



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

November 16, 2020

The Honorable Jay Clayton  
Chairman  
United States Securities and Exchange Commission

**Financial Audit: Securities and Exchange Commission’s FY 2020 and FY 2019 Financial Statements**

Dear Mr. Clayton:

This report transmits the GAO auditor’s report on the results of our audits of the fiscal years 2020 and 2019 financial statements of the United States Securities and Exchange Commission (SEC) and its Investor Protection Fund (IPF),<sup>1</sup> which is incorporated in the enclosed U.S. Securities and Exchange Commission Fiscal Year 2020 Agency Financial Report.

As discussed more fully in the auditor’s report that begins on page 54 of the enclosed agency financial report, we found

- the financial statements of SEC and its IPF as of and for the fiscal years ended September 30, 2020, and 2019, 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, 2020; and
- no reportable noncompliance for fiscal year 2020 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The Accountability of Tax Dollars Act of 2002 requires that SEC annually prepare and submit audited financial statements to Congress and the Office of Management and Budget.<sup>2</sup> 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 prepare and submit a complete set of audited financial statements for IPF to Congress.<sup>3</sup> In accordance with the authority conferred by the Chief Financial Officers Act of 1990, as amended

<sup>1</sup>IPF, which was established in 2010 by section 922 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (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.

<sup>2</sup>Pub. L. No. 107-289, § 2, 116 Stat. 2049-50 (Nov. 7, 2002), *amending* 31 U.S.C. § 3515.

<sup>3</sup>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).

by the Government Management Reform Act of 1994,<sup>4</sup> we have audited the SEC and IPF financial statements. Section 963 of the Dodd-Frank Act further requires that (1) SEC annually submit a report to 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.<sup>5</sup> Accordingly, this report also includes our reporting in response to the requirement under section 963 of the Dodd-Frank Act.

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

If you or your staff have questions concerning this report, please contact me at (202) 512-3133 or [dalkinj@gao.gov](mailto:dalkinj@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

Sincerely yours,



James R. Dalkin  
Director  
Financial Management and Assurance

Enclosure

(104105)

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<sup>4</sup>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).

<sup>5</sup>Dodd-Frank Act, § 963(a), (b), 124 Stat. 1910 (July 21, 2010), *classified at* 15 U.S.C. § 78d-8(a), (b).

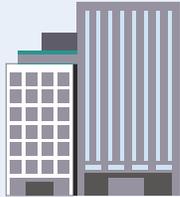
The background is a dark blue, textured surface. On the left, a light gray, textured triangular shape points towards the center. Overlaid on this are several geometric elements: a white outline of a triangle with a gold-colored triangle inside it, a solid dark blue triangle, a solid teal triangle, and a series of white vertical lines of varying heights that resemble a bar chart. On the right side, there are more teal and light blue geometric shapes, including a large light blue triangle pointing towards the center.

U.S. SECURITIES AND EXCHANGE COMMISSION

# AGENCY FINANCIAL REPORT

FISCAL YEAR  
2020

# the SEC oversees . . .



7,400+

Reporting Companies  
(more than half exchange listed)



28,000+

Registered Entities



7

Active Registered  
**CLEARING  
AGENCIES**

24

National Securities  
**EXCHANGES**



9

Credit  
Rating  
**AGENCIES**



## CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING

The SEC's fiscal year 2019 Agency Financial Report received the Certificate of Excellence in Accountability Reporting from the Association of Government Accountants. This was the 14th 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.

2020 was certainly a year of challenge unlike any in recent memory. Fortunately, for America’s investors and markets, the women and men of the U.S. Securities and Exchange Commission (SEC) once again demonstrated their unwavering and unparalleled commitment to protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation. Their dedication combined with our strong and flexible regulatory framework allowed the SEC to respond quickly to the health, economic, and other unexpected challenges we faced this year.

During my time as Chairman, the agency, recognizing the value of our time-tested regulatory framework, has focused on modernizing our rules and regulations, some of which have not been meaningfully updated in decades. We have also taken advantage of advances in communication and other technology to improve our engagement with market participants as well as the methods and practices we employ to fulfill our regulatory responsibilities.

These actions were necessary—in the past 30 years our markets have undergone a sweeping transformation and many of our rules, regulations, and other requirements had, understandably, become dated. More importantly, our modernization efforts improved all three components of our mission: investor protection, market efficiency, and capital formation. This was only possible because each initiative was shaped by our career staff. Their decades of experience, cooperation across divisions and offices, and commitment to our mission provided the bedrock for, and energy to complete, our retrospective review and modernization processes. These dedicated professionals have my profound thanks and respect.

As just a few examples, in fiscal year (FY) 2020, in areas principally covered by the Division of Investment Management, these modernization efforts included: the regulatory framework for funds’ use of derivatives (40 years since the last meaningful update), the investment adviser marketing and solicitation rules

(60 years), and the regulation of funds that invest in other funds (47 years). In areas principally covered by the Division of Corporation Finance and the Office of Chief Accountant, these efforts included: the auditor independence rules (20 years); the business, legal proceedings, and risk factor disclosure for public companies (over 30 years); and the “accredited investor” definition (35 years). Additionally, the Commission significantly progressed its fulsome review of the shareholder proposal and proxy voting process, some components of which had not been updated since 1954.

This is only a sample of the work done by the Commission in FY 2020 to evaluate whether decades old rules continue to function effectively and in line with their purpose, and to propose and implement updates as needed. Here I note that, although many actions are attributed to only one or two divisions or offices, these efforts rely on indispensable support from teams throughout the agency. For example, the Division of Economic and Risk Analysis plays an important role in analyzing available data and performing rigorous quantitative and qualitative economic analysis allowing for better policy choices. The Office of the General Counsel carefully reviews staff recommendations and Commission actions not only for compliance with law but also for consistency, clarity, and efficiency of administration. The Office of the Secretary processes the Commission’s actions and facilitates their public dissemination. The agency’s capable administrative and operations personnel, in turn, make all of this work possible.

However, it is not enough to improve the implementation of our framework. Responsible regulation does not end with rule adoption. It is also incumbent upon the SEC to (1) engage with market participants as they comply with new or updated rules and (2) when

necessary, bring prompt actions to enforce our rules and applicable law. In FY 2020, in the face of many challenges, our Office of Compliance Inspections and Examinations (OCIE) conducted examinations that covered 15 percent of all SEC-registered investment advisers, verified 4.8 million investor accounts totaling \$3.4 trillion in assets, conducted more than 120 outreach events, more than 200 formal meetings with other regulators, issued a report on cybersecurity and resiliency, and published 8 risk alerts. Our Division of Enforcement (ENF) brought over 700 actions, obtaining financial remedies of more than \$4.5 billion, and awarded a record 39 individual whistleblowers approximately \$175 million. These statistics illustrate but do not fully capture the flexibility of the women and men of OCIE and ENF and their unwavering commitment to protecting investors and our markets.

Of course, without the Commission-wide efforts to ensure the efficacy and efficiency of our rules discussed above, the efforts of OCIE and ENF would be less effective. This is another important driver of our modernization efforts. If a rule is no longer serving investors or our markets in the way that it was intended, it should be re-evaluated and revised so that related compliance and enforcement efforts provide the maximum long-term benefits.

Two accomplishments that warrant special attention this year are the ways we came together as colleagues and friends to engage with and support each other as our nation confronted the effects of (1) COVID-19 and (2) the continuing disparities resulting from bias and racism. In both respects, recognizing that our human capital is our most important asset, we listened, we learned, and we took action to make ourselves and our organization better, both operationally and culturally. Here, I thank our Office of Information Technology for keeping us connected in a mandatory telework posture

and our Office of Minority and Women Inclusion for driving engagement as well as the adoption of tangible initiatives to improve diversity, inclusion, and opportunity at the Commission and more broadly. Without these efforts, many of our accomplishments would not have been possible, and none of them would have been as meaningful.

This year's Agency Financial Report includes the results of the independent audit of our FY 2020 financial statements, which is once again an unmodified opinion. I take pride in this report

and the staff's efforts to ensure the financial and performance data is a reliable, complete, and fully transparent reflection of our efforts to continue improving financial management, performance, and accountability.

The pages that follow detail the remarkable, mission-oriented work of the more than 4,500 women and men of the agency over the past fiscal year. As always, it is my honor to present their accomplishments on behalf of the Commission.

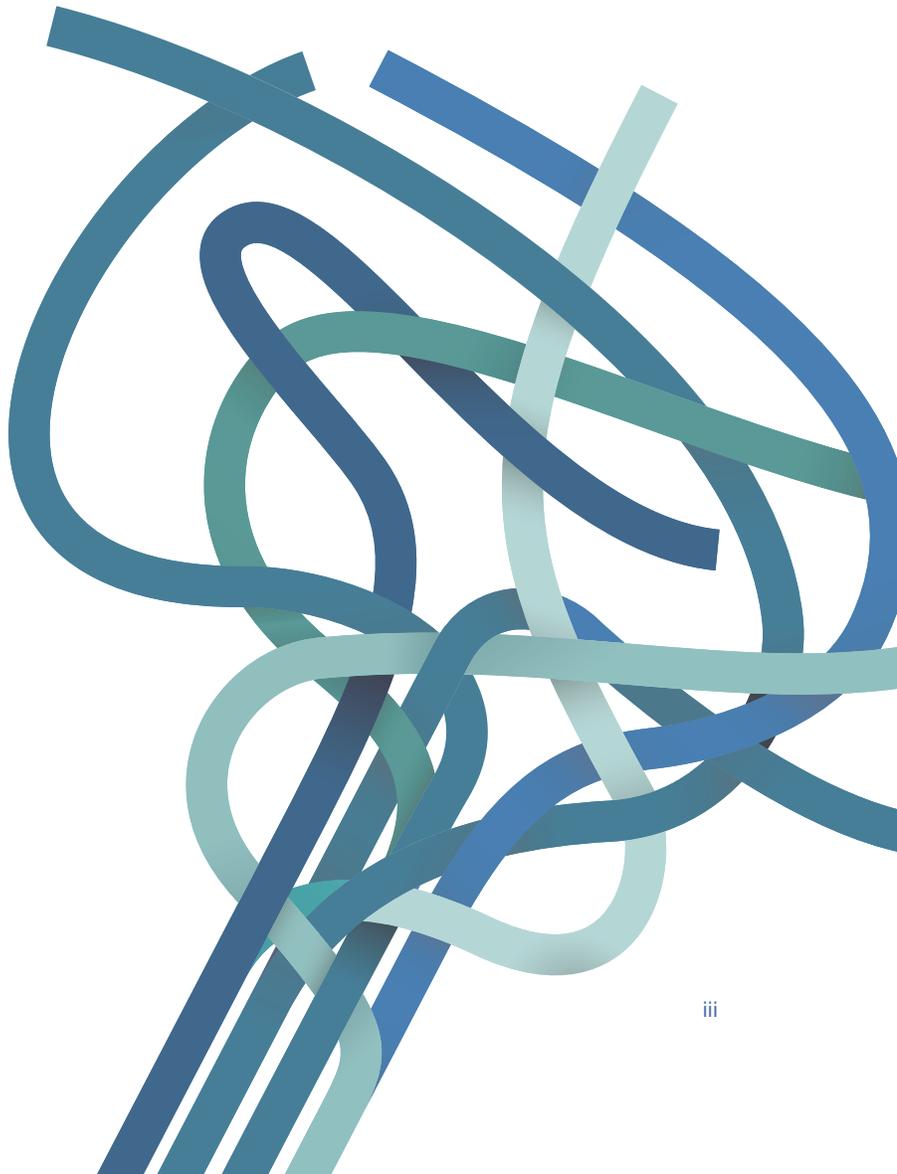


JAY CLAYTON  
Chairman  
November 12, 2020

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In well-woven fabric, each strand supports and strengthens the others and, in return, receives strength and support. At the Commission, I see the product of this every day.

CHAIRMAN JAY CLAYTON



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We at the Commission  
are committed to an  
inclusive and diverse

operating environment  
and supportive  
environment . . . It's not  
just a commitment today  
. . . we know we need to  
do more in the future.

CHAIRMAN JAY CLAYTON

SEC HEADQUARTERS | WASHINGTON, DC



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It is our job to be responsive and innovative in the face of significant market developments and trends. As technological advancements and commercial developments have changed how our securities markets operate, our ability to remain an effective regulator requires us to continuously monitor the market environment and, as appropriate, adjust and modernize our expertise, rules, regulations, and oversight tools and activities.

# INTRODUCTION

The SEC's fiscal year (FY) 2020 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 2022 Congressional Budget Justification Report available in 2021.

The FY 2020 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.

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## Management's Discussion and Analysis

Provides a high-level overview of the SEC—its history, mission, and organizational structure—and the agency's FY 2020 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 2021 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.

## 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.



Electronic copies of this AFR and prior year budget reports are available at [SEC.gov/reports](https://www.sec.gov/reports).

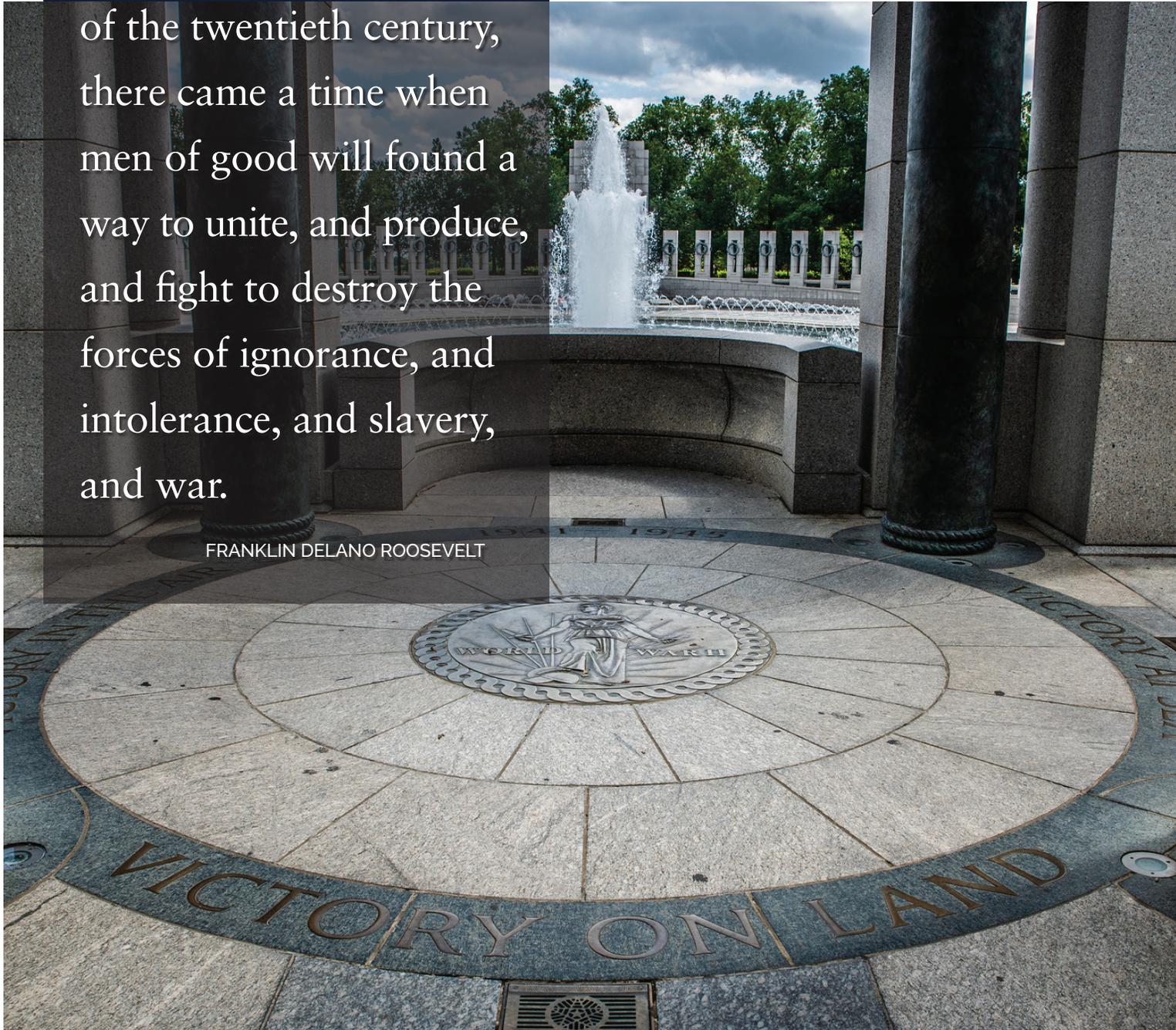
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We have faith that future generations will know that here, in the middle

of the twentieth century, there came a time when men of good will found a way to unite, and produce, and fight to destroy the forces of ignorance, and intolerance, and slavery, and war.

FRANKLIN DELANO ROOSEVELT

WWII MEMORIAL | WASHINGTON, DC



# MANAGEMENT'S DISCUSSION AND ANALYSIS

This section provides a high-level overview of the agency, its FY 2020 program and financial performance, and FY 2021 outlook.

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## 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 2020, 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 2020 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<sup>1</sup> (Securities Act)—the first federal law to regulate the issuance of securities—followed by the Securities Exchange Act of 1934<sup>2</sup> (Exchange Act).

The SEC was established to regulate and enforce this legislation.

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<sup>3</sup> (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.

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<sup>1</sup> More information about the Securities Act of 1933 can be found at [SEC.gov/about/laws/sa33.pdf](https://www.sec.gov/about/laws/sa33.pdf)

<sup>2</sup> More information about the Securities Exchange Act of 1934 can be found at [SEC.gov/about/laws/sea34.pdf](https://www.sec.gov/about/laws/sea34.pdf)

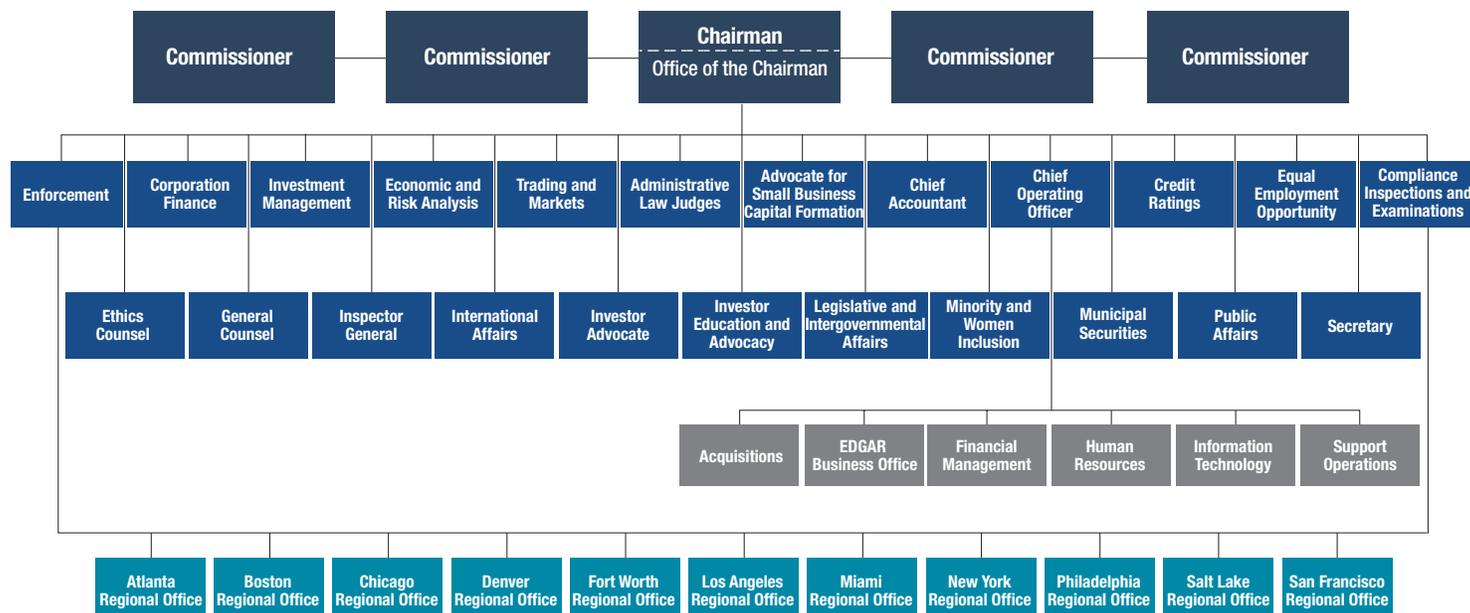
<sup>3</sup> More information about the Dodd-Frank Act can be found at [SEC.gov/about/laws/wallstreetreform-cpa.pdf](https://www.sec.gov/about/laws/wallstreetreform-cpa.pdf)

## Organizational Structure and Resources

The agency’s functional responsibilities are organized into 5 divisions and 25 offices. In FY 2020, the SEC employed 4,411 full-time equivalents.

The following chart is accurate as of September 30, 2020.

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. Divisions are listed in the first five boxes in the second row (Enforcement, Corporation Finance, Investment Management, Economic and Risk Analysis, Trading and Markets). 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.

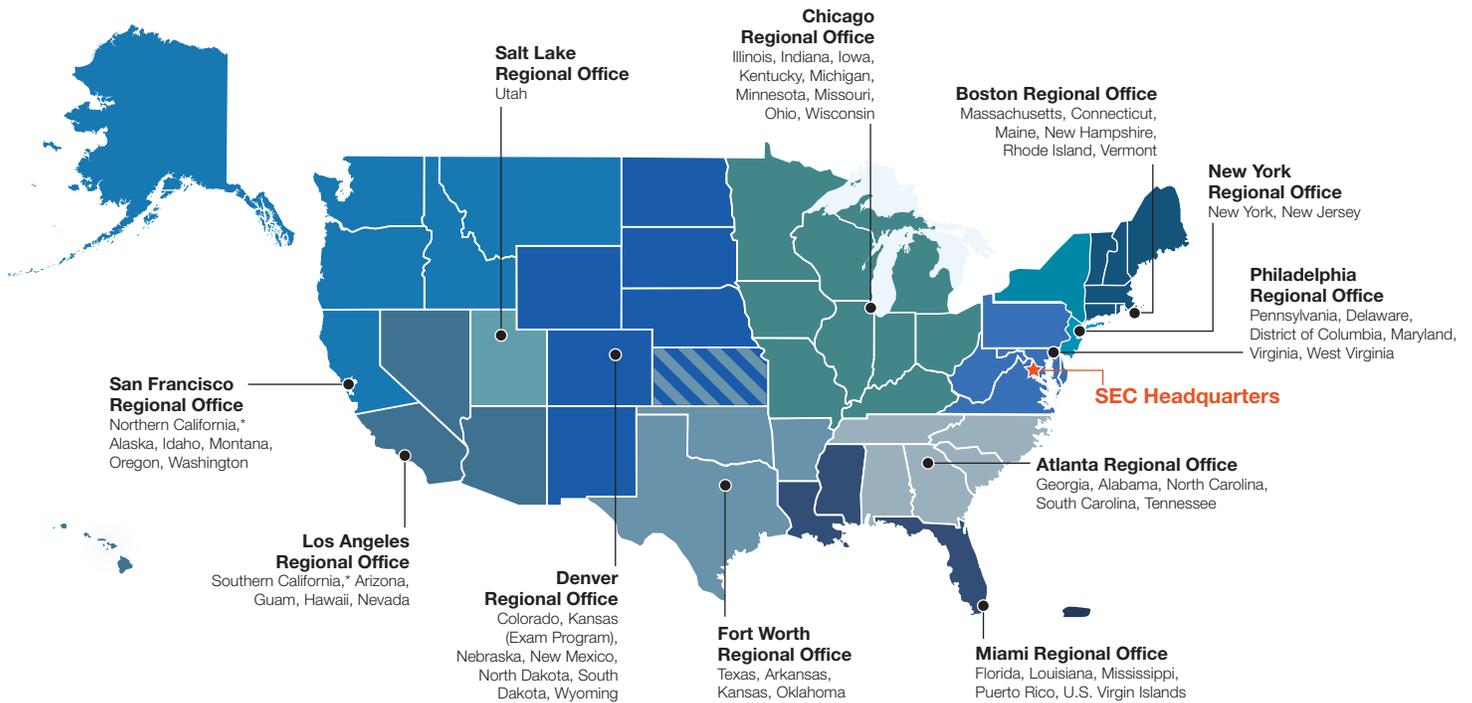
The Commission convenes on a regular basis, and meetings are open to the public and the news media unless the discussion pertains to a confidential subject, such as a recommendation regarding an enforcement investigation.

## 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

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	Maintains primary responsibility for administering the Investment Company Act of 1940 and Investment Advisers Act of 1940, which includes developing regulatory policy for investment companies and for investment advisers, monitoring for risks and trends, reviewing regulatory and financial disclosures for compliance with regulatory requirements, and providing guidance to relevant market participants.
ECONOMIC AND RISK ANALYSIS	
Division of Economic and Risk Analysis	Provides economic analyses as part of the Commission's rulemaking process and assists 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 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 62, 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.

# SEC

## coronavirus response

Our efforts are centered, first and foremost, on the health and safety of our employees and all Americans. With this in mind, we transitioned to a full telework posture (with limited exceptions) in March 2020.

Through this period of collective, national challenge, we remain fully operational and committed to our tripartite mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.



### Our Focus

**CONTINUING** Commission operations

**MONITORING** market functions and system risks

**PROVIDING** prompt, targeted regulatory relief and guidance to issuers, investment advisers, and other registrants impacted by COVID-19

**MAINTAINING** our enforcement and investor protection efforts, particularly with regard to the protection of our critical market systems and our most vulnerable investors

**WORKING** in coordination with other financial regulators and governmental authorities in the United States and globally



We recognize the importance of our mission to America's investors and our markets and believe it is a privilege to serve.

For more information about our continued efforts throughout this global pandemic, please visit [SEC.gov/sec-coronavirus-covid-19-response](https://www.sec.gov/sec-coronavirus-covid-19-response).



# OUR YEAR IN REVIEW AND THE YEAR AHEAD

FY 2020 was a year of profound and unexpected challenge, when the women and men of the SEC performed admirably as colleagues, as regulators, and as fellow citizens. The following pages summarize key initiatives and achievements of the Commission during FY 2020. We start with a discussion of how the agency has adapted to the threat posed by COVID-19 to both our internal operations and the markets we regulate. We then continue with a discussion of our actions involving: (1) enforcement and compliance; (2) our regulatory and policy initiatives; (3) our investor education and market outreach efforts; and (4) data and technology.

## Response to COVID-19

FY 2020 presented many unforeseen challenges resulting from the COVID-19 pandemic. As they have when faced with past challenges, the women and men of the SEC proved they are resourceful and committed to our mission. They promptly responded to market and other stresses while simultaneously adapting their working conditions to meet health and safety needs. More specifically, and as detailed on our dedicated [COVID-19 response webpage](#), the Commission and staff issued dozens of temporary relief measures; worked closely with market participants to ensure that markets continued to function and investors were able to monitor and access their holdings; and launched various enforcement and compliance initiatives to root out and prevent COVID-19-related fraud and other misconduct. We also provided market analysis and other information to our regulatory counterparts and the public, and, under the leadership of the Commission's Chief Economist, S.P. Kothari, the staff prepared a Staff Report on *U.S. Credit Market Interconnectivity and the Effects of the COVID-19 Economic Shock*, released in October 2020.

## Operations

The agency's top priority has been and continues to be the health and safety of the women and men of the SEC, the employees and customers of our registrants, and individuals more generally. From an operational standpoint, the agency began shifting to mandatory telework in our Washington, DC, headquarters and across our 11 regional offices in early March. In the months that followed, the agency's operational functions focused intently on enabling SEC programs and activities to continue with minimal interruption. For example, the Office of Information Technology (OIT) kept the SEC's IT infrastructure operating continuously and effectively despite the surge in staff members working remotely. OIT proactively made further improvements, such as deploying a new cloud-based videoconferencing system, and placed additional emphasis on security measures. As another example, the Office of Human Resources (OHR), in consultation with the National Treasury Employees Union, instituted telework and work schedule flexibilities to enable staff to effectively advance the SEC's mission while placing health and safety first. OHR also rolled out new training programming for SEC managers and staff to lift engagement and support effective communications in a full-time telework environment. These efforts made many of the accomplishments described in this report possible.

The vast majority of the agency's 4,500 personnel maintained a full telework posture through the end of the fiscal year with limited, mission-critical exceptions. We remain fully operational and committed to our mission.

## Market Function, Market Monitoring, and Regulatory Coordination

The continued orderly operation of our securities markets during this period of national challenge is a testament to many market participants and governmental authorities, including the women and men across the SEC. In the face of unforeseen and unpredictable developments, the agency, along with our U.S. and international regulatory partners, diligently monitored the extraordinary volumes and volatility in our securities markets in FY 2020. This monitoring informed the Commission and staff on when and where it was necessary or appropriate to take action, including providing guidance and targeted regulatory relief. A brief summary of these actions can be found in the following section.

Coordination has been central to keeping the “pipes and plumbing” of our securities markets functioning largely as designed and, importantly, as market participants would expect. In late April, the Commission formalized an internal, cross-divisional COVID-19 Market Monitoring Group, which built on existing market monitoring and response work to function as a focal point for managing and coordinating our efforts to both monitor and respond to the effects of COVID-19.

COVID-19 shone a bright light on the innumerable linkages between our capital markets and the global banking, housing finance, commodities, and other markets. Close engagement between the SEC and our fellow regulators and other authorities helped us identify areas of stress and vulnerability and potential mitigating actions. We remain in regular—often daily—communication with our fellow domestic regulators and work closely on capital markets-related matters arising from COVID-19 with our foreign counterparts and international prudential banking authorities on a bilateral and multilateral basis through the Office of International Affairs.

## COVID-19-Related Guidance and Targeted Regulatory Assistance and Relief

Many of our actions in response to the effects of COVID-19 focused on operational issues, such as facilitating the shift to business continuity plans that are consistent with health and safety directives and guidance. Other actions involved targeted, conditional, and temporary relief, including relief from certain filing and delivery requirements for public companies, funds, and advisers that were significantly affected by COVID-19, relief permitting virtual board meetings by boards of registered funds, and guidance to promote continued shareholder engagement for public companies and funds.

The Commission also provided targeted relief to facilitate small businesses’ access to capital at a time when they have been particularly vulnerable to increased operational and funding uncertainty. The SEC’s Small Business Capital Formation Advisory Committee (SBCFAC) held several meetings during the spring and summer of 2020. Those meetings generated feedback that led to the Commission providing temporary, targeted, and conditional relief to allow established small businesses’ access to needed capital, including through Regulation Crowdfunding, while continuing to provide appropriate investor protections.

More broadly, operational and funding uncertainties highlighted the importance of issuers, from all sectors, providing investors with financial and operational disclosures that are clear, high quality, and timely—one of the fundamental tenets of our time-tested regulatory framework. Staff in the Division of Corporation Finance (CF) not only monitored how public companies reported the effects and risks of COVID-19 on their businesses, financial condition, and results of operations, but also provided prompt guidance to assist companies listed in the United States in preparing disclosure documents, including the importance of disclosing the material impacts of COVID-19.

## Investor Protection, Education, and Outreach

The SEC's Office of Compliance Inspections and Examinations (OCIE) and Division of Enforcement (ENF) expanded their continuous investor protection work to incorporate the unique compliance challenges and the unfortunately inevitable frauds and illicit schemes generated by COVID-19.

OCIE shifted to conducting off-site examinations through correspondence, supplementing that work with on-site activity as circumstances required. While maintaining its commitment to proactive oversight, OCIE also worked with entities to address the timing of document requests, availability of personnel for interviews, and other matters to be appropriately responsive to operational constraints while continuing to focus on investor protection.



OCIE also engaged in regulatory outreach with hundreds of firms in March and April 2020 to assess the pandemic's impact on market and liquidity risks as well as firms' risk exposure to certain industries, counterparties, and asset classes. OCIE also sought to better understand operational risks associated with resiliency, business continuity, cyber and information security, and regulatory obligations, with a particular focus on investor protection and market integrity. OCIE distilled and shared this feedback from firms throughout the agency, with other domestic and foreign financial regulatory authorities, and with self-regulatory organizations to facilitate the provision of additional guidance and regulatory relief as necessary or appropriate.

Demonstrating its flexibility and responsiveness, ENF devoted significant resources to COVID-19-related matters, coordinating its efforts through its Coronavirus Steering Committee. ENF commenced a number of investigations related to potential misconduct, including microcap fraud, insider trading, and financial fraud and issuer disclosure concerns. As a result of these efforts, the Commission suspended trading in the securities of 36 issuers related to COVID-19, and as of the end of FY 2020, filed 6 COVID-19-related actions alleging fraud.

ENF also worked in concert with the Office of Investor Education and Advocacy (OIEA) to educate investors and market participants about COVID-19-related scams. For example, OIEA issued an Investor Alert regarding coronavirus-related investment scams in February, just as the first signs of fraudulent market activity related to the pandemic became apparent. The Commission continues to communicate with investors and market participants throughout the pandemic. For example, the SEC issued messages on COVID-19-related early withdrawals from retirement accounts. The co-directors of ENF also issued a statement urging companies to review, update, and follow their disclosure controls and procedures to protect against the improper dissemination and use of material nonpublic information, noting that a greater number of people may have access to material nonpublic information than in less challenging times. The statement also reminded broker-dealers, investment advisers, and other registrants to comply with the required policies and procedures designed to prevent the misuse of material nonpublic information.

OIEA and the SEC's 11 regional offices also continued to conduct targeted virtual outreach events to Main Street investors, including seniors, current and former service members, and other potentially vulnerable populations. These virtual events began in early March, including, for example, several educational telephone town halls hosted by the Atlanta and New York Regional Offices.

## Diversity, Inclusion, and Opportunity

The importance of diversity, inclusion, and opportunity to the Commission, the financial industry, and our society more generally was brought into stark relief by the events of 2020. The Commission's commitment to these fundamental and performance-enhancing principles is long-standing and we recognize action is needed and progress must continue. In recent years, we undertook a variety of internal initiatives to further our collective commitment to these principles and each other, including efforts to measure our progress. We also launched a variety of external initiatives designed to further these principles in our markets, including in the areas of investor access and investment management. Several of these internal and external initiatives are summarized below.

In March 2020, the agency released its first ever [Diversity and Inclusion Strategic Plan](#), the development of which was led by the Office of Minority and Women Inclusion (OMWI) under the guidance of Director Pamela Gibbs. Developing the Plan involved extensive engagement with Chairman Clayton as well as SEC colleagues at all levels from divisions and offices throughout the agency and the SEC's Diversity Council and Employee Affinity Groups. The Plan provides a framework to guide the agency's efforts to promote diversity, inclusion, and opportunity in the SEC's workforce; increase opportunities for minority-owned and women-owned businesses to contract with the agency; and develop standards for assessing the diversity policies and practices of firms regulated by the SEC. Agency leaders and managers will continue to implement the initiatives outlined in the Strategic Plan with a focus on weaving diversity, inclusion, and opportunity into their work advancing the SEC's mission.

Among the actions taken in FY 2020 that support the Strategic Plan's goals were: (1) releasing two upgraded dashboards on diversity within our workforce; (2) initiating the Un-Covering Task Force to promote inclusion in our workplace; (3) launching manager training on conscious equity; and (4) increasing senior-level engagement with diverse professional organizations such as the Chairman's discussions with the National Association of Securities Professionals, Culture Shift Labs, and Financial Services Professionals.

One of the Plan's goals that resonated internally and externally is to "Leverage Diversity and Inclusion for Mission Effectiveness," including in the SEC's advisory committees. For example, the SBCFAC is required by statute to include members who are officers or directors of minority-owned or women-owned small businesses. OMWI plays an important part in helping Commission staff identify potential candidates for the advisory committees, and the SEC's Senior Policy Advisor on Diversity and Inclusion currently chairs the nominating committee for the Investor Advisory Committee.

In FY 2020, the SEC's advisory committees held meetings focused on issues of diversity, inclusion, and opportunity within their respective market segments. In July, the Asset Management Advisory Committee (AMAC) hosted a panel of representatives from several leading non-profit organizations focused on driving more diversity among the largest asset managers in the industry. Participants highlighted, in particular, the importance of transparency when it comes to information on diversity and inclusion. A second AMAC meeting to further discuss these topics was held in September and included capital allocators and consultants.

# SEC

## Diversity and Inclusion Strategic Plan

The SEC's [FY 2020 - 2022 Diversity and Inclusion Strategic Plan](#) serves as a framework for our continued efforts in building and maintaining a diverse workforce, cultivating an inclusive work environment, and fostering diversity in our network of suppliers and in the regulated entities we oversee. It includes measurable actions that are designed to help fully integrate diversity, inclusion, and opportunity in the strategic decision making of the agency, enhance organizational effectiveness, and meet future challenges.

“

Leveraging diversity and inclusion throughout the agency helps ensure the Commission's regulatory programs and guidance reflect the diversity of the investors and businesses who depend on our work.

CHAIRMAN JAY CLAYTON

We are all committed to cultivating a supportive, welcoming, inclusive, and fair work environment that allows employees to feel connected to the agency's mission and contribute to their full potential at the SEC.

PAMELA GIBBS, DIRECTOR  
OFFICE OF MINORITY  
AND WOMEN INCLUSION



### Our Goals

#### **GOAL 1: Demonstrate Leadership Commitment and Accountability**

Demonstrate leadership commitment and accountability through agency policy, messaging, and behavior that advances diversity and inclusion goals and objectives.

#### **GOAL 2: Foster a Connected Culture**

Cultivate a supportive, welcoming, inclusive, and fair work environment that allows employees to feel connected to the agency's mission and contribute to their full potential.

#### **GOAL 3: Build a Diverse Talent Pipeline**

Pursue a comprehensive strategy to build and maintain a high-performing workforce drawn from all segments of American society.

#### **GOAL 4: Leverage Diversity and Inclusion for Mission Effectiveness**

Use SEC resources and services in a manner that reflects diversity of investors and businesses.

#### **GOAL 5: Promote Business Diversity with SEC Stakeholders**

Advance diversity and inclusion in the SEC supplier base and with entities regulated by the SEC.





## 2020 VISION A CLOSER LOOK

### Whistleblower Awards

In FY 2020, the SEC awarded more than \$175 million in whistleblower awards, including a record payment of \$50 million. The SEC has awarded almost \$562 million to 106 individuals since issuing its first award in 2012. Chairman Clayton prioritized improving the Whistleblower Program's efficiency and effectiveness by processing awards more quickly.

All payments are made out of the Investor Protection Fund, which was established by Congress and is financed entirely by monetary sanctions paid to the SEC by securities laws violators. The SEC is authorized to provide monetary awards to eligible individuals who come forward with high-quality, original information that leads to a Commission enforcement action in which over \$1 million in sanctions is ordered. The range for awards is between 10 and 30 percent of the money collected.

For more information about the Whistleblower Program and how to report a tip, click [here](#) or visit [SEC.gov/whistleblower](https://www.sec.gov/whistleblower).

## Enforcement and Compliance

### Division of Enforcement

Each year, ENF investigates, and the Commission brings, hundreds of actions against individuals and entities. Through these actions, the Commission protects investors by punishing misconduct, deterring wrongdoing, removing bad actors from our markets, and, wherever possible, compensating harmed investors. In FY 2020, the Commission obtained financial remedies of more than \$4.5 billion, an increase over FY 2019. Here, we highlight several of the programs and initiatives that had a significant impact on investor protection during the fiscal year.

First, the Teachers Initiative and the Military Service Members Initiative, led by ENF's Retail Strategy Task Force, made significant progress in FY 2020. These initiatives focus additional enforcement and investor education resources on protecting 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. As part of the Teachers Initiative, in July 2020, the Commission charged VALIC Financial Advisors Inc. (VFA) for failing to disclose that its parent company paid a for-profit company owned by the Florida K-12 teachers' unions to promote VFA's products and services to those teachers. In settling the charges, VFA agreed to pay a civil penalty of \$20 million and to cap advisory fees for all Florida K-12 teachers who currently participate in its advisory product in Florida's 403(b) and 457(b) retirement programs, which will result in significant, ongoing savings for thousands of teachers.

Second, the Whistleblower Program, created by Congress to incentivize individuals to report high-quality tips to the Commission, had a noteworthy year on multiple fronts. Since the program's inception 10 years ago, whistleblowers have made meaningful contributions to numerous actions. In FY 2020, ENF worked to streamline and substantially accelerate the evaluation of claims for whistleblower awards. As a result, the Commission awarded 39 whistleblowers a total of over \$175 million in FY 2020 alone. This represents the most awards granted in a single year since the beginning of the program.

In September 2020, the Commission voted to adopt amendments to the rules governing the Whistleblower Program. The amendments, which respond to the Supreme Court's *Digital Realty* decision and reflect the Commission's decade of experience with the program, are intended to provide greater transparency, efficiency, and clarity, and to strengthen and add additional efficiency to the Whistleblower Program. The rule amendments increase efficiencies around the review and processing of whistleblower award claims, and provide the Commission with additional tools to appropriately reward meritorious whistleblowers for their efforts and contributions to a successful matter.

Finally, in FY 2020, the Commission announced the final actions under the Share Class Selection Disclosure Initiative, which was launched in February 2018. This initiative focused on investment advisers who did not adequately disclose conflicts as a result of their receipt of compensation in the form of 12b-1 fees, and resulted in settled charges against 97 investment advisers who will ultimately return more than \$139 million to harmed clients. This initiative also brought about lasting benefits for retail investors and market participants more generally, including by comprehensively remedying deficiencies in the disclosure of fees and conflicts, resulting in better information and lower costs for investors.

It is also important to note that other divisions and offices across the agency provide valuable support on enforcement matters, including referrals from various divisions, economic analyses from the Division of Economic and Risk Analysis, technical expertise from policy divisions, and litigation support from the Office of the General Counsel (OGC).

### Office of Compliance Inspections and Examinations

OCIE is responsible for conducting examinations of regulated entities to promote compliance, prevent fraud, identify risk, and inform policy. OCIE's [2020 Examination Priorities](#) reflect a continued focus on the protection of retail investors, particularly seniors and those saving for retirement. In particular, OCIE closely reviewed 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. These areas include, among others, compliance and risks related to critical market infrastructure, information and cybersecurity, and anti-money laundering programs. OCIE also published eight [Risk Alerts](#) and one report to help inform registered investors of common compliance issues to aid in the identification and correction of potentially deficient practices. These include Risk Alerts focused on COVID-19-related compliance risks as well as ransomware attacks on SEC-registered firms and their service providers.

During FY 2020, OCIE conducted over 2,950 examinations, covering 15 percent of all registered investment advisers. OCIE continues to enhance its risk-based inspections and exam program by collecting and analyzing a wide variety of data from registrants and other sources to identify potentially problematic activities and firms as well as prominent risk themes.

## Effects of Judicial Decisions on the Application of Federal Securities Laws and Commission Activity

Over the past decade, the Supreme Court and other federal courts issued various decisions that required the Commission to adjust its approach to enforcement matters, including the *Kokesh v. SEC* decision holding that disgorgement is a penalty for purposes of the five-year statute of limitations under 28 U.S.C. Section 2462 and the *Lucia v. SEC* decision, which held that the appointment of the Commission's administrative law judges had been unconstitutional. The Commission adjusted well to these decisions, maintaining its effectiveness, in large part, due to the dedication of staff in OGC and ENF.

In FY 2020, Courts issued 29 appellate decisions in cases involving the Commission and in all but four, the agency achieved complete or partial victories. This record is a reflection of the judgment, diligence, and commitment shown by the staff in OGC, including a demonstrable commitment to the core principles underlying our regulatory framework. Below are two examples of the important cases handled by OGC in FY 2020.

In *Liu v. SEC*, the Supreme Court rejected a challenge to the Commission's ability to seek, and district courts' authority to award, disgorgement of money acquired through misconduct. This result is particularly meaningful given the Supreme Court's prior decision in *Kokesh*. The ability to order disgorgement, or the act of returning or repaying ill-gotten gains obtained from violations of the securities laws, is one of the most important tools in the Commission's arsenal. To be certain, the effects of *Kokesh* remain significant, and the *Liu* decision imposed certain limitations on the Commission's ability to seek disgorgement and left some open questions. We are dedicating significant resources to ensure we comply with, and most effectively respond to, the requirements of the decision.

In *XYPN v. SEC*, the Second Circuit upheld the Commission's Regulation Best Interest (Reg BI), which was the most significant update in over 50 years to the obligations that broker-dealers owe when they provide recommendations to retail customers. Two sets of petitioners, a group of states and an organization of investment advisers, challenged the regulation. The court held that the state petitioners lacked standing, and it rejected the adviser's argument on the merits, affirming that the Commission acted properly in adopting the rule. Importantly, the court issued its decision before the June 30, 2020, compliance date for Reg BI.

## Regulatory and Policy Initiatives

### Corporation Finance

In FY 2020, CF worked to advance several rulemakings and other actions to modernize our disclosure framework and promote capital formation, including by expanding opportunities for certain individual investors, while furthering our commitment to strong investor protection.

In March 2020, the Commission proposed a set of amendments recommended by CF to harmonize, simplify, and improve the exempt offering framework. The current framework is complex and can be confusing for many involved in the process, particularly smaller companies with limited resources. The proposed amendments seek to address gaps and complexities in the exempt offering framework that may impede access to capital for issuers, particularly smaller issuers where the exempt offering process may be their only viable alternative for accessing growth capital, as well as facilitate access to investment opportunities for investors who are capable of assessing and bearing the risks of such investments.



## 2020 VISION A CLOSER LOOK

### Modernization

Proposing, amending, and adopting regulatory rulemakings is a fluid and ever-changing process that requires constant evaluation, reflection, and discussion. We need to ensure that policies created decades ago—or even two years ago—are relevant, appropriate, and support all three components of our mission: investor protection, market efficiency, and capital formation.

In FY 2020, the Commission worked tirelessly to do just that. Some examples of our modernization efforts include the following:

- Regulatory framework for funds' use of derivatives
- Investment adviser marketing and solicitation rules
- Auditor independence rules
- Business, legal proceedings, and risk factor disclosure for public companies
- Regulation of funds that invest in other funds
- "Accredited investor" definition
- Proxy voting advice rules
- Shareholder proposal rules process

In August 2020, the Commission adopted amendments to the "accredited investor" definition, one of the Commission's principal rules for determining the individuals who should be permitted to participate in our private capital markets. The amendments update and improve the definition to more effectively identify investors who have the knowledge and expertise to participate in those markets. Individuals can now qualify as accredited investors based on demonstrable measures of market knowledge and financial sophistication (e.g., obtaining certifications from the Financial Industry Regulatory Authority [FINRA]) in addition to historical tests based on income and net worth.

Also in August 2020, the Commission updated the business, legal proceedings, and risk factor disclosure requirements for public companies. The rules had not undergone significant revision in over 30 years, and the updates reflect changes in the capital markets and the economy in recent decades. Importantly, the rules reflect an increased focus on human capital disclosures, which for various industries and companies have emerged as an important driver of long-term performance and value.



I think it is emblematic of how we as an agency—both over time and across divisions—work together to improve our markets for Main Street investors.

CHAIRMAN JAY CLAYTON

CF also played a major role in the agency's work to bring greater awareness of the risks inherent in investing in emerging markets and our exploration of potential steps to mitigate those risks. Over the past decade, U.S. capital markets and investors experienced an increased exposure to U.S.-listed companies with significant operations in emerging markets, including China, now the world's second largest economy. These investments entail significant disclosure, financial reporting, and other risks for U.S. investors, including the inability of U.S. regulators to inspect for compliance and enforce U.S. rules and regulations.



**TERMS TO KNOW**

**EXCHANGE-TRADED FUNDS (ETF)**  
SEC-registered investment companies that invest in stocks, bonds, or other securities and that issue redeemable shares and are traded on national securities exchanges.

In an effort to engage the investing public and build ties with the industry to bring greater awareness and attention to the risks of emerging market investments, staff from the SEC and the Public Company Accounting Oversight Board issued several public statements on these issues in FY 2020. On July 9, 2020, the SEC hosted a roundtable on emerging markets to solicit views of investors, other market participants, regulators, and industry experts on the risks of investing in these markets, and to explore ways to raise investor awareness of these risks and potential additional steps to mitigate them.

On August 6, 2020, the President's Working Group on Financial Markets, of which Chairman Clayton is a member, released its *Report on Protecting United States Investors from Significant Risks from Chinese Companies*, which included five recommendations for the SEC. Chairman Clayton directed staff to prepare proposals in response to the report's recommendations for the Commission's consideration, and to provide assistance and guidance to investors and other market participants as may be necessary or appropriate.

Finally, CF, along with the Division of Investment Management (IM), made significant progress in the Commission's work to modernize and improve the proxy voting process. Those efforts are discussed further in upcoming sections.

### Investment Management

For the past several years, IM has been exploring the modernization of the design, delivery, and content of fund disclosures and other information for the benefit of investors. These disclosures are especially important because millions of Main Street investors invest through exchange-traded funds (ETF), mutual funds, and other intermediaries to help them achieve personal financial goals, such as saving for retirement and their children's educations.

In FY 2020, the Commission proposed comprehensive modifications to the mutual fund and ETF disclosure framework to better serve the needs of retail investors. The proposed disclosure framework would feature concise and visually engaging shareholder reports that highlight information that is particularly important for retail investors to assess and monitor their fund investments. The proposal is a central component of the Commission's investor experience initiative and addresses comments the Commission received in response to a 2018 request for comment on retail investors' experience with fund disclosure.

The Commission also modernized disclosure for investors about variable annuities and variable life insurance contracts. The reforms permit the satisfaction of prospectus delivery obligations under the Securities Act for a variable contract by providing an investor-oriented summary prospectus to investors and making the statutory prospectus available online.

Based on the work of IM, the Commission also advanced a comprehensive overhaul of several dated regulatory frameworks in FY 2020. These reforms were the result of staff's retrospective review of rules that have not changed in decades to evaluate whether they are functioning as intended. The Commission proposed to overhaul outdated regulatory frameworks for funds' use of derivatives, fund valuation practices, and investment adviser marketing and solicitation rules. Staff are reviewing the public comments received on each of these proposals as they consider recommendations for final rules.

In addition, the Commission established an expedited review procedure for exemptive and other applications under the Investment Company Act of 1940 that are substantially identical to recent precedent, and a new informal internal procedure for applications that would not qualify for the new expedited process. These actions are intended to make the application process more efficient and provide market participants with additional certainty and transparency.

### Trading and Markets

In FY 2020, the Division of Trading and Markets (TM) led several initiatives to support and enhance the pursuit of our mission.

Chairman Clayton and TM Director Brett Redfearn discussed the importance of ensuring that our equity market structure continues to promote market integrity and efficiency, including by promoting open and fair competition. The Chairman and Director Redfearn

gave speeches in FY 2020 outlining the Commission's progress toward increasing transparency and efficiency, as well as several other items on the equity market structure agenda, some of which are described in further detail below.

Following a roundtable on combating retail investor fraud in FY 2019, in September 2020, the Commission voted to adopt amendments to Securities Exchange Act Rule 15c2-11, which governs the publication of quotations for securities in the over-the-counter market. These amendments modernize the rule and enhance investor protection by requiring more accurate and up-to-date information on these securities when they are quoted by broker-dealers, who act as gatekeepers to this market that is primarily used by retail investors. These amendments were the result of collaborative work among TM, ENF, and several other divisions and offices.



**TERMS TO KNOW**

**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.

In October 2019, the Commission issued a policy statement inviting exchanges and other market participants to submit innovative proposals designed to improve the secondary market structure for thinly traded securities following a staff roundtable on the issue in FY 2019. Staff in TM issued a companion paper providing additional background regarding the unique trading characteristics of thinly traded securities.

In February 2020, the Commission proposed amendments to modernize the infrastructure for the collection, consolidation, and dissemination of market data for exchange-listed national market system (NMS) stocks. Staff is currently reviewing the comment letters received on this proposal.



In May 2020, the Commission issued an order directing the equities exchanges and FINRA to submit a new, single NMS plan to govern the provision of consolidated market data that includes specific provisions to address concerns raised about the governance of the three existing NMS plans.

In August 2020, the Commission rescinded a rule exception that allowed a proposed NMS plan fee amendment to become immediately effective upon filing, before review and comment by investors and other market participants, and before Commission action. These changes are designed to enhance the efficiency and transparency of the process for assessing new NMS plan fees by ensuring those fees benefit from review and public comment by interested parties, and evaluation by the Commission, before they can be charged.

Finally, the Commission continued to make significant progress toward establishing the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010's Title VII regulatory regime in FY 2020, including the adoption of risk mitigation techniques for uncleared security-based

swaps. These milestones are due in large part to the hard work of TM staff, as well as the commitment and leadership of Commissioner Hester Peirce.

### Shareholder Engagement

Under Chairman Clayton, the Commission undertook a fulsome review of the shareholder proposal and proxy voting process, some components of which have not been updated for over 60 years. The success of these efforts is a testament to the strength of the cross-divisional cooperation among CF, IM, and several other divisions and offices.

In July 2020, the Commission adopted amendments to its rules governing proxy solicitations that are designed to ensure clients of proxy voting advice businesses have reasonable and timely access to more transparent, accurate, and complete information on which to base their voting decisions. Simultaneously, the Commission also supplemented its August 2019 guidance regarding the proxy voting responsibilities of investment advisers to assist them in assessing how to consider additional information from issuers that may be more readily available as a result of the July 2020 proxy solicitation amendments, a recommendation from IM. Staff in IM also are continuing to consider ways to address the challenges presented when a fund itself seeks proxies from its investors.

In September 2020, the Commission adopted amendments to the shareholder proposal rule designed to modernize and enhance the efficiency and integrity of the shareholder proposal process for the benefit of all shareholders. The amendments update the criteria that a shareholder must satisfy to be eligible to require a company to include a shareholder proposal in its proxy statement and demand the time and attention of all other shareholders. Importantly, smaller retail shareholders who have a demonstrated commitment to the company (e.g., an investment of at least \$2,000 for at least 3 years) will continue to have the ability

to make a shareholder proposal using the company's proxy. The amendments also update the levels of shareholder support a proposal must receive to be eligible for resubmission at the same company's future shareholder meetings.

Our work to modernize and enhance the accuracy, transparency, and effectiveness of our proxy voting continues, including efforts to address "proxy plumbing" and "universal proxy."

### Advisory Committees

The Commission currently has four advisory committees comprised of a mixture of non-agency personnel who provide their expertise in assessing and making recommendations for the agency's work in their respective areas.

In FY 2020, the Commission formed the AMAC, which already hosted four meetings. So far, the AMAC has hosted a discussion of the effects of COVID-19 on asset managers and reported on its preliminary work analyzing private investments and the recent growth of environmental, social, and governance-focused investing. The AMAC also held a special meeting on issues surrounding the lack of diversity and inclusion in the asset management industry, as well as data privacy and the impact of technology on investment advice.

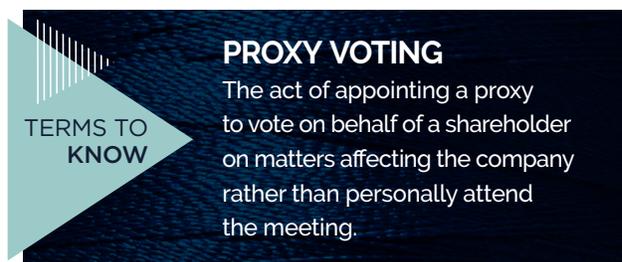
In November 2019, the Commission also renewed the charter of the Fixed Income Market Structure Advisory Committee (FIMSAC) for an additional year. The FIMSAC continues to provide insight into the structure and operations of the U.S. fixed income markets. Since its inception in 2017, the FIMSAC hosted 11 meetings and made 16 recommendations for action by the Commission and FINRA.

### Regulation Best Interest and Form CRS Relationship Summary

June 30, 2020, was the compliance date for Reg BI and Form CRS Relationship Summary (Form CRS), which were adopted by the Commission in FY 2019,

representing the first significant enhancements to the duties and obligations of brokers and investment advisers in over 50 years. In the lead up to the compliance date, the Commission and the staff engaged extensively with broker-dealers, investment advisers, retail investors, and other market participants, as well as FINRA and other regulatory partners. This engagement is continuing.

To help retail investors better understand Form CRS and its benefits, the Commission established a new investor-focused webpage, [Investor.gov/CRS](https://www.investor.gov/crs). Every Form CRS is required to include a link to the page as a resource for investors evaluating the form. We expect this webpage to be updated regularly, including in response to changes in market practice as well as evolving and new risks.



In addition, in an effort targeted at market participants, staff issued responses to Frequently Asked Questions about Reg BI and Form CRS, as well as Risk Alerts providing information about initial examinations focusing on these new requirements. The Standards of Conduct Implementation Committee has been reviewing relationship summaries from a cross-section of firms to assess compliance with the content and format requirements of Form CRS. To provide an additional opportunity to share best practices and general feedback, the Committee announced an October 2020 roundtable during which Commission staff will be able to share additional thoughts following the Committee's review of firms' initial relationship summaries.



## 2020 VISION A CLOSER LOOK

### EDGAR

Federal securities laws require publicly reporting companies to disclose information on an ongoing basis; EDGAR, the Electronic Data Gathering, Analysis, and Retrieval system, is the primary system for submitting documents under these laws.

Access to EDGAR's public database is **free**, allowing you to research, for example, a public company's financial information and operations by reviewing the filings the company makes with the SEC. You can also research information provided by mutual funds (including money market funds), exchange-traded funds (ETF), variable annuities, and individuals.

Containing millions of company and individual filings, EDGAR benefits investors, corporations, and the U.S. economy overall by increasing the efficiency, transparency, and fairness of the securities markets. The system processes about 3,000 filings per day and accommodates 40,000 new filers per year on average.

Click [here](#) or visit [SEC.gov/edgar/searchedgar/companysearch.html](https://SEC.gov/edgar/searchedgar/companysearch.html) to review a company's filings on the SEC's EDGAR database.

### Investor Education and Market Outreach

Engagement with investors and other market participants is key to furthering the agency's mission. Proactive discussions help to drive the Commission's agenda, while soliciting external feedback allows staff to evaluate the effectiveness of proposals and existing regulations. SEC staff adapted these efforts to the mandatory telework posture quickly, including by rescheduling and re-imagining outreach events and meetings to ensure that the conversation between the agency and investors and market participants continued throughout the pandemic.

In FY 2020, the Commission continued to promote informed investment decision making through education initiatives and other efforts spearheaded by OIEA. SEC staff conducted more than 400 investor education

events focused on different segments of the population, including senior citizens, current and former military personnel, teachers, younger investors, and other affinity groups.

As part of the Teachers Initiative, the agency launched new outreach efforts to educate teachers about saving and investing, investment fees and expenses, retirement programs specific to educators, and the red flags of investment fraud. These initiatives included a podcast series for public school educators created by the San Francisco Regional Office and a conference sponsored by the Los Angeles Regional Office. That conference brought together experts and state and federal regulators to discuss the issues facing California educators looking to invest in 403(b) and 457(b) supplemental defined contribution plans.

In connection with Teacher Appreciation Week, SEC staff released new multimedia resources to support educators. These resources included a guided reference presentation designed to inform educators about how to invest wisely and a curated collection of online resources and lesson plans to help teachers incorporate financial literacy in their classrooms. The resources also included a special podcast episode for teachers featuring an interview with Chairman Clayton. Throughout the week, staff across the SEC's 11 regional offices and Washington, DC, headquarters participated in national teacher outreach efforts coordinated by OIEA.

We also expanded our Military Service Members Initiative by engaging with service members and their families through more than 100 in-person and virtual briefings and other virtual engagements. Chairman Clayton and Colonel James Tuite of the U.S. Army's "Old Guard" led a Veterans Day program for an audience of active duty service members and veterans at SEC headquarters. The program focused on financial readiness, including the basics of saving, investing, preparing for retirement, and avoiding scams. In addition, OIEA staff conducted briefings at Joint Base Anacostia-Bolling as part of the military's Executive Transition Assistance Program and taught advanced-level courses on investing at the Army Judge Advocate General School in Charlottesville, Virginia.

OIEA issued a variety of investor alerts and bulletins during the year to warn Main Street investors about possible fraudulent schemes and educate them on investment-related matters. In addition, the New York Regional Office and Fordham University School of Law hosted a conference on combating community-based financial fraud, which focused on fraudulent and manipulative schemes that target potential victims based on race, ethnicity, religion, gender, age, and other associations. Conference participants from the SEC, Department of Justice, Federal Bureau of Investigation, North American Securities Administrators Association,

New Jersey Bureau of Securities, and FINRA discussed effective strategies for detecting, preventing, and combating community-based financial fraud.

In FY 2020, the agency continued to deploy strategies designed to make our rulemaking and other activities more accessible to retail investors and others who may not traditionally engage with the SEC. For example, the Office of the Advocate for Small Business Capital Formation (OASB), along with the Office of Public Affairs (OPA), created and published several videos encouraging the public to comment on rulemaking, and providing plain language explanations of rules impacting small business capital formation. OPA also collaborated with ENF and OIEA on a special video about affinity fraud in the deaf and hard of hearing community. The video told the story of an actual case of fraud targeted within that community through on-screen American Sign Language.

OASB, which began operations in 2019, coordinates the SEC's outreach to small businesses and their investors and provides their perspective on rulemaking and other actions to the Commission. OASB began FY 2020 with a number of in-person outreach events, including:

- Keynoting an event with veteran entrepreneurs;
- Hosting an event at Morehouse College in Atlanta, which featured panel discussions with minority entrepreneurs and investors about success stories and how to leverage resources; and
- Conducting outreach events in Silicon Valley, where 44 – 47 percent of U.S. venture capital is deployed for early-stage companies each year, and Miami, the number one metro area in the United States for Latinx entrepreneurship.

In June 2020, OASB hosted the SEC's 39th annual Government-Business Forum on Small Business Capital Formation in an entirely virtual setting. This year's theme was "Access to Capital: More Critical Now Than Ever." Members of the public and private

sectors—including entrepreneurs, small business leaders, investors, market participants, and other thought leaders within the small business capital formation ecosystem—gathered virtually to craft suggestions to improve securities policy impacting how companies raise capital from investors.

The Office of Municipal Securities (OMS) hosted and participated in multiple virtual conferences in FY 2020 for municipal securities market participants. One conference hosted by OMS focused on secondary disclosure in the municipal securities market and reached nearly 500 virtual attendees; another provided municipal market participants an opportunity to hear from SEC, FINRA, and Municipal Securities Rulemaking Board staff on timely regulatory and compliance matters for municipal advisors. These conversations were all the more important given the particular effects of COVID-19 on the municipal markets.

## Data and Technology

In FY 2020, the SEC appointed the agency's first Chief Data Officer. The Office of the Chief Data Officer (OCDO), within the front office of the Office of the Chief Operating Officer, works collaboratively across the SEC and is leading the development of the agency's data management strategy. OCDO priorities include promoting data analytics to support enforcement, examinations, and policymaking, while ensuring the agency collects only the data it needs to fulfill its mission and that it can effectively secure.

To that end, OCDO led a Data Rationalization Team of cross-functional leaders working to identify, simplify, and modernize the SEC's approach to data. In FY 2020, OCDO worked to stand up the SEC's data governance structure, perform an assessment of the SEC's data maturity, establish a comprehensive inventory of the SEC's data assets, and create an

SEC-wide policy on data access and use that facilitates the secure and controlled flow of information. Looking forward, OCDO will continue these initiatives, refine and publish the SEC's data strategy, and lead initiatives to rationalize the agency's data infrastructure in coordination with OIT and other divisions and offices.

The SEC completed two significant enhancements to the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system in FY 2020. The Commission completed the fifth in a series of system infrastructure and security improvement projects, in which the agency replaced and upgraded much of the technology underlying the SEC system with which filers and the investing public engage most often. In addition, the SEC launched a new publicly accessible search capability that improved the public's ability to access filing data. In FY 2021, the SEC intends to initiate the next phase of significant enhancements to EDGAR's security posture.

In FY 2020, the SEC also launched initiatives to enable the rapid adoption of secure cloud technologies. OIT's new Cloud Center of Excellence (CCoE) worked to design a new foundational cloud environment that, once completed in FY 2021, will enable divisions and offices to develop new applications more quickly and to analyze data. The CCoE is providing training for Commission staff to build new skills and will develop new operating models for agile adoption of the technology. This fiscal year, the agency also commissioned an Application Rationalization Team comprised of business and technical leaders from across the Commission to develop plans to address legacy systems and simplify the Commission's complex application portfolio. In FY 2021, the SEC will finalize a suite of proposed plans and initiatives that will be executed in coming fiscal years.

# 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 2020 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 each fiscal year 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 U.S. Treasury General Fund; and
- The SEC Investor Protection Fund, which is funded through disgorgement and penalties not distributed to harmed investors, and which is used to make payments to whistleblowers who give tips to aid the SEC's enforcement efforts in certain circumstances, as well as to cover the expenses of the SEC Office of Inspector General Employee Suggestion Program.

## Sequestration Order for FY 2020

On March 1, 2013, the President issued the Sequestration Order. As determined by the Office of Management and Budget (OMB), for FY 2020, 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 \$50 million was reduced by 5.9 percent, or \$3.0 million.

### Investor Protection Fund

The budget authority of \$22.0 million was reduced by 5.9 percent, or \$1.3 million.

## Overview of Financial Position

**Assets.** At September 30, 2020, the SEC’s total assets were \$11.4 billion, an increase of \$1.4 billion, or 13.5 percent, from FY 2019.

Fund Balance with Treasury increased by \$780 million primarily due to increases in the SEC’s salaries and expenses and disgorgement and penalties funds. In FY 2020, due to a substantial increase in the volume of securities transactions subject to fees, collections of transaction fees exceeded the amount needed to cover the SEC’s appropriation and resulted in an increase in Non-Budgetary Fund Balance with Treasury.

Investments increased by \$547 million between FY 2020 and FY 2019. This is primarily due to increases in disgorgement and penalties collections invested during FY 2020. These increases were offset by disbursements to fund administrators for planned distributions.

Chart 1.3 | FY 2020 Assets by Type

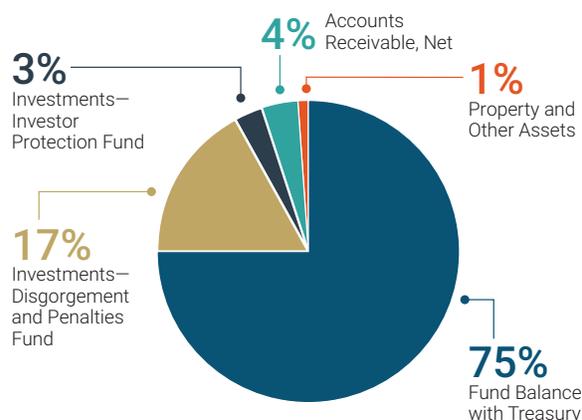


Table 1.2 | Assets as of September 30, 2020 and 2019

(DOLLARS IN MILLIONS)	2020	2019
Fund Balance with Treasury	\$ 8,615	\$ 7,835
Investments—Disgorgement and Penalties Fund	1,933	1,306
Investments—Investor Protection Fund	312	392
Accounts Receivable, Net	446	417
Property and Equipment	93	96
Other Assets	8	5
<b>Total Assets</b>	<b>\$ 11,407</b>	<b>\$ 10,051</b>

**Liabilities.** At September 30, 2020, the SEC’s total liabilities were \$3.2 billion, an increase of \$976 million, or 44 percent, from FY 2019.

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

The increase of \$677 million in the liability for disgorgement and penalties is mostly attributable to new orders that occurred during FY 2020 established on behalf of harmed investors. This was offset by disbursements to fund administrators for planned distributions.

Accounts Payable increased primarily due to a \$79 million increase in whistleblower awards payable as of September 30, 2020.

Contingent Liabilities increased by \$204 million as the SEC recognized a contingent liability for potential whistleblower awards for the year ended September 30, 2020, totaling \$255 million, an increase from \$51 million recorded at September 30, 2019. This was due to a higher volume of positive preliminary determinations being submitted to the Commission for approval.

**Ending Net Position.** The SEC’s net position, comprised of both unexpended appropriations and the cumulative results of operations, increased by \$380 million between September 30, 2020 and 2019.

Chart 1.4 | FY 2020 Liabilities by Type

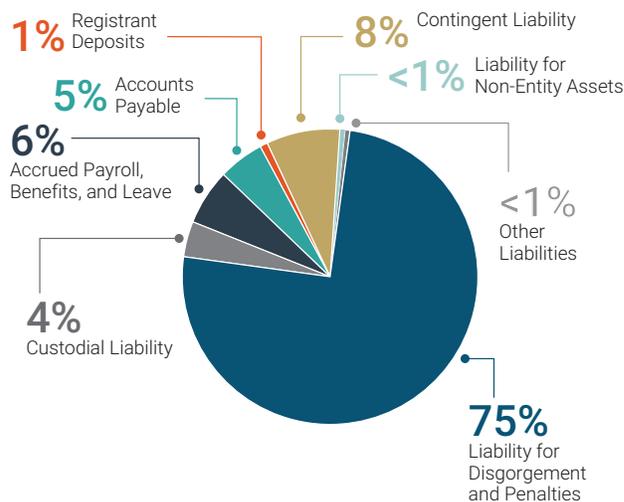


Table 1.3 | Liabilities as of September 30, 2020 and 2019

(DOLLARS IN MILLIONS)	2020	2019
Liability for Disgorgement and Penalties	\$ 2,405	\$ 1,728
Custodial Liability	116	151
Accrued Payroll, Benefits, and Leave	185	137
Accounts Payable	169	88
Registrant Deposits	45	42
Contingent Liability	255	51
Liability for Non-Entity Assets	2	2
Other Liabilities	11	13
<b>Total Liabilities</b>	<b>\$ 3,188</b>	<b>\$ 2,212</b>

## Results of Operations

**Earned Revenues.** Total earned revenues for the years ended September 30, 2020, increased by \$1.2 billion, or 57 percent, from FY 2019.

Filing Fee Revenue increased by 29 percent through September 30, 2020, when compared to the prior year due to the filing fee rate increasing from \$121.20 per million transacted in FY 2019 to \$129.80 per million transacted in FY 2020.

Section 31 fee revenue increased by \$1.0 billion primarily due to a higher average fee rate in effect during FY 2020, and a 26 percent increase in total transaction volume. During FY 2019, the fee rate of \$13.00 per million was in effect through April 15, 2019, when it was increased to \$20.70 per million. For FY 2020, \$20.70 per million was in effect through February 18, 2020, when it was adjusted higher to \$22.10 per million. For FY 2020, actual transaction volume was \$113.5 trillion, 34 percent higher than the forecast used to build the rate.

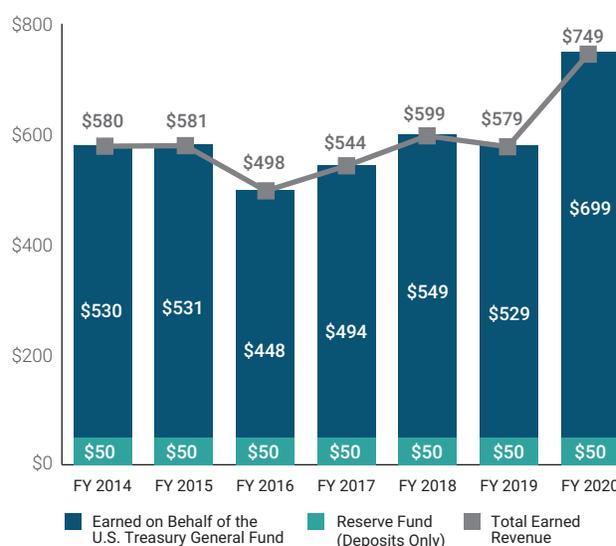
**Reserve Fund.** Section 991(e) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) authorized the creation of a Reserve Fund. Funded from filing fee collections, the SEC can deposit up to \$50 million per fiscal year, and the fund cannot hold more than \$100 million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

For the year ended September 30, 2020, filing fee revenues totaled \$749 million. Fifty million dollars of FY 2020 filing fee revenues was deposited into the Reserve Fund, of which \$3 million was sequestered. The excess of \$699 million was earned on behalf of the U.S. Treasury General Fund.

Table 1.4 | Earned Revenues  
For the years ended September 30, 2020 and 2019

(DOLLARS IN MILLIONS)	2020	2019
Section 31 Securities Transaction Fees	\$ 2,563	\$ 1,530
Securities Registration, Tender Offer, and Merger Fees (Filing Fees)	749	579
<b>Total Earned Revenues</b>	<b>\$ 3,312</b>	<b>\$ 2,109</b>

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



Filing fees deposited to the Reserve Fund can be used to fund the SEC’s operations, create budgetary authority, and are reported as a component of Appropriations (Discretionary and Mandatory) on the SEC’s Statement of Budgetary Resources. Filing fees deposited to the U.S. Treasury General Fund do not create budget authority and cannot be used to fund the SEC’s operations.

After FY 2020 deposits of \$50 million, prior year sequestration totaling \$5 million was returned, new FY 2020 sequestration totaling \$3 million was recorded, and Reserve Fund resources totaling \$53 million were obligated for the year ended September 30, 2020, leaving a remaining unobligated balance of \$3 million of available resources.

**Program Costs.** Total Program Costs were \$2.3 billion for the year ended September 30, 2020, an increase of \$445 million, or 24 percent, compared to FY 2019. The increase was primarily due to an increase in whistleblower payments and pending payables, and a significant increase in contingent liabilities.

Chart 1.6 | FY 2020 Filing Fee Revenue  
(DOLLARS IN MILLIONS)

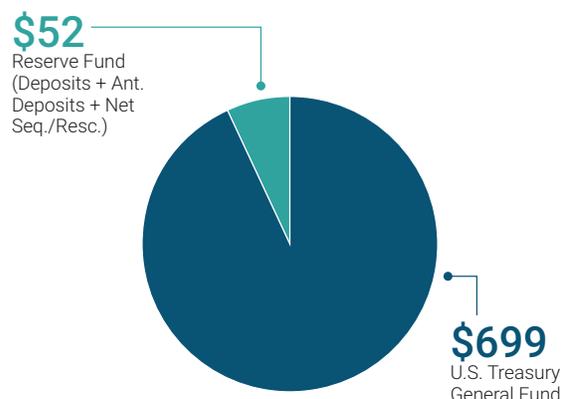
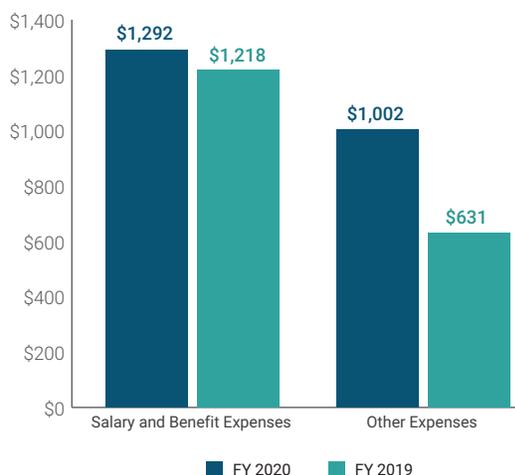


Chart 1.7 | Program Costs  
(DOLLARS IN MILLIONS)



## Budgetary Resources

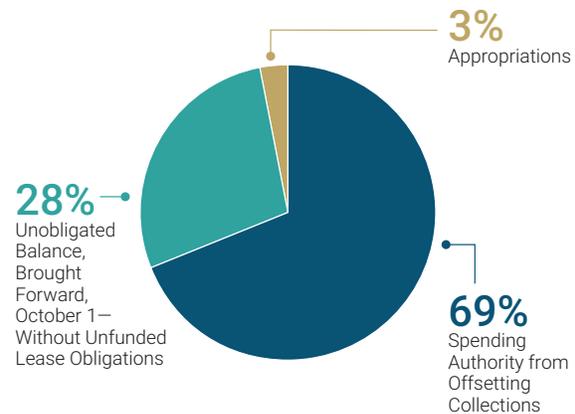
For the year ended September 30, 2020, the SEC’s total budgetary resources equaled \$2.6 billion, a 6 percent increase from FY 2019.

**Unobligated Balance from Prior Year Budget Authority.** The Unobligated Balance for the Investor Protection Fund increased by \$105 million compared to the balance carried forward in FY 2019. In addition, the SEC experienced an increase in resources due to \$37 million in appropriated FY 2019 funding for the potential relocation of the New York Regional Office. Unfunded lease obligations decreased from \$28 million at the beginning of FY 2020 to a balance of \$2 million for the year ended September 30, 2020.

**Appropriations.** The SEC’s Appropriations balance as of September 30, 2020, for the Salaries and Expenses Fund decreased due to the SEC meeting its target collections for FY 2020. For FY 2019, the SEC experienced a \$239 million shortfall in collections used to offset the SEC’s appropriation, which resulted in \$239 million

in authority derived from appropriations from the U.S. Treasury General Fund. In addition, the Investor Protection Fund decreased by \$134 million due to higher Investor Protection Fund replenishments and interest collections during FY 2019 compared to FY 2020.

Chart 1.8 | FY 2020 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, 2020 and 2019

(DOLLARS IN MILLIONS)	2020	2019
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)		
Salaries and Expenses Fund—Without Unfunded Lease Obligations	\$ 327	\$ 284
Salaries and Expenses Fund—Effect of Change in Legal Interpretation for Lease Obligations	(28)	(68)
Reserve Fund	5	16
Investor Protection Fund	404	299
Total Unobligated Balance, Brought Forward, October 1	708	531
Appropriations (Discretionary and Mandatory)		
Salaries and Expenses Fund	—	239
Reserve Fund	52	50
Investor Protection Fund	31	165
Spending Authority from Offsetting Collections	1,826	1,473
<b>Total Budgetary Resources</b>	<b>\$ 2,617</b>	<b>\$ 2,458</b>

## Spending Authority from Offsetting Collections and Appropriations

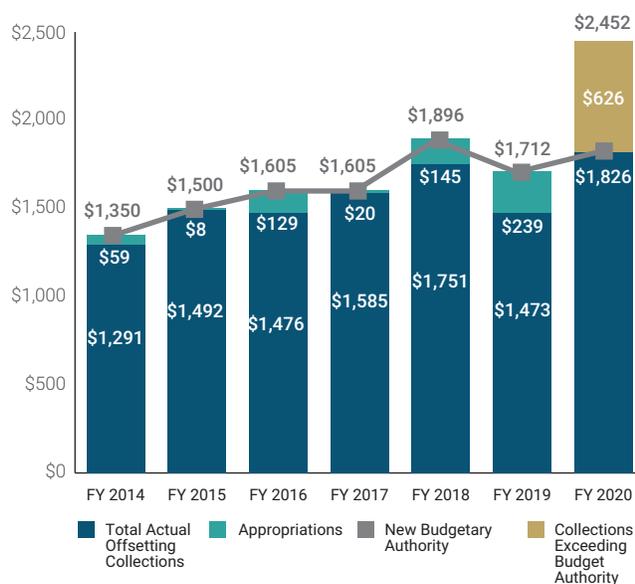
During the fiscal year, the SEC receives an appropriation to fund its operations. This appropriation establishes the SEC's new budget authority in its Salaries and Expenses Fund for the fiscal year. The SEC received new budget authority of \$1,826 million for FY 2020.

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 \$2,452 million in Section 31 transaction fees for the year ended September 30, 2020. The \$626 million in Section 31 transaction fees collected above FY 2020 budget authority is unavailable to the SEC for expenditure and recognized as collections precluded from obligation. In FY 2019, the SEC's budget authority was \$1,712 million, which was offset by \$1,473 million in collections, resulting in appropriations totaling \$239 million in the Salaries and Expenses Fund.

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 Program and to finance the operations of the SEC Office of Inspector General Employee Suggestion Program.

For the year ended September 30, 2020, the balance of the Investor Protection Fund decreased by \$144 million when compared to the prior fiscal year.

During FY 2020, the SEC deposited \$22 million: \$17 million from Investor Protection Fund replenishments and \$5 million from investment interest in Treasury securities. The SEC paid \$96 million to whistleblowers while \$95 million in awards were accrued as payable, a \$79 million increase from the prior year.

Ten million dollars in prior fiscal year sequestration was returned to the Investor Protection Fund, and \$1 million in FY 2020 funding was sequestered, resulting in a net sequestration totaling \$9 million.

## Limitations of the Financial Statements

The principal financial statements are prepared to report the financial position, financial condition, and results of operations, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from records of Federal entities in accordance with Federal generally accepted accounting principles (GAAP) and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government.

Table 1.6 | Investor Protection Fund Activity  
For the years ended September 30, 2020 and 2019

<i>(DOLLARS IN MILLIONS)</i>	2020	2019
Balance of Fund at Beginning of Fiscal Year, October 1	\$ 404	\$ 299
Amount Deposited Into or Credited to the Fund During the Fiscal Year	22	163
Amount Awarded but Unpaid During the Fiscal Year	(79)	82
Amount Paid From the Fund During the Fiscal Year to Whistleblowers	(96)	(142)
Net Sequestration	9	2
<b>Balance of the Fund at the End of the Reporting Period*</b>	<b>\$ 260</b>	<b>\$ 404</b>

\*Note: Balance of the Fund does not include Anticipated Resources

# 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 2020. 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 2020 Annual Performance Report (APR) will be issued with the agency's FY 2022 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 2021 at [SEC.gov/about/secreports.shtml](https://sec.gov/about/secreports.shtml).

## Strategic and Performance Planning Framework

The SEC's FY 2020 strategic and performance planning framework is based on the FY 2018–FY 2022 Strategic Plan, which is available at [SEC.gov/strategic-plan](https://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.

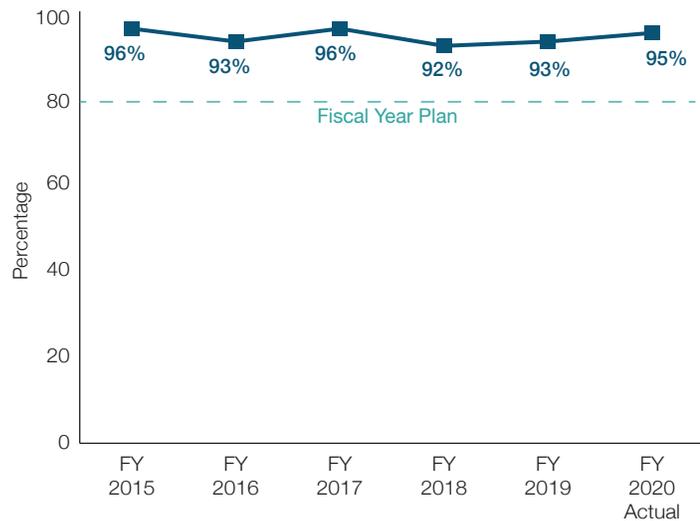
1. The agency develops performance goals through its strategic planning process.
2. The SEC's divisions and offices provide:
  - The procedures used to obtain assurance as to the accuracy and reliability of the data;
  - The data definitions for reference;
  - Documentation and explanation of the performance 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

**Percentage of Fair Fund and disgorgement fund plans that have distributed 80 percent of the available funds for distribution within 24 months of the approval of the distribution plan**

**Description:** In addition to other types of relief, the SEC may seek orders requiring parties to disgorge any money obtained through wrongdoing. The SEC also is empowered to seek civil penalties for violations of the securities laws. Where appropriate, the SEC has sought to return disgorged funds to harmed investors and, as a result of the Fair Funds provisions in law, to combine amounts paid as penalties with disgorged funds, or to create a Fair Fund from penalties only, to reduce losses to injured parties and to maximize funds available for distribution. This metric identifies the percentage of distribution plans that reached a critical mass during the fiscal year and within 24 months of the approval of the distribution plan. The distribution plan includes the timeline and procedures required to return the funds to injured investors. This reflects Commission-wide efforts to implement plans to return money to investors quickly. Any funds not returned to investors are sent to the U.S. Treasury or the Investor Protection Fund established pursuant to Section 21F(g) of the Securities Exchange Act of 1934. Neither disgorgement nor penalties are used for the SEC's own expenses.



**Target:** Exceeded

**Responsible Division/Office:** Division of Enforcement

**Data Source:** Case Tracking System for the Division of Enforcement

Under the Sarbanes-Oxley Act of 2002, the SEC can use Fair Funds to redirect penalties collected from securities law violators to the victims of their wrongdoing. The SEC is committed to the timely collection and distribution of penalties and disgorgement funds. In FY 2020, the Division of Enforcement continued to improve the effectiveness of the distribution program by exceeding the performance target of 80 percent of available funds distributed within 2 years of the

approved distribution plan. The SEC achieved the performance level of 95 percent because it centralized key distribution functions and implemented various business process improvements to better monitor and track distribution deadlines. Over the past 5 years, the SEC increased the number of distributions from 29 in FY 2016 to 91 in FY 2020. During the same period, while the number of distributions increased threefold, the SEC maintained a performance level of at least 92 percent.

Chart 1.11

Number of regulatory initiatives (i.e., concept, proposing, and adopting releases and exemptive orders) that could impact a company's ability to become and remain a public company, or that are designed to expand the number or range of cost-effective investment options available to retail investors

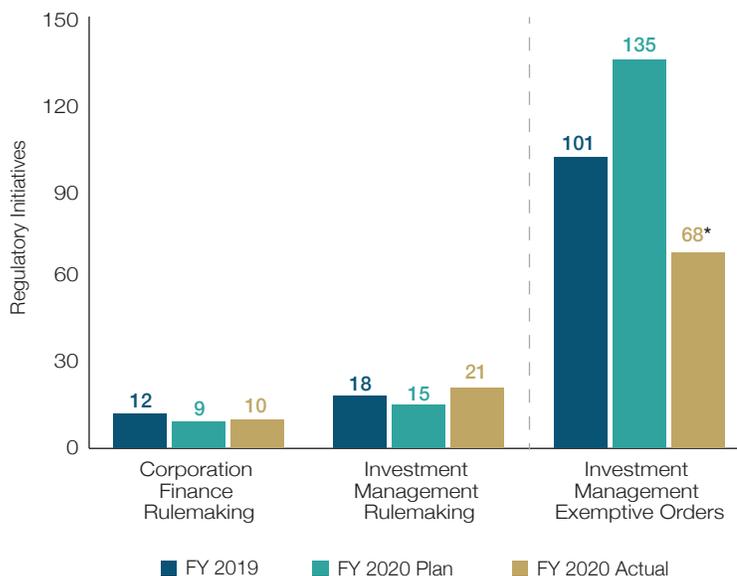
**Description:** The SEC staff provides policy recommendations to the Commission that are designed to promote capital formation while maintaining investor protection and to help improve the retail investor experience. This includes recommending proposed rules, final rules, public requests for comment, issuance of exemptive orders, and other initiatives that seek to facilitate investment product innovation, reduce regulatory burdens, and/or help retail investors have the tools and information they need to access and understand the investment options available to them.

**Target:** Corporation Finance Rulemaking – Exceeded; Investment Management Rulemaking – Exceeded; Investment Management Exemptive Orders – Not Met

**Responsible Division/Office:**

Division of Corporation Finance; Division of Investment Management

**Data Source:** Internal Databases



\* The anticipated target reflected expected applications that could result in exemptive orders, even though some portion of applications is typically withdrawn before any order is issued. Overall, the number of Division of Investment Management (IM) exemptive orders issued in FY 2020 was lower than the anticipated target of 135 primarily as a result of firms submitting fewer applications for exemptive relief. The SEC estimates that this reduction in submitted applications was primarily due to firms' responses to the COVID-19 pandemic and the Commission's adoption of the ETF rule. Specifically, the SEC estimates that the effects of the COVID-19 pandemic led firms to reduce or postpone some of their efforts to apply for exemptive relief. Additionally, the ETF rule allowed new ETFs to be launched without exemptive relief. Finally, some firms may have postponed their applications in anticipation that they would be unnecessary, or would need to be modified, in response to other rulemaking initiatives on the Commission's public rulemaking calendar. In FY 2020, IM continued to meet its internal performance target for providing timely comments on applications.

Note: Data for FY 2015 – FY 2018 is not available.

In FY 2020, the Divisions of Corporation Finance and Investment Management worked on 31 proposed rules, final rules, concept releases, and guidance releases. The SEC exceeded both rulemaking performance targets for FY 2020. Several of the rulemaking initiatives were designed to modernize registered investment company disclosure to better serve the needs of Main Street investors. For example, the Commission adopted rules to simplify and streamline disclosures for investors about variable annuities and variable life insurance contracts to make it easier for investors to access information they need to make informed investment

decisions. In addition, the Commission proposed to amend disclosure requirements for mutual funds and exchange-traded funds (ETF) to, among other things, promote concise and visually engaging shareholder reports that highlight key information for Main Street investors.

For exemptive orders, it is important to note that exemptive applications are submitted voluntarily and not required by the Commission, thus the actual figures may vary greatly from year to year depending on market developments and trends.

## 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

Chart 1.12

### Number of examinations that request information related to an entity's information security

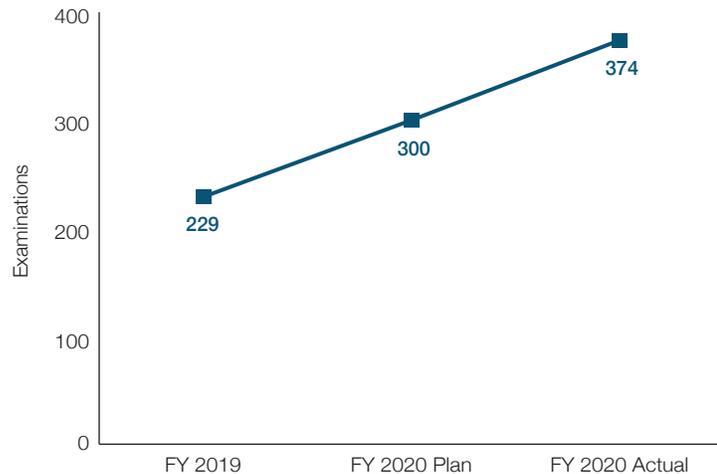
**Description:** Managing cyber and information risks is critical to the operation of the financial markets. As a result, the SEC's risk-based examination program will ensure that a portion of its exams each year will assess whether regulated entities are monitoring, managing, and appropriately addressing these types of risks. The results of these important reviews will inform the SEC regarding industry developments and future work in this area. Overall, this metric reflects the continued focus of the SEC's examination program in this area by measuring the number of examinations reviewing critical cyber and information risks.

**Target:** Exceeded

**Responsible Division/Office:**

Office of Compliance Inspections and Examinations

**Data Source:** Tracking and Reporting Exam National Documentation System (TRENDS)



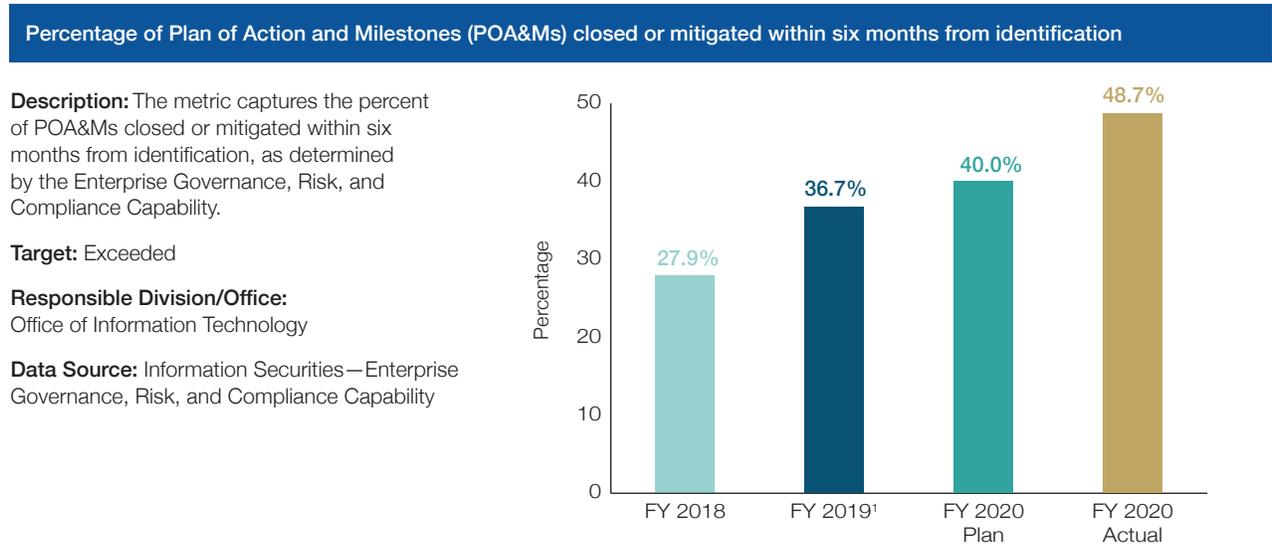
Note: Data for FY 2015 – FY 2018 is not available.

The capital markets continue to grow increasingly complex with technological advancements and commercial developments changing the way markets operate and driving the development of many new products and services. Innovations in technology have been particularly impactful in recent years and have fundamentally altered consumer interactions with securities market participants. On a regular basis, investors make critical, long-term decisions that are routed through the complex IT systems underpinning the securities markets. Given these developments, issues surrounding data collection, usage, and protection are fundamental to the capital markets, individuals and entities that participate in those markets, and to the SEC. The scope and severity of risks that cyber threats present have increased dramatically, and vigilance is required to protect against intrusions and disruptions.

The SEC remains focused on ensuring that the regulated market participants are actively and effectively engaged in managing cybersecurity risks. The SEC protects and monitors developments in this area through examinations of market participants conducted by the Office of Compliance Inspections and Examinations (OCIE). During FY 2020, more than 370 OCIE examinations specifically requested information related to an entity's information security, the results of which helped to evaluate whether market participants are actively engaged in monitoring and addressing critical cybersecurity risks. These examinations also helped the SEC monitor industry developments to ensure future oversight efforts can be appropriately planned and executed. The examination program intends to continue its significant cyber and information security examination work in future years.

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

Chart 1.13



Note: Data for FY 2015 – FY 2017 is not available.

A Plan of Action and Milestones (POA&Ms) describes an information security risk and is a management tool for tracking the corrective actions and the timeline for mitigation of that risk. The Office of Information Technology (OIT) measures POA&Ms closed within six months of their initial identification date. In FY 2020, OIT exceeded the performance target of 40 percent by more than 8 percent due to the implementation of several reporting enhancements. Specifically, OIT tracked internal metrics and statistics related to common risks identified by the POA&Ms to support root cause analysis. OIT presented these expanded POA&Ms reports to the Chief Operating Officer,

Chief Information Officer, and other key management stakeholders on a biweekly basis to improve situational awareness and support a risk-based approach to prioritizing mitigation efforts. During FY 2020, OIT closed more than 400 POA&Ms and reduced the quantity of POA&Ms remaining open for more than 6 months by more than 50 percent. The controls implemented to continually monitor the closure of POA&Ms substantially contributed to reducing information technology risk and improving compliance with the Federal Information Security Modernization Act of 2014 and other information security mandates.

<sup>1</sup> Beginning in FY 2019, the percentage is based on the new calculation methodology. POA&Ms are identified within a 12-month period, where the end of that 12-month period is 6 months prior to the reporting period.

# MANAGEMENT ASSURANCES AND COMPLIANCE WITH LAWS

In FY 2020, 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 Annual 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, 2020.

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, 2020.

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, 2020.



JAY CLAYTON  
Chairman  
November 10, 2020



CARYN E. KAUFFMAN  
Chief Financial Officer  
November 10, 2020

## Management's Assessment of Internal Control

The Chairman and CFO's FY 2020 Annual Assurance Statement for FMFIA provides reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2020. 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 (GSA) 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.

## Managing Cybersecurity Risk

During FY 2020, the SEC continued the assessment by a third party of its information security controls pursuant to the National Institute of Standards and Technology (NIST) Special Publication 800-53 and in accordance with OMB Circular A-123, GAO *Standards for Internal Control in the Federal Government* (Green Book), and Federal Information System Controls Audit Manual. The results of the assessment demonstrated that, for the purposes of OMB Circular A-123, the SEC has an effective system of internal controls with respect to information security. Although this determination is important for the purposes of OMB Circular A-123, it does not guarantee that the agency's systems are immune from cyberattacks or that an incident could not occur. SEC management remains mindful that governmental agencies, financial market participants, and private sector entities must all remain vigilant because they are subject to frequent attempts by unauthorized actors to disrupt public-facing systems, access data, or otherwise damage technology infrastructure.

Accordingly, during FY 2020, the SEC continued to take substantive steps to continuously identify, assess, and mitigate cybersecurity risks by:

- Improving capabilities for detecting and preventing software and website vulnerabilities by implementing new vulnerability assessment tools and conducting proactive code reviews.
- Partnering with multiple third parties, including the Department of Homeland Security (DHS), to conduct penetration testing, architecture reviews, and other cybersecurity risk assessment activities to identify system vulnerabilities and test incident response mechanisms.
- Integrating the NIST Cybersecurity Framework into cybersecurity risk management practices pursuant to Executive Order 13800 by completing risk profiles for all high value asset (HVA) systems.

- Establishing an agency-level cybersecurity risk management analytics platform that will collect data from security management tools and interface with the DHS government-wide Continuous Diagnostics and Mitigation Program.
- Enhancing operational security capabilities by establishing a new branch that will focus on continuous assessment of threat information and continuous monitoring of data communications for indicators of compromise.
- Establishing a vulnerability disclosure policy and submission process that encourages independent security researchers to report, to the SEC, any potential vulnerabilities they discover in SEC information systems before they publicly disclose their research.
- Appointing a Chief Data Officer to lead and oversee further development of the Commission's data protection strategy, among other duties.

## 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 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. 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 funding. The agency's last assessment was conducted in FY 2019. The results of this assessment continued to support the determination that all of the SEC evaluated programs are low risk. Based on these results, and consistent with OMB guidelines, the SEC did not conduct a risk assessment for FY 2020 and will not conduct another risk assessment until 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](https://www.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 and submitted the mandatory quarterly transmissions required in FY 2020.

OMB memorandum 18-16, Appendix A to OMB Circular A-123, 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 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 2020 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 2020, 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 with a new Disbursement and Penalty System implemented 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; develop and implement remediation efforts for identified weaknesses and vulnerabilities; and 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 2020 report to OMB.

## Oversight and Compliance

During FY 2020, the SEC's Office of Information Technology (OIT), in partnership with business owners, completed security assessment and authorization activities for 67 FISMA reportable systems. OIT performed 308 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). OIT facilitated the remediation of over 425 self-identified deficiencies that consist of Plans of Action and Milestones (POA&Ms) associated with the SEC's assessments of its network infrastructure and major applications.

The SEC OIG performed the annual independent evaluation of the SEC's information security program, as required by the E-Government Act of 2002. During FY 2020, the OIG closed 17 prior-year IT-related audit recommendations and was in the process of reviewing closure requests for 3 additional recommendations. GAO performed the annual financial statement audit, which includes within its scope, an audit of security controls for SEC financial management systems. OIT completed corrective actions for one prior-year IT-related GAO audit recommendations.

## 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 a centralized information security governance, risk, and compliance management system to maintain the Commission's information system inventory, FISMA compliance data, POA&Ms, and incident tracking.

OIT also continues to improve its operational security capabilities by implementing an Information Security Continuous Monitoring Program and by making investments in proactive security capabilities, including automated threat detection mechanisms and vulnerability assessment tools. The SEC is an active participant in interagency cybersecurity initiatives, including those led by the DHS Cybersecurity and Infrastructure Security Agency.

The SEC enhanced its HVA Oversight Program, which addresses requirements established by OMB 19-03. Quarterly meetings were held to ensure that senior leaders throughout the agency are aware of security risks related to the Commission's HVA information systems. During each quarterly HVA security status meeting, the information security posture and compliance status of each HVA information system was presented and any outstanding issues were discussed.

The SEC continues to leverage secure cloud computing technologies and currently utilizes 12 cloud service providers that have been evaluated and authorized in accordance with the GSA Federal Risk and Authorization Management Program.

### Training and Communications

OIT developed and delivered Privacy and Information Security Awareness (PISA) training to all SEC personnel during FY 2020. Additionally, new processes were implemented to manage PISA compliance on a continuous basis using automation capabilities of the SEC enterprise learning management system. Upon completion of the mandatory PISA training, all SEC personnel are required to review and acknowledge the agency's acceptable use policy. Network access restrictions were imposed 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 Intranet site by presenting practical methods for protecting SEC non-public information and PII while at the office or when teleworking. OIT conducted quarterly phishing exercises for all SEC employees and contractors. Personnel, identified by these exercises as being susceptible to phishing, were required to undergo supplemental phishing training in addition to meeting the annual security awareness training requirement. OIT also presented in-person PISA training at headquarters and at one regional office to remind employees about their roles and responsibilities in safeguarding sensitive data, protecting SEC resources, and reporting privacy breaches.

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Whatever affects  
one directly, affects  
all indirectly. We are  
caught in an inescapable  
network of mutuality,  
tied in a single garment  
of destiny. Injustice  
anywhere is a threat to  
justice everywhere.

DR. MARTIN LUTHER KING, JR.

MLK MEMORIAL | WASHINGTON, DC



# FINANCIAL SECTION

This section contains the SEC's financial statements and additional information for FYs 2020 and 2019. 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*.

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## 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<sup>1</sup>

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)<sup>2</sup>

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.

<sup>1</sup> 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.

<sup>2</sup> The SEC does not have stewardship over resources or responsibilities for which supplementary stewardship reporting would be required.



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

CARYN E. KAUFFMAN, CFO

# MESSAGE FROM THE CHIEF FINANCIAL OFFICER



I am honored to join Chairman Clayton in presenting the SEC's Agency Financial Report (AFR) for FY 2020.

This was undoubtedly an unprecedented year given the ongoing COVID-19 pandemic. Thanks to the hard

work of our staff, as well as the agency's relentless efforts to maintain operations while protecting worker safety, our financial management programs continued largely unaffected. We successfully executed on our responsibility to be faithful stewards of public dollars. The financial statements, financial analysis, and agency Performance Highlights in this AFR demonstrate how the SEC optimizes the use of its financial resources as we work 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 in which no significant issues were identified. This achievement is reflective of the agency's sustained drive to promote strong internal controls and effective financial management.

We recognize that strong financial systems and data are the underpinnings of continued strong financial management; thus, we have prioritized the modernization and security of systems and data that improve our financial operations, reporting, and compliance. In an effort to both reduce manual processes and improve the quality of data available to manage our programs, the Office of Financial Management (OFM), in

collaboration with other SEC offices, implemented two modernized financial system upgrades.

- The Disgorgement and Penalty System improves both financial and programmatic reporting of enforcement actions as well as the quality of data used to track and manage the agency's billions of dollars of enforcement-related remedies. This implementation is the result of the collaborative effort between OFM and our Division of Enforcement.
- The EDGAR Financial Management System supports the SEC's management of registration fees. These enhancements improve the security of our data and enable more efficient processing of fees on behalf of registrants.

While these two systems have been successfully implemented and upgraded, we fully realize there is more to be done. We remain focused on leveraging technology and innovation to improve our processes and shift costs from low-value transactional activities to high-value analysis.

The SEC strives to achieve and exceed the expectations of our stakeholders regarding accurate, transparent, and timely financial information. The achievements outlined above and throughout the AFR are only possible because of the dedicated employees within OFM and the entire SEC community. The staff have shown amazing resilience and dedication during an incredibly challenging time and I thank them for their unwavering commitment to public service.

Sincerely,

A handwritten signature in blue ink that reads "Caryn Kauffman". The signature is fluid and cursive.

CARYN E. KAUFFMAN  
Chief Financial Officer  
November 12, 2020

# 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 2020 and 2019 financial statements of the United States Securities and Exchange Commission (SEC)<sup>1</sup> and its Investor Protection Fund (IPF),<sup>2</sup> we found

- the SEC and IPF financial statements as of and for the fiscal years ended September 30, 2020, and 2019, 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, 2020; and
- no reportable noncompliance for fiscal year 2020 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)<sup>3</sup> and other information included with the financial statements;<sup>4</sup> (2) our report on compliance with laws, regulations, contracts, and grant agreements; and (3) agency comments.

<sup>1</sup>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.

<sup>2</sup>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.

<sup>3</sup>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.

<sup>4</sup>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.<sup>5</sup> 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.<sup>6</sup> 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,<sup>7</sup> 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, 2020, and 2019; 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, 2020, and 2019; 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, 2020, 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, 2020, included in the Management Assurance section of the agency financial report.

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

<sup>6</sup>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).

<sup>7</sup>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.<sup>8</sup> 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

<sup>8</sup>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, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

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

#### 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, 2020, and 2019, 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, 2020, and 2019, 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, 2020, 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, 2020, and that no material weaknesses were found in the design or operation of the controls.

During our 2020 audit, we identified deficiencies in SEC's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies.<sup>9</sup> 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

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<sup>9</sup>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.

standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or 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 2020 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, and in conformity with U.S. generally accepted accounting principles. The completed text of SEC's response is reprinted in enclosure I.



James R. Dalkin  
Director  
Financial Management and Assurance

November 12, 2020

# ENCLOSURE I: MANAGEMENT'S RESPONSE TO AUDIT OPINION



OFFICE OF THE CHAIRMAN

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

November 10, 2020

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 2020 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.

We continue to recognize the critical role a strong internal control environment plays in ensuring not only that the Agency achieves its mission, but that we remain good stewards of the resources entrusted to us. In response to the Coronavirus pandemic, Management and staff placed significant focus on assessing the operations of our internal controls to ensure they were properly assessed and effectively functioning in the midst of the agency's mandatory telework posture. We are committed to maintaining this focus and will adapt our internal controls, if needed, as we continue in this posture.

I very much appreciate the professional manner in which you and your team conducted the audit for FY 2020 and applaud your flexibilities given the virtual environment. If you have any questions, please feel free to contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jay Clayton".

Jay Clayton  
Chairman

# SEC FINANCIAL STATEMENTS

U.S. SECURITIES AND EXCHANGE COMMISSION

## Balance Sheets

As of September 30, 2020 and 2019

(DOLLARS IN THOUSANDS)	2020	2019
<b>ASSETS (NOTE 2):</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 8,615,064	\$ 7,835,155
Investments, Net (Note 5)	2,244,505	1,697,754
Advances and Prepayments	8,069	4,286
Total Intragovernmental	10,867,638	9,537,195
Cash and Other Monetary Assets (Note 4)	83	841
Accounts Receivable, Net (Note 6)	445,765	416,607
Property and Equipment, Net (Note 7)	93,043	96,267
<b>Total Assets</b>	<b>\$ 11,406,529</b>	<b>\$ 10,050,910</b>
<b>LIABILITIES (NOTE 8):</b>		
Intragovernmental:		
Accounts Payable	\$ 3,859	\$ 2,936
Employee Benefits	11,145	8,107
Unfunded FECA and Unemployment Liability	892	857
Custodial Liability	116,514	151,036
Liability for Non-Entity Assets	1,806	2,181
Total Intragovernmental	134,216	165,117
Accounts Payable	165,050	85,098
Actuarial FECA Liability	4,778	4,718
Accrued Payroll and Benefits	51,163	39,400
Accrued Leave	122,564	89,510
Registrant Deposits	45,282	42,462
Liability for Disgorgement and Penalties (Note 16)	2,404,634	1,728,165
Contingent Liabilities (Note 10)	254,764	50,404
Other Accrued Liabilities (Note 8)	5,579	7,276
<b>Total Liabilities</b>	<b>3,188,030</b>	<b>2,212,150</b>
Commitments and Contingencies (Note 10)		
<b>NET POSITION:</b>		
Unexpended Appropriations – Funds from Dedicated Collections (Note 11)	182,595	182,595
Cumulative Results of Operations – Funds from Dedicated Collections (Note 11)	8,035,904	7,656,165
<b>Total Net Position</b>	<b>\$ 8,218,499</b>	<b>\$ 7,838,760</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 11,406,529</b>	<b>\$ 10,050,910</b>

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

## Statements of Net Cost

For the years ended September 30, 2020 and 2019

<i>(DOLLARS IN THOUSANDS)</i>	2020	2019
<b>PROGRAM COSTS:</b>		
Enforcement	\$ 963,248	\$ 609,047
Compliance Inspections and Examinations	437,953	415,204
Corporation Finance	167,040	162,472
Trading and Markets	104,044	94,858
Investment Management	75,203	68,985
Economic and Risk Analysis	73,544	71,258
General Counsel	57,286	54,602
Other Program Offices	93,709	84,245
Agency Direction and Administrative Support	301,225	269,875
Inspector General	20,026	18,308
<b>Total Program Costs</b>	<b>2,293,278</b>	<b>1,848,854</b>
Less: Earned Revenue Not Attributed to Programs	3,312,404	2,108,640
<b>Net (Income) Cost from Operations (Note 15)</b>	<b>\$ (1,019,126)</b>	<b>\$ (259,786)</b>

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

## Statements of Changes in Net Position

For the years ended September 30, 2020 and 2019

(DOLLARS IN THOUSANDS)	2020		
	Funds from Dedicated Collections	All Other Funds	Consolidated Total
<b>UNEXPENDED APPROPRIATIONS:</b>			
Beginning Balances	\$ 182,595	\$ —	\$ 182,595
<b>Budgetary Financing Sources:</b>			
Appropriations Received	—	—	—
Appropriations Used	—	—	—
Total Budgetary Financing Sources	—	—	—
Total Unexpended Appropriations	182,595	—	182,595
<b>CUMULATIVE RESULTS OF OPERATIONS:</b>			
Beginning Balances	7,656,165	—	7,656,165
<b>Budgetary Financing Sources:</b>			
Appropriations Used	—	—	—
Non-Exchange Revenue	22,368	—	22,368
<b>Other Financing Sources:</b>			
Imputed Financing	37,385	—	37,385
Other (Note 12)	—	(699,140)	(699,140)
Total Financing Sources	59,753	(699,140)	(639,387)
Net Income (Cost) from Operations	319,986	699,140	1,019,126
Net Change	379,739	—	379,739
Cumulative Results of Operations (Note 11)	8,035,904	—	8,035,904
<b>Net Position, End of Period</b>	<b>\$ 8,218,499</b>	<b>\$ —</b>	<b>\$ 8,218,499</b>

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

## Statements of Changes in Net Position *(continued)*

For the years ended September 30, 2020 and 2019

<i>(DOLLARS IN THOUSANDS)</i>	2019		
	Funds from Dedicated Collections	All Other Funds	Consolidated Total
<b>UNEXPENDED APPROPRIATIONS:</b>			
Beginning Balances	\$ 145,406	\$ —	\$ 145,406
<b>Budgetary Financing Sources:</b>			
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
<b>CUMULATIVE RESULTS OF OPERATIONS:</b>			
Beginning Balances	7,508,488	—	7,508,488
<b>Budgetary Financing Sources:</b>			
Appropriations Used	201,679	—	201,679
Non-Exchange Revenue	163,952	—	163,952
<b>Other Financing Sources:</b>			
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
<b>Net Position, End of Period</b>	<b>\$ 7,838,760</b>	<b>\$ —</b>	<b>\$ 7,838,760</b>

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

## Statements of Budgetary Resources

For the years ended September 30, 2020 and 2019

<i>(DOLLARS IN THOUSANDS)</i>	2020	2019
<b>BUDGETARY RESOURCES:</b>		
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 14)	\$ 707,916	\$ 530,646
Appropriations (Discretionary and Mandatory)	82,531	454,394
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,825,907	1,473,440
<b>Total Budgetary Resources</b>	<b>\$ 2,616,354</b>	<b>\$ 2,458,480</b>
<b>STATUS OF BUDGETARY RESOURCES:</b>		
New Obligations and Upward Adjustments (Total)	\$ 2,063,050	\$ 1,783,122
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	528,435	637,482
Exempt from Apportionment, Unexpired Accounts	3,166	3,105
Unapportioned, Unexpired Accounts	21,703	34,771
Unobligated Balance, End of Year (Total)	553,304	675,358
<b>Total Budgetary Resources</b>	<b>\$ 2,616,354</b>	<b>\$ 2,458,480</b>
<b>OUTLAYS, NET:</b>		
Outlays, Net (Total) (Discretionary and Mandatory)	\$ (527,493)	\$ 378,467
Distributed Offsetting Receipts	(6,138)	(8,707)
Agency Outlays, Net (Discretionary and Mandatory) (Note 15)	\$ (533,631)	\$ 369,760

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

## Statements of Custodial Activity

For the years ended September 30, 2020 and 2019

<i>(DOLLARS IN THOUSANDS)</i>	2020	2019
<b>REVENUE ACTIVITY:</b>		
Sources of Cash Collections:		
Disgorgement and Penalties	\$ 1,197,811	\$ 1,079,619
Other	1,768	2,748
Total Cash Collections	1,199,579	1,082,367
Accrual Adjustments (Note 13)	(34,523)	85,550
<b>Total Custodial Revenue</b>	<b>1,165,056</b>	<b>1,167,917</b>
<b>DISPOSITION OF COLLECTIONS:</b>		
Amounts Transferred to:		
Department of the Treasury	1,199,579	1,082,367
Amounts Yet to be Transferred	(34,523)	85,550
<b>Total Disposition of Collections</b>	<b>1,165,056</b>	<b>1,167,917</b>
<b>NET CUSTODIAL ACTIVITY</b>	<b>\$ —</b>	<b>\$ —</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

As of September 30, 2020 and 2019

## 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 reporting entity is a component of the U.S. Government. For this reason, some of the assets and liabilities reported by the entity may be eliminated for Government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. These financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

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 non-governmental 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 notes 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. 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 disbursement 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. Advances and prepayments are made to other federal agencies such as the U.S. Department of Defense, the U.S. Government Publishing Office, and the U.S. Department of Transportation for expenses that may include investigation services, accounting processing fees, official publications in the Federal register, and the Federal Transit Benefit Program.

#### 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 <sup>1</sup>	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, nor transferred to the U.S. Treasury General Fund.	Reported on the Statement of Net Cost <sup>4</sup>
Securities registration, tender offer, merger, and other fees from registrants (filing fees) <sup>1,2</sup>	Exchange Revenue	Collections of filing fees up to \$50 million per fiscal year 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 <sup>4</sup>
Collections of monetary sanctions and related interest <sup>3</sup>	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 <i>Note 16, Disgorgement and Penalties</i> (b) Reported on the Statement of Custodial Activity

<sup>1</sup> 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.

<sup>2</sup> 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.

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

<sup>4</sup> 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, 2020, SEC entity and non-entity assets consisted of the following:

(DOLLARS IN THOUSANDS)	Entity	Non-Entity	Total
Intragovernmental:			
Fund Balance with Treasury:			
SEC Funds	\$ 8,169,913	\$ —	\$ 8,169,913
Registrant Deposits	—	45,282	45,282
Disgorgement and Penalties (Note 16)	—	399,843	399,843
Custodial and Other Non-Entity Assets	—	26	26
Investments, Net:			
Disgorgement and Penalties (Note 16)	—	1,932,852	1,932,852
Investor Protection Fund	311,653	—	311,653
Advances and Prepayments	8,069	—	8,069
<b>Total Intragovernmental Assets</b>	<b>8,489,635</b>	<b>2,378,003</b>	<b>10,867,638</b>
Cash and Other Monetary Assets:			
Disgorgement and Penalties (Note 16)	—	83	83
Accounts Receivable, Net:			
SEC Funds	255,537	—	255,537
Disgorgement and Penalties (Note 16)	—	184,137	184,137
Custodial and Other Non-Entity Assets	—	6,091	6,091
Property and Equipment, Net (Note 7)	93,043	—	93,043
<b>Total Assets</b>	<b>\$ 8,838,215</b>	<b>\$ 2,568,314</b>	<b>\$ 11,406,529</b>

At September 30, 2019, SEC entity and non-entity assets consisted of the following:

<i>(DOLLARS IN THOUSANDS)</i>	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
<b>Total Intragovernmental Assets</b>	<b>7,886,027</b>	<b>1,651,168</b>	<b>9,537,195</b>
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
<b>Total Assets</b>	<b>\$ 8,126,899</b>	<b>\$ 1,924,011</b>	<b>\$ 10,050,910</b>

## NOTE 3. FUND BALANCE WITH TREASURY

The status of Fund Balance with Treasury as of September 30, 2020 and 2019 consisted of the following:

(DOLLARS IN THOUSANDS)	2020	2019
Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available	\$ 238,685	\$ 310,892
Unavailable	75,566	80,582
Obligated Balance not Yet Disbursed	743,790	612,476
Non-Budgetary Fund Balance with Treasury	7,557,023	6,831,205
Total Fund Balance with Treasury	\$ 8,615,064	\$ 7,835,155

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. In FY 2020, due to a substantial increase in the volume of securities transactions subject to fees, collections of transaction fees exceeded the amount needed to cover the SEC’s appropriation and resulted in an increase in Non-Budgetary Fund Balance with Treasury.

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.

Fund Balance with Treasury is an intragovernmental asset, and accordingly it is eliminated as part of the consolidation process for the Financial Report of the U.S. Government. For additional information on the nature of intragovernmental assets, see *Note 5, Investments*.

## NOTE 4. CASH AND OTHER MONETARY ASSETS

The SEC had a cash balance of \$83 thousand as of September 30, 2020. 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 \$841 thousand as of September 30, 2019.

## 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. Premiums and discounts are amortized on a straight-line (S/L) basis for market-based Treasury bills and on the effective interest basis for market-based Treasury notes. Amortization is calculated 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, 2020, investments consisted of the following:

<i>(DOLLARS IN THOUSANDS)</i>	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investment, Net	Market Value Disclosure
Non-Marketable Market-Based Securities						
Disgorgement and Penalties	\$ 1,932,530		\$ 42	\$ 280	\$ 1,932,852	\$ 1,932,665
Market-Based Notes	28,729	Effective	(246)	280	28,763	28,538
Market-Based Bills	947,982	S/L	288	—	948,270	948,308
One-Day Certificates	955,819	N/A	—	—	955,819	955,819
Investor Protection Fund – Entity	311,883		(1,183)	953	311,653	311,112
Market-Based Notes	161,388	Effective	(1,183)	953	161,158	160,617
Market-Based Bills	—	S/L	—	—	—	—
One-Day Certificates	150,495	N/A	—	—	150,495	150,495
<b>Total</b>	<b>\$ 2,244,413</b>		<b>\$ (1,141)</b>	<b>\$ 1,233</b>	<b>\$ 2,244,505</b>	<b>\$ 2,243,777</b>

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

<i>(DOLLARS IN THOUSANDS)</i>	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investment, Net	Market Value Disclosure
Non-Marketable Market-Based Securities						
Disgorgement and Penalties	\$ 1,300,860		\$ 4,367	\$ 250	\$ 1,305,477	\$ 1,305,651
Market-Based Notes	19,891	Effective	(103)	250	20,038	19,811
Market-Based Bills	859,308	S/L	4,470	—	863,778	864,179
One-Day Certificates	421,661	N/A	—	—	421,661	421,661
Investor Protection Fund – Entity	390,033		1,392	852	392,277	392,046
Market-Based Notes	183,877	Effective	700	852	185,429	185,125
Market-Based Bills	75,000	S/L	692	—	75,692	75,765
One-Day Certificates	131,156	N/A	—	—	131,156	131,156
<b>Total</b>	<b>\$ 1,690,893</b>		<b>\$ 5,759</b>	<b>\$ 1,102</b>	<b>\$ 1,697,754</b>	<b>\$ 1,697,697</b>

## 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 General Fund. 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, 2020, accounts receivable consisted of the following:

<i>(DOLLARS IN THOUSANDS)</i>	Gross Receivables	Allowance	Net Receivables
Entity Accounts Receivable:			
Securities Transaction Fees	\$ 255,158	\$ —	\$ 255,158
Other	379	—	379
Non-Entity Accounts Receivable:			
Disgorgement and Penalties <sup>1</sup>	1,195,519	1,011,382	184,137
Filing Fees	1,861	54	1,807
Other	21,565	17,281	4,284
<b>Total Accounts Receivable</b>	<b>\$ 1,474,482</b>	<b>\$ 1,028,717</b>	<b>\$ 445,765</b>

### <sup>1</sup> Disgorgement and Penalties Accounts Receivable by Tiers (Note 1.I)

<i>(DOLLARS IN THOUSANDS)</i>	Gross Receivable	Allowance	Net Receivable
Tier 1	\$ 784,433	\$ 659,200	\$ 125,233
Tier 2	28,783	13,052	15,731
Tier 3	382,303	339,130	43,173
<b>Total Non-Entity Accounts Receivable: Disgorgement and Penalties</b>	<b>\$ 1,195,519</b>	<b>\$ 1,011,382</b>	<b>\$ 184,137</b>

At September 30, 2019, accounts receivable consisted of the following:

<i>(DOLLARS IN THOUSANDS)</i>	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 <sup>2</sup>	1,426,926	1,158,397	268,529
Filing Fees	2,231	50	2,181
Other	16,656	15,364	1,292
<b>Total Accounts Receivable</b>	<b>\$ 1,590,418</b>	<b>\$ 1,173,811</b>	<b>\$ 416,607</b>

<sup>2</sup>

<b>Disgorgement and Penalties Accounts Receivable by Tiers (Note 1.I)</b>			
<i>(DOLLARS IN THOUSANDS)</i>	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
<b>Total Non-Entity Accounts Receivable: Disgorgement and Penalties</b>	<b>\$ 1,426,926</b>	<b>\$ 1,158,397</b>	<b>\$ 268,529</b>

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 \$17.7 million and \$15.4 million as of September 30, 2020 and 2019, respectively. This estimate does not include interest accumulated on debts written off or officially waived.

Disgorgement and penalties net accounts receivable of \$184.1 million and \$268.5 million at September 30, 2020 and 2019, 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, 2020 and 2019, the custodial disgorgement and penalties accounts receivable balance designated as payable to the U.S. Treasury General Fund, net of allowance, was \$112.2 million and \$149.7 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, 2020, 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	\$ 127,516	\$ 104,564	\$ 22,952
Software	S/L	300	300	3–5	274,760	213,251	61,509
Leasehold Improvements	S/L	300	N/A	10	114,011	105,429	8,582
Total					\$ 516,287	\$ 423,244	\$ 93,043

During FY 2020, activity impacting Net Book Value consisted of the following:

(DOLLARS IN THOUSANDS)	Net Book Value
Balance Beginning of Year	\$ 96,267
Capitalized Acquisitions	51,794
Depreciation Expense	(55,018)
Balance End of Year	\$ 93,043

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

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 not covered by budgetary resources require future congressional action whereas liabilities covered by budgetary resources reflect prior congressional action.

Regardless of when the congressional action occurs, when the liabilities are liquidated, Treasury will finance the liquidation in the same way that it finances all other disbursements, which is to borrow from the public if the government has a budget deficit (and to use current receipts if the government has a budget surplus).

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, 2020, liabilities consisted of the following:

<i>(DOLLARS IN THOUSANDS)</i>	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Liabilities Not Requiring Budgetary Resources	Total
Intragovernmental:				
Accounts Payable	\$ 3,859	\$ —	\$ —	\$ 3,859
Other Intragovernmental Liabilities				
Accrued Employee Benefits	11,145	—	—	11,145
Unfunded FECA and Unemployment Liability	—	892	—	892
Custodial Liability	—	—	116,514	116,514
Liability for Non-Entity Assets	—	—	1,806	1,806
Subtotal – Other Intragovernmental Liabilities	11,145	892	118,320	130,357
Total Intragovernmental	15,004	892	118,320	134,216
Accounts Payable	165,050	—	—	165,050
Actuarial FECA Liability	—	4,778	—	4,778
Other Liabilities				
Accrued Payroll and Benefits	51,163	—	—	51,163
Accrued Leave	—	122,564	—	122,564
Registrant Deposits	—	—	45,282	45,282
Liability for Disgorgement and Penalties (Note 16)	—	—	2,404,634	2,404,634
Contingent Liabilities (Note 10)	—	254,764	—	254,764
Other Accrued Liabilities				
Recognition of Lease Liability (Note 9)	—	5,440	—	5,440
Other	—	—	139	139
Subtotal – Other Liabilities	51,163	382,768	2,450,055	2,883,986
Total Liabilities	\$ 231,217	\$ 388,438	\$ 2,568,375	\$ 3,188,030

Other Liabilities (intragovernmental and governmental) totaled \$3.0 billion as of September 30, 2020, of which all but \$383.3 million is current. Current liabilities are liabilities that are expected to be paid within the fiscal year following the reporting date. 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 \$389 thousand as of September 30, 2020.

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

<i>(DOLLARS IN THOUSANDS)</i>	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 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 \$406 thousand as of September 30, 2019.

## NOTE 9. LEASES

### Operating Leases

At September 30, 2020, the SEC leased office space at 15 locations under operating lease agreements that expire between FY 2021 and FY 2034. The SEC paid \$104.6 million and \$104.0 million for rent for the years ended September 30, 2020 and 2019, 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) any non-cancelable period over one year that is part of a cancelable lease. “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 table excludes future payments for the lease extensions of the headquarters offices that are now cancelable. 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 2026 and thereafter are as follows:

FISCAL YEAR (DOLLARS IN THOUSANDS)	Federal Non-Cancelable	Non-Federal Non-Cancelable	Non-Cancelable Expected Future Lease Payments
2021	\$ 2,989	\$ 16,794	\$ 19,783
2022	2,989	1,188	4,177
2023	2,989	—	2,989
2024	2,989	—	2,989
2025	2,980	—	2,980
2026 and thereafter	10,838	—	10,838
Total	\$ 25,774	\$ 17,982	\$ 43,756

As discussed in *Note 14.B, Other Budgetary Disclosures*, \$2.3 million of the above \$43.8 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 \$5.4 million and \$7.0 million as of September 30, 2020 and 2019, 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, 2020, 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, 2020, commitments and contingencies consisted of the following:

(DOLLARS IN THOUSANDS)	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
<b>2020 Whistleblower Awards:</b>			
Probable	\$ 254,764	\$ 122,980	\$ 368,939
Reasonably Possible	—	1,701	5,104

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

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

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.” The balances of the Investor Protection Fund at September 30, 2020 and 2019 were \$260 million and \$404 million, respectively.

### 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, 2020, net obligations for all SEC activities were \$745.9 million, of which \$231.2 million was delivered and unpaid. As of September 30, 2019, net obligations for all SEC activities were \$640.2 million, of which \$135.5 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. Treasury securities reflect a government commitment to the program and allow the program to

continue to provide benefits required by law. See *Note 1.E.1, Funds from Dedicated Collections*, and *Note 5, Investments*, for additional information about intra-governmental investments in Treasury securities.

For FY 2020, the assets, liabilities, net position, and net income from operations relating to funds from dedicated collections consisted of the following:

<i>(DOLLARS IN THOUSANDS)</i>	Salaries & Expenses	Investor Protection Fund	Reserve Fund	Total Combined Funds from Dedicated Collections	Eliminations	Total Consolidated Funds from Dedicated Collections
<b>Balance Sheet as of September 30, 2020</b>						
<b>ASSETS</b>						
Intragovernmental:						
Fund Balance with Treasury	\$ 8,064,215	\$ 47,838	\$ 57,799	\$ 8,169,852	\$ —	\$ 8,169,852
Investments, Net	—	311,653	—	311,653	—	311,653
Advances and Prepayments	8,069	—	—	8,069	—	8,069
<b>Total Intragovernmental</b>	<b>8,072,284</b>	<b>359,491</b>	<b>57,799</b>	<b>8,489,574</b>	<b>—</b>	<b>8,489,574</b>
Accounts Receivable, Net	255,537	—	—	255,537	—	255,537
Property and Equipment, Net	40,497	—	52,546	93,043	—	93,043
<b>Total Assets</b>	<b>\$ 8,368,318</b>	<b>\$ 359,491</b>	<b>\$ 110,345</b>	<b>\$ 8,838,154</b>	<b>\$ —</b>	<b>\$ 8,838,154</b>
<b>LIABILITIES</b>						
Intragovernmental:						
Accounts Payable	3,859	—	—	3,859	—	3,859
Employee Benefits	11,145	—	—	11,145	—	11,145
Unfunded FECA and Unemployment Liability	892	—	—	892	—	892
<b>Total Intragovernmental Liabilities</b>	<b>15,896</b>	<b>—</b>	<b>—</b>	<b>15,896</b>	<b>—</b>	<b>15,896</b>
Accounts Payable	63,457	95,317	6,276	165,050	—	165,050
Actuarial FECA Liability	4,778	—	—	4,778	—	4,778
Accrued Payroll and Benefits	51,163	—	—	51,163	—	51,163
Accrued Leave	122,564	—	—	122,564	—	122,564
Contingent Liabilities	—	254,764	—	254,764	—	254,764
Other Accrued Liabilities	5,440	—	—	5,440	—	5,440
<b>Total Liabilities</b>	<b>263,298</b>	<b>350,081</b>	<b>6,276</b>	<b>619,655</b>	<b>—</b>	<b>619,655</b>
<b>NET POSITION</b>						
Unexpended Appropriations	182,595	—	—	182,595	—	182,595
Cumulative Results of Operations	7,922,425	9,410	104,069	8,035,904	—	8,035,904
<b>Total Net Position</b>	<b>\$ 8,105,020</b>	<b>\$ 9,410</b>	<b>\$ 104,069</b>	<b>\$ 8,218,499</b>	<b>\$ —</b>	<b>\$ 8,218,499</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 8,368,318</b>	<b>\$ 359,491</b>	<b>\$ 110,345</b>	<b>\$ 8,838,154</b>	<b>\$ —</b>	<b>\$ 8,838,154</b>

<i>(DOLLARS IN THOUSANDS)</i>	Salaries & Expenses	Investor Protection Fund	Reserve Fund	Total Combined Funds from Dedicated Collections	Eliminations	Total Consolidated Funds from Dedicated Collections
<b>Statement of Net Cost for the year ended September 30, 2020</b>						
Gross Program Costs	\$ 1,851,314	\$ 378,886	\$ 63,087	\$ 2,293,287	\$ (14)	\$ 2,293,273
Less Earned Revenues Not Attributable to Program Costs	2,563,273	—	50,000	2,613,273	(14)	2,613,259
Net (Income) Cost from Operations	\$ (711,959)	\$ 378,886	\$ 13,087	\$ (319,986)	\$ —	\$ (319,986)
<b>Statement of Changes in Net Position for the year ended September 30, 2020</b>						
Unexpended Appropriations:						
Beginning Balances	\$ 182,595	\$ —	\$ —	\$ 182,595	\$ —	\$ 182,595
Budgetary Financing Sources:						
Appropriations Received	—	—	—	—	—	—
Appropriations Used	—	—	—	—	—	—
Total Unexpended Appropriations	182,595	—	—	182,595	—	182,595
Cumulative Results of Operations:						
Net Position, Beginning of Period	7,173,081	365,928	117,156	7,656,165	—	7,656,165
Budgetary Financing Sources:						
Appropriations Used	—	—	—	—	—	—
Non-Exchange Revenue	—	22,368	—	22,368	—	22,368
Other Financing Sources:						
Imputed Financing	37,385	—	—	37,385	—	37,385
Total Financing Sources	37,385	22,368	—	59,753	—	59,753
Net Income (Cost) from Operations	711,959	(378,886)	(13,087)	319,986	—	319,986
Net Change	749,344	(356,518)	(13,087)	379,739	—	379,739
Cumulative Results of Operations	7,922,425	9,410	104,069	8,035,904	—	8,035,904
Net Position, End of Period	\$ 8,105,020	\$ 9,410	\$ 104,069	\$ 8,218,499	\$ —	\$ 8,218,499

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

For FY 2019, the assets, liabilities, net position, and net income from operations relating to funds from dedicated collections consisted of the following:

<i>(DOLLARS IN THOUSANDS)</i>	Salaries & Expenses	Investor Protection Fund	Reserve Fund	Total Combined Funds from Dedicated Collections	Eliminations	Total Consolidated Funds from Dedicated Collections
<b>Balance Sheet as of September 30, 2019</b>						
<b>ASSETS</b>						
Intragovernmental:						
Fund Balance with Treasury	\$ 7,376,296	\$ 40,594	\$ 72,478	\$ 7,489,368	\$ —	\$ 7,489,368
Investments, Net	—	392,277	—	392,277	—	392,277
Advances and Prepayments	4,286	—	—	4,286	—	4,286
<b>Total Intragovernmental</b>	<b>7,380,582</b>	<b>432,871</b>	<b>72,478</b>	<b>7,885,931</b>	<b>—</b>	<b>7,885,931</b>
Accounts Receivable, Net	144,605	—	—	144,605	—	144,605
Property and Equipment, Net	44,928	—	51,339	96,267	—	96,267
<b>Total Assets</b>	<b>\$ 7,570,115</b>	<b>\$ 432,871</b>	<b>\$ 123,817</b>	<b>\$ 8,126,803</b>	<b>\$ —</b>	<b>\$ 8,126,803</b>
<b>LIABILITIES</b>						
Intragovernmental:						
Accounts Payable	2,936	—	—	2,936	—	2,936
Employee Benefits	8,107	—	—	8,107	—	8,107
Unfunded FECA and Unemployment Liability	857	—	—	857	—	857
<b>Total Intragovernmental Liabilities</b>	<b>11,900</b>	<b>—</b>	<b>—</b>	<b>11,900</b>	<b>—</b>	<b>11,900</b>
Accounts Payable	61,898	16,539	6,661	85,098	—	85,098
Actuarial FECA Liability	4,718	—	—	4,718	—	4,718
Accrued Payroll and Benefits	39,400	—	—	39,400	—	39,400
Accrued Leave	89,510	—	—	89,510	—	89,510
Contingent Liabilities	—	50,404	—	50,404	—	50,404
Other Accrued Liabilities	7,013	—	—	7,013	—	7,013
<b>Total Liabilities</b>	<b>214,439</b>	<b>66,943</b>	<b>6,661</b>	<b>288,043</b>	<b>—</b>	<b>288,043</b>
<b>NET POSITION</b>						
Unexpended Appropriations	182,595	—	—	182,595	—	182,595
Cumulative Results of Operations	7,173,081	365,928	117,156	7,656,165	—	7,656,165
<b>Total Net Position</b>	<b>\$ 7,355,676</b>	<b>\$ 365,928</b>	<b>\$ 117,156</b>	<b>\$ 7,838,760</b>	<b>\$ —</b>	<b>\$ 7,838,760</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 7,570,115</b>	<b>\$ 432,871</b>	<b>\$ 123,817</b>	<b>\$ 8,126,803</b>	<b>\$ —</b>	<b>\$ 8,126,803</b>

<i>(DOLLARS IN THOUSANDS)</i>	Salaries & Expenses	Investor Protection Fund	Reserve Fund	Total Combined Funds from Dedicated Collections	Eliminations	Total Consolidated Funds from Dedicated Collections
<b>Statement of Net Cost for the year ended September 30, 2019</b>						
Gross Program Costs	\$ 1,733,568	\$ 47,020	\$ 68,570	\$ 1,849,158	\$ (33)	\$ 1,849,125
Less Earned Revenues Not Attributable to Program Costs	1,529,254	—	50,000	1,579,254	(33)	1,579,221
Net (Income) Cost from Operations	\$ 204,314	\$ 47,020	\$ 18,570	\$ 269,904	\$ —	\$ 269,904
<b>Statement of Changes in Net Position for the year ended September 30, 2019</b>						
Unexpended Appropriations:						
Beginning Balances	\$ 145,406	\$ —	\$ —	\$ 145,406	\$ —	\$ 145,406
Budgetary Financing Sources:						
Appropriations Received	238,868	—	—	238,868	—	238,868
Appropriations Used	(201,679)	—	—	(201,679)	—	(201,679)
Total Unexpended Appropriations	182,595	—	—	182,595	—	182,595
Cumulative Results of Operations:						
Net Position, Beginning of Period	7,123,766	248,996	135,726	7,508,488	—	7,508,488
Budgetary Financing Sources:						
Appropriations Used	201,679	—	—	201,679	—	201,679
Non-Exchange Revenue	—	163,952	—	163,952	—	163,952
Other Financing Sources:						
Imputed Financing	51,950	—	—	51,950	—	51,950
Total Financing Sources	253,629	163,952	—	417,581	—	417,581
Net Income (Cost) from Operations	(204,314)	(47,020)	(18,570)	(269,904)	—	(269,904)
Net Change	49,315	116,932	(18,570)	147,677	—	147,677
Cumulative Results of Operations	7,173,081	365,928	117,156	7,656,165	—	7,656,165
Net Position, End of Period	\$ 7,355,676	\$ 365,928	\$ 117,156	\$ 7,838,760	\$ —	\$ 7,838,760

## NOTE 12. STATEMENT OF CHANGES IN NET POSITION

In FY 2020, the negative \$699.1 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 2019, the negative \$529.7 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 2020 SBR and the actual FY 2020 data in the Budget of the U.S. Government (Budget) cannot be presented, as the FY 2022

Budget, which will contain FY 2020 actual data, is not yet available. The FY 2022 Budget with actual amounts for FY 2020 will be available at a later date at [whitehouse.gov/omb/budget/](https://www.whitehouse.gov/omb/budget/). The comparison will be presented in next year’s financial statements.

The comparison as of September 30, 2019, is presented below:

(DOLLARS IN MILLIONS)	Budgetary Resources	New Obligations and Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	\$ 2,458	\$ 1,784	\$ 9	\$ 378
FY 2019 Ending Balance: Comptroller General Decision B-322160, <i>Recording of Obligation for Multiple-Year Contract</i>	28	—	—	—
OMB Exclusion of General Fund Proprietary Interest	—	—	(2)	—
Budget of the U.S. Government	\$ 2,486	\$ 1,784	\$ 7	\$ 378

The differences between the FY 2019 SBR and the prior year column in the FY 2021 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 2019, the SEC's SBR included \$28 million in remaining unfunded obligations after the SEC funded \$40 million for current year lease operations.

The SEC SBR for FY 2020 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 \$1,815,000,000 in new budget authority for FY 2020. 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 \$15,662,000 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 \$10,525,000, to remain available until expended.

Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) For FY 2020, the Unobligated Balance from Prior Year Budget Authority, Net consisted of available unobligated balance brought forward from the prior year in the amount of \$675.3 million as well as FY 2020 recoveries of prior-year obligations totaling \$32.6 million. 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.

#### 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 \$523.0 million and \$509.0 million for the years ended September 30, 2020 and 2019, respectively. Of the \$523.0 million total undelivered orders at September 30, 2020, \$83.6 million were with federal trading partners and \$439.4 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 \$514.9 million and \$504.7 million for the years ended September 30, 2020 and 2019, respectively. Of the \$514.9 million unpaid undelivered orders at September 30, 2020, \$75.5 million were with federal trading partners and \$439.4 million were with non-federal trading partners.

#### Legal Restrictions on Unobligated Budgetary Resources

Unobligated budgetary resources are restricted for the following:

- a) \$244.5 million appropriated in FY 2018, for costs associated with relocation under a replacement lease for the Commission's headquarters facilities, of which no funds have yet been obligated as of September 30, 2020; and
- b) \$37.2 million appropriated in FY 2019 and \$10.5 million appropriated in FY 2020, for costs associated with the relocation under a replacement lease for the Commission's New York Regional Office facilities, of which \$31.4 million has been obligated and \$705 thousand expended as of September 30, 2020.

Any funds that are not expended for the purposes designated above will be refunded to the payers (the U.S. Treasury and/or the payers of Sections 31 fees).

#### 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 U.S. Government Accountability Office (GAO) issued a decision that this long-standing 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 \$2.3 million and \$28 million as of September 30, 2020 and 2019, 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 SBR. 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 SBR 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, 2020:

<i>(DOLLARS IN THOUSANDS)</i>	Intragovernmental	With the Public	Total
<b>Net (Income) Cost of Operations</b>	\$ 324,898	\$ (1,344,024)	\$ (1,019,126)
<b>Components of Net Cost That Are Not Part of Net Outlays:</b>			
Property, Plant, and Equipment Depreciation	\$ —	\$ (55,018)	\$ (55,018)
Property, Plant, and Equipment Disposal Reevaluation	—	—	—
Securities Registration, Tender Offer, Merger, and Other Fees from Registrants (Note 1.P)	—	749,094	749,094
Treasury Investment Fees	(62)	62	—
<b>Increase/(Decrease) in Assets:</b>			
Accounts Receivable	—	110,932	110,932
Advances and Prepayments	3,783	—	3,783
<b>(Increase)/Decrease in Liabilities:</b>			
Accounts Payable	(924)	(79,952)	(80,876)
Salaries and Benefits	(3,038)	(11,762)	(14,800)
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA, Contingent Liabilities)	(35)	(235,902)	(235,937)
<b>Other Financing Sources:</b>			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to Agency	(37,385)	—	(37,385)
<b>Total Components of Net Cost That Are Not Part of Net Outlays</b>	(37,661)	477,454	439,793
<b>Components of Net Outlays That Are Not Part of Net Cost:</b>			
Acquisition of Capital Assets	305	51,489	51,794
Non-Exchange Interest Receipts Reported as Distributed Offsetting Receipts	(4,961)	(1,131)	(6,092)
<b>Total Components of Net Outlays That Are Not Part of Net Cost</b>	(4,656)	50,358	45,702
<b>Net Outlays</b>	\$ 282,581	\$ (816,212)	\$ (533,631)

For the year ended September 30, 2019:

<i>(DOLLARS IN THOUSANDS)</i>	Intragovernmental	With the Public	Total
<b>Net (Income) Cost of Operations</b>	\$ 309,706	\$ (569,492)	\$ (259,786)
<b>Components of Net Cost That Are Not Part of Net Outlays:</b>			
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	—
<b>Increase/(Decrease) in Assets:</b>			
Accounts Receivable	—	55,969	55,969
Advances and Prepayments	(1,527)	—	(1,527)
<b>(Increase)/Decrease in Liabilities:</b>			
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
<b>Other Financing Sources:</b>			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to Agency	(51,950)	—	(51,950)
<b>Total Components of Net Cost That Are Not Part of Net Outlays</b>	<b>(54,546)</b>	<b>651,913</b>	<b>597,367</b>
<b>Components of Net Outlays That Are Not Part of Net Cost:</b>			
Acquisition of Capital Assets	—	40,744	40,744
Non-Exchange Interest Receipts Reported as Distributed Offsetting Receipts	(6,584)	(1,981)	(8,565)
<b>Total Components of Net Outlays That Are Not Part of Net Cost</b>	<b>(6,584)</b>	<b>38,763</b>	<b>32,179</b>
<b>Net Outlays</b>	<b>\$ 248,576</b>	<b>\$ 121,184</b>	<b>\$ 369,760</b>

## 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 2020, total Disgorgement and Penalties assets of \$2.5 billion included \$2.4 billion held for distribution to harmed investors and \$112.3 million to be transferred to the U.S. Treasury General Fund. In FY 2019, total Disgorgement and Penalties assets of \$1.9 billion included \$1.7 billion held for distribution to harmed investors and \$149.9 million to be transferred to the U.S. Treasury General Fund.

At September 30, 2020 and 2019, the net inflows and outflows for Fund Balance with Treasury, Investments, and Accounts Receivable related to disgorgement and penalties consisted of the following:

<i>(DOLLARS IN THOUSANDS)</i>	2020	2019
Fund Balance with Treasury:		
Beginning Balance	\$ 303,203	\$ 284,710
Collections	2,158,203	1,470,462
Purchases and Redemptions of Treasury Securities	(611,077)	545,326
Disbursements	(235,618)	(761,157)
Transfers and Deposits to the Investor Protection Fund	(17,057)	(156,519)
Transfers and Deposits to the U.S. Treasury General Fund	(1,197,811)	(1,079,619)
<b>Total Fund Balance with Treasury (Note 2)</b>	<b>399,843</b>	<b>303,203</b>
Cash and Other Monetary Assets:		
Beginning Balance	841	2,223
Net Activity	(758)	(1,382)
<b>Total Cash and Other Monetary Assets (Notes 2 and 4)</b>	<b>83</b>	<b>841</b>
Investments, Net:		
Beginning Balance	1,305,477	1,811,409
Net Activity	627,375	(505,932)
<b>Total Investments, Net (Notes 2 and 5)</b>	<b>1,932,852</b>	<b>1,305,477</b>
Accounts Receivable, Net:		
Beginning Balance	268,529	228,081
Net Activity	(84,392)	40,448
<b>Total Accounts Receivable, Net (Notes 2 and 6)</b>	<b>184,137</b>	<b>268,529</b>
<b>Total Disgorgement and Penalties</b>	<b>\$ 2,516,915</b>	<b>\$ 1,878,050</b>

## 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 2019 FR can be found at: [fiscal.treasury.gov/reports-statements/](https://fiscal.treasury.gov/reports-statements/), and a copy of the 2020 FR will be posted to this site as soon as it is released.

# FY 2020 Balance Sheet

As of September 30, 2020

Line Items Used to Prepare FY 2020 Government-wide Balance Sheet						
Financial Statement Line <i>(DOLLARS IN THOUSANDS)</i>	FY 2020 SEC Balance Sheet	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Total	Reclassified Financial Statement Line
<b>ASSETS:</b>			<b>ASSETS:</b>			
Intragovernmental:			Intragovernmental:			
Fund Balance with Treasury	\$ 8,615,064	\$ 8,169,851	\$ —	\$ 445,213	\$ 8,615,064	Fund Balance with Treasury
Investments, Net	2,244,505	310,700	—	1,932,572	2,243,272	Federal Investments
		953	—	280	1,233	Interest Receivable – Investments
<i>Total Investments, Net</i>	2,244,505	311,653	—	1,932,852	2,244,505	<i>Total Reclassified Investments, Net</i>
Advances and Prepayments	8,069	8,069	—	—	8,069	Advances to Others and Prepayments
Total Intragovernmental	10,867,638	8,489,573	—	2,378,065	10,867,638	Total Intragovernmental Assets
Cash and Other Monetary Assets	83	—	—	83	83	Cash and Other Monetary Assets
Accounts Receivable, Net	445,765	255,537	—	190,228	445,765	Accounts Receivable, Net
Property and Equipment, Net	93,043	93,043	—	—	93,043	General Property, Plant, and Equipment, Net
<b>Total Assets</b>	<b>\$ 11,406,529</b>	<b>\$ 8,838,153</b>	<b>—</b>	<b>\$ 2,568,376</b>	<b>\$ 11,406,529</b>	<b>Total Assets</b>
<b>LIABILITIES:</b>			<b>LIABILITIES:</b>			
Intragovernmental:			Intragovernmental:			
Accounts Payable	\$ 3,859	\$ 3,859	\$ —	\$ —	\$ 3,859	Accounts Payable
Employee Benefits	11,145	9,618	—	—	9,618	Benefit Program Contributions Payable
		1,527	—	—	1,527	Other Liabilities
<i>Total Employee Benefits</i>	11,145	11,145	—	—	11,145	<i>Total Reclassified Employee Benefits</i>
Unfunded FECA and Unemployment Liability	892	892	—	—	892	Benefit Program Contributions Payable
Custodial Liability	116,514	—	—	116,514	116,514	Liability to the General Fund for Custodial and Other Non-Entity Assets
Liability for Non-Entity Assets	1,806	—	—	1,806	1,806	Liability to the General Fund for Custodial and Other Non-Entity Assets
Total Intragovernmental	134,216	15,896	—	118,320	134,216	Total Intragovernmental Liabilities

# FY 2020 Balance Sheet *(continued)*

As of September 30, 2020

Financial Statement Line <i>(DOLLARS IN THOUSANDS)</i>	FY 2020 SEC Balance Sheet	Line Items Used to Prepare FY 2020 Government-wide Balance Sheet				Total	Reclassified Financial Statement Line
		Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)			
Accounts Payable	165,050	165,050	—	—	165,050	Accounts Payable	
Actuarial FECA Liability	4,778	4,778	—	—	4,778	Federal Employee and Veteran Benefits Payable	
Accrued Payroll and Benefits	51,163	49,045	—	—	49,045	Other Liabilities	
		2,118	—	—	2,118	Federal Employee and Veteran Benefits Payable	
<i>Total Accrued Payroll and Benefits</i>	51,163	51,163	—	—	51,163	<i>Total Reclassified Accrued Payroll and Benefits</i>	
Accrued Leave	122,564	122,564	—	—	122,564	Federal Employee and Veteran Benefits Payable	
Registrant Deposits	45,282	—	—	45,282	45,282	Other Liabilities	
Liability for Disgorgement and Penalties	2,404,634	—	—	2,404,634	2,404,634	Other Liabilities	
Contingent Liabilities	254,764	254,764	—	—	254,764	Other Liabilities	
Other Accrued Liabilities	5,579	5,440	—	139	5,579	Other Liabilities	
<b>Total Liabilities</b>	<b>3,188,030</b>	<b>619,655</b>	<b>—</b>	<b>2,568,375</b>	<b>3,188,030</b>	<b>Total Liabilities</b>	
Commitments and Contingencies							
<b>NET POSITION:</b>						<b>NET POSITION:</b>	
Unexpended Appropriations – Funds from Dedicated Collections	182,595	182,595	—	—	182,595	Unexpended Appropriations – Funds from Dedicated Collections	
Cumulative Results of Operations – Funds from Dedicated Collections	8,035,904	8,035,904	—	—	8,035,904	Cumulative Results of Operations – Funds from Dedicated Collections	
Total Net Position – Funds from Dedicated Collections (Note 11)	8,218,499	8,218,499	—	—	8,218,499	Total Net Position – Funds from Dedicated Collections	
<b>Total Net Position</b>	<b>\$ 8,218,499</b>	<b>\$ 8,218,499</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 8,218,499</b>	<b>Total Net Position</b>	
<b>Total Liabilities and Net Position</b>	<b>\$ 11,406,529</b>	<b>\$ 8,838,154</b>	<b>\$ —</b>	<b>\$ 2,568,375</b>	<b>\$ 11,406,529</b>	<b>Total Liabilities and Net Position</b>	

# FY 2020 Statement of Net Cost

For the year ended September 30, 2020

Line Items Used to Prepare FY 2020 Government-wide Statement of Net Cost							
Financial Statement Line (DOLLARS IN THOUSANDS)	FY 2020 SEC Statement of Net Cost	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations Between Dedicated and All Other	Total	Reclassified Financial Statement
<b>Program Costs:</b>							<b>Non-Federal Costs</b>
Total Program Costs	\$ 2,293,278	\$ 1,968,219	\$ —	\$ (58)	\$ —	\$ 1,968,161	Non-Federal Gross Cost
							<b>Intragovernmental Costs</b>
		190,384	—	—	—	190,384	Benefit Program Costs
		37,385	—	—	—	37,385	Imputed Costs
		47,453	(14)	62	—	47,501	Buy/Sell Costs
		305	—	—	—	305	Purchase of Assets
		49,847	—	—	—	49,847	Other Expenses
		(305)	—	—	—	(305)	Purchase of Assets Offset
		—	—	—	—	325,117	<b>Total Intragovernmental Costs</b>
<b>Total Program Costs</b>	<b>2,293,278</b>	<b>2,293,288</b>	<b>(14)</b>	<b>4</b>	<b>—</b>	<b>2,293,278</b>	<b>Total Reclassified Gross Costs</b>
Less: Earned Revenues not Attributed to Programs							<b>Non-Federal Earned Revenue</b>
	3,312,404	2,613,041	—	699,144	—	3,312,185	Non-Federal Earned Revenue
							<b>Intragovernmental Revenue</b>
		233	(14)	—	—	219	Buy/Sell Revenue
<b>Total Earned Revenues</b>	<b>\$ 3,312,404</b>	<b>\$ 2,613,274</b>	<b>\$ (14)</b>	<b>\$ 699,144</b>	<b>\$ —</b>	<b>\$ 3,312,404</b>	<b>Total Reclassified Earned Revenue</b>
<b>Net (Income) Cost from Operations</b>	<b>\$ (1,019,126)</b>	<b>\$ (319,986)</b>	<b>\$ —</b>	<b>\$ (699,140)</b>	<b>\$ —</b>	<b>\$ (1,019,126)</b>	<b>Net Cost of Operations</b>

# FY 2020 Statement of Changes in Net Position

For the year ended September 30, 2020

Financial Statement Line <i>(DOLLARS IN THOUSANDS)</i>	FY 2020 SEC Statement of Changes in Net Position	Line Items Used to Prepare FY 2020 Government-wide Statement of Net Cost				Total	Reclassified Financial Statement
		Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)			
<b>UNEXPENDED APPROPRIATIONS:</b>							
Beginning Balances	\$ 182,595	\$ 182,595	\$ —	\$ —	\$ 182,595	Net Position, Beginning of Period	
<b>Budgetary Financing Sources:</b>							
Appropriations Received	—	—	—	—	—	Appropriations Received as Adjusted	
Appropriations Used	—	—	—	—	—	Appropriations Used (Federal)	
Total Unexpended Appropriations	182,595	182,595	—	—	182,595		
<b>CUMULATIVE RESULTS OF OPERATIONS:</b>							
Beginning Balances	7,656,165	7,656,165	—	—	7,656,165	Net Position, Beginning of Period	
Appropriations Used	—	—	—	—	—	Appropriations Expended	
Non-Exchange Revenue	22,368	17,057	—	(16,297)	760	Other Taxes and Receipts	
		5,311	—	16,297	21,608	Federal Securities Interest Revenue, including Associated Gains/Losses (Non-Exchange)	
<i>Total Non-Exchange Revenues</i>	22,368	22,368	—	—	22,368	<i>Total Reclassified Non-Exchange Revenues</i>	
<b>Other Financing Sources (Non-Exchange):</b>							
Imputed Financing	37,385	37,385	—	—	37,385	Imputed Financing Sources (Federal)	
Other (Note 12)	(699,140)	—	—	(699,515)	(699,515)	Non-Entity Collections Transferred to the General Fund of the U.S. Government	
		—	—	375	375	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government	
<i>Total Other</i>	(699,140)	—	—	(699,140)	(699,140)	<i>Total Reclassified Other</i>	
Total Financing Sources	(639,387)	59,753	—	(699,140)	(639,387)		
Net Income (Cost) from Operations	1,019,126	319,986	—	699,140	1,019,126	Net Cost of Operations (+/-)	
Cumulative Results of Operations (Note 11)	8,035,904	8,035,904	—	—	8,035,904		
<b>Net Position, End of Period</b>	<b>\$ 8,218,499</b>	<b>\$ 8,218,499</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 8,218,499</b>	Net Position – Ending Balance	

# FY 2020 Statement of Changes in Net Position *(continued)*

As of September 30, 2020

Financial Statement Line <i>(DOLLARS IN THOUSANDS)</i>	Line Items Used to Prepare FY 2020 Government-wide Statement of Net Cost						Reclassified Financial Statement
	FY 2020 SEC Statement of Changes in Net Position	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Total		
<b>NON-EXCHANGE STATEMENT OF CUSTODIAL ACTIVITY</b>							
<b>Non-Exchange Custodial Revenue from the Statement of Custodial Activity</b>							
Total Cash Collections	\$ 1,199,579	\$ —	\$ —	\$ 1,199,579	\$ 1,199,579		Other Taxes and Receipts
Accrual Adjustments	(34,523)	—	—	(34,523)	(34,523)		Other Taxes and Receipts
<b>Total Non-Exchange Custodial Revenue</b>	<b>1,165,056</b>	<b>—</b>	<b>—</b>	<b>1,165,056</b>	<b>1,165,056</b>		<i>Total Reclassified Non-Exchange Custodial Revenue</i>
<b>Disposition of Non-Exchange Custodial Collections from the Statement of Custodial Activity</b>							
Amounts Transferred to Department of the Treasury	1,199,579	—	—	1,199,579	1,199,579		Non-Entity Collections Transferred to the General Fund of the U.S. Government
Amounts Yet to be Transferred	(34,523)	—	—	(34,523)	(34,523)		Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
<b>Total Disposition of Non-Exchange Custodial Collections</b>	<b>\$ 1,165,056</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1,165,056</b>	<b>\$ 1,165,056</b>		<i>Total Reclassified Disposition of Non-Exchange Custodial Collections</i>

## 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, 2020

<i>(DOLLARS IN THOUSANDS)</i>	Salaries and Expenses and Other Funds	Investor Protection Fund	Reserve Fund	Total
	X0100, 1435, 3220, 3875	5567	5566	
<b>BUDGETARY RESOURCES:</b>				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 14)	\$ 299,257	\$ 403,976	\$ 4,683	\$ 707,916
Appropriations (Discretionary and Mandatory)	—	30,831	51,700	82,531
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,825,907	—	—	1,825,907
<b>Total Budgetary Resources</b>	<b>\$ 2,125,164</b>	<b>\$ 434,807</b>	<b>\$ 56,383</b>	<b>\$ 2,616,354</b>
<b>STATUS OF BUDGETARY RESOURCES:</b>				
New Obligations and Upward Adjustments (Total)	\$ 1,835,307	\$ 174,526	\$ 53,217	\$ 2,063,050
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	284,504	243,931	—	528,435
Exempt from Apportionment, Unexpired Accounts	—	—	3,166	3,166
Unapportioned, Unexpired Accounts	5,353	16,350	—	21,703
Unobligated Balance, End of Year (Total)	289,857	260,281	3,166	553,304
<b>Total Budgetary Resources</b>	<b>\$ 2,125,164</b>	<b>\$ 434,807</b>	<b>\$ 56,383</b>	<b>\$ 2,616,354</b>
<b>OUTLAYS, NET:</b>				
Outlays, Net (Discretionary and Mandatory)	\$ (687,920)	\$ 95,747	\$ 64,680	\$ (527,493)
Distributed Offsetting Receipts	(1,178)	(4,960)	—	(6,138)
Agency Outlays, Net (Discretionary and Mandatory) (Note 15)	\$ (689,098)	\$ 90,787	\$ 64,680	\$ (533,631)

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

## Combining Statements of Budgetary Resources by Fund

For the year ended September 30, 2019

<i>(DOLLARS IN THOUSANDS)</i>	Salaries and Expenses and Other Funds	Investor Protection Fund	Reserve Fund	Total
	X0100, 1435, 3220, 3875	5567	5566	
<b>BUDGETARY RESOURCES:</b>				
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
<b>Total Budgetary Resources</b>	<b>\$ 1,927,813</b>	<b>\$ 464,559</b>	<b>\$ 66,108</b>	<b>\$ 2,458,480</b>
<b>STATUS OF BUDGETARY RESOURCES:</b>				
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
<b>Total Budgetary Resources</b>	<b>\$ 1,927,813</b>	<b>\$ 464,559</b>	<b>\$ 66,108</b>	<b>\$ 2,458,480</b>
<b>OUTLAYS, NET:</b>				
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.

# INVESTOR PROTECTION FUND FINANCIAL STATEMENTS

U.S. SECURITIES AND EXCHANGE COMMISSION  
INVESTOR PROTECTION FUND

## Balance Sheets

As of September 30, 2020 and 2019

(DOLLARS IN THOUSANDS)	2020	2019
<b>ASSETS:</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 47,838	\$ 40,594
Investments, Net (Note 3)	311,653	392,277
<b>Total Assets</b>	<b>\$ 359,491</b>	<b>\$ 432,871</b>
<b>LIABILITIES (NOTE 4):</b>		
Accounts Payable	\$ 95,317	\$ 16,539
Contingent Liabilities (Note 5)	254,764	50,404
<b>Total Liabilities</b>	<b>350,081</b>	<b>66,943</b>
Commitments and Contingencies (Note 5)		
<b>NET POSITION:</b>		
Cumulative Results of Operations – Funds from Dedicated Collections	9,410	365,928
Total Net Position – Funds from Dedicated Collections	9,410	365,928
<b>Total Net Position</b>	<b>\$ 9,410</b>	<b>\$ 365,928</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 359,491</b>	<b>\$ 432,871</b>

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, 2020 and 2019

(DOLLARS IN THOUSANDS)	2020	2019
<b>PROGRAM COSTS:</b>		
Awards to Whistleblowers	\$ 378,872	\$ 46,987
Employee Suggestion Program	14	33
<b>Total Program Costs</b>	<b>378,886</b>	<b>47,020</b>
<b>Net (Income) Cost from Operations (Note 7)</b>	<b>\$ 378,886</b>	<b>\$ 47,020</b>

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

## Statements of Changes in Net Position

For the years ended September 30, 2020 and 2019

(DOLLARS IN THOUSANDS)	2020	2019
<b>CUMULATIVE RESULTS OF OPERATIONS:</b>		
Beginning Balances	\$ 365,928	\$ 248,996
<b>Budgetary Financing Sources:</b>		
Non-Exchange Revenue	22,368	163,952
Total Financing Sources	22,368	163,952
Net Income (Cost) from Operations	(378,886)	(47,020)
Net Change	(356,518)	116,932
Cumulative Results of Operations	9,410	365,928
<b>Net Position, End of Period</b>	<b>\$ 9,410</b>	<b>\$ 365,928</b>

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

## Statements of Budgetary Resources

For the years ended September 30, 2020 and 2019

(DOLLARS IN THOUSANDS)	2020	2019
<b>BUDGETARY RESOURCES:</b>		
Unobligated Balance from Prior Year Budget Authority, Net (Mandatory)	\$ 403,976	\$ 299,334
Appropriations (Mandatory)	30,831	165,225
<b>Total Budgetary Resources</b>	<b>\$ 434,807</b>	<b>\$ 464,559</b>
<b>STATUS OF BUDGETARY RESOURCES (NOTE 6):</b>		
New Obligations and Upward Adjustments (Total)	\$ 174,526	\$ 60,583
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	243,931	343,581
Unapportioned, Unexpired Accounts	16,350	60,395
Unobligated Balance, End of Year (Total)	260,281	403,976
<b>Total Budgetary Resources</b>	<b>\$ 434,807</b>	<b>\$ 464,559</b>
<b>OUTLAYS, NET:</b>		
Outlays, Net (Total) (Mandatory)	95,747	142,010
Distributed Offsetting Receipts	(4,960)	(6,584)
Agency Outlays, Net (Mandatory) (Note 7)	\$ 90,787	\$ 135,426

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, 2020 and 2019

## 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 notes 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, 2020 and 2019 consisted of the following:

<i>(DOLLARS IN THOUSANDS)</i>	2020	2019
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	\$ (48,779)	\$ 13,943
Unavailable	1,299	10,112
Obligated Balance not Yet Disbursed	95,318	16,539
Total Status of Fund Balance with Treasury	\$ 47,838	\$ 40,594

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 2020 consisted of:

- Net cash inflows from investment redemptions of \$83.9 million;
- Net cash inflows from investment interest of \$2.1 million (which include \$4.9 million of interest collections, less \$2.8 million in premiums paid);
- Net cash inflows from fund replenishment required under the Dodd-Frank Act of \$17.1 million; and
- Net cash outflows for payment of whistleblower awards totaling \$16.5 million for amounts that were awarded prior to FY 2020, \$79.2 million for amounts that were awarded during FY 2020, and payment of expenses of operating the Office of Inspector General Employee Suggestion Program of \$14 thousand.

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 prior to FY 2019, \$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.

## 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 securities at cost. Premiums and discounts are amortized on a straight-line (S/L) basis for market-based Treasury bills and on the effective interest basis for market-based Treasury notes. Amortization is calculated 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, 2020, investments consisted of the following:

<i>(DOLLARS IN THOUSANDS)</i>	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investment, Net	Market Value Disclosure
Non-Marketable Market-Based Securities						
Investor Protection Fund – Entity						
Market-Based Notes	\$ 161,388	Effective	\$ (1,183)	\$ 953	\$ 161,158	\$ 160,617
Market-Based Bills	—	S/L	—	—	—	—
One-Day Certificates	150,495	N/A	—	—	150,495	150,495
<b>Total</b>	<b>\$ 311,883</b>		<b>\$ (1,183)</b>	<b>\$ 953</b>	<b>\$ 311,653</b>	<b>\$ 311,112</b>

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

<i>(DOLLARS IN THOUSANDS)</i>	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investment, Net	Market Value Disclosure
Non-Marketable Market-Based Securities						
Investor Protection Fund – Entity						
Market-Based Notes	\$ 183,877	Effective	\$ 700	\$ 852	\$ 185,429	\$ 185,125
Market-Based Bills	75,000	S/L	692	—	75,692	75,765
One-Day Certificates	131,156	N/A	—	—	131,156	131,156
<b>Total</b>	<b>\$ 390,033</b>		<b>\$ 1,392</b>	<b>\$ 852</b>	<b>\$ 392,277</b>	<b>\$ 392,046</b>

### 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, 2020, liabilities consisted of the following:

<i>(DOLLARS IN THOUSANDS)</i>	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total
Accounts Payable	\$ 95,317	\$ —	\$ 95,317
Contingent Liabilities	—	254,764	254,764
Total Liabilities	\$ 95,317	\$ 254,764	\$ 350,081

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

<i>(DOLLARS IN THOUSANDS)</i>	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

## 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, 2020, commitments and contingencies consisted of the following:

(DOLLARS IN THOUSANDS)	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
<b>2020 Whistleblower Awards:</b>			
Probable	\$ 254,764	\$ 122,980	\$ 368,939
Reasonably Possible	—	1,701	5,104

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

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

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*. The balances of the Investor Protection Fund at September 30, 2020 and 2019 were \$260 million and \$404 million, respectively.

## 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 2020 Statement of Budgetary Resources and the actual FY 2020 data in the Budget of the U.S. Government (Budget) cannot be presented, as the FY 2022 Budget, which will contain FY 2020 actual data, is not yet available. The comparison will be presented in next year's financial statements. The FY 2022 Budget, with actual amounts for FY 2020, will be available at a later date at [whitehouse.gov/omb/budget/](https://whitehouse.gov/omb/budget/).

There are no differences between the FY 2019 Statement of Budgetary Resources and the FY 2019 data in the Budget.

### B. Other Budgetary Disclosures

There were no budgetary resources obligated for undelivered orders as of September 30, 2020 and 2019.

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, 2020, the SEC paid \$95.7 million to whistleblowers, including \$79.2 million awarded during FY 2020. 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, 2020:

<i>(DOLLARS IN THOUSANDS)</i>	Intragovernmental	With the Public	Total
<b>Net (Income) Cost of Operations</b>	\$ 14	\$ 378,872	\$ 378,886
<b>Components of Net Cost That Are Not Part of Net Outlays:</b>			
<b>(Increase)/Decrease in Liabilities:</b>			
Accounts Payable	—	(78,778)	(78,778)
Other Liabilities (Contingent Liabilities)	—	(204,361)	(204,361)
<b>Total Components of Net Cost That Are Not Part of Net Outlays</b>	—	(283,139)	(283,139)
<b>Components of Net Outlays That Are Not Part of Net Cost:</b>			
Non-Exchange Interest Receipts Reported as Distributed Offsetting Receipts	(4,960)	—	(4,960)
<b>Total Components of Net Outlays That Are Not Part of Net Cost</b>	(4,960)	—	(4,960)
<b>Net Outlays</b>	\$ (4,946)	\$ 95,733	\$ 90,787

For the year ended September 30, 2019:

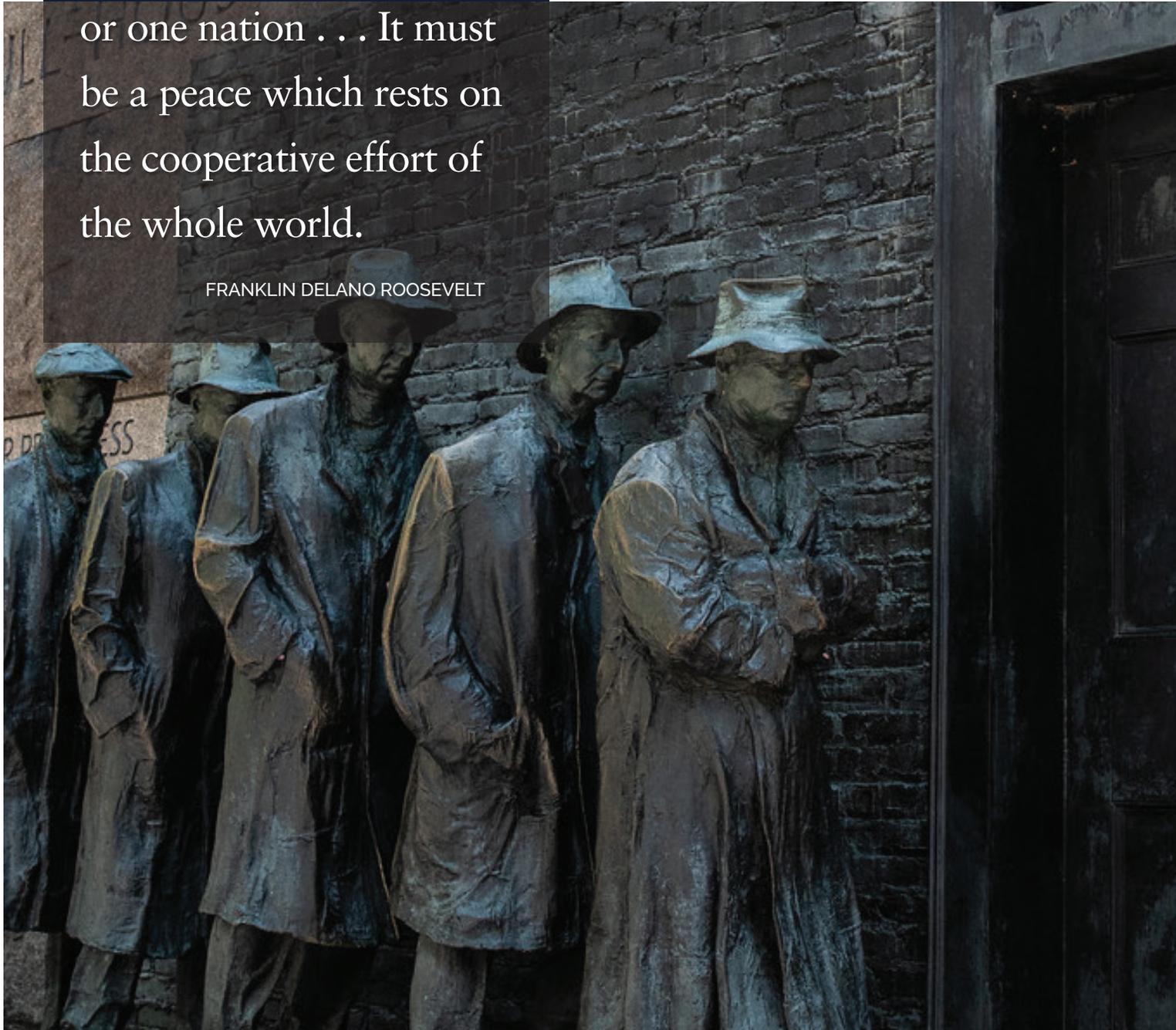
<i>(DOLLARS IN THOUSANDS)</i>	Intragovernmental	With the Public	Total
<b>Net (Income) Cost of Operations</b>	\$ 33	\$ 46,987	\$ 47,020
<b>Components of Net Cost That Are Not Part of Net Outlays:</b>			
<b>(Increase)/Decrease in Liabilities:</b>			
Accounts Payable	—	81,426	81,426
Other Liabilities (Contingent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

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The structure of World Peace cannot be the work of one man, or one party, or one nation . . . It must be a peace which rests on the cooperative effort of the whole world.

FRANKLIN DELANO ROOSEVELT

FDR MEMORIAL | WASHINGTON, DC



# OTHER INFORMATION

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

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## 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



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

## MEMORANDUM

October 8, 2020

**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 2020*

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.<sup>1</sup> In deciding whether to identify an area 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 assessed its efforts to address recommendations for corrective action related to persistent challenges. 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 2021, 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 me or 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  
Kimberly Hamm, Chief Counsel/Senior Policy Advisor, Office of Chairman Clayton

<sup>1</sup> Pub. L. No. 106-531, § 3a, 114 Stat. 2537-38 (2000).

John Moses, Managing Executive, Office of Chairman Clayton  
Hester M. Peirce, Commissioner  
Benjamin Vetter, Counsel, Office of Commissioner Peirce  
Elad L. Roisman, Commissioner  
Matthew Estabrook, Counsel, Office of Commissioner Roisman  
Allison Herren Lee, Commissioner  
Andrew Feller, Counsel, Office of Commissioner Lee  
Caroline A. Crenshaw, Commissioner  
Armita Cohen, Counsel, Office of Commissioner Crenshaw  
William Hinman, Director, Division of Corporation Finance  
S.P. Kothari, Director and Chief Economist, Division of Economic and Risk Analysis  
Stephanie Avakian, Director, Division of Enforcement  
Dalia Blass, Director, Division of Investment Management  
Brett Redfearn, Director, Division of Trading and Markets  
Kenneth Johnson, Chief Operating Officer  
Austin Gerig, Chief Data Officer  
Gabriel Benincasa, Chief Risk Officer  
Matthew Keeler, Management and Program Analyst, Office of Chief Risk Officer  
Vance Cathell, Director, Office of Acquisitions  
Caryn Kauffman, Director/Chief Financial Officer, Office of Financial Management  
Jamey McNamara, Director/Chief Human Capital Officer, Office of Human Resources  
David Bottom, Director/Chief Information Officer, Office of Information Technology  
Peter Driscoll, Director, Office of Compliance Inspections and Examinations  
Peter Henry, Office of Equal Employment Opportunity  
Robert B. Stebbins, General Counsel  
Rick Fleming, Investor Advocate  
Lori Schock, Director, Office of Investor Education and Advocacy  
Holli Heiles Pandol, Director, Office of Legislative and Intergovernmental Affairs  
Pamela Gibbs, Director, Office of Minority and Women Inclusion  
John Nester, Director, Office of Public Affairs  
Office and Division Managing Executives

U.S. SECURITIES AND  
EXCHANGE COMMISSION

October 8, 2020

OFFICE OF  
INSPECTOR  
GENERAL

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

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## ABBREVIATIONS

<b>COR</b>	contracting officer's representative
<b>COVID-19</b>	Coronavirus Disease 2019
<b>DERA</b>	Division of Economic and Risk Analysis
<b>EDGAR</b>	Electronic Data Gathering, Analysis, and Retrieval
<b>Enforcement</b>	Division of Enforcement
<b>FISMA</b>	Federal Information Security Modernization Act of 2014
<b>FY</b>	fiscal year
<b>GAO</b>	U.S. Government Accountability Office
<b>IT</b>	information technology
<b>NTEU</b>	National Treasury Employees Union
<b>OA</b>	Office of Acquisitions
<b>OBDF</b>	Office of Broker-Dealer Finances
<b>OCIE</b>	Office of Compliance Inspections and Examinations
<b>OIG</b>	Office of Inspector General
<b>OIT</b>	Office of Information Technology
<b>OPM</b>	Office of Personnel Management
<b>SEC, agency, or Commission</b>	U.S. Securities and Exchange Commission
<b>T&amp;M</b>	time-and-materials
<b>TCR</b>	tips, complaints, and referrals
<b>TM</b>	Division of Trading and Markets

## CHALLENGE: Meeting Regulatory Oversight Responsibilities

The U.S. Securities and Exchange Commission (SEC, agency, or Commission) is charged with overseeing more than 28,000 registered entities, including investment advisers, mutual funds, exchange-traded funds, broker-dealers, municipal advisors, and transfer agents. The agency also oversees 24 national securities exchanges, 9 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 more than 7,600 reporting 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 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.<sup>1</sup> In addition to the challenging and constantly evolving environment that the SEC operates in, at the outset of 2020, the Coronavirus Disease (COVID-19) created an unprecedented global health and economic crisis, impacting the SEC as a financial regulator and as an employer.

We describe further below the challenges of (1) responding to COVID-19 from a regulatory perspective; (2) keeping pace with changing markets and innovations; (3) ensuring sufficient examination coverage of registered investment advisers and timely enforcement investigations; and (4) leveraging technology and analytics to meet mission requirements.

### Responding to COVID-19, Regulatory Perspectives

After emerging in late 2019, COVID-19 quickly spread around the globe and the President declared a national emergency in March 2020. Although the pandemic had immediate impacts on the SEC's workforce (addressed further on page 17 of this document), it also had profound effects on the capital markets and the economy, as described in the SEC Chairman's June 2020 congressional testimony<sup>2</sup> and indicated in exemptive orders, staff statements and guidance, and other information posted on [SEC.gov](https://www.sec.gov) and referenced below.

In addition to efforts to ensure the health and safety of its workforce, the SEC has been focused on, among other things, monitoring market functions and system risks; providing prompt, targeted regulatory relief and guidance to issuers, investment advisers, investment companies, and other registrants, including in connection with the execution of their business continuity plans; and maintaining enforcement and investor protection efforts. Following is a summary of some of the market-focused actions, investor

<sup>1</sup> U.S. Securities and Exchange Commission, *Strategic Plan Fiscal Years 2018-2022*; October 11, 2018.

<sup>2</sup> Chairman Jay Clayton, *Testimony before the Investor Protection, Entrepreneurship, and Capital Markets Subcommittee, U.S. House of Representatives Committee on Financial Services*; June 25, 2020.

protection efforts, guidance and targeted assistance and relief, and other SEC work in response to the effects of COVID-19. More information about these and other COVID-19-related actions taken by the SEC is available at [SEC Coronavirus \(COVID-19\) Response](#).



The Commission suspended trading in the securities of dozens of issuers where there were issues regarding the adequacy and accuracy of the information in the marketplace in connection with COVID-19, and has brought a number of enforcement actions against issuers and individuals alleging fraud based on COVID-19-related claims.



The Office of Investor Education and Advocacy issued and updated Investor Alerts to educate investors about investment frauds, including scams related to COVID-19.



The Division of Investment Management issued a letter to the Independent Directors Council stipulating that staff would not recommend enforcement action if fund boards do not adhere to certain in-person voting requirements.



The Division of Corporation Finance released guidance on disclosure and other securities law obligations that companies should consider with respect to COVID-19 and related business and market disruptions.



The Office of Compliance Inspections and Examinations (OCIE) issued a Risk Alert to share a number of COVID-19-related issues, risks, and practices relevant to SEC-registered investment advisers and broker-dealers.



The Division of Trading and Markets (TM) provided temporary relief for a number of filings, including certain paper submissions made by registered clearing agencies and by broker-dealers. The Division of Corporation Finance also established temporary relief for certain paper filing requirements. In recognition of logistical concerns caused by COVID-19, staff will not recommend enforcement action for a failure to comply with requirements for paper format submissions, manual signatures, and notarization if affected documents are submitted via e-mail and filers meet other stipulated conditions.

Just before the impacts of COVID-19 were known, in February 2020 we completed an evaluation of TM's Office of Broker-Dealer Finances (OBDF) and reported, among other things, that in 2002 and 2008 the OIG recommended encouraging broker-dealers to file certain required documents electronically, thereby

reducing paper filings.<sup>3</sup> As we stated in our report, paper filings are less efficient than electronic filings, and often require additional intake and review steps—steps that may not be possible at this time due to COVID-19—including professional scanning services provided by contractors. Moreover, reducing the number of paper filings could align with the SEC's strategic goal 2.2, which states that the agency should "Identify, and take steps to address, existing SEC rules and approaches that are outdated."<sup>4</sup> We made one recommendation about the feasibility of requiring broker-dealers to electronically file with the Commission certain reports. Management's request that the recommendation be closed, received at the end of fiscal year (FY) 2020, is pending.

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*Management should identify and assess any efficiencies gained during its COVID-19 response for possible adoption in the SEC's "new normal"*

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We commend management for the broad range of actions taken to date to respond to the effects of COVID-19 on the capital markets, and we will continue monitoring the SEC's efforts to meet its regulatory oversight responsibilities throughout this period of collective, national challenges. As the SEC works with stakeholders, including registered entities, to develop acceptable and innovative new ways of doing business during this time, we encourage management to identify and assess any efficiencies gained for possible adoption in the SEC's eventual "new normal."

### Keeping Pace With Changing Markets and Innovations

As securities markets continue to grow in size and complexity and technological advancements contribute to changes in how markets operate, the SEC's ability to remain an effective regulator requires that it continuously monitor the market environment and, as appropriate, adjust and modernize its expertise, rules, regulations, and oversight tools and activities. For example, the SEC's FY 2021 Congressional Budget Justification explains that registered entities are more global and diverse than ever before with affiliations, operations, and service providers worldwide. Furthermore, the agency has recognized that advancements in financial technologies, methods of capital formation, market structures, and investor interfaces have changed the way entities conduct business and investors access securities markets. The SEC's FY 2021 Congressional Budget Justification states that, "These types of developments and innovation continue to present challenges to the staff, as they often introduce new and/or heightened regulatory concerns."<sup>5</sup> However, the agency has reported that modernizations to the regulatory framework, the work of the Division of Enforcement's (Enforcement) Cyber Unit, and the new Strategic Hub for Innovation and Financial Technology, to name a few examples, have helped advance the goal of being responsive and innovative in the face of significant market developments and trends.<sup>6</sup>

<sup>3</sup> U.S. Securities and Exchange Commission, Office of Inspector General, *The SEC's Office of Broker-Dealer Finances Provides Effective Oversight, But Opportunities To Improve Efficiency Exist* (Report No. 559; February 26, 2020).

<sup>4</sup> U.S. Securities and Exchange Commission, *SEC Strategic Plan Fiscal Years 2018-2022*; October 11, 2018.

<sup>5</sup> U.S. Securities and Exchange Commission, *Fiscal Year 2021 Congressional Budget Justification and Annual Performance Plan; Fiscal Year 2019 Annual Performance Report*; February 10, 2020.

<sup>6</sup> Chairman Jay Clayton, *Testimony on "Oversight of the Securities and Exchange Commission" Before the U.S. Senate Committee on Banking, Housing, and Urban Affairs*; December 10, 2019.

With respect to our work, we are pleased that OIG recommendations helped modernize certain reporting thresholds applicable to broker-dealers and investment managers. Specifically, in response to an OIG recommendation, the Commission issued an order in June 2020 to update the filing threshold for broker-dealers' Form 17-H filings made pursuant to Exchange Act Rules 17h-1T and Rule 17h-2T. The threshold, which had not been updated in nearly 30 years, will exempt certain smaller broker-dealers from the reporting requirements of the rules while continuing to provide important information on the financial condition of covered broker-dealers and their affiliates.<sup>7</sup> Additionally, in July 2020, the SEC announced that it has proposed to amend Form 13F to update the reporting threshold for institutional investment managers and make other targeted changes. The threshold has not been adjusted since the Commission adopted Form 13F more than 40 years ago, and the Commission and staff have received recommendations to revisit it from a variety of sources over the years, including from the OIG.<sup>8</sup>

Advances in financial technologies and other innovations create challenges for investors, too. As the SEC's FY 2021 Congressional Budget Justification states, "major trends in retirement funding, investment philosophies, technology, and capital formation have driven changes that include increased assets, new products, new strategies, and new challenges in the environment for investors and investment managers."<sup>9</sup> With a primary goal of focusing on the long-term interests of Main Street investors, the SEC has taken steps, including through rulemaking and a new Main Street investor education campaign, to ensure investors have the information and assistance they need. We note, however, that the Investor Advocate has reported that the Ombudsman—a statutorily created liaison between the Commission and retail investors—continues to receive from investors increasing numbers of matters and struggles to provide more than "a cursory level of service to investors."<sup>10</sup> According to the Investor Advocate's FY 2019 Report on Activities, the number of matters brought by investors to the attention of the Ombudsman tripled during the previous year and, between FY 2015 (the first full fiscal year of Ombudsman operations) and FY 2019, investor matters and contacts grew from 727 to 3,693 (an increase of 407.9 percent).<sup>11</sup>

According to the SEC, its FY 2021 request of \$1.895 billion will support 4,728 positions, including 30 new positions to "enhance the agency's depth of expertise in emerging or evolving areas relating to financial innovation, cybersecurity, small business capital formation, and market oversight, as well as other policy and operational priorities."<sup>12</sup> With the resources entrusted to it, the SEC must continue to adjust as necessary to keep pace with the ever-changing regulatory environment, and ensure it has the workforce necessary to enhance market oversight and improve the agency's ability to serve Main Street investors.

<sup>7</sup> U.S. Securities and Exchange Commission, Press Release 2020-147, *SEC Updates Filing Threshold to Rule 17h Reporting Requirements for Broker-Dealers*; June 29, 2020.

<sup>8</sup> U.S. Securities and Exchange Commission, Press Release 2020-152, *SEC Proposes Amendments to Update Form 13F for Institutional Investment Managers; Amend Reporting Threshold to Reflect Today's Equities Markets*; July 10, 2020.

<sup>9</sup> U.S. Securities and Exchange Commission, *Fiscal Year 2021 Congressional Budget Justification and Annual Performance Plan; Fiscal Year 2019 Annual Performance Report*; February 10, 2020.

<sup>10</sup> U.S. Securities and Exchange Commission, *Office of the Investor Advocate Report on Objectives Fiscal Year 2021*; June 29, 2020.

<sup>11</sup> U.S. Securities and Exchange Commission, *Office of the Investor Advocate Report on Activities Fiscal Year 2019*; December 19, 2019.

<sup>12</sup> U.S. Securities and Exchange Commission, *Fiscal Year 2021 Congressional Budget Justification and Annual Performance Plan; Fiscal Year 2019 Annual Performance Report*; February 10, 2020.

## Examination Coverage and Pace of Investigations

Since 2014, we have reported as a challenge the need for ensuring sufficient examination coverage of registered investment advisers by 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. Moreover, OCIE's risk-based program is designed to focus its limited resources on those firms, market participants, and practices that pose the greatest potential risk of securities law violations that can harm investors and the markets. For FY 2019, management reported that OCIE was able to achieve a 15-percent coverage ratio for investment advisers (up from 10 percent, 5 years ago), and OCIE's examinations resulted in firms returning more than \$70 million in recoveries.<sup>13</sup> However, several new registrant categories, including security-based swap execution facilities, security-based swap data repositories, and security-based swap dealers, may be subject to OCIE examinations, and the agency continues to report challenges in providing adequate examination coverage.<sup>14</sup> In light of these challenges, it is imperative that management effectively use risk-based processes and—as further discussed below—leverage technology and analytics to address its regulatory responsibilities, including those of the examination program.

Enforcement also 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

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*Cases have the greatest impact when filed as close in time to the conduct as possible*

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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. In the last 2 years, we have reported that the timeliness of Enforcement investigations remains a concern. As

acknowledged in Enforcement's latest annual report, cases have the greatest impact when they are filed as close in time to the conduct as possible. In FY 2019, the amount of time between case opening and filing of an enforcement action decreased marginally to just under 24 months on average. However, financial fraud and issuer disclosure cases, which are among the most complicated, still took on average 37 months from opening to filing. Although Enforcement is taking steps to accelerate the pace of these investigations and has reported some successes, there is still room for continued improvement.<sup>15</sup>

## 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

<sup>13</sup> Chairman Jay Clayton, *Testimony on "Oversight of the Securities and Exchange Commission" Before the U.S. Senate Committee on Banking, Housing, and Urban Affairs*, December 10, 2019.

<sup>14</sup> U.S. Securities and Exchange Commission, *Fiscal Year 2021 Congressional Budget Justification and Annual Performance Plan; Fiscal Year 2019 Annual Performance Report*, February 10, 2020.

<sup>15</sup> U.S. Securities and Exchange Commission, *Division of Enforcement 2019 Annual Report*, November 6, 2019.

frauds, sift through large volumes of data, inform policy-making, and streamline operations. The SEC's FY 2021 Congressional Budget Justification states that:

Information technology (IT) plays a critical role in the mission of the SEC and its ability to share information and data both internally and externally. The increasing size and complexity of U.S. markets requires that the SEC continue leveraging technology to streamline operations and increase the effectiveness of the agency's programs, building on the recent progress made in key areas to modernize technology systems.

In response, the agency continues to make significant investments in cybersecurity; data analytics; Electronic Data Gathering, Analysis, and Retrieval (EDGAR) enhancements and modernization; enforcement investigation and litigation support; examination management; and business process improvement.

To assess the SEC's progress in these areas, in the last 2 years, we reviewed (1) the agency's efforts to redesign the EDGAR system,<sup>16</sup> (2) the Division of Economic and Risk Analysis' (DERA) analytical support of other divisions and offices,<sup>17</sup> and (3) the SEC's planning and management of its FY 2018 IT investments.<sup>18</sup> In response, in 2019, management provided an update on its progress toward modernizing the EDGAR system. In addition, management took corrective action to address two of our three recommendations from our evaluation of DERA's analytic support. However, one recommendation—that DERA incorporate the results of analytics impact measurements in its outreach efforts—remains open. Also, two recommendations from our audit of the SEC's planning and management of IT investments to develop, modernize, and enhance the agency's IT assets remain open, although OIT has requested closure of one of these recommendations. We discuss the broader challenge of protecting SEC systems and data and our related work on the next page of this document.

**Ongoing and Anticipated OIG Work.** In FY 2021, we will continue assessing how well the SEC achieves its regulatory oversight responsibilities. Specifically, we will complete ongoing evaluations of (1) the Office of Investor Education and Advocacy's processes and controls for reviewing, referring, and responding to investor complaints and other investor assistance matters, and managing the SEC's investor education and outreach activities; and (2) the SEC's management of its tips, complaints, and referrals (TCR) program. We will also assess OCIE's investment adviser/investment company examination processes; the SEC's whistleblower program; the Office of the Advocate for Small Business Capital Formation's operations, programs, and policies; and Enforcement's efforts to emphasize expediency in its case management activities.

<sup>16</sup> U.S. Securities and Exchange Commission, Office of Inspector General, *Final Management Letter: Update on the SEC's Progress Toward Redesigning the Electronic Data Gathering, Analysis, and Retrieval System*, May 23, 2019.

<sup>17</sup> U.S. Securities and Exchange Commission, Office of Inspector General, *Although Highly Valued by End Users, DERA Could Improve Its Analytics Support by Formally Measuring Impact, Where Possible* (Report No. 553; April 29, 2019).

<sup>18</sup> U.S. Securities and Exchange Commission, Office of Inspector General, *The SEC Has Processes To Manage Information Technology Investments But Improvements Are Needed* (Report No. 555; September 19, 2019).

## CHALLENGE: Protecting Systems and Data

SEC management has recognized that the SEC and other agencies are frequent targets of attempts by threat actors who seek to penetrate agency systems, and that some of those actors may be backed by substantial resources. Strategic initiative 3.4 in the SEC's 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."<sup>19</sup> According to management, among other actions, steps have been taken to improve the SEC's IT governance and oversight, security controls, risk awareness related to sensitive data, incident response, and reliance on legacy systems. In addition, in his September 2019 congressional testimony, the SEC Chairman reported that the agency's IT workforce grew by 15 percent and IT security staff positions grew by more than 75 percent since 2017.<sup>20</sup> Moreover, in December 2019 and January 2020, the SEC appointed a new Chief Information Officer and a Chief Data Officer, respectively. The Chief Data Officer will help develop the agency's data management strategy and priorities; enable data analytics to support enforcement, examinations, and policymaking; and ensure the SEC collects only the data that it needs to fulfill its mission and that it can effectively secure. As we describe further below, additional opportunities remain to strengthen the SEC's cybersecurity posture and continue maturing its information security program.

### Strengthening the SEC's Cybersecurity Posture

Notably, in its FY 2019 Agency Financial Report, the SEC reported that it remediated the previously identified and reported material weakness in its internal controls related to cybersecurity risks, though management recognized that additional work is needed to improve the security of the agency's information systems and overall cybersecurity risk profile.<sup>21</sup> To this end, among other actions, the SEC has committed to enhancing its controls and management of agency data, and building out its information security defense and monitoring capabilities. In response to our October 2019 statement on the SEC's management and performance challenges, agency management reported that principal efforts in this area include making progress toward implementing the SEC's Identity, Credentialing, and Access Management strategy; improving security governance and oversight functions; enhancing enterprise security awareness and training efforts; and modernizing legacy information systems.<sup>22</sup> In addition, the SEC's FY 2021 budget request includes two new positions for the agency's cybersecurity operations center, one new position dedicated to the protection of the agency's high value assets, and two additional staff to build out the new Chief Data Officer function.

<sup>19</sup> U.S. Securities and Exchange Commission, *Strategic Plan Fiscal Years 2018-2022*; October 11, 2018.

<sup>20</sup> Chairman Jay Clayton, *Testimony before the U.S. House of Representatives Committee on Financial Services*; September 24, 2019.

<sup>21</sup> As the SEC has reported since 2017, this material weakness was caused by deficiencies that hindered the agency's 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. U.S. Securities and Exchange Commission, *Fiscal Year 2019 Agency Financial Report*; November 15, 2019.

<sup>22</sup> U.S. Securities and Exchange Commission, *Fiscal Year 2021 Congressional Budget Justification and Annual Performance Plan; Fiscal Year 2019 Annual Performance Report*; February 10, 2020.

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. As we reported in our October 2019 statement on the SEC's management and performance challenges, the SEC has taken corrective action sufficient to close 12 of the 14 recommendations, yet 2 recommendations remain open. We commend agency management for corrective action taken to date, and encourage management to fully implement all agreed-to recommendations to further strengthen the SEC's cybersecurity posture.

In FY 2020, as part of our audit of the SEC's management of the planning, implementation, and security of its cloud computing services, we assessed the SEC's key security measures for protecting agency systems that use cloud computing services.<sup>23</sup> Although the SEC's Office of Information Technology (OIT) developed an IT security program and other supporting security policies and procedures governing the agency's systems, processes for protecting the SEC's cloud-based systems needed improvement. Specifically, we found that the SEC's system security plans for its cloud-based systems in operation as of March 20, 2019, were missing cloud-specific security controls and enhancements; and that security assessment reports for the systems were incomplete. These conditions occurred because OIT had not developed policies and procedures specific to cloud system security, or adequate processes to ensure compliance with Federal Risk and Authorization Management Program baseline controls and enhancements for which the agency is responsible. As a result, the SEC's processes did not adequately ensure compliance, assess risk, identify issues, or mitigate vulnerabilities specific to the agency's cloud-based systems. We made one recommendation for the SEC to improve the security of its cloud-based systems, and encouraged management to take other actions to address needed improvements in the agency's cloud system incident response processes. OIT's efforts to address our recommendation are ongoing.

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*Processes for protecting cloud-based systems needed improvement*

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We also completed an audit of the SEC's management of mobile devices and services in September 2020.<sup>24</sup> During our audit, the SEC took steps to improve mobile device security controls and safeguard information accessed, stored, and processed on mobile devices. For example, in FY 2020, OIT assessed the security of mobile devices enrolled in the SEC's mobile device management system, made progress to ensure those devices used more recent operating system versions, and incorporated mobile device security into the SEC's annual privacy and information security awareness training program. However, we reported that additional safeguards are needed to adequately document security controls applicable to

<sup>23</sup> U.S. Securities and Exchange Commission, Office of Inspector General, *The SEC Can More Strategically and Securely Plan, Manage, and Implement Cloud Computing Services* (Report No. 556; November 7, 2019).

<sup>24</sup> U.S. Securities and Exchange Commission, Office of Inspector General, *Opportunities Exist To Improve the SEC's Management of Mobile Devices and Services* (Report No. 562; September 30, 2020).

mobile devices and improve policies and procedures addressing mobile device inventory controls, provisioning, applications, sanitization, and operating system updates. Also, OIT should implement controls to effectively mitigate the risk of allowing certain mobile devices to access the SEC's network. Because OIT had not developed comprehensive policies and procedures specific to mobile device security or adequate processes to ensure compliance with recognized major controls affecting enterprise mobile device security, the SEC's processes did not adequately ensure compliance, assess risk, identify issues, or mitigate vulnerabilities specific to mobile device security. We made three recommendations to help the SEC improve safeguards for information accessed, stored, and processed on mobile devices. OIT's efforts to address our recommendations are ongoing.

### 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), the OIG annually 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.<sup>25</sup> The OIG contracted with Kearney & Company, P.C., to conduct the FY 2019 independent evaluation and issued on December 18, 2019, the report titled *Fiscal Year 2019 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014* (Report No. 558). The FY 2020 FISMA evaluation is ongoing and will be completed in the first quarter of FY 2021.

As stated in Report No. 558, OIT improved aspects of the SEC's information security program. Among other actions taken, OIT made progress in:



- \* Implementing information security policies and procedures to address security risks at the organizational level;
- \* Creating an entity-wide Identity and Access Management strategy;
- \* Enhancing its security awareness and training processes;
- \* Continuing its efforts to enhance its continuous monitoring program; and
- \* Improving its incident response capabilities.

Although OIT took steps to strengthen the SEC's information security program, Kearney & Company, P.C., determined for FY 2019 that, as in prior years, the SEC's information security program did not meet annual Inspector General FISMA Reporting Metrics' definition of "effective."<sup>26</sup> As stated in Report No. 558, the SEC's maturity level for the five Cybersecurity Framework security functions ("identify," "protect," "detect," "respond," and "recover") and related domains was primarily either Level 2 ("Defined")

<sup>25</sup> Pub. L. No. 113-283, § 3555, 128 Stat. 3073 (2014).

<sup>26</sup> *FY 2019 Inspector General Federal Information Security Modernization Act of 2014 (FISMA) Reporting Metrics, Version 1.3*, April 9, 2019.

or Level 3 (“Consistently Implemented”). Only one function, contingency planning, reached Level 4 (“Managed and Measurable”). According to the annual Inspector General FISMA Reporting Metrics, within the context of the maturity model, a Level 4 information security program is operating at an effective level of security.

Report No. 558 included nine new recommendations to strengthen the SEC's information security program, and highlighted opportunities to improve in seven of the eight FY 2019 Inspector General FISMA reporting metric areas. To date, the SEC has taken corrective action sufficient to close one of these nine recommendations. However, six recommendations from our FY 2018 FISMA report remain open.<sup>27</sup> In addition, eight recommendations from our FY 2017 FISMA report remain open, although OIT has requested closure of two of these recommendations.<sup>28</sup> 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 three 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.

Finally, as part of our audit of the SEC's management of the planning, implementation, and security of its cloud computing services, we found that the SEC developed a strategy that defined the goals and objectives of the agency's cloud program, and a plan that established cloud-related goals. However, as stated in our report issued in November 2019, the SEC did not fully implement its cloud strategy; follow a clear, robust strategic plan to evaluate and prioritize IT services and applications for migration to the cloud; or effectively track related goals.<sup>29</sup> Instead, the agency used an “ad hoc” or “as-needed” approach to implementing cloud computing. This occurred because the SEC did not coordinate or collaborate on cloud strategies at an enterprise level. As a result, the SEC has not fully realized the potential performance and economic benefits attributed to cloud computing services. We made two recommendations to improve the SEC's planning, management, and implementation of cloud strategies. To date, the SEC has taken corrective action sufficient to close one of these two recommendations.

**Ongoing and Anticipated OIG Work.** In FY 2021, we will continue to assess the SEC's efforts to secure its systems and data. We plan to evaluate whether the SEC is effectively using enterprise architecture to ensure organizational operations and supporting technology infrastructures and systems are not duplicative, poorly integrated, unnecessarily costly, and unable to respond quickly to shifting environmental factors. We also plan to assess whether effective controls exist to safeguard SEC non-public or other sensitive information used in connection with DERA staff's research and publications. Finally, as previously stated, we will complete an ongoing evaluation of the SEC's TCR program, which includes reviewing controls for safeguarding and maintaining TCR source materials, as required.

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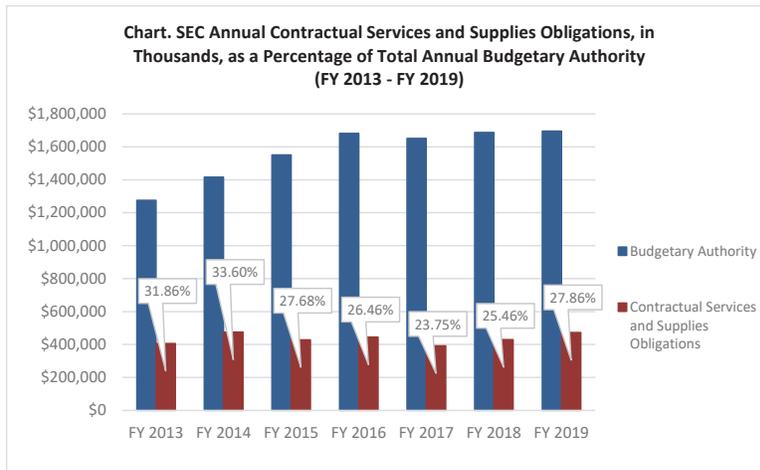
<sup>27</sup> U.S. Securities and Exchange Commission, Office of Inspector General, *Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014* (Report No. 552; December 17, 2018).

<sup>28</sup> 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).

<sup>29</sup> U.S. Securities and Exchange Commission, Office of Inspector General, *The SEC Can More Strategically and Securely Plan, Manage, and Implement Cloud Computing Services* (Report No. 556; November 7, 2019).

## CHALLENGE: Improving Contract Management

To accomplish its mission, the SEC relies on contractor support in a variety of programs and operations. Contractors provide professional legal, case, and investigation-related services; support in the areas of accounting, analytics, compliance, and examinations; and business management and human resources support services. 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, web services, and EDGAR IT support services. To fund these and other contract requirements, the SEC's FY 2021 budget request included about \$546 million for contractual services and supplies,<sup>30</sup> which represents nearly 29 percent of the total \$1.895 billion requested for agency operations. Although actual annual obligations for contractual services and supplies, when expressed as a percentage of the SEC's total annual budgetary authority, decreased from about 32 percent in FY 2013 to about 24 percent in FY 2017, that trend may be reversing with the increases made over the last 2 fiscal years. (See the following chart). Effective management of these resources, which consistently represent more than a quarter of the SEC's annual budget, is essential.



Source: OIG-generated based on SEC Congressional Budget Justifications for FY 2015 through FY 2021.

The SEC's Office of Acquisitions (OA) is responsible for procuring all goods and services—except real property and employee training—for the agency. However, the SEC's acquisition workforce includes any

<sup>30</sup> According to Office of Management and Budget Circular No. A-11, *Preparation, Submission, and Execution of the Budget* (July 2020), the contractual services and supplies object class covers purchases in object classes 21.0 through 26.0 (Travel and transportation of persons; Transportation of things; Rent, Communications, and Utilities; Printing and reproduction; Other contractual services; and Supplies and materials).

employee playing a key role in the acquisition and contracting process, including all contracting professionals in the 1102 job series, program and project managers, and contracting officer's representatives (CORs), who are responsible for most aspects of contract management and administration. Agency policy makes clear that members of the acquisition workforce must work together throughout the contracting life cycle to ensure effective contract management.

In response to our October 2019 statement on the SEC's management and performance challenges, management reported that OA plans to continue the SEC's Contract Management Excellence Initiative to further promote effective contract management. Such efforts include improving communications between contracting officers and CORs, ensuring CORs receive proper training to oversee contract management and maintain their proper certifications, and continually conducting reviews of contract files to make sure they contain appropriate documentation. The SEC also reported continuing the COR Improvement Initiative to "provide efficient and functional control, transparency, and management of the COR Program across the SEC." In addition, we are pleased to note that the SEC's FY 2021 budget request seeks one additional position to focus efforts on the quality and management of acquisition and contract management risks based on findings from our work, the SEC's Risk Management Oversight Committee, and the development and monitoring of controls.<sup>31</sup>

### Improving Across All Phases of the Contracting Life Cycle

As discussed in our October 2019 statement on the SEC's management and performance challenges, OIG audits and evaluations from the last 5 years have consistently identified concerns in the pre-award, award, and post-award phases of the contracting life cycle. Although the SEC completed in FY 2020 corrective action sufficient to close some recommendations that span the contracting life cycle, we continued to identify opportunities for improvement.

For example, in our November 2019 report from our audit of the SEC's management of the planning, implementation, and security of its cloud computing services, we noted that OIT and OA did not consistently implement a process to ensure that the SEC's IT contracts, including cloud service contracts, contained appropriate security clauses.<sup>32</sup> We previously reported this condition in 2018 as part of our FY 2018 and FY 2017 FISMA reviews.<sup>33</sup> At the beginning of FY 2021, the SEC completed corrective action sufficient to address this matter. However, until recently, the SEC limited its ability to ensure that contractors adequately protected sensitive, non-public SEC information and complied with requirements applicable to federal systems.

<sup>31</sup> U.S. Securities and Exchange Commission, *Fiscal Year 2021 Congressional Budget Justification and Annual Performance Plan; Fiscal Year 2019 Annual Performance Report*, February 10, 2020.

<sup>32</sup> U.S. Securities and Exchange Commission, Office of Inspector General, *The SEC Can More Strategically and Securely Plan, Manage, and Implement Cloud Computing Services* (Report No. 556; November 7, 2019).

<sup>33</sup> U.S. Securities and Exchange Commission, Office of Inspector General, *Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014* (Report No. 552; December 17, 2018); and 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).

In addition, as part of our recently completed audit of the SEC's management of mobile devices and services,<sup>34</sup> we determined that, although the SEC used enterprise-wide contracts and a mobile device management system, the SEC did not effectively manage its mobile devices and associated costs. Specifically, about half of the devices on the SEC's primary wireless service provider usage reports during the period we reviewed were either unused or appeared to be underused, while other devices appeared

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***CORs did not review monthly invoices from wireless service providers***

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to have high data usage, in some cases for potentially unauthorized purposes. In addition, the SEC did not (1) provide evidence to support and justify international charges billed by wireless service providers; (2) consistently maintain documentation to demonstrate the continued business need for devices; and (3) adequately plan for the replacement of mobile devices and services. The conditions we observed occurred because OIT did not establish and/or implement controls, including comprehensive processes and procedures, to effectively oversee the SEC's mobile devices and services based on business needs and good governance. For example, OIT did not have processes requiring periodic reviews and reconciliations of wireless service providers' usage reports and rate plan analyses. Without such processes, OIT personnel did not review the SEC's mobile device usage to identify and address key indicators of potential inefficient or unauthorized use including overuse, underuse, or zero use. In addition, OIT did not have processes requiring periodic reviews of wireless service providers' invoices. Moreover, the CORs responsible for overseeing the SEC's mobile device and services contracts did not review monthly invoices to ensure unusual or additional charges, such as international charges, were accurate, authorized, and adequately supported. As a result, the SEC:

- did not leverage available information to effectively manage mobile devices and services, thereby wasting almost \$732,000 on 1,567 devices with zero usage between October 2018 and December 2019;
- spent nearly \$160,000 on international charges between July and December 2019 without documented justifications to support that those costs were for valid business needs; and
- spent about \$1 million in FY 2019 to replace mobile devices at a higher price instead of procuring mobile device models available at no or lower additional cost without a documented justification.

We made four recommendations to improve the SEC's management of its mobile devices and associated costs. OIT's efforts to address our recommendations are ongoing.

### **Use of Time-and Materials Contracts**

As we reported last year,<sup>35</sup> based on data available from [usaspending.gov](https://usaspending.gov), time-and-materials (T&M) contracts appeared to represent about 32 percent of all SEC contract actions in FYs 2015 through

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<sup>34</sup> U.S. Securities and Exchange Commission, Office of Inspector General, *Opportunities Exist To Improve the SEC's Management of Mobile Devices and Services* (Report No. 562; September 30, 2020).

<sup>35</sup> U.S. Securities and Exchange Commission, Office of Inspector General, *The SEC Can Better Manage Administrative Aspects of the ISS Contract* (Report No. 554; May 31, 2019).

2018.<sup>36</sup> We encouraged management to assess the SEC's use of T&M contracts and formulate actions to reduce their use whenever possible because, as Federal Acquisition Regulation Subpart 16.6, *Time-and-Materials, Labor-Hour, and Letter Contracts*, states, a T&M contract:

- "... provides no positive profit incentive to the contractor for cost control or labor efficiency."
- "... 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."

Moreover, the SEC's operating procedure that prescribes the policies, responsibilities, and procedures for SEC acquisitions states that T&M contracts "are the least preferred contract type because it [sic] places maximum risk on the Government through payment for time delivered rather than a measurable outcome with measurable quality attributes."<sup>37</sup> The operating procedure also acknowledges that T&M contracts "fail to incentivize the contractor to perform effectively or control costs," and place "a high administrative burden on the Government."

In response to our 2019 report and our concerns about the SEC's use of T&M contracts, management agreed to fully consider our suggestions. However, [usaspending.gov](https://usaspending.gov) data shows that, in FYs 2019 and 2020, the percentage of T&M contracts relative to all SEC contract actions increased to about 39 percent. To help ensure T&M contracts are used only when appropriate and to minimize the risk to the government, we again strongly encourage management to review its use of T&M contracts.

**Ongoing and Anticipated OIG Work.** In FY 2021, through audits and evaluations and the work of our Acquisitions Working Group, we will continue to assess the SEC's contract management and acquisition processes. We will complete an ongoing audit of the SEC's oversight and monitoring of its infrastructure support services contract (the agency's largest active contract), and report on any acquisition-related matters identified as a result of other ongoing and planned reviews of SEC programs and operations. In addition, we will assess the SEC's processes for encouraging small business participation in agency contracting, while engaging in effective acquisition planning to meet agency needs in the most effective, economical, and timely manner. This will include determining whether, in FYs 2019 and 2020, the SEC accurately reported small business awards. Lastly, we will continue to support the SEC's efforts to train contracting officers and CORs about the potential for procurement-related fraud.

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<sup>36</sup> 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.

<sup>37</sup> SEC Operating Procedure 10-1, *Acquisition Authority and Lifecycle*; May 21, 2019.

## CHALLENGE: Ensuring Effective Human Capital Management

The SEC recognizes that its success depends on an effective, highly-skilled workforce. As such, the SEC's Strategic Plan commits to strengthening the agency's human capital management program to attract and retain talent, and to focusing on the SEC's workforce to increase the agency's capabilities.<sup>38</sup> In our October 2019 statement on the SEC's management and performance challenges, we addressed the challenges created by continuing changes since FY 2016 to the SEC's performance management system. Last year, the U.S. Government Accountability Office (GAO) surveyed SEC employees and, in December 2019, reported concerns with the agency's performance management system.<sup>39</sup> In January 2020, the SEC implemented a new performance management system for SK employees.<sup>40</sup> Shortly thereafter, the SEC's workforce was faced with unexpected and unprecedented operational changes caused by COVID-19. The sections that follow address these issues and the ongoing challenges they represent.

### Implementation of New Performance Management Systems

In 2013, GAO recommended that the SEC conduct periodic validations, with staff input, of the agency's performance management system and make changes, as appropriate, based on these validations.<sup>41</sup> In FY 2016, the SEC began piloting a new performance management system with a four-tier rating scale. As discussed in GAO's third triennial report on the SEC's personnel management (issued in December 2019 and required under the Dodd-Frank Wall Street Reform and Consumer Protection Act<sup>42</sup>), the SEC implemented the four-tier rating system for non-bargaining-unit employees in 2017 and continued the system as a pilot in FY 2017 through FY 2019 for bargaining unit employees. However, because of disagreements with the National Treasury Employees Union (NTEU), management did not validate the system.

To obtain employee views on the SEC's personnel management and organizational culture, from March to May 2019, GAO implemented two web-based surveys of a representative sample of nonexecutive SEC employees in key occupations and all senior officers in nine key divisions and offices. GAO also reviewed SEC documents and personnel management practices, analyzed workforce data, and interviewed SEC officials. Although GAO found that the SEC employees surveyed expressed positive views of their direct supervisors and colleagues, GAO estimated that:

<sup>38</sup> U.S. Securities and Exchange Commission, *Strategic Plan Fiscal Years 2018-2022*; October 11, 2018.

<sup>39</sup> U.S. Government Accountability Office, *Securities and Exchange Commission: Personnel Management Shows Improvement, but Action Needed on Performance Management System* (GAO-20-208; December 19, 2019).

<sup>40</sup> The SEC's primary pay scale is the SK pay scale, which ranges from SK-1 to SK-17. Senior officers comprise the SEC's senior management.

<sup>41</sup> U.S. Government Accountability Office, *Securities and Exchange Commission: Improving Personnel Management Is Critical for Agency's Effectiveness* (GAO-13-621; July 18, 2013). In its 2016 report—*Securities and Exchange Commission: Actions Needed to Address Limited Progress in Resolving Long-Standing Personnel Management Challenges* (GAO-17-65; December 29, 2016)—GAO reiterated the importance of the 2013 recommendation, which remains open.

<sup>42</sup> Pub. L. No. 111-203, 124 Stat. 1376, 1908-1909 (2010) (codified at 15 U.S.C. § 78d-7).

- 48 percent of SEC nonexecutives disagreed that the performance management system in place at the time of GAO's review created meaningful distinctions in performance among employees;
- 30 percent of SEC employees disagreed that the SEC's performance management system used relevant criteria to evaluate performance;
- more than 40 percent of SEC employees were concerned about excessive risk aversion, which GAO defined as "the condition in which the agency's ability to function effectively is hindered by the fear of taking on risk;" and
- 35 percent of nonsupervisory staff disagreed that promotion to management is based more on substantive experience than on favoritism, and that favoritism is not an issue in promotions.

According to GAO's December 2019 report, in November 2018, the SEC and the NTEU agreed that the SEC would implement another new performance management system in 2020. GAO further stated that, because the SEC did not validate the four-tier system that was piloted from FY 2017 through FY 2019, the SEC "missed an opportunity to obtain employee input to inform the design of the new system." In response to the draft of this document, management stated that the SEC did, however, (1) contract with the Office of Personnel Management (OPM) to obtain feedback from SEC staff and to provide guidance on its performance management program; (2) consider and pilot some of OPM's recommendations; and (3) receive extensive employee feedback through NTEU, which supported the development of the two-tier performance management system that was implemented in 2020.

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*The SEC missed opportunities to obtain employee input to help design its performance management systems*

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Under the new system, currently in place, all SK employees will be evaluated on a two-tier rating scale: "Accomplished Performer" and "Unacceptable." GAO concluded that, although the SEC strengthened its personnel management by implementing more comprehensive workforce planning and improved intra-agency communication, without periodically validating its performance management system, with staff input, as GAO recommended in 2013, the SEC "may lack information that could help it identify changes needed to address employee dissatisfaction and ensure its system achieves its goals." According to agency officials, the SEC plans to work with OPM to validate the agency's new two-tiered performance management system by surveying staff on the new system at the conclusion of the 2020 appraisal period (that is, after December 31, 2020). At that time, it is expected that OPM will submit a final assessment of the program with any recommended actions for the SEC.

According to management, the SEC is designing a new performance incentive bonus program through which supervisors can nominate high-performing employees for a bonus of up to \$10,000 once per calendar year. In December 2019, GAO reported that, "as of November 2019, SEC had not provided detailed policies and procedures, nor had it established a date by which such policies and procedures would be finalized, despite its goal of implementing the new program in January 2020." In addition, GAO stated that the SEC had not yet developed mechanisms for transparency and fairness in the new performance incentive bonus program. GAO cited strategies that federal agencies can use to manage performance-oriented pay systems, including building in safeguards such as multiple levels of review and

publishing aggregate performance data to enhance transparency, ensure the fairness of pay decisions, and increase employee confidence. GAO recommended that the SEC develop and implement such safeguards with respect to the new performance incentive bonus program.

In response to the draft of this document, management stated that it concurred with GAO's recommendation, and plans to implement the performance incentive bonus program in January 2021 to allow program development and validation efforts to continue throughout 2020. Management also stated that the SEC informed GAO of the new timeline, has provided quarterly updates regarding the status of the program's design and validation efforts, and is developing additional mechanisms for transparency and fairness in the new performance incentive bonus program.

Notably, in March 2020, the SEC issued its first Diversity and Inclusion Strategic Plan, which recognizes that diversity, inclusion, and opportunity should be reflected in both the internal and outward-facing aspects of the agency's work, and sets measurable goals for FYs 2020 through 2022 to help the SEC perform at the highest level.<sup>43</sup> Goal 2 of the Diversity and Inclusion Strategic Plan addresses the need to cultivate, among other things, a fair work environment using initiatives designed to prevent discrimination and other actions that undermine the agency's commitment to diversity, inclusion, and equal opportunity. We commend management's actions to promote and implement these important objectives, and we encourage management to timely address the risk posed by a lack of safeguards against perceived or real bias or unfairness in the SEC's new performance management system and, once implemented, its performance incentive bonus program.

### **Responding to COVID-19, Workforce Perspectives**

Since the outset of the national public health and economic threats caused by COVID-19, the SEC's operational efforts have centered, first and foremost, on the health and safety of its employees, the employees and customers of its registrants, and individuals generally. This approach framed management's decision to begin shifting to mandatory telework at all SEC office locations in early March, and to date, the agency remains operational in a full telework posture with limited, mission-critical exceptions. To prepare for and respond to the operational challenges created by COVID-19, among other actions taken, the SEC conducted network capacity tests; adjusted its travel; controlled access to its buildings; purchased personnel protective equipment; disseminated tips, tools, and guidance for working remotely; offered leave and workplace flexibilities to assist employees; and established a telework stipend benefit to help defray the cost of certain IT and telework expenses employees may have incurred during the mandatory telework posture.

Although health and safety remain the top priority and the SEC expects to remain in its current posture until at least January 4, 2021, federal agencies must strategically plan around a number of key considerations to ensure they can keep employees safe when their offices reopen. According to GAO and based on lessons learned from the H1N1 pandemic, these considerations include making decisions about reentry based on exposure risk level and local conditions, using a phased approach to resuming

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<sup>43</sup> U.S. Securities and Exchange Commission, *Diversity and Inclusion Strategic Plan, Fiscal Years 2020-2022*, March 25, 2020.

operations, planning steps that will be taken if there is a second or third wave of outbreaks, ensuring appropriate protection measures are in place, and implementing social distancing strategies.<sup>44</sup>

***Ongoing and Anticipated OIG Work.*** As the SEC continues to respond to the challenges created by COVID-19, in FY 2021, we will monitor the agency's plans for ensuring safe and efficient reentry to the workplace. Furthermore, we will monitor the SEC's progress in addressing the concerns raised about its new performance management system, including the new performance incentive bonus program, and the steps planned and taken to promote diversity, inclusion, and opportunity. Finally, to follow-up on previous OIG work and agency business process improvements, we will determine whether the SEC's Office of Human Resources established effective controls to (1) assess the timeliness of the SEC's hiring process, and (2) conduct comprehensive assessments of the process based on reliable data.

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<sup>44</sup> U.S. Government Accountability Office, *Federal Workforce: Key Considerations for Agencies Returning Employees to Workplaces during Pandemics* (GAO-20-650T; June 25, 2020).

## OIG General Office Contact Information

### 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](mailto: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](mailto:AUDPlanning@sec.gov).

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## TO REPORT

# fraud, waste, and abuse

Involving SEC programs, operations, employees,  
or contractors

FILE A COMPLAINT ONLINE AT

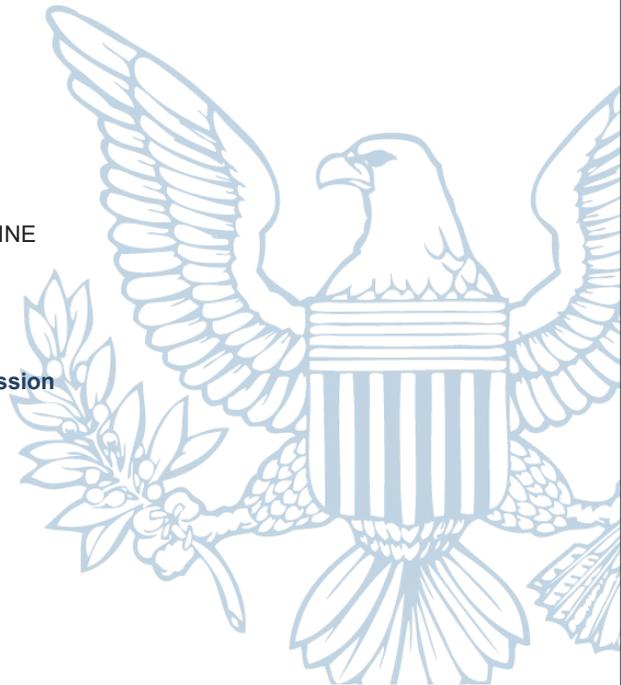
[www.sec.gov/oig](http://www.sec.gov/oig)

CALL THE 24/7 TOLL-FREE OIG HOTLINE

**833-SEC-OIG1**

CONTACT US BY MAIL AT

**U.S. Securities and Exchange Commission  
Office of Inspector General  
100 F Street, N.E.  
Washington, DC 20549**



# MANAGEMENT'S RESPONSE TO INSPECTOR GENERAL'S STATEMENT



OFFICE OF THE CHAIRMAN

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

October 26, 2020

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 8, 2020 (Statement). The SEC remains committed to continuing to bolster its financial and operational effectiveness. I appreciate your recognition of the actions the SEC has taken to date to respond to the effects of COVID-19. As you note, the pandemic had immediate impacts on the economy, the capital markets and the SEC's workforce. I am proud of the extraordinary efforts made by the SEC during these unprecedented times to monitor our markets, provide prompt, targeted relief and guidance as needed, and inspect for compliance and enforce our securities laws, among other actions. I also appreciate your recognition of the SEC's progress in addressing key challenges, and I recognize that significant work remains.

Before discussing the specific steps the SEC is taking to address the management and performance challenges identified in your statement, I want to note one broad effort in particular that is underway at the SEC to enhance the agency's operational effectiveness. In FY 2020, the SEC issued its first ever Diversity and Inclusion Strategic Plan. This plan recognizes the need to continuously cultivate a fair and inclusive work environment through the implementation of specific initiatives to advance the agency's commitment to diversity, inclusion, and opportunity. It sets measurable goals to help the SEC perform at the highest level. In FY 2021, we anticipate continuing to promote these and many other efforts to improve as an organization and fulfill our strategic goals.

Below is a discussion of the specific actions we are undertaking in each of the areas you have identified.

## **Meeting Regulatory Oversight Responsibilities**

Your Statement rightly points out the swift pace of change in the size and complexity of markets, products, and participants regulated by the SEC. You also highlight how changes in the way entities conduct business and investors access the securities markets can present challenges for Main Street investors. For these reasons, the SEC's Strategic Plan supports the agency's continued efforts to adapt and modernize to remain as effective as possible in performing its regulatory functions.

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I am proud of the efforts across the agency to improve our oversight of the securities markets in FY 2020, even in the midst of the COVID-19 pandemic. For example, OCIE has taken a number of steps to respond to the challenge of bolstering examination coverage of registered investment advisers. During FY 2020, OCIE conducted over 2,125 investment adviser examinations, resulting in a 15 percent coverage ratio for FY 2020. This is the same percentage as FY 2019 and up from 10 percent five years ago. Maintaining the same coverage ratio in FY 2020 was notable given the significant disruptions caused by the pandemic. OCIE adapted to conducting examinations on a correspondence basis while remaining prepared to go on-site when necessary. OCIE also engaged in critical, non-examination regulatory outreach to registrants. OCIE has worked throughout the pandemic with registrants to address the timing of its examination requests, availability of registrant personnel, and other matters to minimize disruption and promote health and safety.

Another key factor in OCIE's success in increasing examination coverage among advisers over the last five years has been its skill in leveraging technology and data analytics. This includes ongoing efforts to add to and refine OCIE's risk-based examination approach, tools, and data that help identify areas of risk, firms that may present heightened risk of non-compliance, and activities that may harm investors. As such, we continue to agree with your observation that, given limited resources, we must effectively use risk-based processes and leverage technology and analytics across the agency.

The Division of Enforcement has reacted promptly to threats presented by COVID-19, as well as the related dynamic market conditions. We have focused on addressing misconduct with speed and clarity. The Commission has suspended trading in the securities of 36 companies, including many where there were questions regarding the accuracy and adequacy of claims that they had developed treatments for the coronavirus. More broadly, the Coronavirus Steering Committee that we formed in March continues to coordinate scores of investigations relating to a wide variety of potential misconduct, including microcap fraud, insider trading and financial fraud and issuer disclosure misconduct. Since mid-March, the Division of Enforcement has opened nearly 150 COVID-related inquiries or investigations.

The SEC is taking additional steps in two other areas you highlighted in order to facilitate regulatory oversight and support Main Street investors during the pandemic. For example, the SEC is working on several regulatory proposals to shift remaining paper-based forms into electronic format. The Division of Trading and Markets is considering proposed rule amendments that would require the electronic filing of certain broker-dealer reports. The SEC also took steps to address the increased number of investor matters received by the Ombudsman. To help improve the Office's capacity to handle investor concerns, the SEC invested in additional staff hiring and technologies to streamline the Ombudsman's communications with retail investors.

I want to again thank you for OIG's work analyzing the agency's efforts to leverage technology and analytics to meet mission requirements. I appreciate that your statement identified areas of progress the SEC has made in addressing OIG's recommendations from the three reports cited, in the areas of EDGAR modernization, analytical support provided by the Division of Economic and Risk Analysis, and management and planning of IT resources. I expect the remaining corrective action plans stemming from these reports to be completed in the coming months.

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### **Protecting Systems and Data**

I agree with you that protecting information systems and data is a top priority effort that must meet the challenges introduced by new technology, new threats, and new business drivers. SEC management remains mindful that governmental agencies, financial market participants, and private sector entities must all remain vigilant because they are subject to frequent attempts by unauthorized actors to disrupt public-facing systems, access data, or otherwise damage technology infrastructure. Recognizing that we have much work left to do, in FY 2020, the Office of Information Technology (OIT) worked to make enhancements in a number of areas. For example, they advanced efforts to implement new vulnerability assessment tools and conduct proactive code reviews to improve capabilities for detecting and preventing software and website vulnerabilities. They also worked to enhance operational security capabilities by establishing a new branch that will be focused on continuous assessment of threat information and continuous monitoring of data communications for indicators of compromise.

OIT leadership 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 efforts to implement corrective actions. During FY 2020, the OIG closed 17 information technology-related audit recommendations and is in the process of reviewing closure requests for three additional recommendations. During FY 2020, the GAO closed one cybersecurity-related audit recommendation. Looking ahead, it is imperative that the SEC continue to 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, improved procedures for supply chain management, improvements to our data loss prevention tools, and clarified performance metrics. Importantly, OIT and others will continue to address the mobile device-specific security vulnerabilities and related audit recommendations you referenced in your Statement. Again, much work remains to be done.

### **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 establishing the Contract Management Excellence and Contracting Officer Representatives Improvement initiatives. OA is building upon that progress by instituting additional compliance reviews of existing contracts, to improve both adherence to contract provisions and contract file documentation. OA will also continue programs to support SEC Contracting Officer Representatives in conducting vendor oversight. The Office is also partnering with the OIT to enhance the security posture of our contracts, including by updating information technology security clauses in the SEC's IT contracts.

### **Ensuring Effective Human Capital Management**

I agree with you completely that the success of the SEC depends on an effective, highly-skilled workforce. Quite simply, our talented, dedicated colleagues 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 such mechanisms as the Office of Personnel Management's (OPM)

Mr. Carl W. Hoecker

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annual Federal Employee Viewpoint Survey. All of these inputs provide important insight into how well agency leaders are doing in managing, training, and developing personnel and where we have opportunities to improve.

As the Statement points out, the agency initiated a new performance management system for SK employees in 2020, which GAO has recommended should be validated based on staff input. In 2021, the SEC plans to engage OPM to evaluate the new performance management system. The project will include a survey of the staff, and OPM will submit a final assessment of the program with any recommended actions for the SEC. The SEC will review the recommendations and revise the performance management system's policies and procedures as necessary. In addition, in FY 2021, the SEC will implement a new incentive program through which supervisors can reward high-performing SK employees. The SEC is currently finalizing the program, including by instituting mechanisms to promote transparency and fairness, as recommended.

In addition, as noted above, in FY 2020 the SEC issued its first Diversity and Inclusion Strategic Plan, which recognizes that diversity, inclusion, and opportunity should be reflected in both the internal and outward-facing aspects of the agency's work.

\* \* \* \*

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 as we continue to address these challenges.

Sincerely,



Jay Clayton  
Chairman

# SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

Table 1.7 | 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 1.8 | 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	—	—	—	—	—	—
Total Material Weaknesses	—	—	—	—	—	—

## Conformance with Financial Management System Requirements (FMFIA § 4)

Statement of Assurance: Federal 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 conducive 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 Payment Integrity Improvement*, 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 2020 AFR: [paymentaccuracy.gov/](https://www.paymentaccuracy.gov/).

## 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. Based on this guidance, the SEC did not conduct a risk assessment for FY 2020 and will not conduct another risk assessment until FY 2022. The SEC's determination that all of its evaluated programs are low risk is based

upon the results of the FY 2019 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. 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;
- Disbursement and penalty distributions (made by the SEC to fund 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 1.9 below.

Table 1.9 | 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	21,273	\$ 927.60	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, CAVRS, 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). Annual adjustments have been performed for 2017 (Federal Register, Volume 82, No. 11, on January 18, 2017 (82 FR 5367)), 2018 (Federal Register, Volume 83, No. 8, on January 11, 2018 (83 FR 1396)), 2019 (Federal Register, Volume 84, No. 34, on February 20, 2019 (84 FR 5122)),<sup>1</sup> and 2020 (Federal Register, Volume 85 No. 8, on January 13, 2020 (85 FR 1833)).

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<sup>1</sup> 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.

# APPENDICES

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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 was nominated to chair the U.S. Securities and Exchange Commission on January 20, 2017, by President Donald J. Trump and was sworn in as Chairman on May 4, 2017. In addition to chairing the SEC, he is a member of the President's Working Group on Financial Markets, the Financial Stability

Oversight Council, and the Financial Stability Board. Chairman Clayton also participates on the Board of the International Organization of Securities Commissions.

## SEC Strategic Plan—Emphasis on Human Capital and Diversity & Inclusion

These areas of focus also are reflected in the Commission's [2018-2022 Strategic Plan](#),<sup>1</sup> which 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, including identifying skills needs to reflect changes in the markets and increasing internal training.

Under Chairman Clayton's leadership, the SEC has reaffirmed its commitment to promoting diversity, inclusion, and opportunity both within the agency and in the industries and markets it oversees. This emphasis led to the issuance of the SEC's first [Diversity and Inclusion Strategic Plan](#).<sup>2</sup> Chairman Clayton leads the SEC Diversity Committee and serves as senior sponsor for three SEC employee affinity groups supporting African American, Hispanic and Latino, and veteran colleagues. His efforts to leverage human capital more effectively have also led to establishing a mentoring program, enhancing hiring processes and expanding training to combat unconscious bias.

Externally, he encouraged targeted sessions on diversity by the SEC's Asset Management Advisory and Small Business Capital Formation Advisory Committees so the Commission can receive independent advice on issues such as racial disparities in employment and assets under management in the asset management industry.

## The Commission Under Chairman Clayton

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

(1) Furthering the interests of America's Main Street investors by:

- **Updating**<sup>3</sup> and enhancing the standards of conduct governing broker-dealers and investment advisers when providing advice to retail customers;
- Modernizing disclosure rules and processes, both for companies and investment funds, to more effectively deliver material information to investors;
- Maintaining an enforcement program which is focused on cases impacting retail investors and market integrity and has brought more than 2,300 enforcement actions, often in close coordination with criminal authorities, resulting in more than \$10 billion in fines and disgorgement and over \$3 billion returned to harmed investors;
- Establishing the **Retail Strategy Task Force**<sup>4</sup> within the Division of Enforcement, which develops proactive, targeted initiatives to identify misconduct impacting Main Street investors with primary goals of deterring misconduct and returning funds to harmed investors;
- **Launching**<sup>5</sup> investor-specific initiatives to protect and inform our most vulnerable investors, including teachers and military service members;
- Increasing public engagement around the country through **roundtables**<sup>6</sup> and **town halls**<sup>7</sup> with Main Street investors; and
- Educating investors on the importance of saving and **investing**<sup>8</sup> wisely,<sup>9</sup> and creating a new **online search tool**<sup>10</sup> for retail investors to research their financial professionals.

(2) Making our capital markets, particularly our public capital markets, more accessible to businesses and investors, including by recognizing and adapting to changes in our markets and communication technologies. This includes:

- Reducing regulatory burdens on pre-IPO and smaller public companies while maintaining investor protections, including through **modernizing**<sup>11</sup> and **simplifying**<sup>12</sup> corporate disclosures, **expanding**<sup>13</sup> the scope of smaller public companies that qualify for scaled disclosures and other regulations, **streamlining**<sup>14</sup> the process to launch certain types of ETFs, and **expanding**<sup>15</sup> JOBS Act benefits to additional public companies;
- Modernizing disclosure requirements to reflect changes in capital formation technology, business operations and our economy more generally, including in the area of human capital disclosure;<sup>16</sup>
- Harmonizing, simplifying and improving the exempt securities offering framework utilized by small businesses and startups; and
- Modernizing and bringing transparency to, the shareholder engagement process, including the shareholder proposal process and the use of **proxy voting advisory businesses**<sup>17</sup> by investment advisers.

(3) Modernizing 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:

- Modernizing the national market system (NMS) and rules governing securities exchanges and alternative trading systems to benefit investors;
- Enhancing transparency in trading, including specific initiatives in [alternative trading systems](#)<sup>18</sup> and the [municipal bond market](#);<sup>19</sup>
- Forming the [Fixed Income Market Structure Advisory Committee](#),<sup>20</sup> which provides advice to the Commission on the efficiency and resiliency of fixed income markets and helps identify opportunities for regulatory improvement;
- Establishing the Enforcement Division [Cyber Unit](#)<sup>21</sup> and the [OCIE Event and Emerging Risk Examination Team](#)<sup>22</sup> to focus on protecting investors from cyber-related misconduct and emerging threats; and
- Updating various rules and regulations, many of which predated the ubiquity of internet communications and the shift in retail investors from direct participation to participation through funds and other intermediaries.

### SEC Responses to Market Developments and Emerging Risks

Under Chairman Clayton, the SEC has addressed unprecedented market developments, including:

- Securities law issues related to distributed ledger technology, cryptocurrencies, and initial coin offerings;<sup>23</sup>
- [Responding to COVID-19's impact](#)<sup>24</sup> on investors, equity and fixed income markets, and market participants while maintaining operations in a fully remote working environment, including by providing immediate, targeted relief and guidance as necessary or appropriate to preserve market function and market integrity;
- Assessing and planning for the potential adverse effects on U.S. capital markets from Brexit and the transition away from LIBOR;<sup>25</sup> and
- Cybersecurity and the reliance of companies and our financial system on information technology, and the resulting vulnerabilities to cyberattacks and cyber outages as well as the need for operational resiliency and interagency cooperation.

## 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).

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- 1 See [SEC.gov/files/SEC\\_Strategic\\_Plan\\_FY18-FY22\\_FINAL\\_0.pdf](#)
  - 2 See [SEC.gov/files/2020\\_Diversity\\_and\\_Inclusion\\_Strategic\\_Plan.pdf](#)
  - 3 See [SEC.gov/news/press-release/2018-68](#)
  - 4 See [SEC.gov/news/press-release/2017-176](#)
  - 5 See [SEC.gov/news/press-release/2019-85](#)
  - 6 See [SEC.gov/investor-roundtables](#)
  - 7 See [SEC.gov/Investing-in-America-Atlanta-Town-Hall-Meeting](#)
  - 8 See [investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins-19](#)
  - 9 See [SEC.gov/news/press-release/2018-88](#)
  - 10 See [SEC.gov/litigations/sec-action-look-up](#)
  - 11 See [SEC.gov/news/press-release/2019-38](#)
  - 12 See [SEC.gov/news/press-release/2018-156](#)
  - 13 See [SEC.gov/news/press-release/2018-116](#)
  - 14 See [SEC.gov/news/press-release/2019-190](#)
  - 15 See [SEC.gov/corpfin/announcement/draft-registration-statement-processing-procedures-expanded](#)
  - 16 See, e.g., SEC Adopts Rules to Implement FAST Act Mandate to Modernize and Simplify Disclosure (Mar. 20, 2019), *supra* note 11; SEC Expands the Scope of Smaller Public Companies that Qualify for Scaled Disclosures (June 28, 2018), *supra* note 13; SEC Adopts Final Rules and Solicits Public Comment on Ways to Modernize Offerings Pursuant to Compensatory Arrangements (July 18, 2018), [SEC.gov/news/press-release/2018-135](#); Remarks for Telephone Call with SEC Investor Advisory Committee Members (Feb. 6, 2019), [SEC.gov/news/public-statement/clayton-remarks-investor-advisory-committee-call-020619](#).
  - 17 See [SEC.gov/news/press-release/2020-161](#)
  - 18 See [SEC.gov/news/press-release/2018-136](#)
  - 19 See [SEC.gov/news/press-release/2018-158](#)
  - 20 See [SEC.gov/news/press-release/2017-209](#)
  - 21 See [SEC.gov/news/press-release/2017-176](#)
  - 22 See [SEC.gov/news/press-release/2020-165](#)
  - 23 See, e.g., Chairman Jay Clayton, Statement on Cryptocurrencies and Initial Coin Offerings (Dec. 11, 2017), [SEC.gov/news/public-statement/statement-clayton-2017-12-11](#); Statement by SEC Chairman Jay Clayton and CFTC Chairman J. Christopher Giancarlo: Regulators Are Looking at Cryptocurrency (Jan. 25, 2018), [SEC.gov/news/public-statement/statement-clayton-giancarlo-012518](#); Testimony on Virtual Currencies: The Roles of the SEC and CFTC (Feb. 6, 2018), [SEC.gov/news/testimony/testimony-virtual-currencies-oversight-role-us-securities-and-exchange-commission](#); SEC Chairman Jay Clayton with Andrew Ross Sorkin (Nov. 29, 2018), [youtube.com/watch?v=YVekxba40ZQ](#); SEC Staff Letter to ICI and SIFMA AMG: Engaging on Fund Innovation and Cryptocurrency-related Holdings (Jan. 18, 2018), [SEC.gov/divisions/investment/noaction/2018/cryptocurrency-011818.htm](#); SEC Staff Statement on Digital Asset Securities Issuance and Trading (Nov. 16, 2018), [SEC.gov/news/public-statement/digital-asset-securities-issuance-and-trading](#).
  - 24 See [SEC.gov/sec-coronavirus-covid-19-response](#)
  - 25 See, e.g., SEC Rulemaking Over the Past Year, the Road Ahead and Challenges Posed by Brexit, LIBOR Transition and Cybersecurity Risks (Dec. 6, 2018), [SEC.gov/news/speech/speech-clayton-120618](#); Testimony on "Oversight of the U.S. Securities and Exchange Commission" (Dec. 11, 2018), [SEC.gov/news/testimony/testimony-oversight-us-securities-and-exchange-commission-0](#).



**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 SEC, Commissioner Peirce conducted research on the regulation of financial markets at the Mercatus Center at George Mason University. She was a

Senior Counsel on the U.S. Senate Committee on Banking, Housing, and Urban Affairs, where she advised Ranking Member Richard Shelby and other members of the Committee on securities issues.

Commissioner Peirce served as counsel to SEC Commissioner Paul S. Atkins. She also worked as a Staff Attorney in the SEC's Division of Investment Management. 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 bachelor's degree in Economics from Case Western Reserve University and her JD from Yale Law School.



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 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.



**Caroline A. Crenshaw**  
COMMISSIONER

Caroline A. Crenshaw was appointed by President Donald J. Trump to the U.S. Securities and Exchange Commission, unanimously confirmed by the U.S. Senate, and sworn into office on August 17, 2020.

Commissioner Crenshaw brings to the SEC a range of securities law and policy experience and a

commitment to public service and the SEC’s mission. Most recently, she served as Counsel to Commissioners Kara Stein and Robert Jackson, focusing on strengthening investor protections in our increasingly complex markets.

Commissioner Crenshaw also served as a career SEC staff attorney in the Office of Compliance Inspections and Examinations and the Division of Investment Management, helping oversee the institutions that manage millions of Americans’ savings. In addition, Commissioner Crenshaw currently serves as a captain in the United States Army Reserve, Judge Advocate General’s Corps.

Prior to government service, Commissioner Crenshaw practiced law in the Washington, DC, office of Sutherland, Asbill and Brennan LLP. At Sutherland, she represented public companies, broker-dealers, and investment advisers on complex securities law investigations and enforcement matters.

Commissioner Crenshaw graduated cum laude from Harvard College and received a law degree magna cum laude from the University of Minnesota. She is a native of Washington, DC, where she currently resides.

# 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, 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  
Jason S. Patil, Acting 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  
Ahmed Abonamah, Acting 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  
David Bottom, 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

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. Natural persons may qualify as accredited investors based on income; net worth or obtaining certain professional certifications and designations; or other credentials designated by the Commission.

## 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 (AMAC)

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

Clearing agencies that are registered with the Commission are self-regulatory organizations that typically come in two types: central counterparties and securities depositories. **Central counterparties** 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. **Securities depositories** hold securities certificates in bulk form for their participants, maintain ownership records of the securities on their own books, and may otherwise permit or facilitate the settlement of securities without physical delivery of securities certificates.

### Commodity Futures Trading Commission

An independent government agency that regulates the U.S. derivatives markets, which includes futures, swaps, and certain kinds of options.

### Coronavirus Disease 2019 (COVID-19)

An infectious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) that was first identified in December 2019.

### Coronavirus Steering Committee

Formed to coordinate responses to coronavirus-related enforcement issues, the committee comprises approximately two dozen leaders from across the Division of Enforcement, including representatives from headquarters and regional offices as well as various specialized units.

### COVID-19 Market Monitoring Group

An internal, interdisciplinary senior-level group that assists the Commission and its various divisions and offices in: (1) developing Commission and staff analyses and actions related to the effects of COVID-19 on markets, issuers, and investors; and (2) responding to requests for information, analyses, and assistance from fellow regulators and other public sector partners on market matters arising from the effects of COVID-19.

### Crowdfunding

A financing method in which money is raised through soliciting relatively small individual investments or contributions from a large number of people.

### Cryptocurrency

A medium of exchange that relies upon cryptography, and that can operate like currency, but does not have all the attributes of "real" currency, as defined in 31 C.F.R. Section 1010.100(m), including legal tender status.

### 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 penalties paid, be placed in a Fair Fund for distribution to investors who were the victims of the violation.

### Diversity Council

Advises the SEC on all agency matters relating to diversity and inclusion, including management, employment, and business activities.

### 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 (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 public companies and others use to electronically submit 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. ETFs combine features of a mutual fund, which can only be purchased or redeemed at the end of each trading day at its net asset value per share, with the ability to trade throughout the day on a national securities exchange at market prices.

### Exchanges

A place (physical or virtual) where securities 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 (FR)

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 registered securities association and self-regulatory organization. Generally, all registered broker-dealers that deal with the public must become members of FINRA.

### Financial Stability Board

An international body that monitors and makes recommendations about the global financial system.

### Fixed Income Market Structure Advisory Committee (FIMSAC)

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 (FCPA)

Addresses transparency requirements under the Securities Exchange Act of 1934, and prohibits improper payments to foreign officials to assist in obtaining or retaining business.

### Form CRS Relationship Summary

Registered investment advisers and broker-dealers are required to provide retail investors with a relationship summary at the beginning and at other points in their relationship. 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 conducive 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.

### 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.

### Imputed Financing

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

### Initial Coin Offering

A fundraising event in which an entity offers participants a unique digital asset in exchange for consideration.

### 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.

### International Organization of Securities Commissions

An international body consisting of the world’s securities regulators. Members are typically primary securities and/or derivatives regulators in a national jurisdiction or the main financial regulator from each country.

### Intragovernmental Costs

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

### Investment Advisers Act of 1940

Created to regulate the actions of investment advisers, this federal law requires that firms or sole practitioners compensated for advising others about securities investments must register with the SEC and conform to regulations designed to protect investors (with certain exceptions).

### Investment Company Act of 1940

Regulates the organization of companies, including mutual funds, that engage primarily in investing, reinvesting, and trading in securities, and whose own securities are offered to the investing public. It requires these companies to disclose their financial condition and investment policies to investors when stock is initially sold and, subsequently, on a regular basis.

### Investor Advisory Committee

Established by Section 911 of the Dodd-Frank Act, this committee advises the SEC on regulatory priorities, the regulation of securities products, trading strategies, fee structures, the effectiveness of disclosure, and on initiatives to protect investor interests and to promote investor confidence and the integrity of the securities marketplace.

### 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

The self-regulatory organization for the U.S. municipal securities market that writes rules regulating broker-dealers and banks that transact in municipal securities and municipal advisors.

### National Futures Association

The self-regulatory organization for the U.S. derivatives industry, including on-exchange traded futures, retail off-exchange foreign currency and over-the-counter derivatives.

### National Market System (NMS)

The system for trading equities in the United States, which includes all facilities and entities that are used by broker-dealers to fulfill trade orders for securities.

### 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.

### North American Securities Administrators Association

Represents state and provincial securities regulators in the United States, Canada, and Mexico that are charged with protecting consumers who purchase securities or investment advice.

### 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.

### Organisation for Economic Co-operation and Development

An international organization that works with governments, policy makers, and citizens to shape policies; establish evidence-based international standards; find solutions to a range of social, economic, and environmental challenges in an effort to foster prosperity, equality, opportunity, and well-being for all; and provide a forum and knowledge hub for data and analysis, exchange of experiences, good-practice sharing, and advice on public policies and international standard-setting.

### Over-the-Counter

Securities that are not listed on a national securities exchange.

### 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.

### President's Working Group on Financial Markets

Created in 1988 to provide financial and economic recommendations to the President during turbulent market times, this group is charged with enhancing the integrity, efficiency, orderliness, and competitiveness of our nation's financial markets, and maintaining investor confidence. It is chaired by the Secretary of the Treasury and includes the Chairman of the SEC, the Chairman of the Board of Governors of the Federal Reserve, and the Chairman of the Commodity Futures Trading Commission.

### 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 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 (Reg BI)

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

### Regulation Crowdfunding

Provides an exemption from the registration requirements for securities-based crowdfunding allowing companies to offer and sell up to \$1.07 million of their securities in a 12-month period without having to register the offering with the SEC.

### 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

A self-reporting initiative that seeks to protect advisory clients from undisclosed conflicts of interest and return money to investors. Under this initiative, 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 Capital Formation Advisory Committee (SBCFAC)

Established by the SEC Small Business Advocate Act of 2016, the SBCFAC is designed to provide a formal mechanism for the Commission to receive advice and recommendations on Commission rules, regulations, and policy matters relating to small businesses, including smaller public companies. The Committee meets quarterly, and all meetings are open to the public.

### Standards of Conduct Implementation Committee

An inter-divisional 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.

### Standards for Internal Control in the Federal Government

Published by the U.S. Government Accountability Office, this book, which is colloquially known as “Green Book” because of its green cover, sets the standards for an effective internal control system for federal agencies.

### 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.

### 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	FINRA	Financial Industry Regulatory Authority
AMAC	Asset Management Advisory Committee	FISMA	Federal Information Security Modernization Act of 2014
APR	Annual Performance Report	FMFIA	Federal Managers' Financial Integrity Act of 1982
CCoE	Cloud Center of Excellence	FOIA	Freedom of Information Act
CF	Division of Corporation Finance	FR	Federal Register
CFO	Chief Financial Officer	FSSP	Federal Shared Service Provider
CFTC	U.S. Commodity Futures Trading Commission	FY	Fiscal Year
COVID-19	Coronavirus Disease 2019	GAAP	Generally Accepted Accounting Principles
CSRS	Civil Service Retirement System	GAO	U.S. Government Accountability Office
DERA	Division of Economic and Risk Analysis	GSA	General Services Administration
DHS	U.S. Department of Homeland Security	GTAS	Government-wide Treasury Account Symbol Adjusted Trial Balance System
DNP	Do Not Pay	HVA	High Value Asset
DQP	Data Quality Plan	IM	Division of Investment Management
EDGAR	Electronic Data Gathering, Analysis, and Retrieval System	IPERA	Improper Payments Elimination and Recovery Act of 2010
ENF	Division of Enforcement	IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
ETF	Exchange-Traded Fund	IPIA	Improper Payments Information Act of 2002
FAF	Financial Accounting Foundation	IPO	Initial Public Offering
FASB	Financial Accounting Standards Board	IT	Information Technology
FCPIA	Federal Civil Penalties Inflation Adjustment Act	NIST	National Institute of Standards and Technology
FECA	Federal Employees' Compensation Act	NMS	National Market System
FERS	Federal Employees Retirement System		
FFMIA	Federal Financial Management Improvement Act		
FIMSAC	Fixed Income Market Structure Advisory Committee		

NRSRO	Nationally Recognized Statistical Rating Organization	PII	Personally Identifiable Information
NTEU	National Treasury Employees Union	PISA	Privacy and Information Security Awareness
OASB	Office of the Advocate for Small Business Capital Formation	POA&M	Plan of Action and Milestones
OCDO	Office of the Chief Data Officer	S/L	Straight-Line
OCIE	Office of Compliance Inspections and Examinations	SBCFAC	Small Business Capital Formation Advisory Committee
OFM	Office of Financial Management	SBR	Statement of Budgetary Resources
OGC	Office of the General Counsel	SEC	U.S. Securities and Exchange Commission
OHR	Office of Human Resources	SIPA	Securities Investor Protection Act of 1970
OIEA	Office of Investor Education and Advocacy	SIPC	Securities Investor Protection Corporation
OIG	Office of Inspector General	SRO	Self-Regulatory Organization
OIT	Office Information Technology	TM	Division of Trading and Markets
OMB	Office of Management and Budget	TSP	Thrift Savings Plan
OMS	Office of Municipal Securities	U.S.C.	United States Code
OMWI	Office of Minority and Women Inclusion	USSGL	U.S. Standard General Ledger
OPA	Office of Public Affairs		
OPM	U.S. Office of Personnel Management		
PCAOB	Public Company Accounting Oversight Board		

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The SEC's FY 2020 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 2020 financial statements. To comment on this report, please send an email to [SECAFR@sec.gov](mailto:SECAFR@sec.gov).

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The underlying fabric of our economy can only be preserved if both businesses and employees survive.

CHAIRMAN JAY CLAYTON





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