic Data Gathering, Analysis, and Retrieval System (EDGAR) and the EDGAR modernization program initiative.
Office of Acquisitions	Provides advice on acquisition planning, development, and sourcing; awarding contracts and interagency agreements; and ensures contract terms and conditions are met through timely contract closeouts and de-obligation of funds.
Office of the Chairman	Oversees all aspects of agency operations. The Chairman and Commissioners are responsible for reviewing and approving enforcement cases and formal orders of investigation, as well as overseeing the development, consideration, and execution of policies and rules.
Office of the Chief Operating Officer	Provides strategic leadership and operational oversight of the SEC's core mission support activities and compliance with administrative requirements from Congress and the Executive Branch.
Office of Equal Employment Opportunity	Strives to enhance access to employment opportunities for the best and brightest talent, and to foster a fair and equitable work environment in compliance with federal laws and SEC standards.
Office of the Ethics Counsel	Administers the Commission's Ethics Program, and interprets the SEC's Supplemental Ethics Rules as well as government-wide ethics laws, rules, and regulations.

Table 1.1 | *Continued from previous page*

AGENCY DIRECTION AND ADMINISTRATIVE SUPPORT *(CONTINUED)*	
Office of Financial Management	Oversees the agency's financial systems and internal controls over financial reporting; prepares financial statements and reports; manages the formulation and execution of the SEC's annual budget; and coordinates the agency's performance and cost reporting.
Office of Human Resources	Assists with recruitment, staffing, organizational development, leadership and employee development, compensation and benefits administration, position classification, workforce planning, and labor relations.
Office of Information Technology	Maintains responsibility for the Commission's infrastructure operations and engineering; user support; program management; capital planning; cybersecurity; and enterprise architecture.
Office of Legislative and Intergovernmental Affairs	Serves as the liaison between the SEC and Congress, and is responsible for responding to requests from Congress for information related to agency programs and legislation affecting the SEC or its mission.
Office of Minority and Women Inclusion	Develops standards for all agency matters relating to diversity in management, employment, and business activities.
Office of Public Affairs	Assists the Commission in making the work of the SEC is accessible to the public, understandable to investors, and accountable to taxpayers.
Office of the Secretary	Reviews all documents issued by the Commission; schedules and coordinates Commission meetings; prepares and maintains records of Commission actions; and receives and tracks filings in administrative proceedings.
Office of Support Operations	Processes requests under the Freedom of Information Act and the Privacy Act; maintains all agency records in accordance with the Federal Records Act; oversees the security and safety of SEC facilities; and manages property, equipment, and overall building operations.
INSPECTOR GENERAL	
Office of Inspector General	Conducts audits of the SEC's programs and operations, and investigates allegations of misconduct by staff or contractors. This is an independent office whose mission is to detect fraud, waste, and abuse, and promote integrity, economy, efficiency, and effectiveness throughout the agency's programs and overall operations.

As shown in the Statements of Net Cost on page 56, the SEC presents its costs of operations by the programs outlined above, consistent with the presentation used by the agency in submitting its budget requests.

OUR YEAR IN REVIEW AND THE YEAR AHEAD

The women and men of the SEC come to work every day to serve America's investors. Below, we summarize the initiatives and achievements of the Commission during FY 2019 and discuss our ongoing efforts in our continued pursuit of our mission, organized around four major priorities: (1) enforcement and compliance; (2) monitoring and addressing market developments and risks; (3) regulatory and policy agenda; and (4) investor education initiatives.

It is important to note that while many of the items discussed in the following pages are attributed to one particular division or office, each and every one of these accomplishments and ongoing initiatives are the result of collaborative efforts among talented and solutions-oriented professionals, supervisors, and managers across the agency. Their work, in turn, is made possible thanks to the agency's administrative and operations personnel. As just one example, every rulemaking requires the participation of the Division of Economic and Risk Analysis (DERA), Office of the General Counsel (OGC), Office of the Secretary (OS), Office of Public Affairs (OPA), and Office of Legislative and Intergovernmental Affairs (OLIA), regardless of which divisions or offices were principally responsible for drafting the release. We close this review by focusing on three significant initiatives that involve the work of multiple divisions and offices: (1) new standards of conduct for investment professionals; (2) improvements to the proxy process; and (3) investor education and outreach.

Enforcement and Compliance

Division of Enforcement

The ongoing efforts made by the Division of Enforcement (ENF) to deter misconduct and punish securities law violators are critical to safeguarding our millions of investors and instilling confidence in the integrity of our markets. ENF investigates and recommends a diverse mix of cases targeting fraud and other wrongdoing.

While ENF has many programs and initiatives to combat fraud and illicit conduct, we highlight three for their impact on investor protection in FY 2019: (1) the Cyber Unit; (2) the Share Class Selection Disclosure Initiative; and (3) the addition of the Teachers and Military Service Members Initiatives to the work of the Retail Strategy Task Force.

The Cyber Unit has investigated and recommended a number of new cases involving digital assets and distributed ledger technology (DLT). A large portion of the Cyber Unit's matters focused on fraudulent conduct involving so-called "Initial Coin Offerings" (ICO). Many of its more recent cases have focused on violations of the registration provisions of the securities laws. For example, in FY 2019 the Cyber Unit filed settled proceedings against a pair of celebrities who had promoted an ICO without disclosing that they were compensated for doing so, and also filed settled charges against an individual who founded a platform for trading digital assets, but had not registered it as a securities exchange. In another series of cases, the SEC charged issuers of digital assets who allegedly failed to register their ICOs with the Commission. The Cyber Unit has also continued to proactively protect investors from potentially illegal ICOs in ways that are not reflected in statistics, including by contacting ICO issuers either before, or in the early stages of, their offerings and informing them of the potential securities law issues their ICOs raise. In a number of these instances, the issuers have either abandoned their planned ICOs and returned the funds raised or have pursued steps to become compliant.

In FY 2019, we also announced that the Cyber Unit, in a joint investigation with the Market Abuse Unit,

INSIDER INFORMATION

Six Red Flags of Elder Fraud

Elder Fraud may occur when someone exploits a position of influence or trust over an elderly person to gain access to that person's assets. Protect yourself or your loved ones by knowing these six red flags.

- Sudden reluctance to discuss financial matters
- Unusual or unexplained account withdrawals, wire transfers, or other financial changes
- Cash or other items missing from the home
- Drastic shifts in investments
- Abrupt changes in wills, trusts, power of attorney, or beneficiaries
- Concern or confusion about missing funds

For additional resources and information, please visit Investor.gov/seniors.

was able to track down nine individuals allegedly involved in a previously disclosed scheme to hack into the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system, in spite of the lengths to which they went in an attempt to evade detection, including using an offshore entity and nominee accounts to place their trades.

The Share Class Selection Disclosure Initiative was launched in February 2018, with a focus on investment advisers that did not adequately disclose conflicts as a result of their receipt of compensation in the form of 12b-1 fees. In FY 2019, we announced that the program has resulted in settled charges against 95 investment advisers who will return more than $135 million to harmed clients. This initiative will have additional, lasting benefits for Main Street investors, including through the improved disclosure of fees and conflicts and lower costs.

The Teachers Initiative and the Military Service Members Initiative build on the ongoing efforts of the Retail Strategy Task Force. These initiatives focus additional enforcement and investor education resources on teachers, veterans, and active duty military personnel, particularly in the areas of savings and investment, investment fees and expenses, retirement programs specific to educators and service members, and the red flags of investment fraud. They are a formalization of our commitment to protecting these vulnerable market participants, including through our efforts to fight affinity frauds that target these groups by either being or pretending to be "one of them."

ENF has intensified staff efforts to protect retail investors against many forms of affinity frauds. In March 2019, we announced fraud charges and an asset freeze against the alleged operators of a $25 million Ponzi scheme falsely promising high annual returns with minimal to no risk to investors in the Vietnamese community in Orange County, California. More recently, we obtained an emergency court order and consented-to preliminary injunction freezing assets of a Santa Ana, California-based company and its founder, who allegedly carried out an ongoing fraud likewise targeting members of the Vietnamese-American community.

The Retail Strategy Task Force also announced that it will hold a roundtable in October 2019 on combating elder investor fraud, exploring views from a broad range of regulators and industry experts on potential steps regulators, broker-deal-

ers, investment advisers, and others can take to identify and combat elder investor fraud.

It is also important to note that other divisions and offices across the agency provide valuable support on ENF cases, including referrals from various divisions, economic analyses from DERA, technical expertise from policy divisions, and litigation support from OGC.

Office of Compliance Inspections and Examinations

The SEC's Office of Compliance Inspections and Examinations (OCIE) is responsible for conducting examinations of entities registered with the SEC. OCIE's 2019 Examination Priorities reflect a continued focus on our commitment to protecting retail investors—including seniors and those saving for retirement. In particular, OCIE has looked closely at products and services offered to retail investors, the disclosures they receive about those investments and the financial services professionals who serve them, as well as several other areas that present heightened risk, including compliance and risks in critical market infrastructure, cybersecurity, and anti-money laundering programs. OCIE also publishes a number of risk alerts to inform registered firms and investors of common compliance issues to aid in the identification and correction of potentially deficient practices to better protect the interests of our Main Street investors.

DID YOU KNOW ?

The term Main Street investor—or retail investor—refers to an individual investor rather than a large corporation or investment firm.

During FY 2019, OCIE exceeded its goal and conducted over 3,075 examinations. This included a 15 percent coverage ratio for investment advisers, up 10 percent from just five years ago. Staff will continue to leverage data analysis to identify potentially problematic activities and firms as well as to determine how best to scope the examinations of those activities and firms.

Monitoring and Addressing Market Developments and Risks

Throughout the Commission's 85-year history, we have been required to evolve alongside U.S. markets and adapt to a rapidly changing global economy. More recently, the development of the digital asset and ICO space has introduced new challenges and opportunities to our markets that require an interdivisional and interjurisdictional response.

In FY 2019, we launched the Strategic Hub for Innovation and Financial Technology (FinHub), which replaces and builds on the work of several internal working groups at the Commission that have focused on similar issues. The FinHub serves as a resource for public engagement on the Commission's Financial Technology (FinTech)-related issues and initiatives, such as DLT (including digital assets), automated investment advice, digital marketplace financing, and artificial intelligence/machine learning. In May 2019, FinHub hosted a public FinTech forum focusing on DLT and digital assets and explored topics such as ICOs, digital asset platforms, DLT innovations, and how these technologies impact investors and markets. Digital assets and ICOs are also areas in which we are in close contact with regulatory partners, both domestic and international, coordinating efforts and identifying any areas where additional regulatory oversight may be needed.

Our strong relationships with international regulatory partners have been especially beneficial as we prepare for upcoming changes to global markets that will affect investors and other market participants. For example, the Commission and SEC staff have been closely monitoring Brexit and its potential impacts on U.S. markets and investors, and more broadly, on global financial markets. We will continue to monitor and plan for various potential outcomes. Other examples of

global events that we are monitoring are the expected transition away from LIBOR (London Interbank Offered Rate) and the impact of the MiFID II (Markets in Financial Instruments Directive) research provisions on U.S. and global market practices.

The Office of International Affairs (OIA) manages these and other interactions with global partners. In May 2019, OIA led the Commission's entrance into the International Organization of Securities Commissions (IOSCO) Administrative Arrangement for the transfer of personal data with European securities regulators and the European Securities and Markets Authority. This arrangement will facilitate the continued transfer of personal data in enforcement investigations and supervisory matters from IOSCO members based in the European Economic Area to authorities in other jurisdictions, and OIA anticipates additional members to sign onto the arrangement in FY 2020.

The staff of ENF's Office of Market Intelligence, in coordination with OIA and OIEA, maintains and operates the Public Alert: Unregistered Soliciting Entities (PAUSE) Program. The PAUSE Program is an initiative that informs retail investors about complaints concerning soliciting entities that have made false claims about ties to U.S. markets or fictitious regulators so that investors may potentially avoid being the victim of fraud. During FY 2019, the Commission posted 89 suspect entities to the respective PAUSE lists. The Commission expects to launch an updated PAUSE website with more user-friendly language, features, and functionalities in the near future.

Domestically, the Commission is engaged in several projects that involve other federal financial regulators. We worked closely with the Federal Reserve, the Commodity Futures Trading Commission (CFTC), the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency throughout FY 2019 to adopt a final rule excluding community banks from the Volcker Rule, consistent with the Economic Growth, Regulatory Relief, and Consumer Protection Act passed in 2018. The Commission also voted on a final rule to simplify and streamline compliance requirements with the portion of the Volcker Rule generally prohibiting banking entities from engaging in proprietary trading or investing in or sponsoring hedge funds or private equity funds. We expect to announce that the vote has been completed by all the relevant regulators this fall.

We have particularly engaged with the CFTC on our work toward establishing the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010's Title VII regulatory regime. Our efforts in this area achieved several milestones in FY 2019. We issued for public comment a joint proposal with the CFTC to align the minimum margin required on security futures with other similar financial products. The Commission also adopted capital, margin, and segregation rules intended to help ensure the safety and soundness of firms in that market, to protect their counterparties, and reduce risk to the market as a whole. In terms of SEC-only rulemaking, we created a transparent, efficient, and comprehensive process for applying for relief from the statutory disqualification prohibition; proposed rules to improve the framework for regulating cross border security-based swap transactions and market participants; and proposed a rule to apply risk mitigation techniques to portfolios of uncleared security-based swaps. We anticipate completing the consideration of these outstanding security-based swap rulemakings under Title VII in the coming year.

Cybersecurity and Information Technology at the Commission

Maintaining strong cyber defenses and resilience continues to be a top priority for the Commission. The data we hold is an attractive target for many, and the technology being used by those attempting to penetrate our systems can be sophisticated and backed by substantial resources. Over the past year, the Commission has been focused on a number of areas for improvement, including information technology (IT) governance and oversight, security controls, risk

awareness related to sensitive data, incident response, and reliance on legacy systems. While progress has been made, much work remains to be done. We look forward to soon bringing on board a Chief Data Officer, who will help us improve our review process over data collection to provide greater assurance that we collect only the data we need to fulfill our mission and can effectively manage and secure. The Chief Data Officer is expected to work closely with our Chief Risk Officer.

The Office of the Chief Risk Officer was established within the front office of the Office of the Chief Operating Officer in FY 2019. Its mission is to establish the agency's enterprise risk management function while continuing to strengthen the agency's operational risk management capacity. This will include developing a governance structure, promoting a risk-aware organizational culture, defining risk appetite and tolerances, operationalizing risk assessment processes, and developing an enterprise-wide risk profile.

DID YOU KNOW ?

Commenting on proposed SEC rulemakings is easy—and encouraged! In this video, SEC Advocate for Small Business Capital Formation Martha Miller explains how to engage in the rulemaking process.

SEC.gov/news/sec-videos/how-comment-engage-rulemaking-process

We will also continue to pursue those who have attempted to infiltrate our data systems. As discussed above, in FY 2019 the Commission announced charges against nine defendants who allegedly participated in a previously disclosed scheme to hack into the EDGAR system and extract nonpublic information to use for illegal trading.

Looking forward, we are focused on several IT initiatives designed to make the Commission's IT more secure, reliable, and efficient, including: (1) continuing the modernization and development of a more secure EDGAR filing system; (2) deploying enhancements to critical analytic systems and upgrading the agency's electronic discovery and document management tools; (3) digitizing business processes so SEC staff can be more efficient and focus more of their time on higher-order analyses in pursuit of our mission; and (4) retiring legacy SEC systems and applications in favor of modernized, more secure replacements with lower costs.

Regulatory and Policy Agenda

Division of Corporation Finance

In FY 2019, the Division of Corporation Finance (CF) led the advancement of several key initiatives in support of the Commission's efforts, particularly facilitating capital formation while maintaining or enhancing investor protections.

In furtherance of our goal of making the public company alternative more attractive to all companies, including initial public offering (IPO) candidates, in FY 2019 the Commission adopted new rules that allow all issuers to "test the waters" and gauge market interest in a potential IPO or proposed registered securities offering with certain investors prior to the filing of a registration statement. Further, recognizing that a one-size regulatory structure for public companies does not fit all, in May 2019 the Commission proposed amendments to the accelerated filer and large accelerated filer definitions. Under the proposed amendments, smaller reporting companies with less than $100 million in revenues would not be required to obtain an attestation of management's assessment of company internal controls over financial reporting from an independent outside auditor.

In FY 2019, in a joint CF and Division of Investment Management (IM) initiative, the Commission also continued evaluating how we may improve the proxy voting process. As a first step, in August 2019 the Commission issued: (1) guidance to assist investment advisers in fulfilling their responsibilities when voting

proxies on behalf of clients, and (2) an interpretation that proxy voting advice provided by proxy advisory firms generally constitutes a solicitation under the federal proxy rules. The Commission's current regulatory agenda anticipates continued rulemaking in this area in 2020 to modernize, improve, and bring greater transparency to this important aspect of corporate governance.

As the private markets continue to represent a large share of new capital raised in the United States, we are also undertaking a comprehensive review of the federal securities law framework for these offerings. In June, the SEC issued a concept release that seeks public comment on ways to harmonize the private securities offering exemptions. The concept release considers whether changes should be made to improve the consistency, accessibility, and effectiveness of the exemptions for both companies and investors, including identifying potential overlap or gaps within the framework. The release also considers whether the SEC's "accredited investor" definition should be revised or expanded to focus on criteria other than an investor's wealth or income, such as the investor's financial sophistication or experience. The staff is considering comments received on the concept release as it considers recommendations for the Commission to improve the private offering framework.

Division of Investment Management

In FY 2019, IM achieved significant goals and made large strides in pursuit of the Commission's commitment to modernization and streamlining, while always working to improve investor protection.

IM has launched a number of outreach initiatives with investors and market participants to better understand what is working well, what could be working better, and how different solutions may be implemented to improve the investor experience and regulatory oversight. This outreach is done both in-person, with staff attending local investor meetings, and through the recently launched Fund Disclosure website. These outreach efforts are part of IM's broader initiative to promote greater transparency for investors and other market participants regarding the Commission's disclosure review process. These efforts will continue in the coming year.

The Commission advanced several recommendations from IM in FY 2019 that are designed to modernize the regulatory framework for various types of funds. In September 2019, the Commission adopted a new rule and amendments designed to modernize the regulatory framework for exchange-traded funds (ETF). The rule replaces hundreds of individualized exemptive orders with a single rule that permits certain ETFs to come to market, facilitating greater competition and innovation in the ETF marketplace by lowering barriers to entry. Also in the area of ETFs, in June 2019 the Commission approved its first exemptive relief for a new model of actively-managed ETF that does not provide daily portfolio transparency.

In December 2018, the Commission proposed a new rule and amendments designed to streamline and enhance the regulatory framework for funds that invest in other funds—also known as "fund of funds" arrangements. Similar to the rule adopted regarding ETFs, this proposal would allow a fund in certain circumstances to acquire the shares of another fund without seeking an individual exemptive order from the Commission.

Consistent with Congressional mandates under the Small Business Credit Availability Act and the Economic Growth, Regulatory Relief, and Consumer Protection Act, in March 2019 the Commission proposed rule and form amendments to modernize the offerings of business development companies and registered closed-end funds.

Staff are currently reviewing the comments received as they consider final recommendations for the Commission on the proposals described above. Final recommendations are expected in FY 2020.

As reflected by IM's agenda, major trends in retirement funding, investment philosophies, technology, and capital formation have driven changes in the market over the last two decades. In order to continue to stay on top of this dynamic market, the Commission announced the anticipated formation of an Asset Management Advisory Committee. The committee's objective will be to provide the Commission with diverse perspectives on asset management as well as advice and recommendations on matters related to asset management.

Division of Trading and Markets

The Division of Trading and Markets (TM) led the Commission in several initiatives in FY 2019 focused on helping to ensure fair and efficient trading markets for our Main Street investors, particularly in the areas of market structure and data.

As laid out by Chairman Jay Clayton and TM Director Brett Redfearn in a joint speech in March 2019, the Commission completed several initiatives in FY 2019 that seek to modernize and improve the regulatory structure of our equity markets which are primarily governed by Regulation NMS. These include moving forward with a Transaction Fee Pilot to gather the data needed to help resolve the debate over transaction fees and rebates and adopting amendments requiring broker-dealers to disclose new and enhanced information to investors about the way they handle investors' orders.

At a TM roundtable last year, participants questioned the effectiveness of Rule 15c2-11, which mandates what actions broker-dealers must take prior to publishing quotations for securities that do not trade on a national securities exchange and has not been updated since before it was commonplace to distribute disclosure materials and quotations electronically. In particular participants raised significant concerns about the rule's piggyback exception. The lack of current and publicly available information about a company

INSIDER INFORMATION

Notes From the Chairman

Chairman Jay Clayton shares his personal, handwritten notes with essential information and simple tips to help you invest wisely. In a series of videos, he also discusses the six basic concepts of investing.

Investing: Getting Started | It is never too late to begin investing, but before you do, understand your basic financial picture.

Compounding | Make money tomorrow on the money you made investing, today.

Diversification | Don't put all your eggs in one basket.

"Free Money" | Take it. If your employer offers a 401(k) option, take it.

Fees, Costs, and Taxes | Advice and services are not free, so understand what you're getting and don't overpay.

Avoiding Fraud | Know the signs, and keep your eyes open: If it seems too good to be true, it probably is.

To watch these videos and read Chairman Clayton's complete notes, visit SEC.gov/page/investment-tips-chairman-jay-clayton.

OUR FY 2019 PACKAGE OF RULES AND INTERPRETATIONS

The SEC adopted a package of rulemakings and interpretations designed to enhance the quality and transparency of retail investors' relationships with investment advisers and broker-dealers, bringing the legal requirements and mandated disclosures in line with reasonable investor expectations, while preserving access (in terms of choice and cost) to a variety of investment services and products.

Regulation Best Interest

Requires broker-dealers to act in the best interest of a retail investor.

Enhances the broker-dealer standard of conduct beyond existing suitability obligations, and makes it clear that a broker-dealer may not put its financial interests ahead of the interests of a retail investor when making recommendations of any securities transaction or investment strategy involving securities.

Form CRS Relationship Summary

Requires registered investment advisers and broker-dealers to provide retail investors with simple, easy-to-understand information about the nature of their relationship with their financial professional.

Allows for comparability among the two different types of firms in a way that is distinct from other required disclosures while also facilitating layered disclosure. Form CRS will also include a link to a dedicated page on Investor.gov, which offers educational information about broker-dealers and investment advisers, and other materials.

Interpretations: The Investment Advisers Act of 1940

The following interpretations were issued to confirm, reaffirm, and clarify the Commission's views of specific aspects related to broker-dealers under this Act.

1. THE FIDUCIARY DUTY THAT INVESTMENT ADVISERS OWE TO THEIR CLIENTS.

This interpretation reflects how the Commission and its staff have applied and enforced the law in this area, and inspected for compliance, for decades. By highlighting principles relevant to the fiduciary duty, investment advisers and their clients will have greater clarity about advisers' legal obligations.

2. THE "SOLELY INCIDENTAL" PRONG OF THE BROKER-DEALER EXCLUSION.

This interpretation explains the Commission's position on the exclusions, which are intended to more clearly delineate when a broker-dealer's performance of advisory activities causes it to become an investment adviser, and illustrates the application in practice in connection with exercising investment discretion over customer accounts and account monitoring.

allowed by this exception may particularly disadvantage retail investors in making informed choices. In September 2019, the Commission proposed a rule designed to update Rule 15c2-11 to more effectively protect retail investors from fraud and manipulation in these types of securities transactions.

TM staff continues to explore further ways to help our markets function better for retail investors, such as the potential of primary listing exchanges to develop their own innovative market structure solutions that could address certain issues regarding thinly-traded securities.

The Commission and TM staff in particular continue to work closely with the self-regulatory organizations (SRO), who are responsible for developing and implementing the Consolidated Audit Trail (CAT). There have been several delays in the implementation of the CAT, and to reduce the likelihood of continuing further down this path the Commission recently proposed amendments to increase accountability and transparency in the implementation process. Also, in January 2019 the Chairman announced a new Senior Policy Advisor for Regulatory Reporting who is focused on overseeing the implementation of the CAT, working alongside TM staff.

TM is also heavily involved in the Commission's Fixed Income Market Structure Advisory Committee, which has held 7 meetings and provided 10 recommendations to the Commission to date. America's fixed income markets continue to grow in both size and significance and are particularly significant to retail investors, making this committee an important asset to the Commission.

Office of the Advocate for Small Business Capital Formation

The Office of the Advocate for Small Business Capital Formation (OASB) began operating in January 2019, and has spent its first months engaging in an extensive outreach campaign with small businesses and their investors around the country. In keeping with the Commission's renewed focus on direct interaction with market participants, staff from the office conducted outreach events in 10 cities and 8 states where they spoke with the women and men whose business or work is in some part dependent on our securities laws. We will continue to benefit from this open dialogue with the small business community as the Commission considers actions such as harmonizing the exempt offering framework in the future.

OASB also planned and executed our annual Government-Business Forum on Small Business Capital Formation, which this year was held in Omaha, Nebraska, an emerging entrepreneurial frontier known as the "Silicon Prairie." All five Commissioners were in attendance at the event to hear from local experts about how companies and investors are finding success in building and growing companies in the prairie states.

Standards of Conduct for Investment Professionals

As discussed above, while all of the Commission's actions require coordination and collaboration between individuals in many divisions and offices, there are a number of initiatives from FY 2019 that heavily involved the participation of two or more divisions and offices.

DID YOU KNOW ?

There are key differences between broker-dealers and investment advisers. Check out the videos on SEC.gov/brokers-and-investment-advisers-tips-chairman-jay-clayton to learn more.

The Commission's adoption earlier this year of a package of rulemakings and interpretations regarding retail investors' relationships with SEC-registered investment advisers and broker-dealers was the culmination of decades of experience across the agency. Specifically, these actions include new Regulation Best Interest, the new Form CRS Relationship Summary (Form CRS), and two separate interpretations under the Investment Advisers Act of 1940 (Advisers Act).

INSIDER INFORMATION

The Exchange Act on Display

The Securities Exchange Act of 1934 (Exchange Act) was enacted by the Senate and the House of Representatives to "provide for the regulation of securities exchanges and of over-the-counter markets . . . to prevent inequitable and unfair practices on such exchanges and markets . . . ." With this Act, Congress established the SEC.

To commemorate our shared 85th anniversary, the original copy of the Exchange Act was displayed at the SEC. This event celebrated our history and our foundation, and served as a reminder of our purpose.

Under Regulation Best Interest, broker-dealers will be required to act in the best interest of their retail customer when making a recommendation of any securities transaction or investment strategy involving securities. Form CRS will require registered investment advisers and broker-dealers to provide retail investors with simple, easy-to-understand information about the nature of their relationship with their financial professional. Form CRS will also include a link to a dedicated page on the Commission's investor education website, Investor.gov, which offers educational information about broker-dealers and investment advisers, and other materials. Investment professionals are set to begin complying with Regulation Best Interest and Form CRS in 2020.

The Commission also issued an interpretation of the fiduciary duty that investment advisers owe to their clients under the Advisers Act. Finally, the Commission issued an interpretation of the "solely incidental" prong of the broker-dealer exclusion under the Advisers Act, which is intended to more clearly delineate when a broker-dealer's performance of advisory activities causes it to become an investment adviser within the meaning of the Advisers Act.

We recognize that although these FY 2019 actions were the latest step in improving retail investors' relationships with their investment professionals, our work is far from over. Following the adoption of these actions, the Commission launched a Main Street investor education campaign designed to help retail investors understand key differences between broker-dealers and investment advisers, and to help them decide whether working with one of these types of financial professionals is right for them. This campaign, along with other aspects of our investor education and outreach efforts, is discussed in more detail below.

In order to assist firms with planning for compliance with these new rules, the Commission established an interdivisional Standards of Conduct Implementation Committee comprised of representatives from IM, TM, DERA, OCIE, and OGC. We encourage firms to actively engage with this committee as questions arise when planning for implementation.

The Commission also plans to maintain an active dialogue with fellow regulators, with a desire to work

together to establish clear and consistent legal standards and protections across the regulatory landscape.

Investor Education Initiatives

This fiscal year, the Commission continued to promote informed investment decision making through education initiatives and other efforts spearheaded by our Office of Investor Education and Advocacy (OIEA).

In FY 2019, SEC staff conducted more than 500 in-person investor education events focused on different segments of the population, including senior citizens, both current and former military personnel, teachers, younger investors, and other affinity groups. A number of the events occurred during World Investor Week, a global initiative promoted by IOSCO to raise awareness about the importance of investor education and protection. SEC staff led U.S. efforts and organized outreach events around the country with the CFTC, the Financial Industry Regulatory Authority (FINRA), and the North American Securities Administrators Association to highlight key investor education messages.

We issued a variety of investor alerts and bulletins during the year to warn Main Street investors of possible fraudulent schemes, and educate them on investment-related matters. Topics included scams relating to hurricanes and the California wildfires, fraudulent digital asset and "crypto" trading websites (jointly with the CFTC), and social sentiment investing tools (jointly with FINRA).

Our revamped Investor.gov website drew a record 3.7 million individuals in FY 2019, driven partly by our national public service campaign, "Before You Invest, Investor.gov." We continue to look for innovative ways to use Investor.gov and other tools at our disposal to spread the message of responsible investing to new audiences.

Also in FY 2019, we expanded our outreach to teachers and military service members to educate them about saving and investing, investment fees and expenses, retirement programs specific to educators and service members, and the red flags of investment fraud.

As part of the Teachers Initiative, OIEA created a guide for teachers that provides K–12 educators with information about the basics of saving and investing, planning for retirement, and ways to protect themselves from fraud. In October 2018, the San Francisco Regional Office hosted a summit that brought together stakeholders to discuss best approaches for informing and protecting California public school educators when they invest in their 403(b) and 457(b) plans. Throughout the fiscal year, regional offices, OIEA, and the Retail Strategy Task Force participated in various trainings and conferences to help teachers and other public school employees make informed investing decisions and educate them about how they can protect themselves from fraud.

We also expanded our military outreach coordination as a core member of the Department of Defense's Financial Readiness Network. OIEA, regional offices, and the Retail Strategy Task Force increased investor outreach to military audiences by engaging with service members and their families through in-person briefings and brochure distribution at every branch of service and more than 100 U.S. military installations worldwide. As part of this outreach, Chairman Jay Clayton participated in town hall events at the Pentagon and the Marine Forces Reserve Headquarters in New Orleans, Louisiana, where he spoke to hundreds of military personnel on financial readiness, investing wisely, and avoiding financial fraud. In addition, OIEA joined the U.S. Army in a Twitter chat resulting in 345,000 impressions, and SEC staff distributed nearly 40,000 copies of our updated *Financial Readiness: Saving and Investing for Military Personnel* brochure.

FINANCIAL HIGHLIGHTS

This section provides an analysis of the financial position, results of operations, and the underlying causes for significant changes in balances presented in the SEC's FY 2019 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 Securities and Exchange Commission Reserve Fund (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; and
- The SEC Investor Protection Fund, which is funded through disgorgement and penalties not distributed to harmed investors, and 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 Employee Suggestion Program.

Sequestration Order for FY 2019

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 2019, 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 6.2 percent, or $4.7 million.

Investor Protection Fund

The budget authority of $185.3 million was reduced by 6.2 percent, or $10.1 million.

Overview of Financial Position

Assets. At September 30, 2019, the SEC's total assets were $10.1 billion, a decrease of $341 million, or 3 percent, from FY 2018.

Investments decreased by $423 million between FY 2019 and FY 2018 year end. The decrease is primarily due to reductions in disgorgement and penalties investments as a result of disbursements to fund administrators for planned distributions. These disbursements were partially offset by new collections that were invested during FY 2019, and a larger investment balance in the Investor Protection Fund due to replenishment.

Accounts Receivable increased by $97 million between FY 2019 and FY 2018 year end. The variance is primarily the result of a $56 million increase in Section 31 receivables, largely due to a higher fee rate in effect for September of FY 2019 compared to the same period of the previous year. The increase is also attributable to disgorgement and penalties receivables established during FY 2019.

Chart 1.3 | FY 2019 Assets by Type

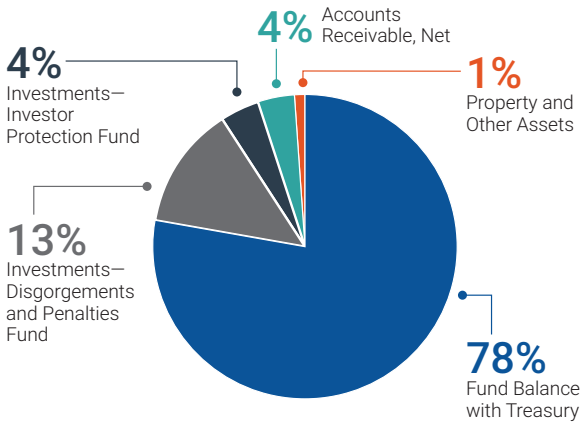


Table 1.2 | Assets as of September 30, 2019 and 2018

(DOLLARS IN MILLIONS)	2019	2018
Fund Balance with Treasury	$ 7,835	$ 7,822
Investments—Disgorgement and Penalty Fund	1,306	1,811
Investments—Investor Protection Fund	392	310
Accounts Receivable, Net	417	320
Property and Equipment, Net	96	121
Other Assets	5	8
Total Assets	**$ 10,051**	**$ 10,392**

Liabilities. At September 30, 2019, the SEC's total liabilities were $2.2 billion, a decrease of $526 million, or 19 percent, from FY 2018.

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 decrease of $531 million in the liability for disgorgement and penalties is mostly attributable to disbursements to fund administrators for planned distribution to harmed investors that occurred between October 1, 2018, and September 30, 2019.

Custodial Liability increased by $86 million due to a significant increase in new custodial disgorgement and penalties orders in FY 2019.

Accounts Payable decreased by $82 million primarily due to a reduction in whistleblower awards payable as of September 30, 2019, compared to the prior year.

Contingent Liabilities decreased by $13 million as of September 30, 2019. The majority of the FY 2018 awards that were included in the contingent liability as of September 30, 2018, were paid or moved to accounts payable during FY 2019.

Ending Net Position. The SEC's net position, comprised of both unexpended appropriations and the cumulative results of operations, increased by $185 million between September 30, 2019 and 2018.

Chart 1.4 | FY 2019 Liabilities by Type

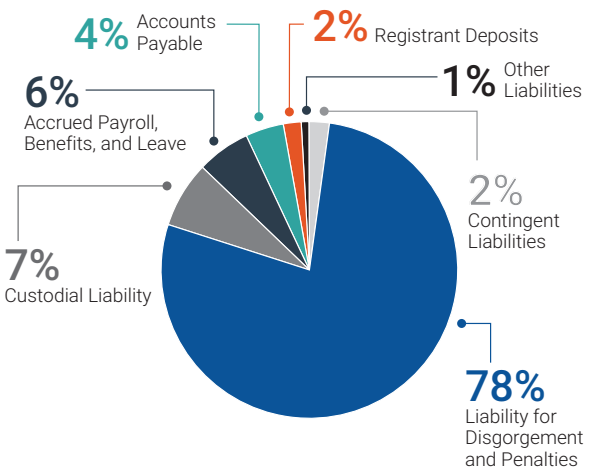


Table 1.3 | Liabilities as of September 30, 2019 and 2018

(DOLLARS IN MILLIONS)	2019	2018
Liability for Disgorgement and Penalties	$ 1,728	$ 2,259
Custodial Liability	151	65
Accrued Payroll, Benefits, and Leave	137	121
Accounts Payable	88	170
Registrant Deposits	42	40
Contingent Liability	51	64
Other Liabilities	15	19
Total Liabilities	**$ 2,212**	**$ 2,738**

Results of Operations

Earned Revenues. Total earned revenues for the year ended September 30, 2019, decreased by $194 million, or 8 percent, from FY 2018.

Filing Fee Revenue decreased by 3 percent through September 30, 2019, when compared to the prior year due to the filing fee rate decreasing from $124.50 per million transacted in FY 2018 to $121.20 per million transacted in FY 2019.

Section 31 fee revenue decreased primarily due to lower fee rates in effect during FY 2019 ($13.00 and $20.70 per million transacted) compared to FY 2018 ($23.10 and $13.00 per million transacted). The Section 31 fee rate was adjusted to $20.70 per million transacted, effective April 16, 2019.

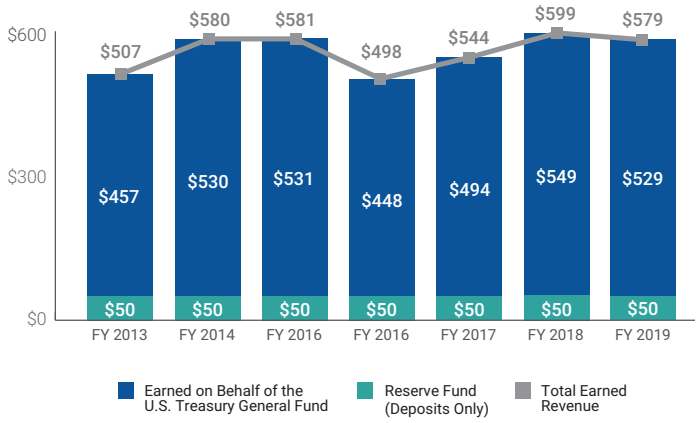
Reserve Fund. Section 991(e) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) authorized the creation of a Reserve Fund. Funded from filing fee collections, the SEC can deposit up to $50 million per fiscal year, and the fund cannot hold more than $100 million in total. Excess filing fees are deposited to the U.S. Treasury General Fund.

For the year ended September 30, 2019, filing fee revenues totaled $579 million. Fifty million dollars was deposited into the Reserve Fund, of which $5 million was sequestered. The excess of $529 million was earned on behalf of the U.S. Treasury General Fund.

Table 1.4 | Earned Revenues
For the years ended September 30, 2019 and 2018

(DOLLARS IN MILLIONS)	2019	2018
Section 31 Securities Transaction Fees	$ 1,530	$ 1,704
Securities Registration, Tender Offer, and Merger Fees (Filing Fees)	579	599
Total Earned Revenues	**$ 2,109**	**$ 2,303**

Chart 1.5 | Filing Fee 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 do not create budget authority and cannot be used to fund the SEC's operations.

After FY 2019 deposits of $50 million, prior year sequestration returned totaling $5 million, and new FY 2019 sequestration totaling $5 million, Reserve Fund resources totaling $63 million were obligated for the year ended September 30, 2019, for both capitalized and non-capitalized IT-related hardware, software, and contracting, leaving a remaining unobligated balance of $3 million of available resources.

Program Costs. Total Program Costs were $1.8 billion for the year ended September 30, 2019, an increase of $43 million, or 2 percent, compared to FY 2018.

Chart 1.6 | FY 2019 Filing Fee Revenue
(DOLLARS IN MILLIONS)

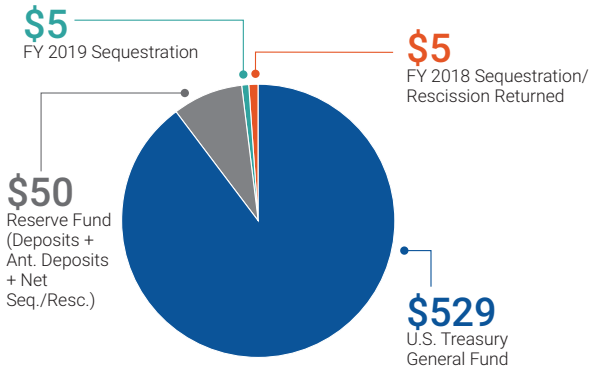
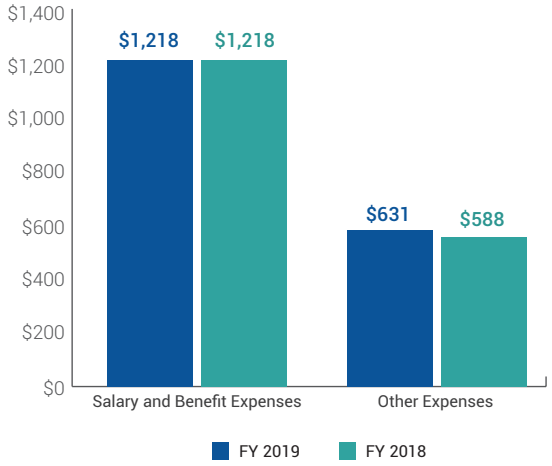


Chart 1.7 | Program Costs
(DOLLARS IN MILLIONS)



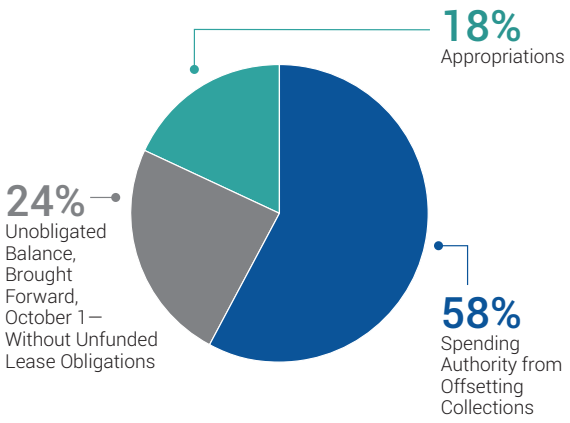
Budgetary Resources

For the year ended September 30, 2019, the SEC's total budgetary resources equaled $2.5 billion, a 4 percent increase from FY 2018.

Unobligated Balance from Prior Year Budget Authority. The Unobligated Balance for the Salaries and Expenses Fund increased due to the $245 million that was appropriated in FY 2018 for the potential build out of a new SEC headquarters. Unfunded lease obligations decreased from $68 million at the beginning of FY 2019, to a balance of $28 million for the year ended September 30, 2019.

Appropriations. The SEC's Appropriations balance as of September 30, 2019, increased by $60 million when compared to the prior year primarily due to a higher shortfall of FY 2019 Section 31 transaction fees collected to offset the SEC's appropriation authority for Salaries and Expenses. As an offset to this shortfall, the SEC experienced reduced Reserve Fund resources in FY 2019 when compared to FY 2018 as a result of the FY 2017 temporary rescission becoming available during FY 2018.

Chart 1.8 | FY 2019 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, 2019 and 2018

(DOLLARS IN MILLIONS)	2019	2018
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)		
Salaries and Expenses Fund—Without Unfunded Lease Obligations	$ 284	$ 51
Salaries and Expenses Fund—Effect of Change in Legal Interpretation for Lease Obligations	(68)	(139)
Reserve Fund	16	2
Investor Protection Fund	299	297
Total Unobligated Balance, Brought Forward, October 1	531	211
Appropriations (Discretionary and Mandatory)		
Salaries and Expenses Fund	239	145
Reserve Fund	50	75
Investor Protection Fund	165	174
Spending Authority from Offsetting Collections	1,473	1,753
Total Budgetary Resources	**$ 2,458**	**$ 2,358**

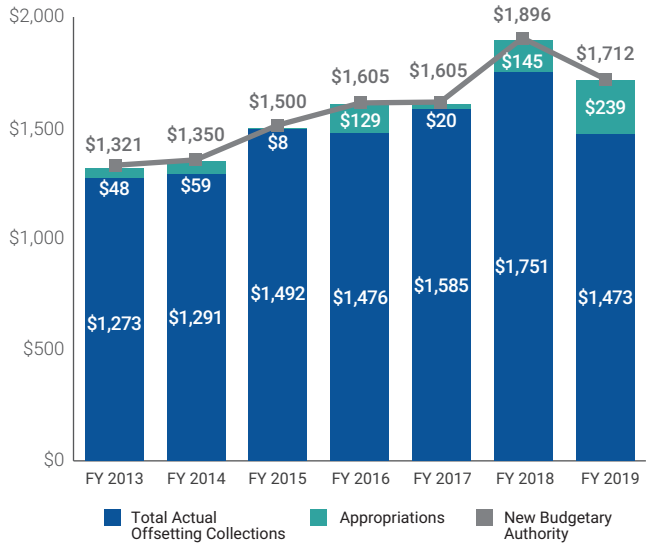
Spending Authority from Offsetting Collections and Appropriations

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 received new budget authority of $1,712 million for FY 2019.

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. The SEC collected $1,473 million in Section 31 transaction fees for the year ended September 30, 2019. In FY 2018, the SEC's appropriation was $1,896 million, which was offset by $1,751 million in collections.

Chart 1.9 | Offsetting Collections vs. New Budgetary Authority Section 31 Exchange and Transaction Fees

(DOLLARS IN MILLIONS)



Investor Protection Fund

The SEC prepares standalone 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 Office of Inspector General Employee Suggestion Program.

For the year ended September 30, 2019, the balance of the Investor Protection Fund increased by $104 million when compared to the prior fiscal year.

During FY 2019, the SEC deposited available Disgorgement and Penalty collections and interest totaling $163 million; $156 million due to Investor Protection Fund replenishments after falling below the $300 million statutory threshold; and $7 million due to investment interest in Treasury securities. The SEC paid $142 million to whistleblowers, including $61 million awarded in FY 2019.

Limitations of the Financial Statements

The principal financial statements are prepared to report the financial position and results of operations of the reporting entity, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from the books and records of Federal entities in accordance with Federal GAAP and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

Table 1.6 | Investor Protection Fund Activity
For the years ended September 30, 2019 and 2018

(DOLLARS IN MILLIONS)	2019	2018
Balance of Fund at Beginning of Fiscal Year, October 1	$ 299	$ 297
Amount Deposited Into or Credited to the Fund During the Fiscal Year	163	185
Amount Obligated and Unpaid During the Fiscal Year	81	(77)
Amount Paid From the Fund During the Fiscal Year to Whistleblowers	(142)	(94)
Net Sequestration and Recoveries	2	(12)
Balance of the Fund at the End of the Reporting Period	**$ 403**	**$ 299**

PERFORMANCE HIGHLIGHTS

The SEC's performance data provides a foundation for both programmatic and organizational decision making, and is critical for gauging the agency's success in meeting its strategic goals. The SEC is committed to using performance management best practices to promote greater accountability. This section provides information on key performance measures for FY 2019. It outlines the SEC's strategic and performance planning framework and highlights the agency's progress toward reaching its key performance targets.

The SEC's FY 2019 Annual Performance Report (APR) will be issued with the agency's FY 2021 Congressional Budget Justification Report, and will provide a complete discussion 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 below summary 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 2020 at SEC.gov/about/secreports.shtml.

Strategic and Performance Planning Framework

The SEC's FY 2019 strategic and performance planning framework is based on the FY 2018–FY 2022 Strategic Plan, which is available at SEC.gov/strategic-plan. The Strategic Plan outlines the agency's mission, vision, values, strategic goals, and strategic initiatives. The SEC's work is structured around 3 strategic goals that also serve as its strategic objectives, as well as 14 strategic initiatives the agency plans to achieve in support of those goals and objectives.

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 are free of systematic error or bias, and that what is intended to be measured is actually measured. Together, these processes are used to evaluate whether the information has been generated according to specifications, satisfies acceptance criteria, and is appropriate and consistent with its intended use.

Below is a list of steps taken to ensure the performance data presented in this report is complete, reliable, and accurate.

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 performance data is 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 Goal 1: Focus on the long-term interests of our Main Street investors

Chart 1.10

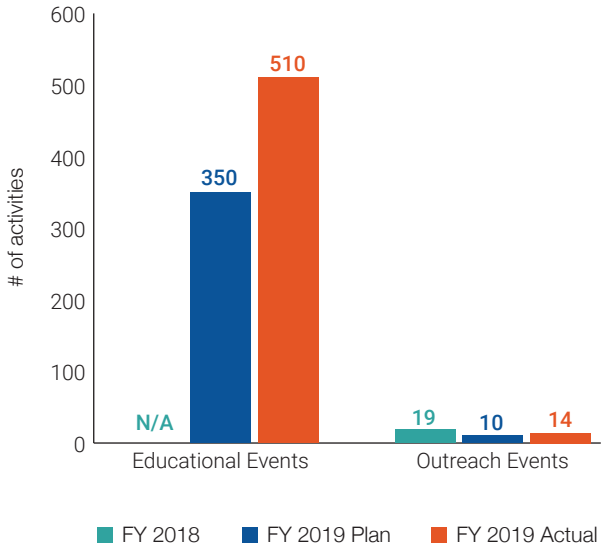
Number of outreach events, roundtables, educational, and information sessions for different types of investors/market participants

Description: This metric indicates the number of two types of activities: (1) educational events that are designed primarily to provide individual investors and the general public with information about investing and the securities markets; and (2) outreach events that are designed primarily to engage with investors (including small business investors) and receive feedback about policy questions. Outreach events could include public events, meetings with groups of investors, or a coordinated series of one-on-one meetings (not routine meetings with advocacy groups).

Target: Educational Events—Exceeded; Outreach Events—Exceeded

Responsible Division/Office: Office of Investor Education and Advocacy; Office of the Investor Advocate

Data Source: Internal Tracking Logs



Note: Data for FY 2014 – FY 2017 is not available.

Main Street investors are the bedrock of our public capital markets. Their willingness to commit capital over the long term provides businesses with the opportunity to flourish and create jobs. Main Street investors also supply the capital markets with the funds that fuel the U.S. economy. In turn, our markets have provided retail investors with investment opportunities that help them secure their financial futures and provide for their families. In FY 2019, the SEC staff interacted directly with investors from across the country. Specifically, the SEC staff conducted 510 in-person investor education events and 14 outreach events focused on different segments of the population, including senior citizens, both current and former military personnel, teachers, younger investors, and other affinity groups. Many of the events occurred during World Investor Week, a global initiative promoted by the International Organization of Securities Commissions to raise awareness about the importance of investor education and protection.

At the SEC, we are motivated by the fact that tens of millions of Americans are invested in our capital markets and have to make personal investment decisions such as which stocks, bonds, mutual funds, exchange-traded funds (ETF), and other securities to purchase or sell, or whether to hire a broker-dealer or investment adviser. Many Americans also participate in our markets through pension funds and related investment vehicles.

Chart 1.11

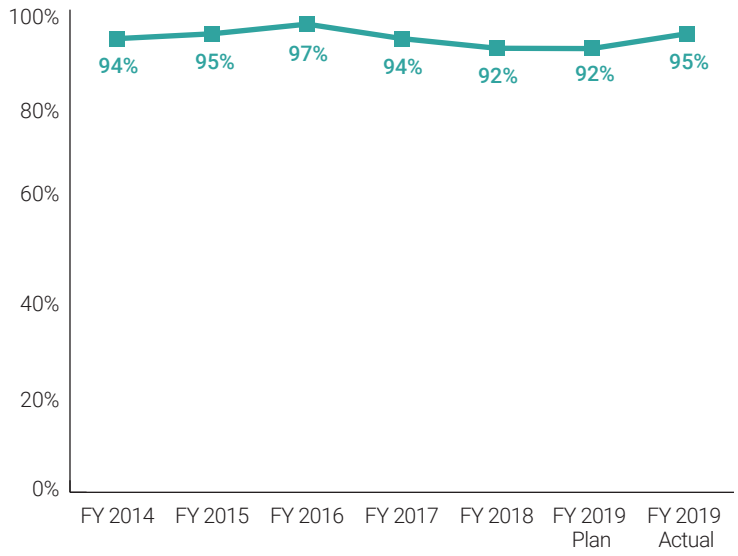
Percentage of enforcement actions in which the Commission obtained relief on one or more claims

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.

Target: Exceeded

Responsible Division/Office: Division of Enforcement

Data Source: Case Tracking System for the Division of Enforcement



The SEC's Enforcement Program plays an essential role in carrying out the SEC's strategic goal to focus on the long-term interests of Main Street investors by focusing on identifying and addressing misconduct that impacts retail investors.

The remedies sought by the Division of Enforcement (ENF) in both litigated and settled actions are intended to ensure that the agency obtains appropriate relief commensurate with the nature and extent of the misconduct and all relevant facts and circumstances at issue. The SEC's litigation efforts also deter misconduct by demonstrating the agency's commitment to pursuing valid claims to trial, where necessary. The SEC endeavors to resolve actions quickly and on a favorable basis where practicable, while at the same time filing contested matters where appropriate settlement terms cannot be reached before filing. The agency seeks to direct its limited resources toward cases that are likely to have the greatest impact in furthering the SEC's mission and strategic goals.

In FY 2019, ENF exceeded its performance goal by obtaining such a judgment or order 95 percent of the time. These judgments and orders were issued in hundreds of different actions, including those directly impacting retail investors, such as offering fraud, Ponzi schemes, affinity frauds, microcap fraud, and the Share Class Selection Disclosure Initiative. The Share Class Selection Disclosure Initiative alone will result in the return of over $135 million to retail investors. The resulting savings to retail investors from moving to lower cost share classes will continue for years to come. Over the past five fiscal years—2013 through 2018—ENF, on average, obtained a judgment or order finding liability on one or more claims and/or imposing relief 94 percent of the time. We are pleased that our FY 2019 results are consistent with this figure.

Strategic Goal 2: Recognize significant developments and trends in our evolving capital markets and adjust our efforts to ensure we are effectively allocating our resources

Table 1.7

Respond to 95 percent of written requests for guidance within 90 days, in accordance with timeframes established by SEC policy

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 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 (TM), Investment Management (IM), and Corporation Finance (CF).

Fiscal Year	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019 Plan	FY 2019 Actual
Division of Trading and Markets (TM)	Prior Year Data Not Available					95%	98%
Division of Investment Management (IM)	Prior Year Data Not Available					95%	100%
Division of Corporation Finance (CF)	Prior Year Data Not Available					95%	99%

Target: TM—Exceeded; IM—Exceeded; CF—Exceeded

Responsible Division/Office: Division of Trading and Markets; Division of Investment Management; Division of Corporation Finance

Data Source: CCO Project Tracker (IM) and Internal Databases (CF, TM)

Our capital markets are evolving rapidly, mainly as a result of technology and broad, global macro-economic factors. As technological advancements and commercial developments continue to change how our securities markets operate and spur the development of new products, the SEC's ability to remain an effective regulator requires that we foster an environment in which innovation, modernization, and productivity can advance while investors are also provided with necessary information and protections against fraud and abuse. An important way in which the SEC achieves this goal is by responding to written requests for exemptive relief and other staff guidance and assistance. The Divisions of Trading and Markets, Investment Management, and Corporation Finance all exceeded their timeliness targets of responding to 95 percent of written requests for guidance within 90 days.

Specifically, exemptive relief is a significant and valuable tool in the evolution of the investment management industry. It has paved the way to support capital formation through innovative investment products, services, structures, and techniques while maintaining important investor protections. For example, the Division of Investment Management responded to requests for exemptive relief in areas such as actively-managed ETFs and requests for guidance concerning fund board oversight.

The SEC continues to exceed its target of issuing initial comments on exemptive applications and guidance letters within 90 days because providing initial comments within the targeted timeframe is a continuing priority.

Strategic Goal 3: Elevate the SEC's performance by enhancing our analytical capabilities and human capital development

Chart 1.12

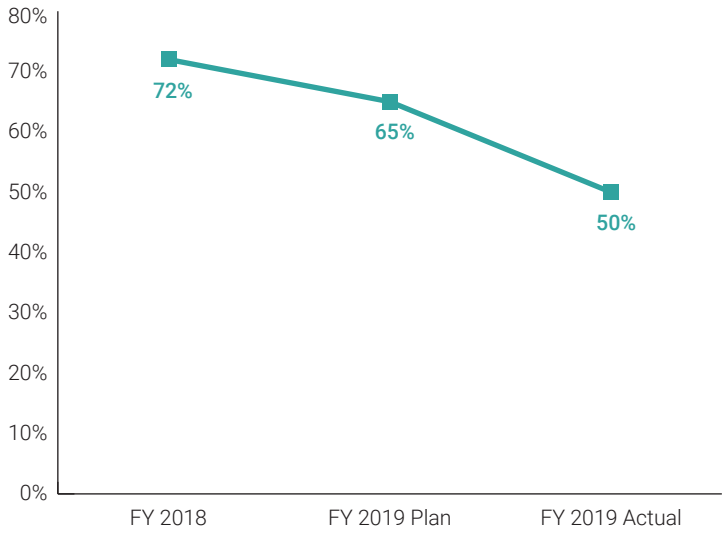
Percentage of GAO and OIG recommendations closed out within 12 months

Description: Timely completion of audit recommendations is an important SEC priority. This metric measures how well the Commission is doing completing corrective action on GAO and OIG audit recommendations within 12 months.

Target: Not met

Responsible Division/Office: Office of the Chief Operating Officer

Data Source: Audit Management System (Archer)



Note: Data for FY 2014 – FY 2017 is not available.

On January 3, 2019, Congress passed a new law called the Good Accounting Obligation in Government Act (GAO-IG Act) for the purpose of enhancing transparency into open and unimplemented recommendations issued by the Government Accountability Office (GAO) and federal Offices of Inspectors General. The GAO-IG Act requires federal agencies to include, in their annual budget justifications, a report that identifies each public recommendation issued by GAO and the Office of Inspector General (OIG) which has remained unimplemented for one year or more from the annual budget justification submission date. This new requirement will provide greater transparency for Congress and the public over the SEC's older outstanding audit recommendations and the agency's progress in implementing them.

In FY 2019, the SEC hired its first ever Chief Risk Officer to help lead our team dedicated to ensuring the timely completion of agency corrective actions. In FY 2019, the SEC closed 50 percent of open GAO and OIG audit recommendations within one year of issuance, which was below its target of 65 percent. However, the SEC also closed an additional eight open GAO and OIG audit recommendations right after the 12-month milestone, which would have resulted in a 62 percent completion rate. In FY 2020, the SEC will focus on improving how the agency proactively addresses its open audit recommendations in a timely manner and further enhancing its audit follow-up program, including hiring key program personnel, enhancing policy and procedures, and taking additional measures to improve response times and communication regarding agency corrective actions.

MANAGEMENT ASSURANCES AND COMPLIANCE WITH LAWS

In FY 2019, 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 laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to permit the preparation of reliable reports and 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*, and the newly revised Appendix A, *Management of Reporting and Data Integrity Risk*.

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 financial controls, and attestation by the Chairman 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 Senate Committee on Banking, Housing, and Urban Affairs, and the House of Representatives Committee on Financial Services. 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

SEC management is responsible for establishing and maintaining an effective system of internal control that meets 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 its system of internal control. Based on the results of this assessment, the SEC can provide reasonable assurance that its system of internal control over operations, reporting, and compliance was operating effectively as of September 30, 2019.

SEC management is also responsible for establishing and maintaining an adequate internal control structure and procedures for financial reporting. Based on the results of its annual assessment of internal controls, the SEC can provide reasonable assurance that internal controls and procedures over financial reporting were operating effectively during the year ended September 30, 2019.

The SEC also conducted reviews of its financial management systems in accordance with OMB Circular A-123 Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996* (FFMIA). Based on the results of these reviews, the SEC can provide reasonable assurance that its financial management systems substantially comply with the requirements of the FFMIA as of September 30, 2019.

JAY CLAYTON
Chairman
November 12, 2019

CARYN E. KAUFFMAN
Chief Financial Officer
November 12, 2019

Management's Assessment of Internal Control

The Chairman and CFO's FY 2019 annual assurance statement for FMFIA provides reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2019. The associated objectives are: effective and efficient operations; compliance with applicable laws and regulations; and reliability of reporting.

The basis for management's assessment of, and assurance about, the SEC's system of internal control is composed of many facets. A central facet is the reports from each division director and office head. These statements were based on each person's knowledge of daily operations, 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. Management considered the contents of these statements along with other sources of information that included, but were not limited to, the following:

- An entity-level internal control evaluation;
- Internal management reviews, self-assessments, and tests of internal controls;
- Management's personal knowledge gained from daily operations;
- Reports from GAO and the OIG;
- Reviews of financial management systems under OMB Circular A-123 Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996* (FFMIA);
- Reports pursuant to the Federal Information Security Modernization Act (FISMA) and OMB Circular A-130, *Management of Federal Information Resources*;
- Reviews on improper payments;
- Reviews that support compliance with the Digital Accountability and Transparency Act of 2014 (DATA Act);
- Reports and other information from Congress or agencies such as OMB, the Office of Personnel Management, and/or the General Services Administration reflecting the adequacy of internal controls; and
- Additional reviews relating to a division or office's operations.

With respect to internal controls over reporting of financial information, the SEC performed a comprehensive risk assessment. The agency documented its key controls to address risks, and 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 whether a material weakness existed in the financial reporting processes.

Taking into account the statements from directors and office heads, the supplemental sources of information as described above, and the results of the assessment of internal controls over operations, reporting, and compliance, the agency's Financial Management Oversight Committee advises the Chairman as to whether the SEC had any internal control deficiencies and, if so, their related significance.

Material Weakness Related to Cybersecurity Risks

In August 2017, the SEC learned that a cybersecurity incident previously detected in 2016 may have provided the basis for illicit gain through trading. Specifically, a software vulnerability in the test filing component of the agency's Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system was exploited and resulted in access to nonpublic information. The 2016 intrusion resulted in part from a deficiency in the SEC's ability to timely detect and mitigate vulnerabilities within the EDGAR system's source code. Specifically, the security reviews of EDGAR source code were not consistently implemented. In addition, the agency's incident response protocols did not sufficiently ensure that agency leadership was appropriately apprised of information necessary for addressing cybersecurity risks. Taken together, management determined that these two deficiencies represented a material weakness in the agency's internal control system over operations as of September 30, 2017.

During FY 2018, the agency completed a series of substantive steps designed to better detect and prevent code vulnerabilities and improve communication around potential cybersecurity risks, including implementing new vulnerability assessment tools, proactive code reviews, and an agency-wide incident management plan. While multiple corrective actions were implemented during FY 2018, the SEC continued to report for that year a material weakness in internal control in operations associated with information security, until a more comprehensive assessment of the effectiveness of controls in this area could be performed.

During FY 2019, the SEC completed this independent third-party assessment of its IT entity and system-level controls. The assessment leveraged the GAO Green Book, applying the Federal Information System Controls Audit Manual (FISCAM) to test controls pursuant to the National Institute of Standards and Technology (NIST) Special Publication 800-53. The results of the independent assessment demonstrated that, for purposes of OMB Circular A-123, the SEC has an effective system of internal controls with respect to information security. As described below, however, agency management does not view the determination for purposes of OMB Circular A-123 as an indication that the agency's systems are substantively immune from cyberattacks, or that significant work does not need to be done with respect to cybersecurity.

The SEC has also taken other substantive steps designed to improve the agency's detection and response capabilities and additional work is planned for FY 2020 and beyond. For example, in FY 2019:

- The SEC continued to partner with multiple third parties to conduct penetration testing and other security assessment activities to identify system vulnerabilities and test incident response mechanisms.
- The SEC increased its emphasis on high value asset (HVA) risk management. In accordance with OMB memorandum 19-03, the SEC established an intra-agency HVA governance structure led by the Chief Operating Officer to enable the incorporation of HVA activities into broader agency planning activities for information system security and privacy management. In accordance with Binding Operational Directives 18-02, the Department of Homeland Security (DHS) conducted security testing for the SEC's HVAs, and third party cybersecurity experts conducted multiple penetration tests and system assessments.
- The SEC made further progress in implementing the NIST Cybersecurity Framework (CSF), pursuant to the President's Executive Order 13800, by completing risk profiles for all HVAs and continues to integrate the CSF into cybersecurity risk management practices.
- The SEC made progress toward implementing DHS Continuous Diagnostics and Mitigation (CDM) capabilities by establishing agency-level dashboard components that will collect data from security management tools and interface with the federal-level CDM dashboard.

Collectively, these assessments and enhancements have resulted in management's conclusion to consider the agency's material weakness in operations remediated for the purposes of OMB Circular A-123. Importantly, while progress has been made, this determination is only for the purposes of OMB Circular A-123 and should not be viewed as a determination that the agency's systems are immune from cyberattacks or that we can be certain that an incident like the one that occurred in 2016 could not happen again. SEC management remains mindful of the fact that—like many other governmental agencies, financial market participants, and private sector entities—the agency is the subject of frequent attempts by unauthorized actors to disrupt public-facing systems, access data, or otherwise damage technology infrastructure. Accordingly, we recognize that we must continue to work to improve our cybersecurity risk profile, particularly in today's environment.

Other Reviews

The Improper Payments Elimination and Recovery Improvement Act

The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA), the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), and the Federal Improper Payments Coordination Act 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. Therefore, per OMB guidelines, the SEC is required to conduct risk assessments every three years, or sooner if a program has a significant change in legislation and/or a significant increase in its funding. The agency's last assessment was conducted in FY 2016 prompting a risk assessment be performed in FY 2019. The results of this assessment continue to support the determination that all of the SEC evaluated programs are low risk. The SEC anticipates that its next risk assessment will be performed in FY 2022.

For additional information regarding the SEC's compliance with improper payments, please refer to *Payment Integrity Reporting Details* in the Other Information Section of this report.

Digital Accountability and Transparency Act of 2014/Data Quality Plan

The DATA Act (Pub. L. 113-101) was enacted to establish government-wide financial data standards to increase the availability, accuracy, and usefulness of federal spending information. The DATA Act requires that federal agencies report financial spending data in accordance with data standards established by the U.S. Department of the Treasury (Treasury) and OMB. The DATA Act requires federal agencies to disclose direct federal agency expenditures and link federal contract spending information to programs of federal agencies to enable taxpayers to track federal spending more effectively using USASpending.gov.

In accordance with the DATA Act, the SEC formalized financial system and manual controls over the completeness and accuracy of federal spending data reported both internally and externally. The SEC began its successful quarterly reporting transmission to Treasury in the second quarter of FY 2017.

OMB memorandum 18-16, Appendix A to OMB Circular A-123, *Management of Reporting and Data Integrity Risk*, was published on June 6, 2018. This memorandum called for the creation of a Data Quality Plan (DQP). The SEC completed a DQP that contains the processes in place to address the completeness and accuracy of award and financial data reported to the Treasury. It utilizes the principles of OMB Circular A-123 Appendix A to highlight the discipline and internal controls of the related information systems that contain spending information.

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 the FFMIA, the agency assesses its financial management systems annually for conformance with the requirements of OMB Circular A-123 Appendix D and other federal financial system requirements.

Summary of Current Financial System and Future Strategies

The FY 2019 assessment of current financial systems 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 the FFMIA.

In FY 2019, the SEC continued to work with its FSSP, the Department of Transportation's Enterprise Services Center, to enhance its existing systems. The SEC is also continuing to improve efficiencies to create a new Disgorgements and Penalties System. This project is scheduled for implementation in FY 2020. The SEC believes that continuing to invest in technology-based solutions will help to put its controls on a more sustainable path.

Federal Information Security Modernization 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 Inspector General, Chief Information Security Officer, and Senior Agency Official for Privacy perform a joint review of the Commission's compliance with FISMA requirements each year. The Commission submitted its FY 2019 report to OMB on October 31, 2019.

Oversight and Compliance

During FY 2019, the SEC's Office of Information Technology (OIT), in partnership with business owners, completed assessment and authorization activities for 38 FISMA reportable systems. OIT performed 309 privacy reviews for information collections in accordance with the Privacy Act of 1974, the Paperwork Reduction Act, and the E-Government Act of 2002. These privacy reviews resulted in OIT conducting and publishing nine privacy impact assessments for systems that collect, maintain, or disseminate personally identifiable information (PII). A privacy breach response exercise, involving senior leadership, was also conducted in September. OIT facilitated the remediation of over 550 self-identified deficiencies that consist of Plans of Actions and Milestones (POA&M) associated with the SEC's assessments of its network infrastructure and major applications. GAO performed the SEC's annual financial statement audit, which included an audit of the technology environment supporting financial statement preparation.

The SEC OIG performed an independent evaluation of the SEC's information security program, as required by the E-Government Act of 2002. During FY 2019, the OIG closed 29 audit recommendations and is in the process of reviewing closure requests for three additional recommendations. GAO closed three prior-year audit recommendations.

Training and Communications

OIT developed and delivered Privacy and Information Security Awareness training to all SEC personnel and achieved 100 percent compliance, to include requiring acknowledgement of the agency's acceptable use policy. Network restrictions were placed on personnel who failed to complete the required training on time. Throughout the year, OIT promoted information security and privacy awareness through the agency's internal newsletter and by presenting tips for protecting PII on the SEC Intranet site and lobby displays. The PII tips focused on practical methods for protecting PII at home and in the office. OIT developed and presented in-person Privacy and Information security training at three regional offices designed to remind employees about their roles and responsibilities in safeguarding sensitive data, protecting SEC resources, and reporting privacy breaches.

Governance and Technology

OIT continues to update governance procedures and processes consistent with OMB policy and NIST guidance. In support of these efforts, OIT utilizes an integrated information security compliance management system, recommended by DHS, to serve as a centralized repository for managing the Commission's FISMA compliance obligations, information system inventory, POA&Ms, and incident tracking. OIT also continues to improve its operational security capabilities by implementing an Information Security Continuous Monitoring (CM) Program and by making investments in proactive security capabilities, including automated threat detection mechanisms and vulnerability assessment tools. The SEC is well positioned to continue the transition to CM and is an active participant in interagency cybersecurity initiatives, many of which are led by DHS. The SEC continues to explore secure cloud computing technologies and solutions that meet federal information protection requirements. The SEC leverages eight cloud service providers that have been through the Federal Risk and Authorization Management Program, and is exploring opportunities to leverage additional cloud service providers in accordance with emerging agency objectives.

2019 FinTech Forum, sponsored by the SEC's Strategic Hub for Innovation and Financial Technology (FinHub), focused on distributed ledger technology and digital assets.

FINANCIAL SECTION

This section contains the SEC's financial statements and additional information for FYs 2019 and 2018. Information presented here satisfies the financial reporting requirements of the Accountability of Tax Dollars Act of 2002 and the 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 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 U.S. Treasury General Fund. The SEC accounts for sources and disposition of the collections as custodial activities on this statement. Custodial collections of non-exchange revenue, such as amounts collected from violators of securities laws as a result of enforcement proceedings, are reported only on the Statement of Custodial Activity.

Accompanying Notes to the Financial Statements

Provides a description of significant accounting policies and detailed information on select statement line items.

Required Supplementary Information (Unaudited)[2]

Reports the Combining Statements of Budgetary Resources by fund account.

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.

1 Budgetary information aggregated for purposes of the Statement of Budgetary Resources is disaggregated for each of the SEC's major budget accounts and is presented as Required Supplementary Information.
2 The SEC does not have stewardship over resources or responsibilities for which supplementary stewardship reporting would be required.

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to join Chairman Clayton in presenting the SEC's AFR for FY 2019. Our goal is to present the agency's use of resources, operational effectiveness, financial stewardship, and internal controls in a manner that demonstrates the value the SEC provides to the American public. The financial statements and financial analysis, coupled with the agency's Performance Highlights, demonstrate how the SEC optimizes the use of its financial resources to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.

Our independent auditor, the U.S. Government Accountability Office issued an unmodified opinion on the SEC's financial statements and internal controls over financial reporting in which no significant issues were identified. This achievement reflects the agency's sustained drive to promote strong internal controls and effective financial management.

In recent years, we invested heavily in improving the security over our systems and data. The SEC also focused on replacing legacy applications with new solutions that are more modern, efficient, and secure. This is true for SEC financial systems as well. The Office of Financial Management (OFM) partnered with other offices to ensure that the systems developed provide value in addressing mission-related requirements as well as financial management needs.

Examples of these efforts include:

- Building a comprehensive Disgorgement and Penalties System (DPS) to improve both financial and programmatic reporting of enforcement actions. DPS is expected to improve the quality of data used to track and manage the agency's billions of dollars of enforcement actions, and is a collaborative effort between OFM and our Division of Enforcement.
- Continuing to modernize the EDGAR Financial Management System, which supports the SEC's management of registration fees. These enhancements both improve the security of our data and enable more efficient processing of fees on behalf of the registrant.
- Collaborating with the Enterprise Services Center, our shared services provider, and the Office of Acquisitions on electronic invoicing enhancements to further automate vendor invoice processing, which will reduce invoice processing costs and standardize business processes.

Data quality remains a top priority for the SEC. OFM completed the agency's first draft of a Data Quality Plan, which focuses on the key controls and processes in place to ensure the accuracy of data reported to the public about SEC spending via USAspending.gov. Another area of focus within the plan relates to accuracy of reporting in the area of property management. Our strong system of internal controls is the backbone of the accuracy and integrity of our data.

Our focus on a robust internal controls program extends beyond financial management and into the security of our data and our systems. In the two prior years, the SEC self-identified a material weakness in

the area of information security. As Chairman Clayton noted in his introductory message to the AFR, we have undertaken a robust effort to formalize our internal controls in the area of information security which will allow us to assess the effectiveness in this area on an ongoing basis. We therefore consider the previously reported material weakness to be remediated. There was a significant amount of effort that went into addressing this weakness throughout the agency.

I am proud to be part of a team that works hard to maintain strong cross-functional partnerships throughout the agency. Together, OFM and other SEC divisions and offices will collaborate to provide exceptional financial management information, services, and support. I would like to thank all of the employees at the SEC—and especially the personnel within OFM—for their continued dedication toward this objective.

Sincerely,

CARYN E. KAUFFMAN
Chief Financial Officer
November 13, 2019

REPORT OF INDEPENDENT AUDITORS

U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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

Independent Auditor's Report

To the Chairman of the United States Securities and Exchange Commission

In our audits of the fiscal years 2019 and 2018 financial statements of the United States Securities and Exchange Commission (SEC)[1] and its Investor Protection Fund (IPF),[2] we found

- the SEC and IPF financial statements as of and for the fiscal years ended September 30, 2019, and 2018, 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, 2019; and
- no reportable noncompliance for fiscal year 2019 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 the required supplementary information (RSI)[3] and other information included with the financial statements;[4] (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 SEC's internal control over financial reporting and evaluate, attest to, and report on SEC's assessment. 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 evaluated its internal control over financial reporting in accordance with the Office of Management and Budget's Circular A-123, *Management's Responsibility for Enterprise Risk Management and 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, which was established by section 922 of the Dodd-Frank Act, funds the activities of SEC's whistleblower award program under that section and the SEC Office of Inspector General Employee Suggestion Program established under section 966 of the Dodd-Frank Act. Pub. L. No. 111-203, §§ 922(a), 966, 124 Stat. 1376, 1844, 1912-13 (July 21, 2010), *classified at* 15 U.S.C. §§ 78d-4(e), 78u-6(b), (g). IPF is a separate SEC fund and its financial statements present SEC's financial activity associated with these programs. Accordingly, IPF's financial transactions are also included in SEC's overall financial statements.

[3]The 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 the 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, 2019, and 2018; 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, 2019, and 2018; 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, 2019, 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) its assessment about the effectiveness of internal control over financial reporting as of September 30, 2019, included in the Management Assurance section of the agency financial report.

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[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(a), 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 involves performing procedures to obtain evidence about whether a material weakness exists.[8] The procedures selected depend on the auditor's judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also includes obtaining an understanding of internal control over financial reporting and evaluating and testing the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered SEC'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.

Definition 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

[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.

applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error. We also caution that projecting any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinions 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, 2019, and 2018, 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, 2019, and 2018, 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, 2019, for SEC and for IPF, based on criteria established under FMFIA. Our opinions on SEC's internal control are consistent with SEC's assessment that its internal control over financial reporting, both for the agency as a whole and for IPF, was operating effectively as of September 30, 2019, and that no material weaknesses were found in the design or operation of the controls.

During our 2019 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 the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI

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

and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or 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 the 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 applicable 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 2019 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 stated that it is pleased that GAO found that SEC's financial statements and notes were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. The complete text of SEC's response is reprinted in enclosure I.

James R. Dalkin
Director
Financial Management and Assurance

November 13, 2019

ENCLOSURE I: MANAGEMENT'S RESPONSE TO AUDIT OPINION

OFFICE OF
THE CHAIRMAN

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

November 12, 2019

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

Dear Mr. Dalkin:

Thank you for the opportunity to review and comment on the draft audit report of the Government Accountability Office (GAO). I am pleased that the GAO's FY 2019 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. Also, GAO reported that the SEC had effective internal control over financial reporting, and that there was no reportable noncompliance with applicable laws and regulations.

As we have discussed with you, in the agency's own FY 2017 and FY 2018 management assessments of internal control, we identified a material weakness in internal control over operations related to cybersecurity risks. Over the last few years, we have taken a series of substantive steps designed to better detect and prevent vulnerabilities, as well as document and test controls relating to information technology. Collectively, these assessments and enhancements have resulted in management's conclusion to consider the agency's material weakness in operations remediated for purposes of OMB Circular A-123. To be clear, SEC management does not view this determination as an indication that a cyber intrusion could not happen again or that significant work does not need to be done with respect to cybersecurity. We remain mindful of the fact that—like many other governmental agencies, financial market participants, and private sector entities—the SEC is the subject of frequent attempts by unauthorized actors to disrupt public-facing systems, access data, or otherwise damage technology infrastructure. Accordingly, we recognize that we must continue to work to improve our cybersecurity risk profile, particularly in today's environment.

I very much appreciate the professional manner in which you and your team conducted the audit for FY 2019. If you have any questions, please feel free to contact me.

Sincerely,

Jay Clayton
Chairman

SEC FINANCIAL STATEMENTS

U.S. SECURITIES AND EXCHANGE COMMISSION

Balance Sheets

As of September 30, 2019 and 2018

(DOLLARS IN THOUSANDS)	2019	2018
ASSETS (NOTE 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 7,835,155	$ 7,822,331
Investments, Net (Note 5)	1,697,754	2,121,254
Advances and Prepayments	4,286	5,814
Total Intragovernmental	9,537,195	9,949,399
Cash and Other Monetary Assets (Note 4)	841	2,223
Accounts Receivable, Net (Note 6)	416,607	319,787
Property and Equipment, Net (Note 7)	96,267	120,469
Total Assets	$ 10,050,910	$ 10,391,878
LIABILITIES (NOTE 8):		
Intragovernmental:		
Accounts Payable	$ 2,936	$ 2,751
Employee Benefits	8,107	7,300
Unfunded FECA and Unemployment Liability	857	834
Custodial Liability	151,036	65,486
Liability for Non-Entity Assets	2,181	2,554
Total Intragovernmental	165,117	78,925
Accounts Payable	85,098	166,938
Actuarial FECA Liability	4,718	4,511
Accrued Payroll and Benefits	39,400	35,859
Accrued Leave	89,510	77,870
Registrant Deposits	42,462	40,079
Liability for Disgorgement and Penalties (Note 16)	1,728,165	2,259,278
Contingent Liabilities (Note 10)	50,404	63,968
Other Accrued Liabilities (Note 8)	7,276	10,556
Total Liabilities	2,212,150	2,737,984
Commitments and Contingencies (Note 10)		
NET POSITION:		
Unexpended Appropriations – Funds from Dedicated Collections (Note 11)	182,595	145,406
Cumulative Results of Operations – Funds from Dedicated Collections (Note 11)	7,656,165	7,508,488
Total Net Position	$ 7,838,760	$ 7,653,894
Total Liabilities and Net Position	$ 10,050,910	$ 10,391,878

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

Statements of Net Cost

For the years ended September 30, 2019 and 2018

(DOLLARS IN THOUSANDS)	2019	2018
PROGRAM COSTS:		
Enforcement	$ 609,047	$ 578,452
Compliance Inspections and Examinations	415,204	411,696
Corporation Finance	162,472	164,548
Trading and Markets	94,858	95,366
Investment Management	68,985	66,339
Economic and Risk Analysis	71,258	76,336
General Counsel	54,602	53,192
Other Program Offices	84,245	85,269
Agency Direction and Administrative Support	269,875	256,655
Inspector General	18,308	17,788
Total Program Costs	1,848,854	1,805,641
Less: Earned Revenue Not Attributed to Programs	2,108,640	2,302,601
Net (Income) Cost from Operations (Note 15)	$ (259,786)	$ (496,960)

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

Statements of Changes in Net Position

For the years ended September 30, 2019 and 2018

(DOLLARS IN THOUSANDS)	2019		
	Funds from Dedicated Collections	All Other Funds	Consolidated Total
UNEXPENDED APPROPRIATIONS:			
Beginning Balances	$ 145,406	$ —	$ 145,406
Budgetary Financing Sources:			
Appropriations Received	238,868	—	238,868
Appropriations Used	(201,679)	—	(201,679)
Total Budgetary Financing Sources	37,189	—	37,189
Total Unexpended Appropriations	182,595	—	182,595
CUMULATIVE RESULTS OF OPERATIONS:			
Beginning Balances	7,508,488	—	7,508,488
Budgetary Financing Sources:			
Appropriations Used	201,679	—	201,679
Non-Exchange Revenue	163,952	—	163,952
Other	—	—	—
Other Financing Sources:			
Imputed Financing	51,950	—	51,950
Other (Note 12)	—	(529,690)	(529,690)
Total Financing Sources	417,581	(529,690)	(112,109)
Net Income (Cost) from Operations	(269,904)	529,690	259,786
Net Change	147,677	—	147,677
Cumulative Results of Operations (Note 11)	7,656,165	—	7,656,165
Net Position, End of Period	$ 7,838,760	$ —	$ 7,838,760

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

Statements of Changes in Net Position *(continued)*

For the years ended September 30, 2019 and 2018

(DOLLARS IN THOUSANDS)	2018		
	Funds from Dedicated Collections	All Other Funds	Consolidated Total
UNEXPENDED APPROPRIATIONS:			
Beginning Balances	$ —	$ —	$ —
Budgetary Financing Sources:			
Appropriations Received	145,406	—	145,406
Appropriations Used	—	—	—
Total Budgetary Financing Sources	145,406	—	145,406
Total Unexpended Appropriations	145,406	—	145,406
CUMULATIVE RESULTS OF OPERATIONS:			
Beginning Balances	7,328,904	—	7,328,904
Budgetary Financing Sources:			
Appropriations Used	—	—	—
Non-Exchange Revenue	183,735	—	183,735
Other	(112)	—	(112)
Other Financing Sources:			
Imputed Financing	47,162	—	47,162
Other (Note 12)	—	(548,161)	(548,161)
Total Financing Sources	230,785	(548,161)	(317,376)
Net Income (Cost) from Operations	(51,201)	548,161	496,960
Net Change	179,584	—	179,584
Cumulative Results of Operations (Note 11)	7,508,488	—	7,508,488
Net Position, End of Period	$ 7,653,894	$ —	$ 7,653,894

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

Statements of Budgetary Resources

For the years ended September 30, 2019 and 2018

(DOLLARS IN THOUSANDS)	2019	2018
BUDGETARY RESOURCES:		
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 14)	$ 530,646	$ 211,753
Appropriations (Discretionary and Mandatory)	454,394	394,079
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,473,440	1,752,538
Total Budgetary Resources	$ 2,458,480	$ 2,358,370
STATUS OF BUDGETARY RESOURCES:		
New Obligations and Upward Adjustments (Total)	$ 1,783,122	$ 1,855,004
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	637,482	383,575
Exempt from Apportionment, Unexpired Accounts	3,105	15,291
Unapportioned, Unexpired Accounts	34,771	104,500
Unobligated Balance, End of Year (Total)	675,358	503,366
Total Budgetary Resources	$ 2,458,480	$ 2,358,370
OUTLAYS, NET:		
Outlays, Net (Total) (Discretionary and Mandatory)	$ 378,467	$ 59,394
Distributed Offsetting Receipts	(8,707)	(7,653)
Agency Outlays, Net (Discretionary and Mandatory) (Note 15)	$ 369,760	$ 51,741

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

Statements of Custodial Activity

For the years ended September 30, 2019 and 2018

(DOLLARS IN THOUSANDS)	2019	2018
REVENUE ACTIVITY:		
Sources of Cash Collections:		
Disgorgement and Penalties	$ 1,079,619	$ 845,862
Other	2,748	2,620
Total Cash Collections	1,082,367	848,482
Accrual Adjustments (Note 13)	85,550	(108,409)
Total Custodial Revenue	1,167,917	740,073
DISPOSITION OF COLLECTIONS:		
Amounts Transferred to:		
Department of the Treasury	1,082,367	848,482
Amounts Yet to be Transferred	85,550	(108,409)
Total Disposition of Collections	1,167,917	740,073
NET CUSTODIAL ACTIVITY	$ —	$ —

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

NOTES TO THE FINANCIAL STATEMENTS

As of September 30, 2019 and 2018

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), accounting and auditing standards setters, state securities regulators, law enforcement officials, and many other organizations in support of the agency's mission.

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 the General Counsel, the Office of the Chief Accountant, the Office of Investor Education and Advocacy, the Office of International Affairs, the Office of Administrative Law Judges, the Office of the Investor Advocate, the Office of Credit Ratings, the Office of Municipal Securities, the Office of the Advocate for Small Business Capital Formation, the Office of Inspector General, 11 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.

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.

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

The SEC reporting entity also does not include the Public Company Accounting Oversight Board (PCAOB), a private-sector, nonprofit corporation created to oversee the audits of public companies, brokers, and dealers registered with the SEC. When the Sarbanes-Oxley Act of 2002 created the PCAOB, it gave the SEC the authority to oversee the PCAOB's operations, to appoint or remove Board members, to approve the PCAOB's budget and rules, and to entertain appeals of PCAOB inspection reports and disciplinary actions.

The PCAOB is not part of the federal government. It is funded by an accounting support fee collected from public companies, brokers, and dealers. The primary duties of the PCAOB include: registering public accounting firms that prepare audit reports for public companies, brokers, and dealers; establishing or adopting auditing and related attestation, quality control, ethics, and independence standards; and inspecting and disciplining registered accounting firms and their associated persons.

The SEC's financial statements also do not include the Financial Accounting Standards Board (FASB) or its parent organization, the Financial Accounting Foundation (FAF). The FAF is a Delaware nonprofit non-stock corporation, incorporated in 1972, which was created for the purpose of providing a corporate structure for the FASB, the body whose financial accounting and reporting standards for nongovernmental entities have been recognized as authoritative by the American Institute of CPAs and the SEC. The structure of the FAF and the FASB reflects the view that a standard-setter should be independent from preparers of financial statements and from accounting and auditing firms. This independence is necessary to assure that the interests of the users of financial statements remain paramount, and has been critical to the integrity of our financial and capital markets. Although pursuant to Section 109 of the Sarbanes-Oxley Act of 2002, the SEC is required to determine annually that the FASB accounting support fee is within the parameters prescribed by Congress, the SEC does not have authority, and is not required, to approve the FASB budget.

B. Basis of Presentation and Accounting

These footnotes are an integral part of the SEC's financial statements, which 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 and liabilities 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.

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*. In accordance with OMB Circular A-136, the Statement of Budgetary Resources is presented on a combined basis, and the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Custodial Activity are presented on a consolidated basis.

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 services are provided, 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. See *Note 15, Reconciliation of Net Cost of Operations to Net Outlays*, for more information. The Statement of Custodial Activity is presented on the modified cash basis of accounting. See *Note 13, Custodial Activity*.

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.

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

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, liabilities, revenues, and costs. These estimates are based on management's best knowledge of current events, historical experience, actions that the SEC may undertake in the future, and various other assumptions believed to be reasonable under the circumstances. The estimates include, but are not limited to, the allowance for uncollectible accounts and the allocation of costs to the SEC programs presented in the Statement of Net Cost. Estimates also include (a) the recognition and disclosure of any contingent liabilities and the disclosure of other potential future payments as of the date of the financial statements, and (b) the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

D. Intra- and Inter-Agency Relationships

The SEC is a single federal agency composed of various Treasury Appropriation Fund Symbols (Funds), and it has only limited intra-entity transactions. The Investor Protection Fund finances the operations of the Office of Inspector General 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 Funds.

E. Fund Accounting Structure

The SEC, in common with other federal agencies, utilizes various 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 used to offset the SEC's annual appropriation and are remitted to the U.S. Treasury General Fund at the end of the year. The Salaries and Expenses Fund is dedicated to carrying out the SEC's mission, functions, and day-to-day operations. 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 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 Office of Inspector General 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)*.

- 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 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. See *Note 2, Entity and Non-Entity Assets*.

G. Fund Balance with Treasury

Fund Balance with Treasury reflects amounts the SEC holds in the U.S. Treasury that have not been invested in federal securities. Additional information regarding the SEC's Fund Balance with Treasury is provided in *Note 3, Fund Balance with Treasury*.

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 SEC also has authority to invest amounts in the Investor Protection Fund 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 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. 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). 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.

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 General Fund.

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 General Fund.

Allowance for Uncollectible Accounts

The SEC uses a three-tiered methodology for calculating the allowance for loss on its disgorgement and penalties 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 accounts 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 accounts 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.

Additional information about the SEC's accounts receivable and allowance for doubtful accounts is provided in *Note 6, Accounts Receivable, Net*.

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 General Fund. 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 by transfer to the U.S. Treasury General 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. 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. 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.

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 provides a supplemental retirement contribution program that matches an employee's TSP contribution up to an additional 3 percent of their salary.

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.

N. Injury and Post-Employment Compensation

The Federal Employees' Compensation Act (FECA), administered by the U.S. Department of Labor, 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. See *Note 8, Liabilities Covered and Not Covered by Budgetary Resources*.

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. 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. Exchange and Non-Exchange Revenue

The SEC's revenues 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.

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.

The following table summarizes the SEC's sources of exchange and non-exchange revenues.

The SEC's Revenues and Financing Sources	Exchange and Non-Exchange Revenue	Revenue Availability	Financial Statement Presentation
Securities transaction fees[1]	Exchange Revenue	Collection of securities transaction fees are used to offset the SEC's annual appropriation, up to the annual limit set by legislation. Collections of transaction fees beyond the amount needed to offset the SEC's annual appropriation cannot be used to fund the SEC's operations.	Reported on the Statement of Net Cost[4]
Securities registration, tender offer, merger, and other fees from registrants (filing fees)[1,2]	Exchange Revenue	Collections of filing fees up to $50 million may be transferred to the SEC's Reserve Fund, as directed by legislation. Collections of filing fees that are not transferred to the SEC's Reserve Fund are transferred to the U.S. Treasury General Fund.	Reported on the Statement of Net Cost[4]
Collections of monetary sanctions and related interest[3]	Non-Exchange Revenue	Certain collections of monetary sanctions are deposited into the SEC's Investor Protection Fund in accordance with legislation.	Reported on the Statement of Changes in Net Position
		All other monetary sanctions are not a revenue source for the SEC, and are either: (a) Distributed to harmed investors, or (b) Transferred to the U.S. Treasury General Fund.	Reported as follows: (a) Disclosed in *Note 16, Disgorgement and Penalties* (b) Reported on the Statement of Custodial Activity

1 Transaction fee and filing fee rates are calculated 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 the transaction or the date of the acceptance of the filing submission. 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.

2 Federal regulations require 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.

3 The SEC's non-exchange revenues consist of disgorgement of illegal gains, civil penalties, and related interest.

4 The SEC's 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*.

Q. Budgets and Budgetary Accounting

Salaries and Expenses

The SEC may use funds from the SEC's Salaries and Expenses 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 quarterly apportionments. 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 funds related to reimbursable activity, which are exempt from quarterly apportionment. See *Note 1.E, Fund Accounting Structure*, and *Note 14, Statement of Budgetary Resources and Other Budgetary Disclosures*.

Investor Protection Fund

The Dodd-Frank Act provides that the Investor Protection Fund has permanent authority that is available 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 Employee Suggestion Program. However, the SEC is required to request and obtain apportionments from OMB to use these funds. The Investor Protection Fund is financed by transferring a portion of monetary sanctions collected by the SEC under Section 308 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7246). As provided by Section 21F of the Exchange Act, 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. 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 disgorgement 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.I, Accounts Receivable and Allowance for Uncollectible Accounts*, and *Note 1.L, Liabilities*. Additional details regarding disgorgement and penalties are presented in *Note 11, Funds from Dedicated Collections*, and *Note 16, Disgorgement and Penalties*.

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, 2019, SEC entity and non-entity assets consisted of the following:

(DOLLARS IN THOUSANDS)	Entity	Non-Entity	Total
Intragovernmental:			
Fund Balance with Treasury:			
SEC Funds	$ 7,489,464	$ —	$ 7,489,464
Registrant Deposits	—	42,462	42,462
Disgorgement and Penalties (Note 16)	—	303,203	303,203
Custodial and Other Non-Entity Assets	—	26	26
Investments, Net:			
Disgorgement and Penalties (Note 16)	—	1,305,477	1,305,477
Investor Protection Fund	392,277	—	392,277
Advances and Prepayments	4,286	—	4,286
Total Intragovernmental Assets	7,886,027	1,651,168	9,537,195
Cash and Other Monetary Assets:			
Disgorgement and Penalties (Note 16)	—	841	841
Accounts Receivable, Net:			
SEC Funds	144,605	—	144,605
Disgorgement and Penalties (Note 16)	—	268,529	268,529
Custodial and Other Non-Entity Assets	—	3,473	3,473
Property and Equipment, Net (Note 7)	96,267	—	96,267
Total Assets	$ 8,126,899	$ 1,924,011	$ 10,050,910

At September 30, 2018, SEC entity and non-entity assets consisted of the following:

(DOLLARS IN THOUSANDS)	Entity	Non-Entity	Total
Intragovernmental:			
Fund Balance with Treasury:			
SEC Funds	$ 7,497,515	$ —	$ 7,497,515
Registrant Deposits	—	40,079	40,079
Disgorgement and Penalties (Note 16)	—	284,710	284,710
Custodial and Other Non-Entity Assets	—	27	27
Investments, Net:			
Disgorgement and Penalties (Note 16)	—	1,811,409	1,811,409
Investor Protection Fund	309,845	—	309,845
Advances and Prepayments	5,814	—	5,814
Total Intragovernmental Assets	7,813,174	2,136,225	9,949,399
Cash and Other Monetary Assets:			
Disgorgement and Penalties (Note 16)	—	2,223	2,223
Accounts Receivable, Net:			
SEC Funds	88,635	—	88,635
Disgorgement and Penalties (Note 16)	—	228,081	228,081
Custodial and Other Non-Entity Assets	—	3,071	3,071
Property and Equipment, Net (Note 7)	120,469	—	120,469
Total Assets	$ 8,022,278	$ 2,369,600	$ 10,391,878

NOTE 3. FUND BALANCE WITH TREASURY

The status of Fund Balance with Treasury as of September 30, 2019 and 2018 consisted of the following:

(DOLLARS IN THOUSANDS)	2019	2018
Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available	$ 310,892	$ 260,502
Unavailable	80,582	83,082
Obligated Balance not Yet Disbursed	612,476	668,445
Non-Budgetary Fund Balance with Treasury	6,831,205	6,810,302
Total Fund Balance with Treasury	$ 7,835,155	$ 7,822,331

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.B, 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 $841 thousand as of September 30, 2019. 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 $2.2 million as of September 30, 2018.

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 (S/L) basis through the maturity date of these securities. Non-marketable market-based Treasury securities are issued by the U.S. Department of the Treasury'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. The market value of Treasury securities is a composite market bid price, using market data provided by the Federal Reserve Bank of New York, that reflects the average price that brokers were offering to pay on the reporting date.

At September 30, 2019, investments consisted of the following:

(DOLLARS IN THOUSANDS)	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investment, Net	Market Value Disclosure
Non-Marketable Market-Based Securities						
Disgorgement and Penalties	$ 1,300,860	S/L	$ 4,367	$ 250	$ 1,305,477	$ 1,305,651
Investor Protection Fund – Entity	390,033	S/L	1,392	852	392,277	392,046
Total	$ 1,690,893		$ 5,759	$ 1,102	$ 1,697,754	$ 1,697,697

At September 30, 2018, investments consisted of the following:

(DOLLARS IN THOUSANDS)	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investment, Net	Market Value Disclosure
Non-Marketable Market-Based Securities						
Disgorgement and Penalties	$ 1,805,737	S/L	$ 5,590	$ 82	$ 1,811,409	$ 1,811,096
Investor Protection Fund – Entity	308,450	S/L	843	552	309,845	309,123
Total	$ 2,114,187		$ 6,433	$ 634	$ 2,121,254	$ 2,120,219

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 funds used to purchase 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, 2019, accounts receivable consisted of the following:

(DOLLARS IN THOUSANDS)	Gross Receivables	Allowance	Net Receivables
Entity Accounts Receivable:			
Securities Transaction Fees	$ 144,036	$ —	$ 144,036
Other	569	—	569
Non-Entity Accounts Receivable:			
Disgorgement and Penalties[1]	1,426,926	1,158,397	268,529
Filing Fees	2,231	50	2,181
Other	16,656	15,364	1,292
Total Accounts Receivable	$ 1,590,418	$ 1,173,811	$ 416,607

1

Disgorgement and Penalties Accounts Receivable by Tiers (Note 1.I)			
(DOLLARS IN THOUSANDS)	Gross Receivable	Allowance	Net Receivable
Tier 1	$ 935,467	$ 767,951	$ 167,516
Tier 2	88,106	33,434	54,672
Tier 3	403,353	357,012	46,341
Total Non-Entity Accounts Receivable: Disgorgement and Penalties	$ 1,426,926	$ 1,158,397	$ 268,529

At September 30, 2018, accounts receivable consisted of the following:

(DOLLARS IN THOUSANDS)	Gross Receivables	Allowance	Net Receivables
Entity Accounts Receivable:			
Securities Transaction Fees	$ 88,168	$ —	$ 88,168
Other	467	—	467
Non-Entity Accounts Receivable:			
Disgorgement and Penalties[2]	1,461,999	1,233,918	228,081
Filing Fees	2,874	320	2,554
Other	8,671	8,154	517
Total Accounts Receivable	$ 1,562,179	$ 1,242,392	$ 319,787

2

Disgorgement and Penalties Accounts Receivable by Tiers (Note 1.I)			
(DOLLARS IN THOUSANDS)	Gross Receivable	Allowance	Net Receivable
Tier 1	$ 956,161	$ 815,367	$ 140,794
Tier 2	58,649	29,505	29,144
Tier 3	447,189	389,046	58,143
Total Non-Entity Accounts Receivable: Disgorgement and Penalties	$ 1,461,999	$ 1,233,918	$ 228,081

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 $15.4 million and $8.2 million as of September 30, 2019 and 2018, respectively. This estimate does not include interest accumulated on debts written off or officially waived.

Disgorgement and penalties net accounts receivable of $268.5 million and $228.1 million at September 30, 2019 and 2018, respectively, includes amounts designated as payable to the U.S. Treasury General Fund per court order, as well as amounts held for distribution to harmed investors. As discussed in *Note 1.L, Liabilities*, the receivables designated as payable to the U.S. Treasury General Fund, their offsetting liabilities, and the associated revenues, are classified as custodial. As of September 30, 2019 and 2018, the custodial disgorgement and penalties accounts receivable balance designated as payable to the U.S. Treasury General Fund, net of allowance, was $149.7 million and $65.0 million, respectively.

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, 2019, property and equipment consisted of the following:

Class of Property *(DOLLARS IN THOUSANDS)*	Depreciation/ Amortization Method	Capitalization Threshold for Individual Purchases	Capitalization Threshold for Bulk Purchases	Service Life (Years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Furniture and Equipment	S/L	50	300	3–5	$ 121,858	$ 99,055	$ 22,803
Software	S/L	300	300	3–5	241,893	177,979	63,914
Leasehold Improvements	S/L	300	N/A	10	111,856	102,306	9,550
Total					$ 475,607	$ 379,340	$ 96,267

At September 30, 2018, property and equipment consisted of the following:

Class of Property *(DOLLARS IN THOUSANDS)*	Depreciation/ Amortization Method	Capitalization Threshold for Individual Purchases	Capitalization Threshold for Bulk Purchases	Service Life (Years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Furniture and Equipment	S/L	50	300	3–5	$ 137,756	$ 108,268	$ 29,488
Software	S/L	300	300	3–5	308,312	230,955	77,357
Leasehold Improvements	S/L	300	N/A	10	111,798	98,174	13,624
Total					$ 557,866	$ 437,397	$ 120,469

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 disgorgement and penalties, as discussed in *Note 1.L, Liabilities*.

At September 30, 2019, 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	$ 2,936	$ —	$ —	$ 2,936
Other Intragovernmental Liabilities				
Accrued Employee Benefits	8,107	—	—	8,107
Unfunded FECA and Unemployment Liability	—	857	—	857
Custodial Liability	—	—	151,036	151,036
Liability for Non-Entity Assets	—	—	2,181	2,181
Subtotal – Other Intragovernmental Liabilities	8,107	857	153,217	162,181
Total Intragovernmental	11,043	857	153,217	165,117
Accounts Payable	85,098	—	—	85,098
Actuarial FECA Liability	—	4,718	—	4,718
Other Liabilities				
Accrued Payroll and Benefits	39,400	—	—	39,400
Accrued Leave	—	89,510	—	89,510
Registrant Deposits	—	—	42,462	42,462
Liability for Disgorgement and Penalties (Note 16)	—	—	1,728,165	1,728,165
Contingent Liabilities (Note 10)	—	50,404	—	50,404
Other Accrued Liabilities				
Recognition of Lease Liability (Note 9)	—	7,013	—	7,013
Other	—	—	263	263
Subtotal – Other Liabilities	39,400	146,927	1,770,890	1,957,217
Total Liabilities	$ 135,541	$ 152,502	$ 1,924,107	$ 2,212,150

Other Liabilities (intragovernmental and governmental) totaled $2.1 billion as of September 30, 2019, of which all but $147.4 million is current. The non-current portion of Other Liabilities includes the appropriate portions of Unfunded FECA and Unemployment Liability, Accrued Leave, Contingent Liabilities, and Lease Liability. Current liabilities not covered by budgetary resources totaled $406 thousand as of September 30, 2019.

At September 30, 2018, 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	$ 2,751	$ —	$ —	$ 2,751
Other Intragovernmental Liabilities				
Accrued Employee Benefits	7,300	—	—	7,300
Unfunded FECA and Unemployment Liability	—	834	—	834
Custodial Liability	—	—	65,486	65,486
Liability for Non-Entity Assets	—	—	2,554	2,554
Subtotal – Other Intragovernmental Liabilities	7,300	834	68,040	76,174
Total Intragovernmental	10,051	834	68,040	78,925
Accounts Payable	166,938	—	—	166,938
Actuarial FECA Liability	—	4,511	—	4,511
Other Liabilities				
Accrued Payroll and Benefits	35,859	—	—	35,859
Accrued Leave	—	77,870	—	77,870
Registrant Deposits	—	—	40,079	40,079
Liability for Disgorgement and Penalties (Note 16)	—	—	2,259,278	2,259,278
Contingent Liabilities (Note 10)	—	63,968	—	63,968
Other Accrued Liabilities				
Recognition of Lease Liability (Note 9)	—	8,283	—	8,283
Other	—	—	2,273	2,273
Subtotal – Other Liabilities	35,859	150,121	2,301,630	2,487,610
Total Liabilities	$ 212,848	$ 155,466	$ 2,369,670	$ 2,737,984

Other Liabilities (intragovernmental and governmental) totaled $2.6 billion as of September 30, 2018, of which all but $151 million was current. The non-current portion of Other Liabilities includes the appropriate portions of the Unfunded FECA and Unemployment Liability, Accrued Leave, Contingent Liabilities, and Lease Liability. Current liabilities not covered by budgetary resources totaled $380 thousand as of September 30, 2018.

NOTE 9. LEASES

Operating Leases

At September 30, 2019, the SEC leased office space at 15 locations under operating lease agreements that expire between FY 2020 and FY 2034. The SEC paid $104 million and $103 million for rent for the years ended September 30, 2019 and 2018, 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 2025 and thereafter are as follows:

FISCAL YEAR *(DOLLARS IN THOUSANDS)*	Federal Non-Cancelable	Non-Federal Non-Cancelable	Non-Cancelable Expected Future Lease Payments
2020	$ 2,970	$ 36,915	$ 39,885
2021	2,970	16,743	19,713
2022	2,970	1,178	4,148
2023	2,980	—	2,980
2024	3,087	—	3,087
2025 and thereafter	15,478	—	15,478
Total	$ 30,455	$ 54,836	$ 85,291

As discussed in *Note 14.B, Other Budgetary Disclosures*, $28 million of the above $85 million are unfunded obligations.

Expense Recognition of "Rent Holiday"

In the execution of lease agreements, many times lessors offer incentives for the occupation of office space. These include months of free rent at the occupied space or a temporary space while the new office is being prepared for occupancy. When a rent holiday occurs at the beginning of the lease term or at the beginning of occupancy of the temporary space, 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. The accrual and amortization of rent holiday discounts allow the rent expense to be allocated equally to each period of the lease term. The accrued lease liability for rent holidays was $7.0 million and $8.3 million as of September 30, 2019 and 2018, respectively.

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, 2019, 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. Approved awards are 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 an 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.

Contingent losses are reported as follows:

- 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 contingent liability is also disclosed as a range for the minimum and maximum totals of whistleblower awards, using 10 percent and 30 percent of collections, respectively.
- A potential liability is disclosed but not recognized when a positive Preliminary Determination is expected and collection has been received, using 10 percent and 30 percent of collections as the minimum and maximum award amounts, respectively.

At September 30, 2019, commitments and contingencies consisted of the following:

		Estimated Range of Loss	
(DOLLARS IN THOUSANDS)	Accrued Liabilities	Lower End	Upper End
2019 Whistleblower Awards:			
Probable	$ 50,404	$ 17,605	$ 52,816
Reasonably Possible	—	29,576	88,728

At September 30, 2018, commitments and contingencies consisted of the following:

		Estimated Range of Loss	
(DOLLARS IN THOUSANDS)	Accrued Liabilities	Lower End	Upper End
2018 Whistleblower Awards:			
Probable	$ 63,968	$ 27,682	$ 83,045
Reasonably Possible	—	13,978	41,935

A liability (accounts payable) is recognized when a Final Determination has been approved by the Commission 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.

In the event that whistleblower awards reduce the Investor Protection Fund unobligated balance below $300 million, the Investor Protection Fund will be replenished, as described in *Note 1.Q, Budgets and Budgetary Accounting*, "Investor Protection Fund."

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, 2019, net obligations for all SEC activities were $640.2 million, of which $135.5 million was delivered and unpaid. As of September 30, 2018, net obligations for all SEC activities were $736.3 million, of which $212.8 million was delivered and unpaid.

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 2019, 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, 2019					
ASSETS					
Fund Balance with Treasury	$ 7,376,296	$ 40,594	$ 72,478	$ —	$ 7,489,368
Investments, Net	—	392,277	—	—	392,277
Accounts Receivable, Net	144,605	—	—	—	144,605
Property and Equipment, Net	44,928	—	51,339	—	96,267
Advances and Prepayments	4,286	—	—	—	4,286
Total Assets	$ 7,570,115	$ 432,871	$ 123,817	$ —	$ 8,126,803
LIABILITIES					
Accounts Payable	$ 64,834	$ 16,539	$ 6,661	$ —	$ 88,034
FECA and Unemployment Liability	5,575	—	—	—	5,575
Accrued Payroll and Benefits	47,507	—	—	—	47,507
Accrued Leave	89,510	—	—	—	89,510
Contingent Liabilities	—	50,404	—	—	50,404
Other Accrued Liabilities	7,013	—	—	—	7,013
Total Liabilities	214,439	66,943	6,661	—	288,043
NET POSITION					
Unexpended Appropriations	182,595	—	—	—	182,595
Cumulative Results of Operations	7,173,081	365,928	117,156	—	7,656,165
Total Net Position	7,355,676	365,928	117,156	—	7,838,760
Total Liabilities and Net Position	$ 7,570,115	$ 432,871	$ 123,817	$ —	$ 8,126,803
Statement of Net Cost for the year ended September 30, 2019					
Gross Program Costs	$ 1,733,568	$ 47,020	$ 68,570	$ (33)	$ 1,849,125
Less Earned Revenues Not Attributable to Program Costs	1,529,254	—	50,000	(33)	1,579,221
Net (Income) Cost from Operations	$ 204,314	$ 47,020	$ 18,570	$ —	$ 269,904

(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, 2019					
Unexpended Appropriations:					
Beginning Balance	145,406	—	—	—	145,406
Budgetary Financing Sources:					
Appropriations Received	$ 238,868	$ —	$ —	$ —	$ 238,868
Appropriations Used	(201,679)	—	—	—	(201,679)
Total Unexpended Appropriations	182,595	—	—	—	182,595
Cumulative Results of Operations:					
Net Position, Beginning of Period	7,123,766	248,996	135,726	—	7,508,488
Budgetary Financing Sources:					
Appropriations Used	201,679	—	—	—	201,679
Non-Exchange Revenue	—	163,952	—	—	163,952
Other	—	—	—	—	—
Other Financing Sources:					
Imputed Financing	51,950	—	—	—	51,950
Net Income (Cost) from Operations	(204,314)	(47,020)	(18,570)	—	(269,904)
Net Change	49,315	116,932	(18,570)	—	147,677
Cumulative Results of Operations	7,173,081	365,928	117,156	—	7,656,165
Net Position, End of Period	$ 7,355,676	$ 365,928	$ 117,156	$ —	$ 7,838,760

NOTE 11. FUNDS FROM DEDICATED COLLECTIONS *(CONTINUED)*

For FY 2018, 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, 2018					
ASSETS					
Fund Balance with Treasury	$ 7,317,723	$ 101,084	$ 78,638	$ —	$ 7,497,445
Investments, Net	—	309,845	—	—	309,845
Accounts Receivable, Net	88,635	—	—	—	88,635
Property and Equipment, Net	59,029	—	61,440	—	120,469
Advances and Prepayments	5,814	—	—	—	5,814
Total Assets	$ 7,471,201	$ 410,929	$ 140,078	$ —	$ 8,022,208
LIABILITIES					
Accounts Payable	$ 67,372	$ 97,965	$ 4,352	$ —	$ 169,689
FECA and Unemployment Liability	5,345	—	—	—	5,345
Accrued Payroll and Benefits	43,159	—	—	—	43,159
Accrued Leave	77,870	—	—	—	77,870
Contingent Liabilities	—	63,968	—	—	63,968
Other Accrued Liabilities	8,283	—	—	—	8,283
Total Liabilities	202,029	161,933	4,352	—	368,314
NET POSITION					
Unexpended Appropriations	145,406	—	—	—	145,406
Cumulative Results of Operations	7,123,766	248,996	135,726	—	7,508,488
Total Net Position	7,269,172	248,996	135,726	—	7,653,894
Total Liabilities and Net Position	$ 7,471,201	$ 410,929	$ 140,078	$ —	$ 8,022,208
Statement of Net Cost for the year ended September 30, 2018					
Gross Program Costs	$ 1,731,943	$ 14,425	$ 59,019	$ (26)	$ 1,805,361
Less Earned Revenues Not Attributable to Program Costs	1,704,186	—	50,000	(26)	1,754,160
Net (Income) Cost from Operations	$ 27,757	$ 14,425	$ 9,019	$ —	$ 51,201

(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, 2018					
Unexpended Appropriations:					
Beginning Balance	—	—	—	—	—
Budgetary Financing Sources:					
Appropriations Received	$ 145,406	$ —	$ —	$ —	$ 145,406
Appropriations Used	—	—	—	—	—
Total Unexpended Appropriations	145,406	—	—	—	145,406
Cumulative Results of Operations:					
Net Position, Beginning of Period	7,104,361	79,798	144,745	—	7,328,904
Budgetary Financing Sources:					
Appropriations Used	—	—	—	—	—
Non-Exchange Revenue	—	183,735	—	—	183,735
Other	—	(112)	—	—	(112)
Other Financing Sources:					
Imputed Financing	47,162	—	—	—	47,162
Net Income (Cost) from Operations	(27,757)	(14,425)	(9,019)	—	(51,201)
Net Change	19,405	169,198	(9,019)	—	179,584
Cumulative Results of Operations	7,123,766	248,996	135,726	—	7,508,488
Net Position, End of Period	$ 7,269,172	$ 248,996	$ 135,726	$ —	$ 7,653,894

NOTE 12. STATEMENT OF CHANGES IN NET POSITION

In FY 2019, the negative $529.7 million in "Other Financing Sources" reported in the Statement of Changes in Net Position consists of securities registration, tender offer, merger, and other fees from registrants (filing fees) as well as other non-entity exchange revenue deposited into the U.S. Treasury General Fund. Filing fees and other non-entity exchange revenue are recognized as exchange revenue on the SEC's Statement of Net Cost, and the transfer-out to the U.S. Treasury General Fund is recognized as a negative "Other Financing Source" on the SEC's consolidated Statement of Changes in Net Position. See *Note 1.P, Exchange and Non-Exchange Revenue*.

In FY 2018, the negative $548.2 million in "Other Financing Sources" consists of the transfer-out of filing fees and other non-entity exchange revenue to the U.S. Treasury General Fund.

NOTE 13. CUSTODIAL ACTIVITY

The Statement of Custodial Activity reports custodial collections and accounts receivable on a modified cash basis of accounting. Cash collections and amounts transferred to U.S. Treasury General Fund are reported on a cash basis. The change in receivables and related payables are reported on an accrual basis. The SEC's Miscellaneous Receipt Accounts are used to account for custodial receipts pursuant to SEC enforcement actions and other small collections that will be sent to the U.S. Treasury General Fund. For more information about the SEC's Miscellaneous Receipt Accounts, see *Note 1.E, Fund Accounting Structure*. For information about the estimated collectability of accounts receivable, see *Note 1.I, Accounts Receivable and Allowance for Uncollectible Accounts*.

NOTE 14. STATEMENT OF BUDGETARY RESOURCES AND OTHER BUDGETARY DISCLOSURES

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

A comparison between the FY 2019 SBR and the actual FY 2019 data in the Budget of the U.S. Government (Budget) cannot be presented, as the FY 2021 Budget, which will contain FY 2019 actual data, is not yet available. The FY 2021 Budget with actual amounts for FY 2019 will be available at a later date at whitehouse.gov/omb/budget/. The comparison will be presented in next year's financial statements.

The comparison as of September 30, 2018, is presented below:

(DOLLARS IN MILLIONS)	Budgetary Resources	New Obligations and Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 2,358	$ 1,855	$ 8	$ 59
FY 2018 Ending Balance: Comptroller General Decision B-322160, *Recording of Obligation for Multiple-Year Contract*	68	—	—	—
Rounding Difference	(1)	—	—	(1)
Budget of the U.S. Government	$ 2,425	$ 1,855	$ 8	$ 58

The differences between the FY 2018 SBR and the prior year column in the FY 2020 Budget 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 2018, the SEC's SBR included $68 million in remaining unfunded obligations after the SEC funded $71 million for current year lease operations. The SEC SBR for FY 2019 presents this balance as a reduction of the beginning of the year unobligated balance brought forward.

B. Other Budgetary Disclosures

General Provisions of Appropriation

The SEC's annual Appropriations Act provides $1,674,902,000 in new budget authority for FY 2019. The 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 requires the SEC to fund its Office of Inspector General with a minimum of $15,206,000, and the Division of Economic and Risk Analysis with a minimum of $75,081,000, in new budget authority. The Act also provides for costs associated with potential relocation under a replacement lease for the Commission's New York Regional Office facilities, not to exceed $37,189,000, to remain available until expended.

Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)

For FY 2019, the Unobligated Balance from Prior Year Budget Authority, Net consisted of available unobligated balance brought forward from the prior year in the amount of $503.4 million as well as FY 2019 recoveries of prior-year obligations totaling $27.3 million. For FY 2018, the Unobligated Balance from

Prior Year Budget Authority, Net consisted of available unobligated balance brought forward from the prior year in the amount of $175.2 million as well as FY 2018 recoveries of prior-year obligations totaling $36.6 million.

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 were $509.0 million and $529.2 million for the years ended September 30, 2019 and 2018, respectively. Of the $509.0 million total undelivered orders at September 30, 2019, $64.8 million were with federal trading partners and $444.2 million were with non-federal trading partners. The total undelivered orders contained unpaid and paid undelivered orders, with unpaid orders making up the majority of the total. The SEC's total unpaid undelivered orders were $504.7 million and $523.4 million for the years ended September 30, 2019 and 2018, respectively. Of the $504.7 million unpaid undelivered orders at September 30, 2019, $60.5 million were with federal trading partners and $444.2 million were with non-federal trading partners.

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.

Unfunded lease obligations totaled $28 million and $68 million as of September 30, 2019 and 2018, respectively. 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 NET OUTLAYS

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

Components of net cost of operations that are not part of net outlays represent required timing differences in the Statement of Net Cost and the Statement of Budgetary Resources. One 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, depreciation is recognized as a "component of net cost that is not part of net outlays." Another example is securities registration, tender offer, and other fees from registrants (filing fees). Filing fees are recognized as exchange revenue on the Statement of Net Cost, but collections of filing fees are transferred to either the U.S. Treasury General Fund or to the SEC's Reserve Fund, and have no impact on the SEC's net outlays. See *Note 1.P, Exchange and Non-Exchange Revenue*.

Other components of net cost that are not part of net outlays are:

- revaluations of property, plant, and equipment,
- increases and decreases in assets such as advances and prepayments and accounts receivable,
- increases and decreases in liabilities such as accounts payable and contingent liabilities, and
- imputed financing for expenses that are paid by OPM, as discussed in *Note 1.M, Employee Retirement Systems and Benefits*.

The primary component of net outlays that is not part of net cost is the acquisition of capital assets. In budgetary reporting, the entire cost of a depreciable asset is recognized in the period when the asset is purchased.

Another component of net outlays that is not part of net cost is the collection of non-exchange interest. Non-exchange interest deposited to the U.S. Treasury General Fund is reported on the Statement of Budgetary Resources as distributed offsetting receipts. Distributed offsetting receipts are collections that typically offset the outlays of the agency that conducts the activity generating the receipts. See *Note 1.P, Exchange and Non-Exchange Revenue*, for more information about non-exchange revenue.

For the year ended September 30, 2019:

(DOLLARS IN THOUSANDS)	Intragovernmental	With the Public	Total
Net (Income) Cost of Operations	$ 309,706	$ (569,492)	$ (259,786)
Components of Net Cost That Are Not Part of Net Outlays:			
Property, Plant, and Equipment Depreciation	$ —	$ (59,964)	$ (59,964)
Property, Plant, and Equipment Disposal Reevaluation	—	(4,981)	(4,981)
Securities Registration, Tender Offer, Merger, and Other Fees from Registrants (Note 1.P)	—	579,547	579,547
Treasury Investment Fees	(55)	55	—
Increase/(Decrease) in Assets:			
Accounts Receivable	—	55,969	55,969
Advances and Prepayments	(1,527)	—	(1,527)
(Increase)/Decrease in Liabilities:			
Accounts Payable	(184)	81,840	81,656
Salaries and Benefits	(807)	(3,541)	(4,348)
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA, Contingent Liabilities)	(23)	2,988	2,965
Other Financing Sources:			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to Agency	(51,950)	—	(51,950)
Total Components of Net Cost That Are Not Part of Net Outlays	(54,546)	651,913	597,367
Components of Net Outlays That Are Not Part of Net Cost:			
Acquisition of Capital Assets	—	40,744	40,744
Non-Exchange Interest Receipts Reported as Distributed Offsetting Receipts	(6,584)	(1,981)	(8,565)
Total Components of Net Outlays That Are Not Part of Net Cost	(6,584)	38,763	32,179
Net Outlays	$ 248,576	$ 121,184	$ 369,760

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 Fund Balance with Treasury 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 General Fund. The determination as

to whether funds not held for distribution to harmed investors will be deposited in the U.S. Treasury General Fund 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.

Disbursements related to disgorgement and penalties include distributions to harmed investors, payments to tax authorities, and fees paid to plan administrators and the U.S. Department of the Treasury's Bureau of the Fiscal Service. The SEC does not record activity in its financial statements related to enforcement actions that result in 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 2019, total Disgorgement and Penalties assets of $1.9 billion include $1.7 billion held for distribution to harmed investors and $149.9 million to be transferred to the U.S. Treasury General Fund. In FY 2018, total Disgorgement and Penalties assets of $2.3 billion included $2.2 billion held for distribution to harmed investors and $67 million to be transferred to the U.S. Treasury General Fund.

At September 30, 2019 and 2018, the net inflows and outflows for Fund Balance with Treasury, Investments, and Accounts Receivable related to disgorgement and penalties consisted of the following:

(DOLLARS IN THOUSANDS)	2019	2018
Fund Balance with Treasury:		
Beginning Balance	$ 284,710	$ 275,167
Collections	1,470,462	1,028,554
Purchases and Redemptions of Treasury Securities	545,326	694,451
Disbursements	(761,157)	(687,974)
Transfers and Deposits to the Investor Protection Fund	(156,519)	(179,626)
Transfers and Deposits to the U.S. Treasury General Fund	(1,079,619)	(845,862)
Total Fund Balance with Treasury (Note 2)	303,203	284,710
Cash and Other Monetary Assets:		
Beginning Balance	2,223	8
Net Activity	(1,382)	2,215
Total Cash and Other Monetary Assets (Notes 2 and 4)	841	2,223
Investments, Net:		
Beginning Balance	1,811,409	2,471,245
Net Activity	(505,932)	(659,836)
Total Investments, Net (Notes 2 and 5)	1,305,477	1,811,409
Accounts Receivable, Net:		
Beginning Balance	228,081	226,524
Net Activity	40,448	1,557
Total Accounts Receivable, Net (Notes 2 and 6)	268,529	228,081
Total Disgorgement and Penalties	$ 1,878,050	$ 2,326,423

NOTE 17. RECLASSIFICATION OF BALANCE SHEET, STATEMENT OF NET COST, AND STATEMENT OF CHANGES IN NET POSITION FOR COMPILATION PROCESS OF THE FINANCIAL REPORT OF THE U.S. GOVERNMENT

To prepare the Financial Report of the U.S. Government (FR), the U.S. Department of the Treasury's Bureau of the Fiscal Service requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. This note shows the SEC's financial statements and the SEC's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the 2018 FR can be found at fiscal.treasury.gov/reports-statements/, and a copy of the 2019 FR will be posted to this site as soon as it is released.

FY 2019 Balance Sheet

As of September 30, 2019

Financial Statement Line *(DOLLARS IN THOUSANDS)*	FY 2019 SEC Balance Sheet	Line Items Used to Prepare FY 2019 Government-wide Balance Sheet	Reclassified Financial Statement
ASSETS:			**ASSETS:**
Intragovernmental:			Federal:
Fund Balance with Treasury	$ 7,835,155	$ 7,835,155	Fund Balance with Treasury
Investments, Net	1,697,754	1,696,652	Federal Investments
		1,102	Interest Receivable – Investments
Total Investments, Net	1,697,754	1,697,754	*Total Reclassified Investments, Net*
Advances and Prepayments	4,286	4,286	Advances to Others and Prepayments
Total Intragovernmental	9,537,195	9,537,195	Total Intragovernmental Assets
Cash and Other Monetary Assets	841	841	Cash and Other Monetary Assets
Accounts Receivable, Net	416,607	416,607	Accounts and Taxes Receivable, Net
Property and Equipment, Net	96,267	96,267	Property, Plant, and Equipment, Net
Total Assets	$ 10,050,910	$ 10,050,910	**Total Assets**

FY 2019 Balance Sheet *(continued)*

As of September 30, 2019

Financial Statement Line *(DOLLARS IN THOUSANDS)*	FY 2019 SEC Balance Sheet	Line Items Used to Prepare FY 2019 Government-wide Balance Sheet	Reclassified Financial Statement
LIABILITIES:			**LIABILITIES:**
Intragovernmental:			Federal:
Accounts Payable	$ 2,936	$ 2,936	Accounts Payable
Employee Benefits	8,107	6,921	Benefit Program Contributions Payable
		1,186	Other Liabilities
Total Employee Benefits	8,107	8,107	*Total Reclassified Employee Benefits*
Unfunded FECA and Unemployment Liability	857	857	Benefit Program Contributions Payable
Custodial Liability	151,036	151,036	Liability to the General Fund for Custodial and Other Non-Entity Assets
Liability for Non-Entity Assets	2,181	2,181	Liability to the General Fund for Custodial and Other Non-Entity Assets
Total Intragovernmental	165,117	165,117	Total Intragovernmental Liabilities
Accounts Payable	85,098	85,098	Accounts Payable
Actuarial FECA Liability	4,718	4,718	Federal Employee and Veteran Benefits Payable
Accrued Payroll and Benefits	39,400	37,722	Other Liabilitites
		1,678	Federal Employee and Veteran Benefits Payable
Total Accrued Payroll and Benefits	39,400	39,400	*Total Reclassified Accrued Payroll and Benefits*
Accrued Leave	89,510	89,510	Other Liabilities
Registrant Deposits	42,462	42,462	Other Liabilities
Liability for Disgorgement and Penalties	1,728,165	1,728,165	Other Liabilities
Contingent Liabilities	50,404	50,404	Other Liabilities
Other Accrued Liabilities	7,276	7,276	Other Liabilities
Total Liabilities	2,212,150	2,212,150	**Total Liabilities**
Commitments and Contingencies			
NET POSITION:			**NET POSITION:**
Unexpended Appropriations – Funds from Dedicated Collections	182,595	182,595	Net Position – Funds From Dedicated Collections
Cumulative Results of Operations – Funds from Dedicated Collections	7,656,165	7,656,165	Net Position – Funds From Dedicated Collections
Total Net Position – Funds from Dedicated Collections (Note 11)	7,838,760	7,838,760	Net Position – Funds From Dedicated Collections
Total Net Position	$ 7,838,760	$ 7,838,760	**Total Net Position**
Total Liabilities and Net Position	$ 10,050,910	$ 10,050,910	**Total Liabilities and Net Position**

FY 2019 Statement of Net Cost

For the year ended September 30, 2019

Financial Statement Line *(DOLLARS IN THOUSANDS)*	FY 2019 SEC Statement of Net Cost	Line Items Used to Prepare FY 2019 Government-wide Statement of Net Cost	Reclassified Financial Statement
Program Costs:			**Non-Federal Costs**
Total Program Costs	$ 1,848,854	$ 1,538,894	Non-Federal Gross Cost
			Intragovernmental Costs
		164,751	Benefit Program Costs
		51,950	Imputed Costs
		46,171	Buy/Sell Costs
		47,088	Other Expenses
		309,960	**Total Intragovernmental Costs**
Total Program Costs	1,848,854	1,848,854	***Total Reclassified Gross Costs***
Less: Earned Revenues not Attributed to Programs	2,108,640		**Non-Federal Earned Revenue**
		2,108,386	Non-Federal Earned Revenue
			Intragovernmental Revenue
		254	Buy/Sell Revenue
Total Earned Revenues	2,108,640	2,108,640	***Total Reclassified Earned Revenue***
Net (Income) Cost from Operations	$ (259,786)	$ (259,786)	**Net Cost of Operations**

FY 2019 Statement of Changes in Net Position

For the year ended September 30, 2019

Financial Statement Line *(DOLLARS IN THOUSANDS)*	FY 2019 SEC Statement of Changes in Net Position	Line Items Used to Prepare FY 2019 Government-wide Statement of Changes in Net Position	Reclassified Financial Statement
UNEXPENDED APPROPRIATIONS:			
Beginning Balances	$ 145,406	$ 145,406	Net Position, Beginning of Period
Budgetary Financing Sources:			
Appropriations Received	238,868	238,868	Appropriations Received as Adjusted
Appropriations Used	(201,679)	(201,679)	Appropriations Used (Federal)
Total Unexpended Appropriations	182,595	182,595	
CUMULATIVE RESULTS OF OPERATIONS:			
Beginning Balances	7,508,488	7,508,488	Net Position, Beginning of Period
Appropriations Used	201,679	201,679	Appropriations Expended
Non-Exchange Revenue	163,952	117,126	Other Taxes and Receipts
		46,826	Federal Securities Interest Revenue, including Associated Gains/Losses (Non-Exchange)
Total Non-Exchange Revenues	163,952	163,952	*Total Reclassified Non-Exchange Revenues*
Other Financing Sources (Non-Exchange):			
Imputed Financing	51,950	51,950	Imputed Financing Sources (Federal)
Other (Note 12)	(529,690)	(530,063)	Non-Entity Collections Transferred to the General Fund of the U.S. Government
		373	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
Total Other	(529,690)	(529,690)	*Total Reclassified Other*
Total Financing Sources	(112,109)	(112,109)	
Net Income (Cost) from Operations	259,786	259,786	Net Cost of Operations (+/-)
Cumulative Results of Operations (Note 11)	7,656,165	7,656,165	
Net Position, End of Period	$ 7,838,760	$ 7,838,760	Net Position – Ending Balance
NON-EXCHANGE STATEMENT OF CUSTODIAL ACTIVITY			
Non-Exchange Custodial Revenue from the Statement of Custodial Activity			
Total Cash Collections	$ 1,082,367	$ 1,082,367	Other Taxes and Receipts
Accrual Adjustments	85,550	85,550	Other Taxes and Receipts
Total Non-Exchange Custodial Revenue	1,167,917	1,167,917	*Total Reclassified Non-Exchange Custodial Revenue*
Disposition of Non-Exchange Custodial Collections from the Statement of Custodial Activity			
Amounts Transferred to Department of the Treasury	1,082,367	1,082,367	Non-Entity Collections Transferred to the General Fund of the U.S. Government
Amounts Yet to be Transferred	85,550	85,550	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
Total Disposition of Non-Exchange Custodial Collections	$ 1,167,917	$ 1,167,917	*Total Reclassified Disposition of Non-Exchange Custodial Collections*

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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

U.S. SECURITIES AND EXCHANGE COMMISSION

Combining Statements of Budgetary Resources by Fund

For the year ended September 30, 2019

(DOLLARS IN THOUSANDS)	Salaries and Expenses and Other Funds	Investor Protection Fund	Reserve Fund	Total
	X0100, 1435, 3220, 3875	5567	5566	
BUDGETARY RESOURCES:				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 14)	$ 215,504	$ 299,334	$ 15,808	$ 530,646
Appropriations (Discretionary and Mandatory)	238,869	165,225	50,300	454,394
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,473,440	—	—	1,473,440
Total Budgetary Resources	$ 1,927,813	$ 464,559	$ 66,108	$ 2,458,480
STATUS OF BUDGETARY RESOURCES:				
New Obligations and Upward Adjustments (Total)	$ 1,659,536	$ 60,583	$ 63,003	$ 1,783,122
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	293,901	343,581	—	637,482
Exempt from Apportionment, Unexpired Accounts	—	—	3,105	3,105
Unapportioned, Unexpired Accounts	(25,624)	60,395	—	34,771
Unobligated Balance, End of Year (Total)	268,277	403,976	3,105	675,358
Total Budgetary Resources	$ 1,927,813	$ 464,559	$ 66,108	$ 2,458,480
OUTLAYS, NET:				
Outlays, Net (Discretionary and Mandatory)	$ 180,297	$ 142,010	$ 56,160	$ 378,467
Distributed Offsetting Receipts	(2,123)	(6,584)	—	(8,707)
Agency Outlays, Net (Discretionary and Mandatory) (Note 15)	$ 178,174	$ 135,426	$ 56,160	$ 369,760

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

Combining Statements of Budgetary Resources by Fund

For the year ended September 30, 2018

(DOLLARS IN THOUSANDS)	Salaries and Expenses and Other Funds	Investor Protection Fund	Reserve Fund	Total
	X0100, 1435, 3220, 3875	5567	5566	
BUDGETARY RESOURCES:				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 14)	$ (88,022)	$ 297,387	$ 2,388	$ 211,753
Appropriations (Discretionary and Mandatory)	145,405	173,449	75,225	394,079
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,752,538	—	—	1,752,538
Total Budgetary Resources	$ 1,809,921	$ 470,836	$ 77,613	$ 2,358,370
STATUS OF BUDGETARY RESOURCES:				
New Obligations and Upward Adjustments (Total)	$ 1,621,180	$ 171,502	$ 62,322	$ 1,855,004
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	254,328	129,247	—	383,575
Exempt from Apportionment, Unexpired Accounts	—	—	15,291	15,291
Unapportioned, Unexpired Accounts	(65,587)	170,087	—	104,500
Unobligated Balance, End of Year (Total)	188,741	299,334	15,291	503,366
Total Budgetary Resources	$ 1,809,921	$ 470,836	$ 77,613	$ 2,358,370
OUTLAYS, NET:				
Outlays, Net (Discretionary and Mandatory)	$ (91,867)	$ 94,375	$ 56,886	$ 59,394
Distributed Offsetting Receipts	(1,907)	(5,746)	—	(7,653)
Agency Outlays, Net (Discretionary and Mandatory) (Note 15)	$ (93,774)	$ 88,629	$ 56,886	$ 51,741

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, 2019 and 2018

(DOLLARS IN THOUSANDS)	2019	2018
ASSETS:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 40,594	$ 101,084
Investments, Net (Note 3)	392,277	309,845
Total Assets	$ 432,871	$ 410,929
LIABILITIES (NOTE 4):		
Accounts Payable	16,539	97,965
Contingent Liabilities (Note 5)	50,404	63,968
Total Liabilities	66,943	161,933
Commitments and Contingencies (Note 5)		
NET POSITION:		
Cumulative Results of Operations – Funds from Dedicated Collections	365,928	248,996
Total Net Position – Funds from Dedicated Collections	365,928	248,996
Total Net Position	365,928	248,996
Total Liabilities and Net Position	$ 432,871	$ 410,929

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, 2019 and 2018

(DOLLARS IN THOUSANDS)	2019	2018
PROGRAM COSTS:		
Awards to Whistleblowers	$ 46,987	$ 14,398
Employee Suggestion Program	33	27
Total Program Costs	47,020	14,425
Net (Income) Cost from Operations (Note 7)	$ 47,020	$ 14,425

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, 2019 and 2018

(DOLLARS IN THOUSANDS)	2019	2018
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning Balances	$ 248,996	$ 79,798
Budgetary Financing Sources:		
Non-Exchange Revenue	163,952	183,735
Other	—	(112)
Total Financing Sources	163,952	183,623
Net Income (Cost) from Operations	(47,020)	(14,425)
Net Change	116,932	169,198
Cumulative Results of Operations	365,928	248,996
Net Position, End of Period	$ 365,928	$ 248,996

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, 2019 and 2018

(DOLLARS IN THOUSANDS)	2019	2018
BUDGETARY RESOURCES:		
Unobligated Balance from Prior Year Budget Authority, Net (Mandatory)	$ 299,334	$ 297,387
Appropriations (Mandatory)	165,225	173,449
Total Budgetary Resources	$ 464,559	$ 470,836
STATUS OF BUDGETARY RESOURCES (NOTE 6):		
New Obligations and Upward Adjustments (Total)	$ 60,583	$ 171,502
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	343,581	129,247
Unapportioned, Unexpired Accounts	60,395	170,087
Unobligated Balance, End of Year (Total)	403,976	299,334
Total Budgetary Resources	$ 464,559	$ 470,836
OUTLAYS, NET:		
Outlays, Net (Total) (Mandatory)	142,010	94,375
Distributed Offsetting Receipts	(6,584)	(5,746)
Agency Outlays, Net (Mandatory) (Note 7)	$ 135,426	$ 88,629

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

As of September 30, 2019 and 2018

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 Office of Inspector General 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

These footnotes are an integral part of the Investor Protection Fund's financial statements, which 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 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 SEC is a federal reporting entity, in accordance with the provisions of the Accountability of Tax Dollars Act of 2002. The SEC's 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*.

Audited financial statements are a special-purpose report required by legislation. As a stand-alone entity, the Investor Protection Fund does not meet the criteria provided in the CFO Act and the Accountability of Tax Dollars Act to constitute a "federal reporting entity." In addition, federal GAAP and OMB Circular A-136 do not provide for either an income statement or a cash flow analysis. However, the Investor Protection Fund financial statements are consistent with the SEC financial statements, except for additional elements, such as cash flow analysis, that are required by legislation.

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 services are provided, 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 7, Reconciliation of Net Cost of Operations to Net Outlays*.

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

C. Use of Estimates

The preparation of financial statements on the accrual basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and costs. These estimates are based on management's best knowledge of current events, historical experience, actions that the SEC may undertake in the future, and various other assumptions. The estimates include, but are not limited to, the recognition and disclosure of potential future whistleblower award payments as of the date of the financial statements. 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 Treasury Appropriation 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. These intra-agency transfers are required because the Investor Protection Fund finances the operations of the Office of Inspector General 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 over one million dollars 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 Investor Protection Fund and is available to be used for expenses of the

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

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. Section 21F of the Exchange Act provides that monetary sanctions collected by the SEC are deposited into the Investor Protection Fund if the balance in the Fund is below $300 million on the day of collection. The Investor Protection Fund recognizes non-exchange revenue for monetary sanctions that are transferred into the Fund. Additional details regarding Investor Protection Fund funding are provided in *Note 5, Commitments and Contingencies*.

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 with permanent 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 Employee Suggestion Program. However, the SEC is required to request and obtain apportionments 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 status of Fund Balance with Treasury as of September 30, 2019 and 2018 consisted of the following:

(DOLLARS IN THOUSANDS)	2019	2018
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	13,943	(9,116)
Unavailable	10,112	12,235
Obligated Balance not Yet Disbursed	16,539	97,965
Total Status of Fund Balance with Treasury	$ 40,594	$ 101,084

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 with Treasury 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 2019 consisted of:

- Net cash outflows for purchases of investments of $82.9 million;
- Net cash inflows from investment interest of $7.9 million (which include $5.0 million of interest collections and $2.9 million in discounts received);
- Net cash inflows from fund replenishment required under the Dodd-Frank Act of $156.5 million; and
- Net cash outflows for payment of whistleblower awards totaling $81.5 million for amounts that were awarded in prior years and $60.5 million for amounts that were awarded during FY 2019, and payment of expenses of operating the Office of Inspector General Employee Suggestion Program of $33 thousand.

Cash flows during FY 2018 consisted of:

- Net cash outflows for purchases of investments of $20.8 million;
- Net cash inflows from investment interest of $7.3 million (which includes $5.4 million of interest collections and $1.9 million in discounts received);
- Net cash inflows from fund replenishment required under the Dodd-Frank Act of $179.6 million; and
- Net cash outflows for payment of whistleblower awards totaling $2 thousand for amounts that were awarded during FY 2017 and $94.3 million for amounts that were awarded during FY 2018, and payment of expenses of operating the Office of Inspector General Employee Suggestion Program of $27 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 (S/L) basis through the maturity date of these securities. Non-marketable market-based Treasury securities are issued by the U.S. Department of the Treasury'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, 2019, 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	$ 390,033	S/L	$ 1,392	$ 852	$ 392,277	$ 392,046

At September 30, 2018, 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	$ 308,450	S/L	$ 843	$ 552	$ 309,845	$ 309,123

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.

At September 30, 2019, liabilities consisted of the following:

(DOLLARS IN THOUSANDS)	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total
Accounts Payable	$ 16,539	$ —	$ 16,539
Contingent Liabilities	—	50,404	50,404
Total Liabilities	$ 16,539	$ 50,404	$ 66,943

At September 30, 2018, liabilities consisted of the following:

(DOLLARS IN THOUSANDS)	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total
Accounts Payable	$ 97,965	$ —	$ 97,965
Contingent Liabilities	—	63,968	63,968
Total Liabilities	$ 97,965	$ 63,968	$ 161,933

NOTE 5. COMMITMENTS AND CONTINGENCIES

Commitments: 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. Approved awards are 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.

Contingent losses are reported as follows:

- 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 contingent liability is also disclosed as a range for the minimum and maximum totals of whistleblower awards, using 10 percent and 30 percent of collections, respectively.
- A potential liability is disclosed but not recognized when a positive Preliminary Determination is expected and collection has been received, using 10 percent and 30 percent of collections as the minimum and maximum award amounts, respectively.

At September 30, 2019, commitments and contingencies consisted of the following:

(DOLLARS IN THOUSANDS)	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
2019 Whistleblower Awards:			
Probable	$ 50,404	$ 17,605	$ 52,816
Reasonably Possible	—	29,576	88,728

At September 30, 2018, commitments and contingencies consisted of the following:

(DOLLARS IN THOUSANDS)	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
2018 Whistleblower Awards:			
Probable	$ 63,968	$ 27,682	$ 83,045
Reasonably Possible	—	13,978	41,935

A liability (accounts payable) is recognized when a Final Determination has been approved by the Commission 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.

In the event that whistleblower awards reduce the Investor Protection Fund unobligated 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*.

NOTE 6. STATEMENT OF BUDGETARY RESOURCES AND OTHER BUDGETARY DISCLOSURES

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

A comparison between the FY 2019 Statement of Budgetary Resources and the actual FY 2019 data in the Budget of the U.S. Government (Budget) cannot be presented, as the FY 2021 Budget, which will contain FY 2019 actual data, is not yet available. The comparison will be presented in next year's financial statements. The FY 2021 Budget, with actual amounts for FY 2019, will be available at a later date at whitehouse.gov/omb/budget/.

There are no differences between the FY 2018 Statement of Budgetary Resources and the FY 2018 data in the Budget.

B. Other Budgetary Disclosures

There were no budgetary resources obligated for undelivered orders as of September 30, 2019 and 2018.

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

NOTE 7. RECONCILIATION OF NET COST OF OPERATIONS TO NET OUTLAYS

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

Components of net cost that are not part of net outlays consist of increases and decreases in liabilities, such as accounts payable and contingent liabilities. For the year ended September 30, 2019, the SEC paid $142.0 million to whistleblowers, including $60.5 million awarded during FY 2019. Refer to *Note 4, Liabilities Covered and Not Covered by Budgetary Resources*, and *Note 5, Commitments and Contingencies*, for more information about accounts payable and contingent liabilities.

The primary component of net outlays that is not part of net cost is the collection of non-exchange interest. Non-exchange interest deposited to the U.S. Treasury General Fund is reported on the Statement of Budgetary Resources as distributed offsetting receipts. Distributed offsetting receipts are collections that typically offset the outlays of the agency that conducts the activity generating the receipts. Refer to *Note 1.K, Non-Exchange Revenue*, for more information about non-exchange interest.

For the year ended September 30, 2019:

(DOLLARS IN THOUSANDS)	Intragovernmental	With the Public	Total
Net (Income) Cost of Operations	$ 33	$ 46,987	$ 47,020
Components of Net Cost That Are Not Part of Net Outlays:			
(Increase)/Decrease in Liabilities:			
Accounts Payable	—	81,426	81,426
Other Liabilities (Contingent Liabilities)	—	13,564	13,564
Total Components of Net Cost That Are Not Part of Net Outlays	—	94,990	94,990
Components of Net Outlays That Are Not Part of Net Cost:			
Non-Exchange Interest Receipts Reported as Distributed Offsetting Receipts	(6,584)	—	(6,584)
Total Components of Net Outlays That Are Not Part of Net Cost	(6,584)	—	(6,584)
Net Outlays	$ (6,551)	$ 141,977	$ 135,426

OTHER INFORMATION

This section provides additional information related to the SEC's financial and performance management.

Inspector General's Statement on Management and Performance Challenges

Summarizes the most significant management and performance challenges facing the SEC, as identified by management and the Office of Inspector General in accordance with the Reports Consolidation Act of 2000. Also included is a response from the SEC Chairman outlining the agency's progress toward 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, as required by the Federal Managers' Financial Integrity Act.

Fraud Reduction

Details the agency's approach to managing fraud in accordance with GAO's *A Framework to Managing Fraud Risks in Federal Programs*, as required by the Fraud Reduction and Data Analytics Act of 2015.

Payment Integrity 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.

INSPECTOR GENERAL'S STATEMENT ON MANAGEMENT AND PERFORMANCE CHALLENGES

OFFICE OF
INSPECTOR GENERAL

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

MEMORANDUM

October 7, 2019

TO: Jay Clayton, Chairman

FROM: Carl W. Hoecker, Inspector General

SUBJECT: *The Inspector General's Statement on the SEC's Management and Performance Challenges, October 2019*

The Reports Consolidation Act of 2000 requires the U.S. Securities and Exchange Commission's (SEC or agency) Office of Inspector General to identify and report annually on the most serious management and performance challenges facing the SEC.[1] 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 the attached 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 the U.S. Government Accountability Office and SEC management and staff. We reviewed the agency's response to the prior year's statement and efforts to address prior recommendations for improvement in areas of concern. 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 2020, we have again identified the following as areas where the SEC faces management and performance challenges to varying degrees:

- Meeting Regulatory Oversight Responsibilities
- Protecting Systems and Data
- Improving Contract Management
- Ensuring Effective Human Capital Management

The challenges and corresponding audit, evaluation, investigation, or review work are 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: Sean Memon, Chief of Staff, Office of Chairman Clayton
Bryan Wood, Deputy Chief of Staff, Office of Chairman Clayton

[1] Pub. L. No. 106-531, § 3a, 114 Stat. 2537-38 (2000).

Peter Uhlmann, Managing Executive, Office of Chairman Clayton
Kimberly Hamm, Chief Counsel/Senior Policy Advisor, Office of Chairman Clayton
Robert J. Jackson Jr., Commissioner
Prashant Yerramalli, Counsel, Office of Commissioner Jackson
Hester M. Peirce, Commissioner
Jonathan Carr, Counsel, Office of Commissioner Peirce
Elad Roisman, Commissioner
Matthew Estabrook, Counsel, Office of Commissioner Roisman
Allison Herren Lee, Commissioner
Andrew Feller, Counsel, Office of Commissioner Lee
Stephanie Avakian, Co-Director, Division of Enforcement
Steven Peikin, Co-Director, Division of Enforcement
Dalia Blass, Director, Division of Investment Management
Peter Driscoll, Director, Office of Compliance Inspections and Examinations
William Hinman, Director, Division of Corporation Finance
S.P. Kothari, Director and Chief Economist, Division of Economic and Risk Analysis
Brett Redfearn, Director, Division of Trading and Markets
Rick Fleming, Investor Advocate
Kenneth Johnson, Chief Operating Officer
Gabe Benincasa, Chief Risk Officer
Vance Cathell, Director, Office of Acquisitions
Jamey McNamara, Chief Human Capital Officer, Office of Human Resources
Charles Riddle, Acting Director/Chief Information Officer, Office of Information Technology
John J. Nester, Director, Office of Public Affairs
Holli Heiles Pandol, Director, Office of Legislative and Intergovernmental Affairs
Robert B. Stebbins, General Counsel

U.S. Securities and Exchange Commission

Office of Inspector General

The Inspector General's Statement on the SEC's Management and Performance Challenges

October 2019

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ABBREVIATIONS

COR	contracting officer's representative
DERA	Division of Economic and Risk Analysis
EDGAR	Electronic Data Gathering, Analysis, and Retrieval
Enforcement	Division of Enforcement
FISMA	Federal Information Security Modernization Act of 2014
FY	fiscal year
GAO	U.S. Government Accountability Office
ISS	infrastructure support services
IT	information technology
OA	Office of Acquisitions
OCIE	Office of Compliance Inspections and Examinations
OHR	Office of Human Resources
OIG	Office of Inspector General
OIT	Office of Information Technology
OPM	Office of Personnel Management
SEC, agency, or Commission	U.S. Securities and Exchange Commission
T&M	time-and-materials

CHALLENGE: Meeting Regulatory Oversight Responsibilities

The U.S. Securities and Exchange Commission (SEC, agency, or Commission) is charged with overseeing more than 26,000 registered market participants, including investment advisers, mutual funds, exchange-traded funds, broker-dealers, municipal advisors, and transfer agents. The agency also oversees 22 national securities exchanges, 10 credit rating agencies, and 7 active registered clearing agencies, as well as the Public Company Accounting Oversight Board, the Financial Industry Regulatory Authority, the Municipal Securities Rulemaking Board, the Securities Investor Protection Corporation, and the Financial Accounting Standards Board. In addition, the SEC is responsible for selectively reviewing the disclosures and financial statements of almost 4,300 exchange-listed public companies.

As in previous years, agency management and the Office of Inspector General (OIG) recognize that, as the markets, products, and participants that the SEC oversees and regulates increase in size and complexity, the agency's ability to meet its mission of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation becomes more challenging. The SEC's new Strategic Plan establishes goals and initiatives to ensure that, as the markets change rapidly and new technology, innovation, and global risks evolve, the SEC appropriately adapts its operational focus and remains an effective regulator.[2] We describe further below challenges to the SEC's ability to (1) keep pace with changing markets and innovations; (2) ensure sufficient examination coverage of registered investment advisers and timely enforcement investigations; and (3) leverage technology and analytics to meet mission requirements, while operating with limited resources.

Keeping Pace With Changing Markets and Innovations. According to the SEC's Fiscal Year (FY) 2020 Congressional Budget Justification, the securities markets continue to grow increasingly complex, with a proliferation of new and sophisticated products and services, tools, and trading strategies. Industry-based innovations include blockchain technology, automated investment advice, online marketplace lending, and crowdfunding. With such advancements, the SEC has reported that new risks have been introduced and, in some instances, existing risks have been magnified. For example, according to the agency, cybersecurity threats are continuing to grow in both frequency and sophistication. The FY 2020 Congressional Budget Justification states that, "These types of industry developments and financial innovation will continue to present challenges to the staff, requiring additional staff expertise, resources, and a program that is agile, responsive, and continuously improving."[3]

[2] U.S. Securities and Exchange Commission, *Strategic Plan Fiscal Years 2018-2022*; October 11, 2018.

[3] U.S. Securities and Exchange Commission, *Fiscal Year 2020 Congressional Budget Justification and Annual Performance Plan; Fiscal Year 2018 Annual Performance Report;* March 18, 2019.

Although in FY 2019, the SEC received an appropriation of about $1.675 billion—a $23 million (or 1.4 percent) increase over the FY 2018 appropriation—for several years, the SEC's annual appropriation was essentially flat, requiring a number of difficult operational choices, including cuts to contracts and a hiring freeze. The SEC implemented the hiring freeze in FY 2017, which resulted in a decrease of more than 400 positions over the last 2 FYs. In 2018 and 2019, divisions and offices reported specific challenges created by staffing levels that have fallen or have not kept pace with workload demands. For example, in its 2018 annual report, the Division of Enforcement (Enforcement) reported that the combined number of positions in the Division and the number of contractors supporting Enforcement's investigation and litigation efforts fell by about 10 percent between FY 2016 and FY 2018. Although the Division continued to exhibit significant enforcement-related activity, Enforcement management reported that, with more resources, the SEC could focus more on individual accountability, and support two key Enforcement priorities: (1) protecting retail investors, and (2) combating cyber-related threats.[4]

The Office of the Investor Advocate also reported that, because of the hiring freeze, efforts to devote additional resources to the organization's Ombudsman and research functions were hindered, which delayed the ability to build out these programs. Notably, in FY 2018, the Ombudsman—who, among other things, acts as a liaison in resolving problems that retail investors may have with the Commission or with self-regulatory organizations—received 449 new matters, which represented a 99-percent increase over the previous FY.[5]

In addition, in the SEC's FY 2018 Annual Performance Report, the agency's Office of International Affairs reported lower than expected numbers of non-U.S. regulators trained because of a temporary shortage of staff and resources. As a result, the Office held only two international institutes in 2018 and declined to participate in a number of foreign programs. Similarly, the Office of Investor Education and Advocacy reported a decrease in its ability to meet a performance goal of responding to investor contacts within 7 days as a likely result of staff attrition.[6]

FY 2019 funding allowed the SEC to begin lifting the hiring freeze and restoring positions to address critical priorities and enhance the agency's expertise in key areas, including cybersecurity and market oversight. This remains a priority for FY 2020. According to the SEC Chairman's May 8, 2019, congressional testimony, the SEC's FY 2020 request of $1.746 billion, a 4.2-percent increase over the FY 2019 enacted levels, will:

[4] U.S. Securities and Exchange Commission, Division of Enforcement, *2018 Annual Report;* November 2, 2018.

[5] U.S. Securities and Exchange Commission, Office of the Investor Advocate, *FY 2018 Report on Activities;* December 20, 2018.

[6] U.S. Securities and Exchange Commission, *Fiscal Year 2020 Congressional Budget Justification and Annual Performance Plan; Fiscal Year 2018 Annual Performance Report;* March 18, 2019.

> . . . support 4,694 positions, including 34 new positions. Along with the funding provided for 100 additional positions in FY 2019, the FY 2020 request will enable the SEC to fill approximately one-third of the approximately 400 positions lost due to the hiring freeze.[7]

We discuss the broader challenge of ensuring effective human capital management on page 15 of this document.

Coverage of Registered Investment Advisers and Timeliness of Investigations. Since 2014, we have reported as a challenge the need for ensuring sufficient examination coverage of registered investment advisers by the Office of Compliance Inspections and Examinations (OCIE). OCIE conducts the SEC's National Examination Program, which seeks to protect investors, ensure market integrity, and support responsible capital formation through risk-focused strategies that: (1) improve compliance, (2) prevent fraud, (3) monitor risk, and (4) inform policy. The SEC uses the results of OCIE's examinations to inform rule-making initiatives, identify and monitor risks, improve industry practices, and pursue misconduct. According to the SEC's FY 2020 Congressional Budget Justification, in FY 2018, OCIE completed more examinations than at any point in the last decade; however, the organization "continues to face a number of challenges and issues that are having a significant impact on its limited resources." Namely, the agency reported that "the size of the SEC-regulated community continues to grow in volume and complexity, and significantly exceeds existing resource levels."[8] In light of these challenges, it is imperative that management effectively use risk-based processes and—as discussed on page 5 of this document—leverage technology and analytics to address its regulatory responsibilities, including those of the examination program.

Additionally, Enforcement plays an essential role in carrying out the SEC's mission by investigating and bringing actions against those who violate Federal securities laws. The Commission's enforcement actions cover a broad range of subject areas, including investment management, securities offerings, issuer reporting and accounting, market manipulation, insider trading, broker-dealer activities, cyber-related conduct, and the Foreign Corrupt Practices Act, among others.

As we reported last year, the timeliness of Enforcement investigations remains a concern. Specifically, in FY 2018, the percentage of first enforcement actions filed within 2 years of the opening of the matter under inquiry or investigation was 49 percent. Once again, this did not meet the annual target of 65 percent. In addition, in FY 2018, the average number of months between opening a matter under inquiry or investigation and commencing an enforcement action was 25 months. This also did not meet the annual target of 20 months. To address the issue of timeliness in investigations, Enforcement has again reported "taking measures that include

[7] Chairman Jay Clayton, *Testimony before the Financial Services and General Government Subcommittee of the U.S. Senate Committee on Appropriations*; May 8, 2019.

[8] U.S. Securities and Exchange Commission, *Fiscal Year 2020 Congressional Budget Justification and Annual Performance Plan; Fiscal Year 2018 Annual Performance Report;* March 18, 2019.

emphasizing expediency in quarterly case reviews, promoting best practices regarding efficiencies in various phases of the investigative process, leveraging data analytics capabilities, and conducting training on tools that expedite investigations."[9]

Leveraging Technology and Analytics to Meet Mission Requirements. As in previous years, agency management and the OIG recognize that technology and analytics are critical to the mission of the SEC and its ability to deliver information to the public, identify risks, uncover frauds, sift through large volumes of data, inform policy-making, and streamline operations. The SEC's FY 2020 Congressional Budget Justification states:

> Technology is also a crucial focus of the SEC's Strategic Plan, and the FY 2020 request would enable the SEC to continue investments to strengthen the security of our systems and data; retire outdated legacy systems; and develop new [information technology (IT)] systems and analytic tools to help us become more efficient in our work.[10]

The agency established the following strategic technology priorities, which include a number of multi-year initiatives:

- continuing the development of a modernized, more secure Electronic Data Gathering, Analysis, and Retrieval (EDGAR) filing system;
- expanding the SEC's use of secure cloud computing to deliver an expanded range of services at lower cost and in a more secure manner;
- deploying enhancements to critical analytic systems and upgrading the agency's electronic discovery and document management tools;
- retiring legacy SEC systems and applications in favor of modernized, more secure replacements; and
- digitizing business processes to improve efficiency.

Finally, the SEC's new Strategic Plan emphasizes the agency's goal of enhancing and expanding its use of analytics.[11]

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[9] The SEC's FY 2018 Annual Performance Report (1) includes Performance Goal 2.3.2, *Percentage of first enforcement actions filed within two years of the opening of an investigation*, and Performance Goal 2.3.3, *Average months between opening a matter under inquiry or an investigation and commencing an enforcement action*; (2) compares the agency's results from FY 2013 through FY 2018; and (3) describes plans for improving program performance, where necessary.

[10] U.S. Securities and Exchange Commission, *Fiscal Year 2020 Congressional Budget Justification and Annual Performance Plan; Fiscal Year 2018 Annual Performance Report;* March 18, 2019.

[11] U.S. Securities and Exchange Commission, *Strategic Plan Fiscal Years 2018-2022*; October 11, 2018.

In support of these efforts, the SEC requested an additional $20 million in FY 2020 to ensure its systems remain relevant to changing needs. This request relies on continued access to the Reserve Fund, created by the Dodd-Frank Wall Street Reform and Consumer Protection Act.[12] We note that the President's Budget for FY 2020 again proposes to eliminate the Reserve Fund beginning in 2021.[13]

To assess the SEC's progress in these areas, in FY 2019, we completed assessments of (1) the SEC's efforts to redesign the EDGAR system, (2) the Division of Economic and Risk Analysis' (DERA) analytical support of other divisions and offices, and (3) the SEC's planning and management of its FY 2018 IT investments. The results of OIG work in each of these areas are further described below. We discuss the broader challenge of protecting SEC systems and data on page 8 of this document.

EDGAR Redesign. On May 23, 2019, we issued the management letter titled *Final Management Letter: Update on the SEC's Progress Toward Redesigning the Electronic Data Gathering, Analysis, and Retrieval System*, which stated that, since 2014, the SEC has taken several steps to develop a new electronic disclosure system, including spending about $10.6 million on related contracts. However, the agency's approach to redesigning the EDGAR system was unclear; EDGAR Redesign program cost and schedule estimates presented to agency decision makers and senior officials were not based on best practices; and the EDGAR Business Office created a Grand Functional Requirements Document for the redesigned EDGAR system but did not include sufficient detail about the system's security requirements.

To help us determine whether further action by the OIG is warranted, we requested—and management provided—additional information in June 2019. As the SEC continues to modernize the EDGAR system and improve the system's security, functionality, and maintainability, we will assess the value of follow-on reviews.

DERA Analytics. Analytics provided by DERA support exam planning and other SEC oversight programs related to issuers, broker-dealers, investment advisers, exchanges, and other trading platforms. In our report titled *Although Highly Valued by End Users, DERA Could Improve Its Analytics Support by Formally Measuring Impact, Where Possible* (Report No. 553, issued April 29, 2019), we concluded that, although other SEC divisions and offices highly valued DERA's analytics support and believed such analytics were indispensable for risk scoping, investor protection, detecting illegal conduct, allocating resources more efficiently, and helping the SEC achieve its mission, DERA management generally did not formally measure the quantitative or qualitative impact of its analytics support. By not measuring, where possible, the impact of analytics support, DERA risks limiting its ability to assess its organizational performance, increase awareness of its analytics capabilities (including through outreach efforts), and fully integrate analytics into the work of the SEC in accordance with the agency's strategic goals and objectives.

[12] Pub. L. No. 111-203, § 991e, 124 Stat. 1376, 1954-55 (2010).

[13] Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2020*.

To address these topics, we made three recommendations for corrective action. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

FY 2018 IT Investments. In FY 2019, we completed an audit of the SEC's management of its FY 2018 IT investments, which represented about 18 percent of all funding available to the SEC that year. In our report titled *The SEC Has Processes To Manage Information Technology Investments But Improvements Are Needed* (Report No. 555, issued September 19, 2019), we stated that the SEC's management of steady state investments (investments to maintain and operate IT assets in a production environment) needs improvement. The SEC's spending on steady state investments has gradually increased in recent years, and in FY 2018, steady state investments represented 71 percent of the agency's total IT investment expenditures (that is, $217 million of the $307 million spent that year). Improving agency management of steady state investments could promote more effective decision-making and provide greater assurance that such investments (1) deliver value, (2) do not unnecessarily duplicate or overlap with other investments, and (3) continue to meet the SEC's needs.

We also reported that the SEC can better manage and document deviations from approved plans for investments to develop, modernize, and enhance IT assets; and, that the Office of Information Technology (OIT) needs to improve the documentation of hardware assets investment planning and to demonstrate investment outcomes. Finally, we identified contract management concerns that we further discuss on page 14 of this document.

To improve the SEC's management of IT investments, we made four recommendations for corrective action. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

In FY 2020, we will continue assessing how well the SEC achieves its regulatory oversight responsibilities and, in doing so, leverages technology and analytics. Specifically, we will complete ongoing evaluations of (1) the efficiency and effectiveness of the Division of Trading and Markets' Office of Broker-Dealer Finances, and (2) the SEC's processes for identifying, tracking, and notifying delinquent filers and issuing related revocation orders and/or trading suspensions. We are also planning to follow up on prior OIG assessments of the Office of Investor Education and Advocacy's efficiency in addressing investor inquiries and processing investor complaints, and OCIE's investment adviser/investment company examination processes. Finally, we plan to evaluate the SEC's Tips, Complaints and Referrals Program, and the newly formed Office of the Advocate for Small Business Capital Formation.

CHALLENGE: Protecting Systems and Data

Strategic initiative 3.4 in the SEC's new Strategic Plan addresses the importance of "developing a robust and resilient program for dealing with threats to the security, integrity, and availability of the SEC's systems and sensitive data."[14] Among other actions, the SEC has taken steps to reduce the amount of sensitive information contained in agency systems, test its security posture, and improve related security controls and practices. However, as we further describe below, opportunities remain to strengthen the SEC's cybersecurity posture and mature its information security program.

Strengthening the SEC's Cybersecurity Posture. Cybersecurity and minimizing cyber risks at the SEC continue to be top priorities and management challenges. As noted in the SEC Chairman's May 2019 congressional testimony, "The SEC and other agencies are frequent targets of attempts by threat actors who seek to penetrate our systems, and some of those actors may be backed by substantial resources."[15, 16] Nonetheless, in its FY 2018 Agency Financial Report, the SEC again recognized a material weakness in its internal controls related to cybersecurity risks. As the agency reported in 2017, this material weakness was caused by deficiencies that hindered its ability to timely detect and mitigate a vulnerability in the EDGAR system's source code, which was exploited in 2016, resulting in unauthorized access to non-public information.[17] Under Performance Goal 4.3.2, *Assurance statement on internal control over operations*, the SEC's FY 2018 Annual Performance Report states that the agency is working to mitigate the deficiencies that caused the material weakness, including taking steps to improve communication and escalation protocols and enhance the information security of the EDGAR system.[18] Moreover, in its FY 2020 Congressional Budget Justification, the SEC reported that it has already undertaken efforts to uplift its cybersecurity risk profile by:

- deploying new security capabilities;
- engaging with outside experts to actively test its security posture;

[14] U.S. Securities and Exchange Commission, *Strategic Plan Fiscal Years 2018-2022*; October 11, 2018.

[15] Chairman Jay Clayton, *Testimony before the Financial Services and General Government Subcommittee of the U.S. Senate Committee on Appropriations*; May 8, 2019.

[16] In July 2019, the Council of Inspectors General on Financial Oversight reported "Managing and Securing Information Technology at Regulatory Organizations" as a cross-cutting challenge facing multiple financial-sector regulatory organizations. [Council of the Inspectors General on Financial Oversight, *Top Management and Performance Challenges Facing Financial-Sector Regulatory Organizations* (Approved July 2019)].

[17] U.S. Securities and Exchange Commission, *Fiscal Year 2018 Agency Financial Report*; November 15, 2018.

[18] U.S. Securities and Exchange Commission, *Fiscal Year 2020 Congressional Budget Justification and Annual Performance Plan; Fiscal Year 2018 Annual Performance Report;* March 18, 2019.

- improving its enterprise security controls and practices;
- reducing the amount of sensitive information contained in SEC systems; and
- taking better advantage of the cybersecurity tools and services provided by the Department of Homeland Security.

The SEC is also assessing ways to further reduce its "attack surface" and plans additional actions in FY 2020 to further strengthen its cybersecurity posture based on the recommendations from its assessment. For FY 2020, the agency seeks resources to hire three additional staff positions in OIT to "deepen OIT's expertise in new technologies such as cloud computing, and to expand [its] proactive monitoring of network and systems for malicious activity by cyber threat actors."[19]

In response to the 2016 intrusion of the EDGAR system and a request from the SEC Chairman that the OIG review related matters, on September 21, 2018, we issued a report titled *Evaluation of the EDGAR System's Governance and Incident Handling Processes* (Report No. 550). The report (1) presented the OIG's findings and recommendations from our assessment of the information security practices applicable to the EDGAR system between FY 2015 and FY 2017, and (2) included 14 recommendations to improve the SEC's EDGAR system governance, security practices, and incident handling processes. To date, the SEC has taken corrective action sufficient to close 12 of the 14 recommendations. We commend agency management for corrective action taken to date, and encourage management to fully implement all agreed-to corrective actions to help address the material weakness and underlying deficiencies identified in this area.

In addition, in April 2019, the U.S. Government Accountability Office (GAO) notified the SEC that a priority recommendation related to cybersecurity remained open.[20] The recommendation, from a July 2017 GAO report, addressed the need to maintain up-to-date network diagrams and asset inventories in key system security plans.[21] GAO also noted that, in the March 2019 update to its High-Risk Series, GAO recognized "Ensuring the Cybersecurity of the Nation" as a government-wide high-risk area, and urged management's attention to such government-wide high-risk issues as they relate to the

[19] U.S. Securities and Exchange Commission, *Fiscal Year 2020 Congressional Budget Justification and Annual Performance Plan; Fiscal Year 2018 Annual Performance Report;* March 18, 2019.

[20] According to GAO, priority recommendations are those that GAO believes warrant priority attention from heads of key departments or agencies. Priority recommendations are highlighted because, upon implementation, they may significantly improve Government operation, for example, by realizing large dollar savings; eliminating mismanagement, fraud, and abuse; or making progress toward addressing a high-risk or duplication issue.

[21] U.S. Government Accountability Office, *Information Security: SEC Improved Control of Financial Systems but Needs to Take Additional Actions* (GAO-17-469; July 27, 2017).

SEC.[22, 23] According to the SEC, corrective actions necessary to address the open priority recommendation are complete and a closure request is pending.

Maturing the SEC's Information Security Program. Effective information security controls are essential to protecting the SEC's information systems and the information they contain. To help the SEC establish and maintain effective information security controls and to comply with the Federal Information Security Modernization Act of 2014 (FISMA), annually, the OIG evaluates the SEC's implementation of FISMA information security requirements and the effectiveness of the agency's information security program on a maturity model scale.[24] The OIG contracted with Kearney and Company, P.C., to conduct the FY 2018 independent evaluation and subsequently issued the report titled *Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014* (Report No. 552, issued December 17, 2018). The FY 2019 FISMA evaluation is ongoing and will be completed in the first quarter of FY 2020.

As stated in Report No. 552, since FY 2017, OIT improved aspects of the SEC's information security program. Among other actions taken, OIT made progress by:

- enhancing information security policies and procedures to address security risks at the organizational and information system levels;
- strengthening authentication mechanisms;
- reducing the number of critical vulnerabilities;
- enhancing its security awareness and training processes; and
- continuing its efforts to enhance its continuous monitoring program.

Although OIT took steps to strengthen the SEC's information security program, Kearney and Company, P.C., determined for FY 2018 that, as in prior years, the SEC's information security program did not meet annual Inspector General FISMA reporting metrics' definition of "effective."[25] As stated in Report No. 552, the SEC's maturity level for the five Cybersecurity Framework security functions ("identify," "protect," "detect," "respond," and "recover") was either Level 2 ("Defined") or Level 3 ("Consistently Implemented"). None of the functions reached Level 4 ("Managed and Measurable"),

[22] U.S. Government Accountability Office, *Priority Open Recommendations: Securities and Exchange Commission* (GAO-19-379SP; April 3, 2019).

[23] U.S. Government Accountability Office, *HIGH-RISK SERIES Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas* (GAO-19-157SP; March 6, 2019).

[24] Pub. L. No. 113-283, § 3555, 128 Stat. 3073 (2014).

[25] *FY 2018 Inspector General Federal Information Security Modernization Act of 2014 (FISMA) Reporting Metrics,* Version 1.0.1; May 24, 2018.

which the annual Inspector General FISMA reporting metrics consider an effective information security program.

Report No. 552 included 11 recommendations to strengthen the SEC's information security program, and highlighted opportunities to improve in all 8 FISMA metric areas. To date, the SEC has taken corrective action sufficient to close two of these recommendations and, in September 2019, OIT submitted to the OIG a request to close an additional recommendation. Notably, 12 of the 20 recommendations from our FY 2017 FISMA report, issued in March 2018, also remain open, although in August 2019 OIT requested closure of 2 of these recommendations.[26] Again, we commend agency management for corrective action taken to date, and encourage management to promptly act on all opportunities for improvement identified in the last two FISMA reports to help minimize the risk of unauthorized disclosure, modification, use, and disruption of the SEC's sensitive, non-public information, and to assist the agency's information security program reach the next maturity level.

In FY 2020, we will continue to assess the SEC's efforts to secure its systems and data. Specifically, we will complete an ongoing audit of the SEC's management of the planning, implementation, and security of its cloud computing services. We also plan to assess the SEC's mobile device program and controls for protecting information stored and/or processed on such devices, as well as the agency's firewall security.

CHALLENGE: Improving Contract Management

To accomplish its mission, the SEC relies on contractor support in a variety of programs and operations. Contractors assist Enforcement investigators and litigators by providing trial, mock jury, paralegal, and administrative support, among other services. Contractors also support the SEC's examination staff and the agency's business management operations, quantitative and risk analysis activities, and human resources program. Moreover, OIT relies heavily on contractors to provide services and expertise, including application management, business solutions delivery, IT infrastructure and operations management, information security, IT governance, data management, and telecommunication and equipment maintenance. To fund these and other contract requirements, the SEC's FY 2020 budget request included about $509 million for contractual services and supplies, which represents about 29 percent of the total requested amount for agency operations ($1.746 billion).[27]

[26] U.S. Securities and Exchange Commission, Office of Inspector General, *Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017* (Report No. 546; March 30, 2018).

[27] According to *usaspending.gov*, the contractual services and supplies object class covers purchases in object classes 210 through 260 (Travel and transportation of persons; Transportation of things; Rent, Communications, and Utilities; Printing and reproduction; Other contractual services; and Supplies and materials).

In 2018, we again identified contract management as an SEC management and performance challenge.[28] In response, management reported that the Office of Acquisitions (OA) plans to work on a variety of fronts to further promote effective contract management. Such actions include improving communications between contracting officers and contracting officer's representatives (CORs), ensuring CORs received proper training and enforced their use of the Electronic Contract File system, conducting annual reviews of contract files to make sure files contain all appropriate documents, and improving reporting.

In addition, OA plans to continue the Contract Management Excellence initiative, which the SEC developed in FY 2018 to drive improvements in contract management. The SEC's FY 2020 Congressional Budget Justification also states that the agency will continue the COR Improvement Initiative "to create a more comprehensive COR Program that will provide efficient and functional control, transparency, and management of the COR Program across the SEC."[29]

In recent years, OIG audits and evaluations primarily identified concerns in the post-award phase of the contracting life cycle (as the following figure shows), with concerns largely relating to contractor oversight performed by contracting officers and CORs.[30] However, we have also reported concerns in the pre-award phase related to requirements definition.[31] As further described below, in FY 2019, we again identified concerns in the pre- and post-award life cycle phases, as well as in the award phase related to competition and pricing.

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[28] In July 2019, the Council of Inspectors General on Financial Oversight reported "Improving Contract and Grant Management" as a cross-cutting challenge facing multiple financial-sector regulatory organizations. [Council of the Inspectors General on Financial Oversight, *Top Management and Performance Challenges Facing Financial-Sector Regulatory Organizations* (Approved July 2019)].

[29] U.S. Securities and Exchange Commission, *Fiscal Year 2020 Congressional Budget Justification and Annual Performance Plan; Fiscal Year 2018 Annual Performance Report;* March 18, 2019.

[30] Examples include: (1) U.S. Securities and Exchange Commission, Office of Inspector General, *Audit of the SEC's Contracting Officers' Representative Program* (Report No. 530; September 18, 2015); (2) U.S. Securities and Exchange Commission, Office of Inspector General, *Management of the SEC's Protective Security Force Contract Needs Improvement* (Report No. 536; June 22, 2016); (3) U.S. Securities and Exchange Commission, Office of Inspector General, *Audit of the SEC's Progress in Enhancing and Redesigning the Electronic Data Gathering, Analysis, and Retrieval System* (Report No. 544; September 28, 2017); and (4) U.S. Securities and Exchange Commission, Office of Inspector General, *Audit of the SEC's Internal Controls for Retaining External Experts and Foreign Counsel for the Division of Enforcement* (Report No. 547; June 15, 2018).

[31] Examples include: (1) U.S. Securities and Exchange Commission, Office of Inspector General, *Audit of the SEC's Information Technology Requirements-Gathering Process* (Report No. 538, September 30, 2016); (2) U.S. Securities and Exchange Commission, Office of Inspector General, *Final Management Letter: Progress on the SEC's Tips, Complaints, and Referrals Intake and Resolution System Redesign and Vulnerability Remediation Efforts* (May 31, 2017); (3) U.S. Securities and Exchange Commission, Office of Inspector General, *Audit of the SEC's Management of Its Data Centers* (Report No. 543; September 29, 2017); and (4) U.S. Securities and Exchange Commission, Office of Inspector General, *TCP Established Method To Effectively Oversee Entity Compliance With Regulation SCI But Could Improve Aspects of Program Management* (Report No. 551; September 24, 2018).

Figure. Contracting Life Cycle

Source: Adapted from U.S. Government Accountability Office, *FEDERAL ACQUISTIONS: Congress and the Executive Branch Have Taken Steps to Address Key Issues, but Challenges Endure* (GAO-18-627; September 12, 2018).

Pre-Award Phase Concerns. As previously discussed, to maintain visibility into the SEC's IT acquisitions and operations, in FY 2019 we continued to monitor the agency's progress toward redesigning the EDGAR system. On May 23, 2019, we issued the management letter titled *Final Management Letter: Update on the SEC's Progress Toward Redesigning the Electronic Data Gathering, Analysis, and Retrieval System*, which stated that, among other things, the agency's approach to redesigning the EDGAR system was unclear; EDGAR Redesign program cost and schedule estimates presented to agency decision makers and senior officials were not based on best practices; and the EDGAR Business Office created a Grand Functional Requirements Document for the redesigned EDGAR system but did not include sufficient detail about the system's security requirements. Because the SEC is relying on contractor support to redesign the EDGAR system, these issues are relevant to discussions about IT acquisitions and operations.

We also completed an audit in FY 2019 that assessed the SEC's management of funds obligated to and spent on the agency's infrastructure support services (ISS) contract—the agency's largest active contract—which comprises key aspects of the SEC's IT program. We sought to (1) determine whether the SEC obtained and properly reviewed plans for converting any contract task area(s) from time-and-materials (T&M) to other pricing structures, (2) evaluate the SEC's decision to waive the requirement for using the agency's Contractor Time Management System, and (3) assess the agency's management of contractor time and approval of contractor invoices.

In our report titled *The SEC Can Better Manage Administrative Aspects of the ISS Contract* (Report No. 554, issued May 31, 2019), we noted that, in FYs 2015 through 2018, T&M contracts appeared to represent about 32 percent of all SEC contract actions.[32] As specified in Federal Acquisition Regulation Subpart 16.6, "A time-and-materials contract may be used only when it is not possible at the time of placing the contract to estimate accurately the extent or duration of the work or to anticipate costs with any reasonable degree of confidence." To help ensure T&M contracts are used only when appropriate and to minimize the risk to the agency, we encouraged

[32] This includes labor-hour contracts, which are a variation of T&M contracts and differ only in that materials are not supplied by the contractor.

management to assess the SEC's use of T&M contracts and formulate actions that will be taken to reduce the use of T&M contracts whenever possible.

Award Phase Concerns. As previously discussed, in FY 2019, we completed an audit of the SEC's management of its FY 2018 IT investments. With respect to contract management, we determined that, in FY 2018, OA extended on a sole-source basis two contracts for IT acquisitions without adequate documentation to support independent government cost estimates used for the estimated extension prices. Contracting officials based the independent Government cost estimate for one of the two extensions on the contractor's cost/price estimate and did not fully document the data sources and methodology used to develop either extensions' independent Government cost estimate. Without adequate documentation, the SEC has less assurance that anticipated prices for contract extensions—including the extensions we reviewed—are fair and reasonable.

In our report titled *The SEC Has Processes To Manage Information Technology Investments But Improvements Are Needed* (Report No. 555, issued September 19, 2019), we made one recommendation for corrective action related to this issue. Management concurred with the recommendation, which will be closed upon completion and verification of corrective action.

Post-Award Phase Concerns. As previously discussed, we assessed the SEC's management of funds obligated to and spent on the agency's ISS contract. Our report titled *The SEC Can Better Manage Administrative Aspects of the ISS Contract* (Report No. 554, issued May 31, 2019) explained that, under T&M contracts, payments to contractors are made based on the number of labor hours billed at hourly rates and, if applicable, other direct costs. Because of the risk T&M contracts pose to the Government, their use is supposed to be limited to cases where no other contract type is suitable. Shortly after award of the SEC's ISS contract, responsible officials became aware of concerns with the ISS contractor's invoices. Specifically, invoices were routinely submitted months late and included multiple periods of performance, frequent back billing, and adjustments from prior periods of performance already paid. Despite these issues and the inherent risk posed to the Government by T&M contracts, the SEC:

- waived the requirement to use the agency's Contractor Time Management System;
- did not consistently enforce requirements for pre-approval of labor hours outside the contractor's normal hours of performance; and
- did not ensure all contractor employees—including those responsible for performing critical IT assessments, managing data networks, and administering servers and systems, among other essential IT tasks—met minimum labor category requirements.

These conditions—particularly when combined with the known invoicing delays and other complexities—further weakened the contract's overall internal control environment; affected the agency's ability to effectively monitor contractor costs; and increased the risk of errors, fraud, waste, and poor contractor performance in key areas supporting the SEC's IT program. Consistent with generally accepted government auditing standards, we performed tests to gain reasonable assurance of detecting fraud in the areas we reviewed. Although we did not detect likely instances of fraud in the areas we reviewed, we identified nearly $3 million in unsupported contractor costs and an additional $42,801 in questioned costs. As a result, the SEC may not be able to (1) rely on the contract's historical cost information to ensure a fair and reasonable price for any task areas converted from T&M to other pricing structures, as planned, or (2) meet its stated goal of cost-reduction in the out years of the ISS contract.[33]

To address these issues, we made five recommendations for corrective action. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

In FY 2020, we will further assess the SEC's contract management and acquisition processes across each phase of the contracting life cycle. Specifically, we will report on any acquisition-related matters identified as a result of ongoing and planned assessments of the SEC's IT program. To follow up on concerns identified in FY 2019 related to the SEC's ISS contract, we will assess the SEC's oversight and monitoring of the ISS contractor's performance. Lastly, we will continue to support the SEC's efforts to train contracting officers and CORs about the potential for procurement-related fraud.

CHALLENGE: Ensuring Effective Human Capital Management

The SEC's new Strategic Plan establishes that the agency is committed to developing and strengthening its human capital, which strengthens the SEC's ability to achieve its goals.[34] Moreover, the SEC Chairman's May 2019 congressional testimony noted that maintaining a high level of staff engagement, performance, and morale is critical to the agency's ability to execute its mission on behalf of Main Street investors.[35] The SEC's 2018 Federal Employee Viewpoint Survey results demonstrated that the agency is maintaining a work environment that has resulted in consistently high levels of employee satisfaction. Notably, the SEC continued to improve in important areas of employee engagement and organizational health. However, human capital

[33] Attachment 20 of the ISS contract required the contractor to submit plans to convert selected task areas from T&M to other pricing structures (fixed-price, cost per user, or other offeror suggestions) with the goal of reducing costs for the remaining years of the contract.

[34] U.S. Securities and Exchange Commission, *Strategic Plan Fiscal Years 2018-2022*; October 11, 2018.

[35] Chairman Jay Clayton, *Testimony before the Financial Services and General Government Subcommittee of the U.S. Senate Committee on Appropriations*; May 8, 2019.

management remains a management and performance challenge for the SEC.[36] In FY 2019, we continued to monitor the SEC's progress toward further improving its management of human capital, including monitoring the impacts of the hiring freeze, as discussed on pages 3 and 4 of this document. Also, as we discuss further below, we stayed abreast of continuing changes to the SEC's performance management program, and agency actions to respond to prior OIG and GAO work in this area.

Continuing Changes to the SEC's Performance Management Program. The SEC has made incremental changes to its performance management program each year since FY 2016. As changes have occurred, the agency's Office of Human Resources (OHR) has sought to timely answer questions through its askHR portal; keep the workforce informed with updates in *SEC Today*; and offer employees and supervisors training, information sessions, user guides, and other resources. However, the incremental changes made each year have created additional challenges and, at times, delays that have impacted all non-bargaining unit and bargaining unit employees.

In FY 2016, OHR conducted a four-tier performance management pilot that included more than 800 non-bargaining unit employees in select offices across the SEC. The four-tier program was designed to:

- streamline the performance management process while clarifying expectations;
- promote more frequent and meaningful performance feedback; and
- empower employees in performance conversations and motivate future performance.

Notable differences between the four-tier program and the five-tier program that was in effect included fewer critical objectives—only two for all employees, and one additional critical element for managers—and an emphasis on ongoing feedback intended to promote continuous performance improvement.

The SEC partnered with the U.S. Office of Personnel Management's (OPM) Human Resources Solutions in February 2016 for an evaluation of the SEC's four-tier pilot program. OPM subsequently reported to SEC management that the pilot program streamlined the performance management process to make it more efficient and meaningful for employees; however, many of the pilot requirements depended on action from supervisors who, according to OPM, would benefit from specific guidance to ensure they would be able to successfully implement the program. In addition, although

[36] We also noted that, in the March 2019 update to its High-Risk Series, GAO again recognized "Strategic Human Capital Management" as a government-wide high-risk area needing attention by Congress and the executive branch. [U.S. Government Accountability Office, *HIGH-RISK SERIES Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas* (GAO-19-157SP; March 6, 2019)]. Additionally, in July 2019, the Council of Inspectors General on Financial Oversight reported "Managing Human Capital" as a cross-cutting challenge facing multiple financial-sector regulatory organizations. [Council of the Inspectors General on Financial Oversight, *Top Management and Performance Challenges Facing Financial-Sector Regulatory Organizations* (Approved July 2019)].

OPM determined that the pilot program complied "for the most part" with the Code of Federal Regulations and the Human Capital Assessment and Accountability Framework, OPM identified some instances of potential non-compliance and made recommendations for improvement.[37]

For the FY 2017 performance cycle, the SEC transitioned all non-bargaining unit employees from the five-tier performance management program to the four-tier program, while bargaining unit employees transitioned to the four-tier program on a pilot basis. Also, OHR announced in July 2017 that the SEC was upgrading its online learning and career management system (LEAP) to include a performance management module. According to OHR, the module would provide "streamlined performance management tasks, tools and reminders," and allow employees to "Easily complete and submit [performance work plan] self-assessments . . . and narratives . . . paper-free."[38] In mid-September 2017, OHR notified employees that the FY 2017 performance management cycle would be closed out in LEAP.[39]

In FY 2018, the SEC again changed its performance management program for bargaining unit employees. Specifically, although bargaining unit employees remained on the four-tier program pilot and were evaluated on the four-tier rating system, their ratings were "translated into an official rating of 'Acceptable' or 'Unacceptable.'"[40] Meanwhile, supervisors continued to evaluate and rate non-bargaining unit employees on the four-tier system.

Finally, in November 2018, shortly after the start of the FY 2019 performance cycle on October 1, OHR announced: "The development of FY 2019 Performance Work Plans (PWP) in LEAP for both senior officers and SK employees has been delayed. The Office of Human Resources will distribute guidance via *SEC Today* when PWPs are available in LEAP and ready for issuance."[41] Six months later (during which a month-long government shutdown occurred), on May 7, 2019, OHR notified employees that 2019 performance work plans would soon be available to rating officials in LEAP.[42] At the same time, OHR told employees that it was "not implementing major substantive changes to the [performance management] program," but that "modifications and highlights pertaining to the 2019 cycle" included:

[37] United States Office of Personnel Management, *The U.S. Securities and Exchange Commission Performance Management Pilot Evaluation*.

[38] *SEC Today* announcement, *Sneak Peek: New Performance Management Module in LEAP*; July 18, 2017.

[39] Memorandum to All SEC Employees, *FY 2017 Performance Management Cycle Closeout for SK Employees*; September 14, 2017.

[40] SEC Today announcement, *FY 2018 Performance Self-Assessments Due Oct. 9*; September 19, 2018.

[41] *SEC Today* announcement, *Delay in FY 2019 Performance Work Plan Issuance*; November 19, 2018.

[42] *SEC Today* announcement, *2019 Performance Management Cycle Underway*; May 7, 2019.

- transitioning the performance management cycle from the fiscal year to the calendar year;[43]
- incorporating the SEC's 2018 strategic goals in all employee performance work plans; and
- converting critical element ratings, which will continue to reflect the four-tier rating scale, to an official rating of "Acceptable" or "Unacceptable" for all employees.

Successfully implementing these and other planned changes to the SEC's performance management program will require OHR to effectively communicate with rating officials and employees and continue partnering with stakeholders, including the National Treasury Employees Union.

Responding to Prior OIG and GAO Work. In September 2018, we issued a report titled *The SEC Made Progress But Work Remains To Address Human Capital Management Challenges and Align With the Human Capital Framework* (Report No. 549, issued September 11, 2018). The report identified (1) steps OHR had taken to address the human capital management challenges the agency faces, (2) limitations and delays in OHR's efforts, and (3) additional challenges and opportunities for improvement. In the report, we made nine recommendations for corrective action. Management concurred with the recommendations and, to date, has taken action sufficient to close all but two of them.

In addition, Section 962 of the Dodd-Frank Wall Street Reform and Consumer Protection Act mandates GAO to report triennially on the SEC's personnel management, including the competence of professional staff; the effectiveness of supervisors; and issues related to employee performance assessments, promotion, and intra-agency communication.[44] GAO issued its first and second reports in 2013 and 2016, respectively, and will issue its third report by December 31, 2019.[45] In April 2019, GAO notified the SEC that five priority recommendations related to workforce and succession planning, performance management, and communication and collaboration remained open.[46] According to the Director of OHR, the SEC has made progress to address GAO's concerns related to workforce and succession planning and

[43] The FY 2019 cycle began on October 1, 2018, and will end on December 31, 2019. Future performance cycles will follow the calendar year from January 1 through December 31.

[44] Pub. L. No. 111-203, § 962, 124 Stat. 1376, 1908-09 (2010).

[45] U.S. Government and Accountability Office, *Securities and Exchange Commission: Improving Personnel Management Is Critical for Agency's Effectiveness* (GAO-13-621; July 18, 2013).

U.S. Government and Accountability Office, *Securities and Exchange Commission: Actions Needed to Address Limited Progress in Resolving Long-Standing Personnel Management Challenges* (GAO-17-65; December 29, 2016).

[46] U.S. Government Accountability Office, *Priority Open Recommendations: Securities and Exchange Commission* (GAO-19-379SP; April 3, 2019).

communication and collaboration. As a result, the SEC expects closure of four of the five open priority recommendations.

We commend agency management for corrective action taken to date, and encourage management to fully implement all agreed-to corrective actions to continue improving its personnel management.

In FY 2020, we will continue to monitor the SEC's efforts to (1) implement a new performance management program, and (2) address previously identified human capital management challenges. We will also assess the results of GAO's latest personnel management review.

OIG GENERAL OFFICE CONTACT INFORMATION

PHONE: (202) 551-6061

FAX: (202) 772-9265

MAIL: Office of Inspector General
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-2977

REPORT FRAUD, WASTE, OR ABUSE

To report suspected fraud, waste, or abuse in SEC programs or operations, as well as SEC staff or contractor misconduct, use our online OIG hotline complaint form, *https://sec.govcomhotline.com/* or call (833) 732-6441. This number is answered 24 hours, 7 days a week.

Information received through the hotline is held in confidence upon request. Although the OIG encourages complainants to provide information on how we may contact them for additional information, we also accept anonymous complaints.

EMPLOYEE SUGGESTION PROGRAM

The OIG SEC Employee Suggestion Program, established under the Dodd-Frank Wall Street Reform and Consumer Protection Act, welcomes suggestions by all SEC employees for improvements in the SEC's work efficiency, effectiveness, productivity, and use of resources. The OIG evaluates all suggestions received and forwards them to agency management for implementation, as appropriate. SEC employees may submit suggestions by calling (202) 551-6062 or sending an e-mail to *OIGESProgram@sec.gov*.

COMMENTS AND IDEAS

The SEC OIG also seeks ideas for possible future audits, evaluations, or reviews. We will focus on high-risk programs, operations, and areas where substantial economies and efficiencies can be achieved. Please send your input to *AUDPlanning@sec.gov*.

MANAGEMENT'S RESPONSE TO INSPECTOR GENERAL'S STATEMENT

OFFICE OF
THE CHAIRMAN

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

November 7, 2019

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 October 7, 2019 (Statement). The SEC is committed to further bolstering its financial and operational effectiveness. We appreciate your recognition of the SEC's progress in addressing key challenges, but I recognize there is much more work to be done.

As discussed below, the SEC continues to take specific steps to address the areas of management and performance challenges identified in your Statement. In March 2019, the SEC established a new Office of the Chief Risk Officer to coordinate the continued efforts to identify, monitor, and mitigate key risks facing the agency. We anticipate taking additional actions in FY 2020 to augment the SEC's risk awareness and further increase the likelihood of the SEC achieving its strategic goals. In response to the challenges identified in your Statement, we are undertaking the actions described below.

Meeting Regulatory Oversight Responsibilities

Your Statement rightly points out the swift pace of change in the size and complexity of markets, products, and participants overseen and regulated by the SEC. For this reason, the SEC's Strategic Plan supports the continued efforts of the agency to adapt to remain an effective regulator. Your Statement highlights the need for continued focus within the Office of Compliance Inspections and Examinations (OCIE) and the Division of Enforcement (Enforcement) and continued leveraging of technology and analytics across the agency to keep pace with fast-moving markets.

Your Statement notes various ways in which the SEC has been challenged by the more than 400 staff positions lost during the recent 2.5-year hiring freeze. Thankfully, the FY 2019 budget enacted earlier this year provided the SEC with sufficient resources to lift the hiring freeze and fill over 100 new positions. Many of these new positions were allocated to bolster functions identified in your Statement, specifically including enforcement investigations, compliance examinations, responding to investor contacts and complaints, cybersecurity, and market oversight. The SEC is making good progress in filling these new positions; about two-thirds of the new positions at this writing have already been hired and onboarded, with most of the rest in the advanced stages of the hiring and onboarding process.

I also wanted to thank you for the assessments that OIG performed this past year to gauge the agency's progress in adapting operations in three areas: (1) modernizing the SEC's EDGAR electronic filing system; (2) leveraging data analytics by the Division of Economic and Risk Analysis (DERA) to support the mission; and (3) managing information technology investments. Each of these reports identified areas of progress, as well as continued challenges and opportunities for improvement. I am pleased that agency managers agreed with the OIG's recommendations called for in these reports. I have asked the Chief Operating Officer and Chief Risk Officer to closely monitor the progress of corrective action so that we might further improve operations to keep up with the challenges of our ever-evolving markets.

Protecting Systems and Data

I agree with you that the SEC's reliance on information technology requires continuous evaluation of progress, pursuit of improvements, and prioritization of resources to safeguard systems and keep pace with the threat environment. During FY 2019, the SEC made progress on initiatives designed to improve the agency's cybersecurity posture, but this continues to be an ongoing process, and significant work remains in light of the ever-changing cybersecurity risk landscape. The Office of Information Technology (OIT) continues to work to mature further the agency's information security program to meet the challenges presented by advanced threats and malicious cyber actors. During FY 2019, the SEC deployed new security capabilities, improved enterprise security controls and practices, focused on reducing sensitive data in SEC systems, engaged with outside experts to actively test its security posture, and leveraged cybersecurity tools and services provided by the Department of Homeland Security.

The SEC also continues to make it a priority to address and mitigate the cybersecurity risks identified by the OIG and the Government Accountability Office (GAO), and I appreciate your acknowledgment of SEC staff's efforts to implement corrective actions. I understand that during FY 2019, the OIG closed 29 cybersecurity-related audit recommendations and is in the process of reviewing closure requests for three additional recommendations. During FY 2019, I also understand that the GAO closed three additional cybersecurity-related audit recommendations. Looking ahead, it is imperative that the SEC continue to aggressively pursue initiatives designed to improve the agency's information security capabilities and further reduce our cybersecurity risk profile. These efforts are expected to include, for example, implementing new tools and configurations, reviewing and improving security policies and procedures, and enhancing security training and awareness.

Improving Contract Management

Your Statement highlights the progress that the SEC's Office of Acquisitions (OA) has taken in recent years to promote effective contract management, including transitioning to a central Electronic Contract File system and establishing the Contract Management Excellence and Contracting Officer Representatives Improvement initiatives.

I appreciate the OIG's additional work in FY 2019, including through your assessments of the agency's (1) oversight of its infrastructure support services contract and (2) management of information technology investments. These two reports identified opportunities for

improvement in several areas, including developing contract requirements, documenting government cost estimates, and effectively monitoring contractor performance. I am pleased that agency managers agreed with the OIG's recommendations from these reports and are taking remedial action, including to improve communications between contract oversight personnel, conducting internal reviews of contract files, and improving the quality of contract file documentation.

Ensuring Effective Human Capital Management

I agree with you completely on the importance of human capital to the achievement of the SEC's mission. Quite simply, our skilled, dedicated staff are the SEC's greatest assets. We welcome the independent assessments that the OIG and the GAO perform with respect to our human capital management. In addition, the SEC also receives valuable feedback from employees directly through the Office of Personnel Management's annual Federal Employee Viewpoint Survey. All of these inputs give agency management valuable insight into how well agency leaders are doing in managing, training, and developing personnel and where we have opportunities to improve.

I appreciate the OIG's acknowledgement of the progress the SEC has made, led by our Office of Human Resources (OHR), to improve our human capital management. This includes taking final action to address seven of the nine recommendations made in the OIG's September 2018 evaluation of our human capital framework. With respect to the two remaining OIG recommendations relating to management of employee performance, OHR is working to implement further improvements to the system for the performance cycle that begins January 2020. We look forward to reporting back to you on these items once corrective action is complete. In addition to taking action on OIG recommendations, I also wanted to inform you that OHR has also undertaken significant actions in the past year to promote improved internal communications, collaboration, and workforce planning in response to prior-year GAO findings.

* * * *

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

Sincerely,

Jay Clayton
Chairman

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SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

Table 1.8 | 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 1.9 | Summary of Management Assurances

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

Statement of Assurance: Unmodified

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: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Cybersecurity Risks	1	—	1	—	—	—
Total Material Weaknesses	1	—	1	—	—	—

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	—	—	—	—	—	—

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)

	Agency	Auditor
1. Federal Financial Management System Requirements	No lack of compliance noted	No lack of compliance noted
2. Applicable Federal Accounting Standards	No lack of compliance noted	No lack of compliance noted
3. USSGL at Transaction Level	No lack of compliance noted	No lack of compliance noted

FRAUD REDUCTION

The Fraud Reduction and Data Analytics Act of 2015 (Pub. L. 114-186, 31 U.S.C. 3321 note) requires agencies to implement the U.S. Government Accountability Office's (GAO) *A Framework to Managing Fraud Risks in Federal Programs*. The GAO framework identifies four steps that agencies should follow: 1) commit to creating an organization that is conductive to manage fraud risk; 2) assess the fraud risks within the organization; 3) design and implement controls that reduce risk of fraud; and 4) evaluate and adapt assessment outcomes. The SEC's approach to managing fraud risk starts with a strong tone at the top. This includes messaging from senior officials regarding the importance of a culture committed to a high level of integrity, and resources dedicated to ensuring that ethics training is provided annually to all employees. The SEC continues to leverage its Risk Management Oversight Committee, which consists of senior officers from divisions and offices throughout the SEC who facilitate the Commission's efforts to assess, address, and report on identified fraud risks.

The SEC has established a system of internal control to support effective and efficient operations that also helps to mitigate the risk of fraud. Such controls, which overlay formal policies and procedures, typically deal with factors such as approval and authorization processes; access restrictions and transaction controls; account reconciliations; and physical security. These procedures often include the division of responsibilities and checks and balances to reduce risk. To the extent that these controls affect financial reporting, they are reviewed and tested by management on an annual basis. Controls that do not impact financial reporting are reviewed annually and tested on a rotational basis based upon risk as part of the Commission's management assurance evaluation. While strong internal controls help to mitigate the risk of fraud, employees are strongly encouraged to speak with management or the Office of Inspector General (OIG) should they suspect instances of fraud.

Analysis of results from testing performed and the overall business environment can lead to additional learning opportunities for which there is a heightened risk of fraud. For example, SEC management requires annual training for all contracting officers and contracting officer representatives around the potential for fraud in the area of procurement. The OIG provides a block of instruction during training.

Management recognizes that the assessment of fraud is an ongoing process and that mitigation strategies need to change as business processes and the overall environment evolve.

PAYMENT INTEGRITY REPORTING DETAILS

The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA), the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), and the Federal Improper Payments Coordination Act of 2015, requires agencies to review all programs and activities they administer to identify those that 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. Guidance provided by the Office of Management and Budget (OMB) 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 specific details about the SEC's Improper Payments Elimination Program, which are below. Additionally, the following link further explains improper payments and the information reported in previous AFRs that is not included in the FY 2019 AFR: paymentaccuracy.gov/.

Risk Assessment

In FY 2019, the SEC conducted a new risk assessment. IPERIA guidelines state that if an agency deems a program to be low risk for improper payments, the agency will re-assess that program's risk at least every three years. An agency is only required to conduct a formal risk assessment earlier than three years if the program experiences a significant change in legislation and/or a significant increase in funding level. The SEC last conducted an assessment in FY 2016. The SEC's determination that all of its evaluated programs are low risk is based upon the results of the FY 2016 risk assessment, in which none of its programs and activities were deemed susceptible to significant improper payments at or above the threshold levels set by OMB. The results of the FY 2019 risk assessment continue to support this determination. These programs have historically had low volumes and risks of improper payments given the controls and processes in place.

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 audit reports, prior internal controls over financial reporting assessments, and the results of improper payments testing performed in prior years. These risk assessments were performed for the following programs:

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

Recapture of Improper Payments

The SEC determined that implementing a payment recapture audit is not cost-effective and notified OMB of this determination in September 2015. 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 several years. The SEC also considered whether sophisticated software and other cost-efficient 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 minimize payment errors. The SEC, in coordination with its Federal Shared Service Provider (FSSP) and the Do Not Pay Business Center, follows established pre-award, pre-payment, and post-payment reviews as part of its existing business processes and programs. The dollar amounts and the number of payments reviewed for improper payments utilizing the DNP system are shown in Table 1.10 below.

Table 1.10 | 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	19,958	$ 1,210.25	0	$ —	0	$ —
Reviews with databases not listed in IPERIA as Do Not Pay databases	0	$ —	0	$ —	0	$ —

Note: Databases used in row 1 above are SAM, LEIE, DMF, CAIVRS, Debt Check, EPLS, OFAC

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

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, and the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 (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 are to adjust their penalty amounts every January, starting in January 2017.

The FCPIA also 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 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 agencies' compliance 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 (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.

The Commission will adjust for inflation the maximum penalty amounts provided in these statutes as required by the FCPIA and will publish these adjustments 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). The first annual adjustment in January 2017 was published in the Federal Register, Volume 82, No. 11, on January 18, 2017 (82 FR 5367). The Commission performed its second annual adjustment in January 2018, which was published in the Federal Register, Volume 83, No. 8, on January 11, 2018 (83 FR 1396). The Commission published its third annual adjustment in the Federal Register, Volume 84, No. 34, on February 20, 2019 (84 FR 5122).[1]

1 This adjustment was performed in February 2019 instead of January 2019 due to a lapse in appropriations that caused the SEC's normal operations to be suspended from December 27, 2018, through January 25, 2019.

Division of Investment Management Director Dalia Blass discusses diversity and key human capital issues during a town hall meeting in Washington, DC.

APPENDICES

Appendix A: Chairman and Commissioner Biographies

Appendix B: Divisions and Offices

Appendix C: Glossary of Selected Terms

Appendix D: Acronyms and Abbreviations

APPENDIX A: CHAIRMAN AND COMMISSIONER BIOGRAPHIES

Jay Clayton
CHAIRMAN

Jay Clayton was nominated to chair the U.S. Securities and Exchange Commission on January 20, 2017, by President Donald Trump and sworn in on May 4, 2017.

The Commission Under Chairman Clayton

There are several areas of focus for the SEC under Chairman Clayton.

- Furthering the interests of America's Main Street investors—long a priority of the SEC staff—by:
  - establishing the Retail Strategy Task Force within the Enforcement Division, which develops proactive, targeted initiatives to identify misconduct impacting Main Street investors;
  - updating and enhancing the standards of conduct governing broker-dealers and investment advisers when providing advice to retail customers;
  - increasing public engagement around the country through roundtables and town halls with Main Street investors; and
  - educating investors on the importance of saving and investing wisely, and creating a new online search tool for retail investors to research their financial professionals.
- Updating and enhancing the regulation and oversight of our equity and fixed income markets, taking into account advances in technology and increased interconnectedness. Actions taken include:
  - forming the Fixed Income Market Structure Advisory Committee, which provides advice to the Commission on the efficiency and resiliency of fixed income markets and helps identify opportunities for regulatory improvement;
  - enhancing transparency of alternative trading systems and in the municipal market; and
  - establishing the Enforcement Division Cyber Unit to focus on protecting investors from cyber-related misconduct.
- Making our capital markets, particularly our public capital markets, more accessible to businesses and investors, ensuring that the United States continues to be the world's leader in terms of transparency, effective disclosure, and investor protection. This includes:
  - reducing regulatory burdens on pre-IPO and smaller public companies while maintaining investor protections, including through modernizing and simplifying corporate disclosures, expanding the scope of smaller public companies that qualify for scaled disclosures, streamlining the process to launch certain types of ETFs, and expanding JOBS Act benefits to IPO companies; and
  - standing up the Office of the Advocate for Small Business Capital Formation to advance the interests of small businesses and their investors at the SEC and in the capital markets.

The Commission's rulemaking since 2017 and current rulemaking agenda reflect these areas of focus.

These areas of focus also are reflected in the Commission's 2018-2022 Strategic Plan, which also discusses the importance of developing and investing in the Commission's human capital. A point of emphasis made by Chairman Clayton is that the SEC's people —its human capital—are the agency's most important resource. Over the past several years, they have moved the Commission forward in the face of ever-changing markets as well as well-known and emerging risks. A key priority for Chairman Clayton is to continue to invest in and develop the SEC's human capital.

Under Chairman Clayton, the SEC also has addressed various market developments, including with respect to:

- securities law issues related to distributed ledger technology, cryptocurrencies, and initial coin offerings;
- assessing and planning for the potential adverse effects on U.S. capital markets from Brexit, including a possible "no-deal" Brexit;
- cybersecurity and the reliance of companies and our financial system on information technology, and the resulting vulnerabilities to cyberattacks and cyber outages and the need for operational resiliency; and
- modernizing the SEC's public company disclosure requirements and guidance to reflect changes in our economy and markets, including in the area of human capital disclosure.

Background, Education, and Experience

Chairman Clayton was born at Fort Eustis in Newport News, Virginia, and was raised primarily in central and southeastern Pennsylvania. In his professional career, he has lived in Philadelphia, New York, London, and Washington, DC.

Prior to joining the Commission, Chairman Clayton was a partner at Sullivan & Cromwell LLP, where he was a member of the firm's Management Committee and co-head of the firm's corporate practice. From 2009 to 2017, Chairman Clayton was a Lecturer in Law and Adjunct Professor at the University of Pennsylvania Law School.

Prior to joining Sullivan & Cromwell, Chairman Clayton served as a law clerk for the Honorable Marvin Katz of the U.S. District Court for the Eastern District of Pennsylvania. A member of the New York and Washington, DC bars, Chairman Clayton earned a BS in Engineering from the University of Pennsylvania (summa cum laude), a BA and MA in Economics from the University of Cambridge (Thouron Scholar), and a JD from the University of Pennsylvania Law School (cum laude, Order of the Coif).

Robert J. Jackson Jr.
COMMISSIONER

Robert J. Jackson Jr. was appointed by President Donald Trump to the U.S. Securities and Exchange Commission and was sworn in on January 11, 2018.

Commissioner Jackson has extensive experience as a legal scholar, policy professional, and corporate lawyer. He comes to the SEC from NYU School of Law, where he is a Professor of Law. Previously, he was Professor of Law at Columbia Law School and Director of its Program on Corporate Law and Policy. Commissioner Jackson's academic work has focused on corporate governance and the use of advanced data science techniques to improve transparency in securities markets. He was the founding director of Columbia Law School's Data Lab, which used cutting-edge technology to study the reliability of corporate disclosures. Commissioner Jackson has written more than 20 articles in the nation's most prestigious legal and economics journals. His published work includes a study shining light on trading activity before the announcement of major corporate events, the first study of the effect of mandatory disclosure required by the JOBS Act on trading by individual investors, and the first comprehensive study of CEO pay in firms owned by private equity. In 2012, Columbia Law School students honored Commissioner Jackson with the Willis L.M. Reese Prize for Excellence in Teaching. He has testified on his scholarship before the U.S. Senate, and his work was previously the subject of rulemaking commentary before federal agencies, including the Federal Reserve and the SEC.

Before joining the Columbia Law School faculty in 2010, Commissioner Jackson served as a senior policy advisor at the U.S. Department of the Treasury working with Kenneth Feinberg, the Special Master for TARP Executive Compensation. In this role, he oversaw the development of policies designed to give shareholders a say on pay, improve the disclosure of executive bonuses, and encourage TARP recipients to more closely tie pay to performance. Earlier in his career, Commissioner Jackson practiced law in the executive compensation department of Wachtell, Lipton, Rosen & Katz.

Commissioner Jackson holds two bachelor's degrees from the University of Pennsylvania, an MBA in Finance from the Wharton School of Business, a master's degree from Harvard's Kennedy School of Government, and a law degree from Harvard Law School. He was born in the Bronx, New York, and is a lifelong Yankees fan.

Hester M. Peirce
COMMISSIONER

Hester M. Peirce was appointed by President Donald Trump to the U.S. Securities and Exchange Commission and was sworn in on January 11, 2018.

Prior to joining the Commission, Commissioner Peirce served as Senior Research Fellow and Director of the Financial Markets Working Group (now Program on Financial Regulation) at the Mercatus Center at George Mason University. While at the Mercatus Center, Commissioner Peirce's research explored how financial markets foster economic growth and prosperity and the role well-designed regulation plays in protecting investors and consumers while promoting financial stability and innovation. Commissioner Peirce co-edited two books, authored publications, testified before Congress, and served on the SEC's Investor Advisory Committee.

Before joining the Mercatus Center, Commissioner Peirce worked on Senator Richard Shelby's Committee on Banking, Housing, and Urban Affairs staff as Senior Counsel. In that position, she oversaw financial regulatory reform efforts following the 2008 financial crisis and conducted oversight of the regulatory implementation of the Dodd-Frank Act.

From 2004 to 2008, Commissioner Peirce worked as counsel to SEC Commissioner Paul S. Atkins. Prior to serving Commissioner Atkins, Commissioner Peirce worked as a Staff Attorney in the Division of Investment Management.

Before working at the SEC, Commissioner Peirce was an associate at Wilmer, Cutler & Pickering (now WilmerHale) and clerked for Judge Roger Andewelt on the Court of Federal Claims.

Commissioner Peirce earned her BA in Economics from Case Western Reserve University and her JD from Yale Law School.

Elad L. Roisman
COMMISSIONER

Elad L. Roisman was appointed by President Donald Trump to the U.S. Securities and Exchange Commission and was sworn into office on September 11, 2018.

Commissioner Roisman joined the SEC from the U.S. Senate Committee on Banking, Housing, and Urban Affairs, where he served as Chief Counsel. In that role, and as Securities Counsel on the Committee, he counseled Chairmen Mike Crapo (R-ID) and Richard Shelby (R-AL), as well as members of the Committee, on securities, financial regulation, and international financial matters. Commissioner Roisman worked on drafting several pieces of legislation that became law and played an integral role in the drafting and negotiation of the Economic Growth, Regulatory Relief, and Consumer Protection Act.

Before working in the Senate, he served as Counsel to SEC Commissioner Daniel M. Gallagher, focusing on enforcement and policy relating to the U.S. equity and fixed income markets, the asset management industry, and international regulation of capital markets. Prior to joining the SEC, he held positions as a Chief Counsel at NYSE Euronext and an associate at the law firm of Milbank, Tweed, Hadley & McCloy LLP in New York.

Commissioner Roisman earned his bachelor's degree in History at Cornell University and his JD at the Boston University School of Law.

Allison Herren Lee
COMMISSIONER

Allison Herren Lee was appointed by President Donald Trump to the U.S. Securities and Exchange Commission, unanimously confirmed by the U.S. Senate, and sworn into office on July 8, 2019.

Commissioner Lee brings to the SEC over two decades of experience as a securities law practitioner. Most recently, she has written, lectured, and taught courses internationally in Spain and Italy on financial regulation and corporate law. Commissioner Lee served for over a decade in various roles at the SEC, including as counsel to Commissioner Kara Stein, and as Senior Counsel in the Division of Enforcement's Complex Financial Instruments Unit. In addition, she has served as a Special Assistant U.S. Attorney, was a member of the American Bar Association's former Committee on Public Company Disclosure, and participated on a USAID project in Armenia, assisting in the drafting of periodic reporting and disclosure provisions for a comprehensive law of the Republic of Armenia on Securities Market Regulation.

Prior to government service, Commissioner Lee was a partner at Sherman & Howard LLC, focusing on securities, antitrust, and commercial litigation. A member of the Colorado bar, she holds a bachelor's degree in Business from the University of Colorado and a JD from the University of Denver College of Law, where she was salutatorian, a Chancellor's Scholar, and served on the Law Review.

APPENDIX B: DIVISIONS AND OFFICES

Headquarters

DIVISION OF CORPORATION FINANCE
William Hinman, Director

DIVISION OF ECONOMIC AND RISK ANALYSIS
S.P. Kothari, Director/Chief Economist

DIVISION OF ENFORCEMENT
Stephanie Avakian, Co-Director
Steven Peikin, Co-Director

DIVISION OF INVESTMENT MANAGEMENT
Dalia Blass, Director

DIVISION OF TRADING AND MARKETS
Brett Redfearn, Director

EDGAR BUSINESS OFFICE
Jed Hickman, Acting Director

OFFICE OF ACQUISITIONS
Vance Cathell, Director

OFFICE OF ADMINISTRATIVE LAW JUDGES
Brenda P. Murray, Chief Administrative Law Judge

OFFICE OF THE ADVOCATE FOR SMALL BUSINESS CAPITAL FORMATION
Martha Miller, Advocate

OFFICE OF THE CHIEF ACCOUNTANT
Sagar Teotia, Chief Accountant

OFFICE OF THE CHIEF OPERATING OFFICER
Kenneth A. Johnson, Chief Operating Officer

OFFICE OF COMPLIANCE INSPECTIONS AND EXAMINATIONS
Peter Driscoll, Director

OFFICE OF CREDIT RATINGS
Jessica Kane, Director

OFFICE OF EQUAL EMPLOYMENT OPPORTUNITY
Peter Henry, Director

OFFICE OF THE ETHICS COUNSEL
Danae Serrano, Ethics Counsel/
Designated Agency Ethics Official

OFFICE OF FINANCIAL MANAGEMENT
Caryn Kauffman, Director/Chief Financial Officer

OFFICE OF THE GENERAL COUNSEL
Robert Stebbins, General Counsel

OFFICE OF HUMAN RESOURCES
James McNamara, Director/
Chief Human Capital Officer

OFFICE OF INFORMATION TECHNOLOGY
Charles Riddle, Acting Chief Information Officer

OFFICE OF INSPECTOR GENERAL
Carl W. Hoecker, Inspector General

OFFICE OF INTERNATIONAL AFFAIRS
Raquel Fox, Director

OFFICE OF THE INVESTOR ADVOCATE
Rick Fleming, Investor Advocate

OFFICE OF INVESTOR EDUCATION AND ADVOCACY
Lori Schock, Director

OFFICE OF LEGISLATIVE AND INTERGOVERNMENTAL AFFAIRS
Holli Heiles Pandol, Director

OFFICE OF MINORITY AND WOMEN INCLUSION
Pamela A. Gibbs, Director

OFFICE OF MUNICIPAL SECURITIES
Rebecca Olsen, Director

OFFICE OF PUBLIC AFFAIRS
John Nester, Director

OFFICE OF THE SECRETARY
Vanessa Countryman, Secretary

OFFICE OF SUPPORT OPERATIONS
Barry Walters, Director/Chief FOIA Officer

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APPENDIX C: GLOSSARY OF SELECTED TERMS

12b-1 Fees
Ongoing fees paid out of a mutual fund's assets to compensate brokers and others who sell the fund's shares and to pay for advertising, and printing and mailing prospectuses to new investors ("distribution fees"), and may also cover the cost of providing certain services to the fund's current investors ("service fees"). The name refers to Rule 12b-1 under the Investment Company Act of 1940.

401(k)
An employer-sponsored retirement savings plan that gives the employee a choice of investment options.

403(b) and 457(b) Plans
Tax-deferred retirement savings programs provided by certain employers. Employers such as public educational institutions (public schools, colleges, and universities), certain non-profits, and churches or church-related organizations may offer **403(b)** plans. Employers such as state and local government agencies and certain non-profit organizations may offer **457(b)** plans.

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 to prepare annual audited financial statements.

Accredited Investor
In the context of a *natural* person, anyone who earned income that exceeded $200,000 (or $300,000 together with a spouse) in each of the prior two years and reasonably expects the same for the current year, or has a net worth over $1 million, either alone or together with a spouse (excluding the value of the person's primary residence). Accredited investors may, under Commission rules, participate in investment opportunities that are generally not available to non-accredited investors such as investments in many private issuers and offerings by hedge funds, private equity funds, and venture capital funds.

Affinity Fraud
Targets different segments of the population, including senior citizens, current and former military personnel, teachers, religious or ethnic communities, and other affinity groups. Fraudsters who carry out affinity scams frequently are (or pretend to be) members of the group they are trying to defraud. Affinity fraud typically involves either a fake investment or an investment where the fraudster lies about important details such as the risk of loss, the track record of the investment, or the background of the promoter of the scheme.

Annual Performance Report (APR)
Outlines the goals and intended outcomes of an agency's programs and initiatives.

Antideficiency Act
Prohibits federal agencies from spending or obligating funds in excess of amounts and purposes approved by Congress, and from accepting voluntary services.

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

Asset Management Advisory Committee
Formed to provide the Commission with diverse perspectives on asset management and related advice and recommendations. Topics the committee may address include trends and developments affecting investors and market participants, the effects of globalization, and changes in the role of technology and service providers. The committee is comprised of a group of outside experts, including individuals representing the views of retail and institutional investors, small and large funds, intermediaries, and other market participants.

Broker-Dealer

A **broker** is any person engaged in the business of effecting transactions in securities for the account of others. A **dealer** is any person engaged in the business of buying and selling securities for his or her own account, through a broker or otherwise.

CFO Act of 1990

Legislation focused on improving the government's financial management, performance, and disclosure.

Clearing Agencies

Self-regulatory organizations that come in two types: clearing corporations and depositories. **Clearing corporations** compare member transactions (or report to members the results of exchange comparison operations), clear those trades and prepare instructions for automated settlement of those trades, and often act as intermediaries in making those settlements. **Depositories** hold securities certificates in bulk form for their participants and maintain ownership records of the securities on their own books.

Consolidated Audit Trail (CAT)

A single, comprehensive database of orders to trade in National Market System securities and over-the-counter equities that enables regulators to more efficiently and thoroughly track all trading activity in the U.S. equity and options markets.

Cryptocurrency

Currency that only exists digitally and usually has no central issuing or regulating authority but instead uses a decentralized system to record transactions and manage the issuance of new units.

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.

Cyber Unit

The Division of Enforcement's (ENF) Cyber Unit was announced in September 2017, and is a dedicated unit within ENF to combat cyber-related threats by focusing ENF's resources and expertise on, among others things, violations involving distributed ledger technology, cyber intrusions, and hacking to obtain material, non-public information.

Cybersecurity

The steps taken to prevent illegal or unauthorized access to a computer system or network.

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.

Digital Accountability and Transparency Act of 2014 (DATA Act)

Aims to make information on federal expenditures more easily accessible and transparent.

Disclosure

Information about a company's financial condition, results of operations and business that it makes public. Investors can use this information to make informed investment decisions about the company's securities.

Disgorgement

The act of returning or repaying ill-gotten gains obtained from fraudulent activities. When 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.

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.

Economic Growth, Regulatory Relief, and Consumer Protection Act

Signed into law by President Donald Trump on May 24, 2018, this Act (§ 2155, P.L. 115-174) modifies a number of provisions of the Dodd-Frank Act, including the Volcker Rule, and makes other changes to the regulatory system that are intended to promote economic growth, provide tailored regulatory relief, and enhance consumer protections.

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

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

Entity Accounts Receivable

Monies owed to the SEC generated from securities transaction fees and filing fees paid by registrants.

Entity Assets

Assets that an agency is authorized to use in its operations.

Exchange Revenue

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.

Exchange-Traded Fund (ETF)

SEC-registered investment companies that offer investors a way to pool their money in a fund that invests in stocks, bonds, or other assets.

Exchanges

A place (physical or virtual) where stock traders come together to decide on the price of securities.

Fair Fund

A fund created by the SEC to return money to harmed investors.

Federal Civil Penalties Inflation Adjustment Act (FCPIA)

Requires agencies to adjust its civil monetary penalties for inflation and make adjustments at least once every four years thereafter.

Federal Information Security Modernization Act of 2014 (FISMA)

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.

Federal Register

The official journal of the federal government of the United States that contains government agency rules, proposed rules, and public notices.

Financial Industry Regulatory Authority (FINRA)

A private corporation that acts as a self-regulatory organization.

Fixed Income Market Structure Advisory Committee

A federal advisory committee that provides the Commission with diverse perspectives on the structure and operations of the U.S. fixed income markets, as well as advice and recommendations on matters related to fixed income market structure.

Foreign Corrupt Practices Act
Addresses transparency requirements under the Securities Exchange Act of 1934, and improper payments to foreign officials.

Form CRS Relationship Summary
Requires registered investment advisers and broker-dealers to provide retail investors with a relationship summary at the beginning of their relationship. The Form CRS includes a summary of services, fees, costs, conflicts of interest, legal standard of conduct, and whether or not the firm and its financial professionals have disciplinary history.

Fraud Reduction and Data Analytics Act of 2015
Requires agencies to implement the Government Accountability Office's *A Framework to Managing Fraud Risks in Federal Programs*, which is: 1) commit to creating an organization that is conductive to manage fraud risk; 2) assess the fraud risks within the organization; 3) design and implement controls that reduce risk of fraud; and 4) evaluate and adapt assessment outcomes.

Fund Balance with Treasury
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.

Fund of Funds Arrangements
Funds that invest in shares of another fund.

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.

Generally Accepted Accounting Principles (GAAP)
A framework of accounting standards, rules, and procedures defined by the professional accounting industry.

Green Book
Published by the U.S. Government Accountability Office, this book, which is officially titled *Standards for Internal Control in the Federal Government* but colloquially known as "Green Book" because of its green cover, sets the standards for an effective internal control system for federal agencies.

Imputed Financing
Financing provided to the reporting entity by another federal entity covering certain costs incurred by the reporting entity.

Initial Coin Offering (ICO)
The first sale of a cryptocurrency to the public; typically conducted for the purpose of raising funds (as to support a start-up).

Initial Public Offering (IPO)
The first time a company offers its shares of capital stock to the general public. Under the federal securities laws, a company may not lawfully offer or sell shares unless the transaction has been registered with the SEC or an exemption applies.

Insider Trading
The purchase or sale of a security by someone who has access to material, nonpublic information about the security.

Interdivisional Standards of Conduct Implementation Committee

A committee comprised of representatives from the Division of Investment Management, Division of Trading and Markets, Division of Economic and Risk Analysis, Office of Compliance Inspections and Examinations, and Office of the General Counsel established to assist firms with planning for compliance with the following rules and interpretations: Regulation Best Interest, Form CRS Relationship Summary, Investment Adviser Interpretation, and the Solely Incidental Interpretation.

Intragovernmental Costs

Costs that arise from the purchase of goods and services from other components of the federal government.

Investment Adviser Interpretation

Reaffirms, and in some cases clarifies, certain aspects of the federal fiduciary duty that an investment adviser owes to its clients under the Investment Advisers Act of 1940.

Investment Advisers Act of 1940

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.

Investor Protection Fund

A fund established by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 to pay awards to eligible whistleblowers who voluntarily provide the Commission with original information about a violation of federal securities laws.

Jumpstart Our Business Startups Act of 2012 (JOBS Act)

A federal law enacted on April 5, 2012, intended to encourage small businesses within the United States 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.

Main Street Investor

A colloquial term that refers to individual investors and employees rather than large corporations and investment firms.

Market-Based Treasury Securities

Debt securities that the U.S. Treasury issues to federal entities without statutorily determined interest rates.

Military Service Members Initiative

Outreach to military service members to educate them about saving and investing, investment fees and expenses, retirement programs specific to service members, and the red flags of investment fraud.

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 Advisor

A person (not a municipal entity or an employee of a municipal entity) who: (1) provides advice to or on behalf of a municipal entity or obligated person with respect to municipal financial products or the issuance of municipal securities, including advice with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues; or (2) undertakes a solicitation of a municipal entity. This definition includes financial advisors, guaranteed investment contract brokers, third-party marketers, placement agents, solicitors, finders, and swap advisors who provide municipal advisory services, unless they are statutorily excluded.

Municipal Securities Rulemaking Board

Writes investor protection rules and other rules regulating broker-dealers and banks in the U.S. 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.

Nationally Recognized Statistical Rating Organization (NRSRO)

Credit rating agencies that have registered with the Commission and meet certain disclosure, governance, internal controls, conflict of interest, and recordkeeping requirements.

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 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, productivity, and use of its resources. The Office of Inspector General also receives allegations by employees of waste, abuse, misconduct, or mismanagement within the SEC through the program.

Office of Management and Budget (OMB)

Helps the President oversee the federal budget and supervise federal agencies.

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

Defines management's responsibilities for enterprise risk management and internal financial controls, including administrative and program activities as well as financial activities.

OMB Circular A-136, *Financial Reporting Requirements*

Establishes a central point of reference for all federal financial reporting guidance.

Performance and Accountability Report

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.

Proxy Process

The term used to describe the means through which widely-dispersed shareholders can exercise their voting rights by appointing a proxy to vote their shares on their behalf at a shareholder meeting. Issuers with a class of securities registered under Section 12 of the Securities Exchange Act of 1934 and issuers that are registered under the Investment Company Act of 1940 are generally required to comply with the federal proxy rules when soliciting proxy authority from shareholders.

Public Alert: Unregistered Soliciting Entity (PAUSE) Program

An initiative intended to inform Main Street investors about entities that falsely claim to be registered, licensed, and/or located in the United States in their investment solicitations. There are three primary categories of PAUSE entities: (1) unregistered soliciting entities; (2) impersonators of genuine firms; and (3) fictitious regulators. PAUSE list candidates are typically offshore boiler rooms engaging in offering and advance fee frauds. These entities primarily target non-U.S. investors while falsely claiming to be located in the United States or to otherwise have a connection to U.S. markets.

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.

Regulation Best Interest

Requires broker-dealers to act in the best interest of their retail customers when making a recommendation without placing their financial interests ahead of the interests of their customer.

Regulation NMS

A series of rules governing the national market system (NMS) for equities and options that are listed on a national securities exchange. The rules encompass a broad range of issues including the filing and amendment of NMS plans, the collection and distribution of market data, disclosure of order execution and order routing information, access to markets, order protection, and the consolidated audit trail.

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.

Retail Investor

An individual who buys securities for personal benefit (e.g., to purchase a home, save for retirement, or send a child to college) rather than for the benefit of an organization.

Retail Strategy Task Force

Develops data-driven, analytical strategies focused on identifying adverse practices in the securities markets, and uses this information to support investor advocacy and outreach efforts.

Rule 15c2-11

An Exchange Act rule that governs the publication and submission of quotations by a broker-dealer in a quotation medium for securities that are not listed on a national securities exchange.

Sarbanes-Oxley Act of 2002

Legislation aimed at enhancing corporate responsibility and financial disclosures, and fighting corporate and accounting fraud that created the Public Company Accounting Oversight Board.

Section 31 Fees

Transaction fees paid to the SEC based on the volume of securities that are sold on various markets. These fees recover the costs incurred while 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 ensure investors receive financial and other significant information about securities being offered for public sale, and to 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.

Security-Based Swaps

A **swap** is any agreement, contract, or transaction that provides for one or more payments based on the performance of underlying reference instrument, subject to certain exclusions, including exclusions for futures contracts, options on futures, forward contracts on non-financial commodities, and certain retail investments. **Security-based swaps** are based on: (1) a narrow-based index; (2) a single (non-exempt) security or loan; or (3) a financial event relating to an issuer or issuers in points 1 or 2.

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.

Share Class Selection Disclosure Initiative (SCSDI)

A self-reporting initiative that seeks to protect advisory clients from undisclosed conflicts of interest and return money to investors. Under the SCSDI, which the Division of Enforcement (ENF) first announced in February 2018, ENF agreed to recommend standardized settlement terms, including no financial penalties, against investment advisers that self-report their failure to disclose conflicts of interest associated with the receipt of certain fees for investing advisory clients in a 12b-1 fee paying share class when a lower-cost share class of the same mutual fund was available for the advisory clients, a vast majority of whom are retail investors.

Small Business Credit Availability Act

Expands access to capital for business development companies (BDC) and reduces regulatory disparities between BDCs and certain other Commission registrants. The Act reduces the asset coverage requirements applicable to BDCs for senior securities from 200 percent asset coverage to 150 percent asset coverage, subject to certain conditions. The Act also provides parity for BDCs with certain other Commission registrants regarding securities offering and proxy rules by directing the Commission to revise numerous rules under the Securities Act of 1933 and the Securities Exchange Act of 1934, as well as Form N-2, the form used by BDCs to file registration statements.

Solely Incidental Interpretation

Confirms and clarifies the Commission's interpretation of the "solely incidental" prong of the broker-dealer exclusion of the Investment Advisers Act of 1940.

Strategic Hub for Innovation and Financial Technology (FinHub)

FinHub serves as a resource for public engagement on the Commission's FinTech-related issues and initiatives such as distributed ledger technology (including digital assets), automated investment advice, digital marketplace financing, and artificial intelligence/machine learning.

Strategic Plan

Defines an agency's 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.

Teachers Initiative

An outreach effort to educate teachers about saving and investing, investment fees and expenses, retirement programs specific to teachers, and the red flags of investment fraud.

Thinly-Traded Securities

Securities that cannot be easily sold or exchanged for cash without a significant change in price; are exchanged in low volumes; and often have limited numbers of interested buyers and sellers.

Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

Authorizes the Commodity Futures Trading Commission to regulate swaps, and the SEC to regulate security-based swaps.

Transaction Fee Pilot

A Pilot to be conducted under Rule 610T of Regulation NMS that would study the effects that exchange transaction fee and rebate pricing models may have on order routing behavior, execution quality, and market quality. Data from the Pilot would be used to facilitate an empirical evaluation of whether the exchange transaction-based fee and rebate structure is operating effectively to further statutory goals and whether there is a need for any potential regulatory action in this area

Transfer Agent

A trust company, bank, or similar financial institution assigned by a corporation to maintain records of investors and account balances; as such, the transfer agent issues and cancels certificates to reflect changes in ownership and handles lost, destroyed, or stolen certificates..

Volcker Rule

A law that prohibits banking entities from engaging in proprietary trading, and from owning or controlling hedge funds or private equity funds.

Whistleblower

A person who, alone or jointly with others, provides the Commission with information related to a possible violation of the federal securities laws (including any rules or regulations thereunder) that has occurred, is ongoing, or is about to occur.

APPENDIX D: ACRONYMS AND ABBREVIATIONS

AFR	Agency Financial Report
APR	Annual Performance Report
CAT	Consolidated Audit Trail
CDM	Continuous Diagnostics and Mitigation
CF	Division of Corporation Finance
CFO	Chief Financial Officer
CFTC	U.S. Commodity Futures Trading Commission
CM	Continuous Monitoring
CSF	Cybersecurity Framework
CSRS	Civil Service Retirement System
DERA	Division of Economic and Risk Analysis
DHS	U.S. Department of Homeland Security
DLT	Distributed Ledger Technology
DNP	Do Not Pay
DPS	Disgorgement and Penalties System
DQP	Data Quality Plan
EDGAR	Electronic Data Gathering, Analysis, and Retrieval System
ENF	Division of Enforcement
ETF	Exchange-Traded Funds
FAF	Financial Accounting Foundation
FASB	Financial Accounting Standards Board
FCPIA	Federal Civil Penalties Inflation Adjustment Act
FECA	Federal Employees' Compensation Act
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FINHUB	Strategic Hub for Innovation and Financial Technology
FINRA	Financial Industry Regulatory Authority
FINTECH	Financial Technology
FISMA	Federal Information Security Modernization Act of 2014
FMFIA	Federal Managers' Financial Integrity Act of 1982
FOIA	Freedom of Information Act
FR	Federal Register
FSSP	Federal Shared Service Provider
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
GTAS	Government-wide Treasury Account Symbol Adjusted Trial Balance System
HVA	High Value Asset
ICO	Initial Coin Offering
IM	Division of Investment Management
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
IPO	Initial Public Offering
IT	Information Technology

NIST	National Institute of Standards and Technology
NRSRO	Nationally Recognized Statistical Rating Organization
OASB	Office of the Advocate for Small Business Capital Formation
OCIE	Office of Compliance Inspections and Examinations
OFM	Office of Financial Management
OGC	Office of the General Counsel
OIA	Office of International Affairs
OIEA	Office of Investor Education and Advocacy
OIG	Office of Inspector General
OIT	Office Information Technology
OLIA	Office of Legislative and Intergovernmental Affairs
OMB	Office of Management and Budget
OPA	Office of Public Affairs
OPM	U.S. Office of Personnel Management
OS	Office of the Secretary
PAUSE	Public Alert: Unregistered Soliciting Entities
PCAOB	Public Company Accounting Oversight Board
PII	Personally Identifiable Information
POA&M	Plan of Actions and Milestones
S/L	Straight-Line
SBR	Statement of Budgetary Resources
SEC	U.S. Securities and Exchange Commission
SIPA	Securities Investor Protection Act of 1970
SIPC	Securities Investor Protection Corporation
SRO	Self-Regulatory Organization
TM	Division of Trading and Markets
TSP	Thrift Savings Plan
U.S.C.	United States Code
USSGL	U.S. Standard General Ledger

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The SEC's FY 2019 Agency Financial Report was successfully produced through the efforts of our talented staff. To these individuals, we offer our sincerest appreciation. 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 2019 financial statements. To comment on this report, please send an email to SECAFR@sec.gov.

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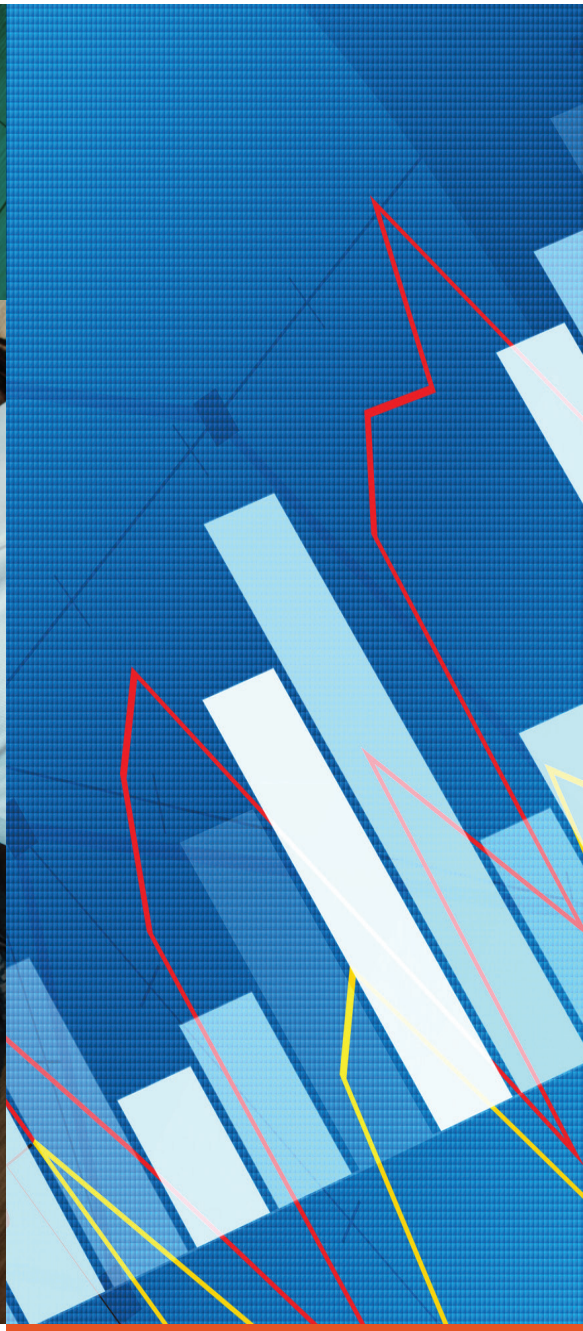

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