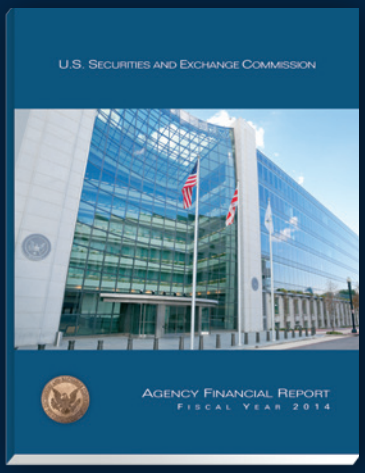
U.S. Securities and Exchange Commission

Agency Financial Report

Fiscal Year 2014

About This Report



The U.S. Securities and Exchange Commission's (SEC) fiscal year (FY) 2014 Agency Financial Report (AFR) provides financial and high-level performance results that enable the President, Congress and the public to assess the SEC's accomplishments and understand its financial picture. This report satisfies the reporting requirements contained in the following laws and regulations:

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

For the third year in a row, the SEC is producing an AFR, with a primary focus on financial results, and an Annual Performance Report (APR), which focuses on strategic goals and performance results, in lieu of a combined Performance and Accountability Report. The FY 2014 APR will be included in the SEC FY 2016 Congressional Budget Justification in February 2015. Additionally, SEC will publish a Summary of Performance and Financial Information (SPFI), also to be released in February 2015. This AFR and prior year SEC AFRs are electronically available at *www.sec.gov/about/secreports.shtml*. To comment on this report, email SECAFR@sec.gov.

Certificate of Excellence in Accountability Reporting

The SEC's FY 2013 AFR received the Certificate of Excellence in the Accountability Reporting from the Association of Government Accountants, which represents the eighth year in a row the SEC has received this honor. The award is presented to Federal Government agencies whose annual reports achieve the highest standards demonstrating accountability and communicating results. In addition, the SEC received a Best in Class Award for its Chief Financial Officer Message.

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Available on the Web at *www.sec.gov/about/secafr2014.shtml*

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

Message from the Chair

During the past year, the talented and dedicated men and women of the U.S. Securities and Exchange Commission have tirelessly carried out the agency's mission to protect investors, foster capital formation and promote fair, orderly and efficient markets.

Together, we have achieved many important accomplishments in Fiscal Year 2014 (FY 2014). We brought a record number of cutting edge enforcement actions, proposed and adopted rules that strengthened our financial system and increased transparency, promoted compliance through detailed, risk-based examinations of registrants and furthered enhanced transparency through our disclosure review program.

Our success did not stop there. We hired our first Investor Advocate to lead our newly-established Office of the Investor Advocate. The agency expanded direct outreach to investors and market participants by issuing more investor bulletins and alerts than ever before. These efforts go to the very core of our investor protection mission.

Sophisticated economic analysis informed the agency's rulemakings, and shed new light on complex areas of financial market structure.

We continued to focus on advancing rulemakings required under the Dodd-Frank Wall Street Reform and Accountability Act (Dodd-Frank) and Jumpstart Our Business Startups (JOBS) Acts. Under the Dodd-Frank Act, the SEC joined the Federal banking regulators and the Commodity Futures Trading Commission (CFTC) in adopting the Volcker Rule, which will limit proprietary trading by financial institutions affiliated with banks and will generally restrict these institutions from sponsoring hedge funds and private equity funds, or investing in such funds. We also adopted important enhancements to the offering process, disclosure and reporting for asset-backed securities and oversight of credit rating agencies. We adopted foundational rules for implementing the regulatory framework for security-based swaps, and removed references to credit ratings in our rules.

In FY 2014, the Commission advanced the major rules required by the JOBS Act, including proposed rules to permit companies to raise funds through crowdfunding, and rules that create an exemption from registration under the Securities Act that will make it easier for smaller companies to raise capital.

In addition to the congressionally mandated rulemakings, the Commission also adopted important rules that reform the way that money market funds operate. To reduce the risk of damaging runs, these reforms included a combination of targeted floating net asset value for prime institutional funds, liquidity fees and redemption gates for non-government money market funds, enhanced disclosure, reporting diversification and stress testing.

During the past year our examination and enforcement programs benefitted from effective deployment of sophisticated technology and from risk-based resource allocation and targeted strategy to extend the SEC's presence to every corner of the marketplace, by participants at every level. The SEC's National Exam Program continued to enhance its data analytics capabilities by using technology to collect and process massive quantities of data to target irregularities and identify potential deficiencies.

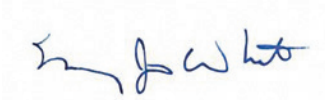
The Division of Enforcement continued to mount increasingly sophisticated investigations, redoubling efforts in traditional areas, like accounting fraud, and expanding its focus on gatekeepers who must act in investors' interests. This year, in

addition to bringing more cases than ever before, Enforcement also brought a number of first-ever cases that span the securities industry, including actions involving whistleblower retaliation, the market access rule and the "pay-to-play" rule for investment advisers. The result is a strong deterrent message to all would-be wrongdoers.

The Commission's focus on equity market structure remained a priority in FY 2014. The agency unveiled an innovative equity market structure website that provides investors with access to evolving data, research and analysis that will help to inform the public debate. The Commission remains committed to bolstering the resilience of the market systems and to continue to engage in efforts to foster market infrastructure and reduce system disruptions. Earlier this year, the Commission held a roundtable on cybersecurity, which addressed issues facing financial market participants. Commission staff also continued to develop rules that, among other things, will require exchanges, clearing agencies, and other market platforms to take new measures to better ensure the operational capability of their systems and promote market stability.

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

These are only a few examples of the tremendous accomplishments of the more than 4,000 men and women of the SEC in FY 2014. In every division and office of the agency, our professionals demonstrated teamwork, innovation and a fierce commitment to the agency's mission. In the year to come, we will continue to further initiatives, regulations and programs that will allow us to keep pace with a changing marketplace and pursue the agency's mission more effectively than ever.



Mary Jo White
Chair
November 14, 2014

Introduction to the Agency Financial Report

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

Management's Discussion and Analysis

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

Financial Section

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

Other Information

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

Appendices

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

Management's Discussion and Analysis

The U.S. Securities and Exchange Commission's (SEC) Management's Discussion and Analysis (MD&A) serves as a brief overview of the agency's mission, organization, goals, and the 2014 program and financial performance:

- **Vision, Mission, Values and Goals:** The listed vision, mission and values statements as set forth in SEC's Strategic Plan establishes the direction the SEC is undertaking in meeting its four strategic goals.
- **History and Purpose:** Provides background on the SEC and responsibilities for overseeing the nation's securities markets and certain primary participants.
- **Organization Structure and Resources:** Highlights SEC's office locations, organization, employment statistics, and a summary of programs by responsible divisions and offices.
- **FY 2014 Year in Review:** Provides a summary of SEC's efforts in pursuing its investor protection and market stability missions in FY 2014.
- **Looking Forward:** An overview of actions the SEC will continue to focus its ever-increasing on-going regulatory and oversight responsibilities.
- **Financial Highlights:** Provides an overview of the SEC's financial information, including an analysis of the financial data presented in the audited financial statements. The sources and uses of SEC's funds and the limitations of the financial statements are also explained.
- **Performance Highlights:** Explains the SEC's strategic and performance planning framework, discusses the process used to verify and validate the performance results contained in the Agency Financial Report (AFR), displays the FY 2014 operating costs by strategic goal, summarizes the FY 2014 performance results by strategic goal, and highlights key performance accomplishments.
- **Management Assurances and Compliance with Other Laws:** Provides management's assessment and assurances on the SEC's internal controls related to the Federal Manager's Financial Integrity Act of 1982 (FMFIA) and our compliance with the Federal Financial Management Improvement Act (FFMIA) related to compliance of our financial systems with Federal requirements. Also addressed is our compliance with Federal Information Security Management Act (FISMA) and other laws and regulations.

Vision, Mission, Values and Goals

Vision

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

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

Mission

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

Values

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

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

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

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

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

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

Strategic Goals and Strategic Objectives

Strategic Goal 1: Establish and maintain an effective regulatory environment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

History and Purpose

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

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

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

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

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

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

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

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

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

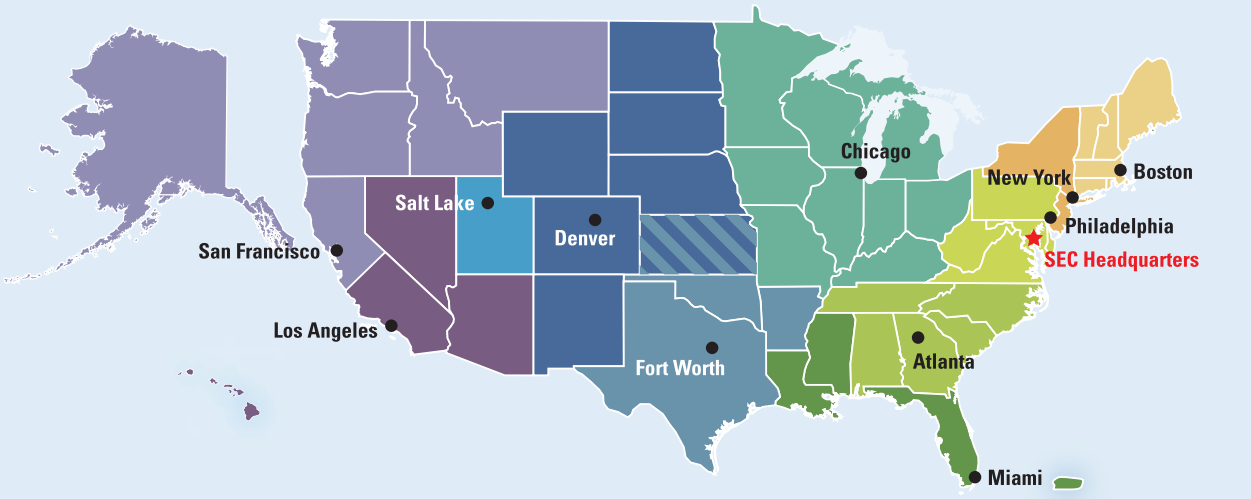
Organizational Structure and Resources

SEC Office Locations

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

CHART 1.1

SEC HEADQUARTERS AND REGIONAL OFFICE LOCATIONS



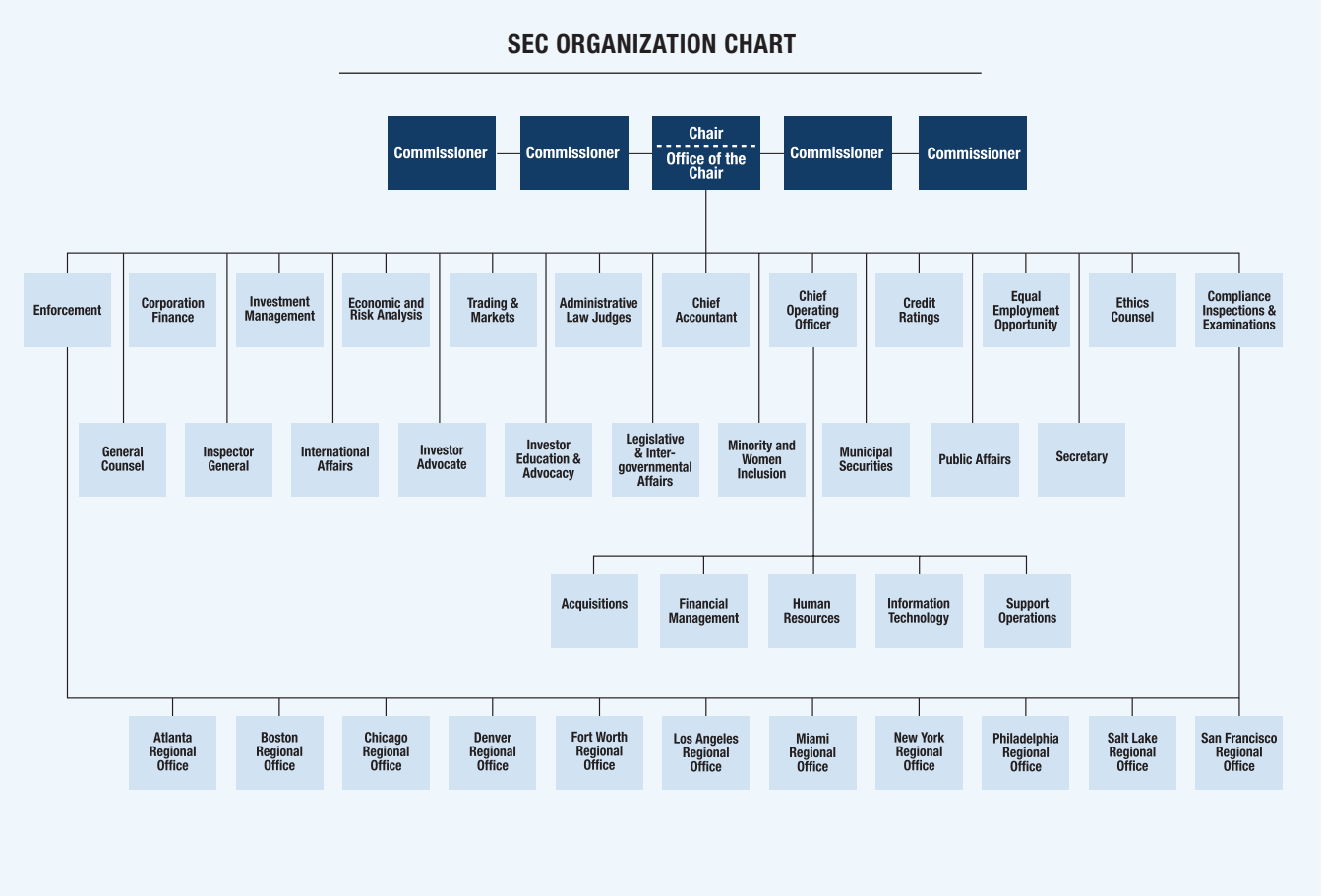
- ★ **SEC Headquarters**
- **Atlanta Regional Office**
  Georgia, North Carolina, South Carolina, Tennessee, Alabama
- **Boston Regional Office**
  Connecticut, Maine, Massachusetts, New Hampshire, Vermont, Rhode Island
- **Chicago Regional Office**
  Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota,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

SEC Organization Structure

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

In fiscal year (FY) 2014, the agency employed 4,150 full-time equivalents (FTE), including 3,996 permanent and 154 temporary FTEs. The SEC organization chart below is as of September 30, 2014.

CHART 1.2



SEC Programs

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

TABLE 1.1
SEC PROGRAMS AND PROGRAM DESCRIPTIONS

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

TABLE 1.1 *Continued from previous page*

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

As shown in the *Statements of Net Cost* on page 75, the SEC presents its net costs of operations by the programs outlined above, consistent with the presentation used by the agency in submitting its budget requests.

Fiscal Year 2014 in Review

Continuing the Commitment to Excellence

Under the strong leadership of Chair Mary Jo White, Fiscal Year (FY) 2014 marked a year of significant achievement across the SEC. With accomplishments ranging from robust and effective rulemaking that strengthened our markets and increased protection for America's investors, to aggressive enforcement that employed new investigative techniques and the innovative use of data to bring actions that spanned the securities industry, this past year has been a high water mark for the Commission.

Strong and Effective Rulemaking

The SEC finalized a number of significant rules central to financial market reform and the Dodd-Frank Wall Street Reform and Accountability Act (Dodd-Frank Act), including the Volcker Rule and ground-breaking regulations for money market funds, credit rating agencies, asset-backed securities, and over-the-counter derivatives. The Commission also advanced important rules under the Jumpstart Our Business Startups (JOBS) Act aimed at encouraging the growth of small businesses through securities-based crowdfunding and an expanded exemption for securities offerings of up to $50 million.

Aggressive Enforcement

The Enforcement Division (Enforcement) continued to bring new and innovative approaches to widen its enforcement footprint and deter wrongdoers. The Commission vigorously prosecuted executives and companies for accounting and financial fraud, held gatekeepers accountable for their illegal actions, and continued to focus enforcement efforts on insider trading. The Commission used powerful tools to crack down on wrongdoers, such as barring them from the securities industry and demanding admissions of wrongdoing where the circumstances warranted. In the past year, the Enforcement Division also saw several "firsts," such as charging violations of the market access rule, the first enforcement action to halt a fraudulent municipal bond offering, the largest ever penalty for net capital rule violations, and the first case applying Dodd-Frank Act whistleblower anti-retaliation authority.

Chair Mary Jo White

The successful results over the past year sent a strong message to the financial markets that violations would be uncovered and punished, regardless of the size of the entity, position of the individual or magnitude of the wrongdoing.

Enhanced Review Program

The Office of Compliance Inspections and Examinations (OCIE) continued to promote compliance through a multi-level outreach program, and to detect and prevent fraud through an increasingly sophisticated examination process.

OCIE engaged registrants through a wide variety of channels ranging from its second annual public statement of examination priorities, to meetings with senior management, heads of control functions and independent directors. It also continued to enhance its ability to uncover fraud and suspicious activity by refining its risk-based targeting methodologies and improving its in-house expertise, with specialized working groups in key areas. It significantly expanded the scope of its data collection and analysis program, while skilled technologists in its Quantitative Analytics Unit (QAU) put powerful tools in the hands of Commission examiners.

The SEC also worked to address the stability and resilience of the financial system, coordinating closely with the markets' self-regulatory organizations (SROs) on measures designed to improve the stability and resilience of the system.

Comprehensive Review of Core Commission Programs

The Commission initiated and advanced broad-based reviews of core agency programs involving equity market structure, including enforcement actions against exchanges and alternative trading systems (ATS), and the effectiveness of its overall disclosure rules to protect investors and promote capital formation.

Leveraging Data and Technology to Better Protect Investors and Strengthen Markets

In the past year, the Commission made great strides in improving its technology, particularly through the development of tools that permit it to better use data to monitor and enhance the integrity of the markets and inform the Commission's exam program. The Market Information Data Analytics System (MIDAS) continues to fuel the review of market structure, and the National Exam Analytics Tool (NEAT) system enables examiners to review years of trading data and millions of transactions in minutes. These and other technology investments have enabled the Commission to fulfill its mission to protect investors and enable our markets to operate more efficiently and effectively.

In addition to uncovering fraud and wrongdoing, the Commission used data-driven analysis to refine the rulemaking process and to deepen the understanding of current, complex market structure issues. Examinations of ATS and over-the-counter trading were posted for the public and market participants on the SEC's new market structure website, which has rapidly become a trusted and influential resource within the financial community.

A continuing focus on information technology (IT) upgrades also yielded a platform upgrade for the agency's Tips, Complaints and Referrals Intake and Resolution portal and systems that will allow Enforcement to better and more efficiently analyze, store and review the millions of electronic records that hold the key to successful actions.

Increased Outreach to Investors

The Commission continued to provide educational programs and materials, coordinate with foreign counterparts, and scrutinize disclosures to ensure that investors are getting appropriate information.

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

In FY 2014, the SEC embraced the challenges of a growing mandate and increasingly complex marketplace by providing strong and effective rulemakings; innovative strategies for vigorous enforcement; enhanced examinations and oversight; a deepened determination to oversee the most complex and rapidly evolving corners of the financial markets; and a recommitment to traditional priorities including investor education and international cooperation. The SEC continued its strong commitment to protect investors, ensure that our nation has the safest and most dynamic financial markets in the world and provide better opportunities for capital formation.

A Focused Rulemaking Agenda

In FY 2014, the SEC focused on advancing both important discretionary policy initiatives and rules required under the Dodd-Frank and JOBS Acts in those areas that are central to protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation. Under the Dodd-Frank Act, the Commission completed new rules regarding the regulation of proprietary trading, derivatives, asset-backed securities, and credit ratings. Under the JOBS Act, the Commission proposed new rules to facilitate crowdfunding and securities offerings up to $5 million within a 12-month period. At the same time, the SEC continued to push a broader agenda beyond these statutes, including the adoption of new rules regarding money market funds.

The Dodd-Frank Act

With the efforts of the last fiscal year, the Commission has now completed virtually all of its mandatory rulemaking in six of the eight significant areas targeted for SEC action by

the Dodd-Frank Act: the regulation of private fund advisers; restrictions on proprietary trading; enhanced standards for clearing agencies; a new regulatory framework for municipal advisors; better regulation of credit rating agencies and credit ratings; and stronger protections for investors in asset-backed securities. In addition to fulfilling these mandates, the SEC continued rulemaking to execute its mandates in the two remaining significant areas addressed by the Dodd-Frank Act – over-the-counter derivatives and executive compensation.

Volcker Rule

In December 2013, the Commission joined the Federal banking agencies and the Commodity Futures Trading Commission (CFTC) in adopting a final rule implementing Section 619 of the Dodd-Frank Act, known as the "Volcker Rule." This rule generally restricts financial institutions affiliated with banks – including broker-dealers and investment advisers – from engaging in proprietary trading, sponsoring hedge funds and private equity funds, or investing in such funds. At the same time, consistent with the Dodd-Frank Act, this rule preserves certain financial services essential to the healthy functioning of the U.S. financial system, including market making and underwriting.

Following adoption of the Volcker Rule, the Commission staff has continued to work closely with the staffs of the other financial regulators to address implementation issues including, among other things, coordinated responses to interpretive questions, technical issues related to the collection of metrics data, and approaches to supervising and examining banking entities.

Clearing Agencies

The Commission continued to work to improve the supervision of clearing agencies, particularly those designated by the Financial Stability Oversight Council as systemically important. In March 2014, the SEC proposed additional standards for systemically important clearing agencies and clearing agencies that clear security-based swaps. The proposed rules would subject covered clearing agencies to new requirements regarding their financial risk management, operations, and governance, as well as their disclosures to market participants and the public.

Credit Rating Agencies

In August 2014, the Commission adopted an expansive set of rules under the Dodd-Frank Act to enhance the governance of credit rating agencies and improve the quality of their credit ratings. The new requirements for credit rating agencies address internal controls, conflicts of interest, disclosure of credit rating performance statistics, procedures to protect the integrity and transparency of rating methodologies, disclosures to promote the transparency of credit ratings, and standards for training, experience, and qualifications of credit analysts. The requirements provide for an annual certification by the Chief Executive Officer (CEO) concerning the effectiveness of internal controls and additional certifications to accompany credit ratings attesting that the rating was not influenced by other business activities.

Reliance on Credit Ratings

In December 2013, as mandated by the Dodd-Frank Act, the Commission removed references to credit ratings from the broker-dealer financial responsibility rules and certain portfolio requirements for funds, marking the removal of references from 22 Commission rules and forms since the statute was enacted. The SEC continues to work to finish the removal of four remaining references, re-proposing in July 2014 to remove references in provisions regulating money market funds. This re-proposal would also eliminate an exclusion from the issuer diversification provisions applicable to money market funds for securities with certain guarantees.

Securitization

In August 2014, the SEC adopted rules that revise the offering process, disclosure, and reporting for asset-backed securities to require issuers to include loan-level disclosure for certain assets, such as residential and commercial mortgages and automobile loans. The rules, which implement provisions of the Dodd-Frank Act, also provide more time for investors to review and consider a securitization offering, revise the eligibility criteria for using an expedited offering process known as "shelf offerings," and significantly enhance reporting requirements.

The SEC also continued its efforts with five other Federal agencies to finalize rules requiring sponsors of securitization transactions to retain risk in those transactions.

Derivatives

The SEC completed its proposals to implement Title VII of the Dodd-Frank Act, which requires the creation of an entirely new regulatory framework for over-the-counter derivatives, and commenced the adoption of final rules. In April 2014, the SEC proposed recordkeeping and reporting rules for firms engaged in security-based swap activities, which are designed to promote better risk management and improve regulatory oversight.

In June 2014, the SEC adopted a series of rules, and issued guidance on cross-border security-based swap activities for market participants. The rules and guidance represent the initial threshold step in the agency's efforts to establish a framework to address market participants that may be subject to more than one set of regulations across different jurisdictions as a result of their cross-border swaps activity. Importantly, the adoption of these rules will also enable the Commission to move forward with the remainder of its outstanding proposals for substantive rules under Title VII, including those regarding security-based swap reporting and trading, as well as the registration and regulation of dealers and major market participants.

Investor Advisory Committee and the Office of the Investor Advocate

The SEC's Investor Advisory Committee (IAC), established by the Dodd-Frank Act, continued to advise the Commission on regulatory priorities, the regulation of securities products, trading strategies, fee structures, the effectiveness of disclosure, and on initiatives to protect investor interests, and promote investor confidence and the integrity of the securities marketplace.

In April 2014, the Commission issued a release seeking comment on an IAC recommendation regarding disclosure by target date funds. In 2010, the Commission proposed rule amendments that would require marketing material for target date funds to include, among other disclosures, an illustration of the changes in the fund's asset allocation over time, *i.e.*, an illustration of the fund's asset allocation glide path. The Commission reopened the comment period on the proposal to request comment on the IAC's recommendation that the Commission develop a glide path illustration based on a standardized measure of fund risk as a replacement for, or supplement to, the proposed asset allocation glide path illustration.

From left to right: Investor Advocate Rick Fleming, Commissioner Kara M. Stein, Commissioner Luis A. Aguilar, Chair Mary Jo White, Commissioner David M. Gallagher, and Commissioner Michael S. Piwowar

The SEC also appointed Rick Fleming to serve as the first Investor Advocate in the agency's Office of the Investor Advocate established by Section 915 of the Dodd-Frank Act, completing the senior leadership team for the five new offices established by the Act.

Studies and Reports

In FY 2014, the SEC also neared completion of its work on the 28 studies and reports mandated by the Dodd-Frank Act. The SEC staff completed a report to Congress in November 2013 regarding the independence of credit rating agencies and how that affects the credit ratings they issue, including an evaluation of the management of conflicts of interest raised by a credit rating agency providing ancillary services, such as risk management advice or consulting.

The SEC staff also completed a report to Congress in June 2014 regarding the feasibility, benefits, and costs of requiring the real-time reporting of certain short sale positions, and adding new, short sale-related marks to the public dissemination of securities transactions in a voluntary pilot program for issuers.

The JOBS Act

Over the last fiscal year, the Commission advanced all of the outstanding major rules mandated by the JOBS Act, which requires a number of initiatives designed to promote initial public offerings (IPOs) of smaller companies and small business capital formation.

Crowdfunding

In October 2013, the Commission proposed rules under the JOBS Act to permit companies to offer and sell securities through crowdfunding, an evolving method of raising capital. Crowdfunding has been used outside of the securities arena to raise funds through the internet for a variety of projects, ranging from innovative product ideas to artistic endeavors such as films or music. The JOBS Act created an exemption from registration under the Securities Act so that this type of funding method can be used to offer and sell securities. The JOBS Act also established the foundation for the regulatory structure of this new market.

Regulation A+

The Commission proposed rules in December 2013 intended to increase access to capital for smaller companies under a JOBS Act mandate. The proposal built on Regulation A, an existing exemption from Securities Act registration for securities offerings up to $5 million within a 12-month period. The updated exemption, commonly referred to as "Regulation A+," would enable companies to offer and sell up to $50 million of securities within a 12-month period.

Additional JOBS Act Activities

The Commission staff continued to monitor the effect of the elimination of the ban on general solicitation and general advertising on the securities markets, as well as the public comment on the Commission's proposed amendments to Regulation D and certain other rules from last fiscal year.

The SEC staff also conducted a review of the disclosure requirements in Regulation S-K, and concluded to undertake further efforts to study ways in which the disclosure rules could be modernized, made more effective, and simplified to reduce the costs and other burdens for emerging growth companies, while simultaneously improving the readability and navigability of disclosure documents for investors.

Money Market Fund Reform

In July 2014, drawing on legal expertise, economic analysis, and regulatory experience from across the Agency, the SEC adopted measures to reduce the risk of contagion from rapid heavy redemptions in money market funds. The Commission's reforms included a combination of a targeted floating net asset value for prime institutional funds as well as a liquidity fees and redemption gates regime for all non-government money market funds. These reforms also enhanced money market fund disclosure, reporting, diversification, and stress testing requirements.

In an effort to reduce costs associated with these reforms and their impact on investors, the Commission and its staff worked closely with the Treasury Department and the Internal Revenue Service to facilitate the issuance of new regulations that should significantly mitigate tax compliance issues and costs for investors in floating net asset value funds.

In addition, the Commission staff has formed a working group to maintain an ongoing, comprehensive review of the implementation and impact of the money market mutual fund reforms.

Enhancing Market Structure and Resiliency

During FY 2014, the Commission has closely focused on bolstering resilience throughout critical market systems. In particular, after the August 2013 interruption in the trading of Nasdaq-listed securities, the equities and options exchanges, the Financial Industry Regulatory Authority (FINRA), and the clearing corporations have been working together with other market participants to identify a series of concrete measures designed to address specific areas where robustness and resilience of market systems could be improved.

The exchanges have conducted a series of specific enhancements to improve robustness and resilience of the securities information processors, or SIPs. The exchanges have also developed more robust SIP backup capabilities, and have implemented a new "hot-warm" backup, with a ten-minute recovery standard.

In addition to these initiatives, the Commission continues its efforts to foster robust market infrastructure and reduce the number of systems disruptions through a focus on systems compliance and integrity. For example, in March 2013, the Commission proposed Regulation SCI, which, among other things, would require that exchanges and other key market players maintain policies and procedures reasonably designed to ensure their operational capability and compliance with relevant laws and rules, and that these entities take appropriate corrective action if problems occur. Commission staff is working to prepare a recommendation for the Commission's consideration with respect to the adoption of Regulation SCI. In addition, in March 2014, the Commission conducted a Cybersecurity Roundtable, which addressed the cybersecurity landscape and the cybersecurity issues faced by financial market participants today.

The Commission's continued focus on equity market structure was enhanced by the roll-out in October 2013 of its equity market structure website. The website is intended to promote a market-wide dialogue and fuller empirical understanding of the equity markets. It serves as a central location for SEC staff to publicly share evolving data, research, and analysis.

The website includes detailed analyses of trading data by the Division of Trading and Markets' Office of Analytics and Research (OAR). OAR has implemented a Market Information Data Analytics System (MIDAS) to collect and analyze market data from both the public consolidated data feeds and the "proprietary" data feeds provided by the exchanges to their customers. OAR has analyzed MIDAS data to address key issues raised by the current market structure, including trading speed, quote lifetimes, trade-to-order volume ratios, hidden volume ratios, and odd-lot rates.

Last month, the SROs submitted a proposal National Market System (NMS) plan related to the establishment of a consolidated audit trail that would capture customer and order event information for orders in NMS securities, across all markets, from the time of order inception through routing, cancellation, modification, or execution. Commission staff is in the process of reviewing the proposed NMS plan and will provide a recommendation to the Commission regarding publication of the plan for notice and comment in Federal Register. After publication, Commission staff will review the comments and provide a recommendation to the Commission regarding whether to approve the proposed NMS plan.

The equity market structure website reflects the Commission's data-driven approach to a wide range of important and pressing market structure issues. The Commission is particularly focused on whether market structure rules and regulatory arrangements continue to meet their objectives of investor protection, fair and orderly markets, and capital formation. Continued evaluation and, as appropriate, advancing initiatives to address aspects of market structure issues is a priority for the Commission in FY 2015.

In an effort to assess higher quality markets for smaller companies, the Commission issued an order directing the exchanges and FINRA to submit a NMS plan to implement a tick size pilot, which would widen the quoting and trading increment for certain small capitalization companies. The tick size pilot was submitted to the Commission on August 25, 2014, including the trade-at rule.

Commission staff is doing a comprehensive review of market structure issues and is pursuing initiatives to address issues regarding high frequency trading, fragmentation in the equity markets, and broker conflicts. For example, the staff is working on establishing a new Market Structure Advisory Committee of experts. Once the Committee is established, it is anticipated

that staff will provide materials for the Committee to consider on a wide range of market structure issues including whether the Commission's own rules, such as the trade-through rule of Regulation NMS, have contributed to excessive fragmentation across all types of venues and whether the current regulatory model for exchanges and other trading venues makes sense for today's markets.

Commission staff is also preparing two recommendations for the Commission: the first, a rule to clarify the status of unregistered active proprietary traders to subject them to our rules as dealers; and second, a rule to eliminate an exemption from securities association membership requirements for dealers that trade in off-exchange venues. Dealer registration and FINRA membership should significantly strengthen regulatory oversight over active proprietary trading firms and the strategies they use.

Commission staff is also preparing recommendations to improve firms' risk management of trading algorithms and to enhance regulatory oversight over their use. In this regard, FINRA is currently pursuing an initiative to provide suggested supervision and control practices for firms engaging in algorithmic trading strategies and to require that persons responsible for the design or development of algorithmic trading strategies to register as associated persons.

Commission staff is preparing a recommendation to the Commission to expand the information about ATS operations submitted to the Commission and to make the information available to the public. In addition, Commission staff is preparing a recommendation to the Commission for a rule that would enhance order routing disclosures. This rule proposal would require disclosure of the customer-specific information that a broker is expected to provide to each institutional customer on request. This rule would help to ensure that information disclosed to customers is useful, reliable, and uniformly available on request to all institutional customers.

In June, the exchanges and FINRA were asked to consider including a time stamp in the consolidated data feeds that indicates when a trading venue, for example, processed the display of an order or execution of a trade. The exchanges were also asked to develop proposed rule changes to disclose how they are using data feeds. The exchanges and FINRA have initially responded to this request by seeking authorization from the SIP committees to establish a new time stamp for public dissemination and the exchanges have submitted rule changes to disclose their use of market data feeds in their operations. In addition, FINRA is pursuing an initiative to expand transparency in the over-the-counter market by disseminating non-ATS volume information.

Commission staff also is developing a recommendation to the Commission for an anti-disruptive trading rule. The rule would address the use of aggressive, destabilizing trading strategies in vulnerable market conditions, when they could most seriously exacerbate price volatility. It is anticipated that the rule would apply to active proprietary traders in short time periods when liquidity is most vulnerable and the risk of price disruption caused by aggressive short-term trading strategies is highest.

Finally, the exchanges have undertaken a comprehensive review of their order types and how they operate in practice, the results of which are expected to be provided to the Commission before the end of the calendar year.

Building on a Strong Enforcement Program

In FY 2014, the SEC built an impressive record of cases that spanned the spectrum of the securities industry. These actions punished securities law violators, served as a strong deterrent to misconduct, returned funds to injured investors, and sent important messages to the market. Some of the notable actions Enforcement brought include actions against: exchanges, to ensure that they operate fairly and in compliance with applicable rules; investment advisers and broker-dealers, for taking undisclosed fees and disrupting the markets through failures in their trading systems; issuers, for significant financial reporting failures; auditors and others who serve as gatekeepers to our financial system; large international corporations, for violations of the Foreign Corrupt Practices Act (FCPA); municipal issuers for disclosure failures; and an array of insider trading cases.

The SEC ended FY 2014 with 755 enforcement actions and obtained orders for $4.16 billion in penalties and disgorgement. The quality, breadth, and impact of these actions helped boost investor confidence and increase market integrity. Enforcement continued to focus on ensuring that its actions sent a strong deterrent message by pursuing significant monetary penalties and continuing to require admissions in appropriate cases. This fiscal year was also marked by Enforcement's pursuit of creative strategies for conducting investigations and bringing actions. Enforcement developed and used new tools to

Chair Mary Jo White and Director of the Enforcement Division Andrew Ceresney

harness and mine data sources, which expanded the SEC's ability to target misconduct, and increased coordination with those inside the agency as well as the SEC's law enforcement and regulatory partners.

A Year of Firsts

FY 2014 was marked by a number of first-of-their-kind actions driven by an enforcement effort committed to using innovative approaches to uncover misconduct and hold wrongdoers accountable. Some of these actions include those described below.

- The SEC filed its first enforcement actions charging violations of the market access rule. This rule, adopted in 2010 as Rule 15c3-5 of the Securities Exchange Act of 1934 (Exchange Act), requires firms to have adequate risk controls in place before providing customers with access to the market.
  - In the first action, Knight Capital Americas LLC paid a $12 million penalty to settle charges that it violated the market access rule in connection with a trading incident that resulted in market disruption. According to the SEC's order, as a result of two critical technology missteps, a Knight Capital order router rapidly sent more than four million orders into the market when attempting to fill just 212 customer orders. The SEC's order also charged Knight Capital with violating the market access rule in various ways, including by relying on financial risk controls that were not capable of preventing the entry of orders that exceeded pre-set capital thresholds for the firm in the aggregate.
  - In the second action, the SEC charged Wedbush Securities, one of the largest volume market access providers in the United States, and two individuals, with violating the market access rule and a host of other regulatory requirements as a result of trading by its market access customers. Enforcement charged that Wedbush allowed thousands of essentially anonymous foreign traders to send orders directly to U.S. trading venues to trade billions of shares every month, but failed to establish, document, and maintain a system of risk management controls and procedures reasonably designed to manage the risks associated with its business.
- In the first case under its new authority to bring anti-retaliation enforcement actions, the SEC charged Paradigm Capital Management, a hedge fund adviser, for engaging in prohibited principal transactions and subsequently retaliating against the employee who reported the trading activity to the SEC. The firm's owner was charged with causing the improper principal transactions. The firm and its owner agreed to pay $2.2 million to settle the charges.
- The SEC charged TL Ventures, a private equity firm, with violations of the investment adviser pay-to-play rules in the first action involving violations of these rules. The pay-to-play rules, adopted in 2010, prohibit investment advisers from providing compensatory advisory services for two years following a campaign contribution by the firm or certain associates to political candidates or officials in a position to influence the selection or retention of advisers to manage public pension funds. According to the SEC's order, TL Ventures continued to receive compensation from two public pension funds within two years after an associate made campaign contributions to a mayoral candidate and a governor. TL Ventures agreed to settle the charges by paying nearly $300,000.

- A municipal issuer in the state of Washington's Wenatchee Valley region agreed to pay a $20,000 penalty – the first-ever against a municipal issuer – and undertake remedial efforts to settle charges that it misled investors in a bond offering. The SEC also settled charges against the underwriter and outside developer of the project, and three individuals involved in the offering.
- The SEC obtained a court order against the City of Harvey, Illinois and its comptroller to halt a fraudulent municipal bond offering. This was the first time that the SEC has sought an emergency court order to stop a municipal bond offering. The SEC alleged that the city was marketing new bonds without disclosing that it had previously diverted at least $1.7 million of bond proceeds from a prior bond offering to pay the city's operational costs.
- The SEC charged Scottrade, a brokerage firm, with failing to provide the agency with complete and accurate information concerning trades executed by the firm and its customers over a six-year period. Scottrade agreed to settle the charges by paying a $2.5 million penalty, admitting it violated the Federal securities laws, and retaining an independent compliance consultant to remediate its compliance failures. This was the SEC's first action to enforce the recordkeeping requirements established by Rules 17a-25 and 17a-4(f)(3)(v) of the Exchange Act.
- The SEC charged Ernst & Young LLP with violating auditor independence rules for actions taken by its subsidiary to lobby congressional staff on behalf of two audit clients. The lobbying activities were impermissible under the SEC's auditor independence rules because they put the firm in the position of being an advocate for those audit clients. The SEC's order found that despite these lobbying activities, Ernst & Young repeatedly represented that it was "independent" in audit reports issued on the clients' financial statements. This marked the SEC's first action involving violations of the auditor independence rules in connection with lobbying activity. Ernst & Young agreed to pay $4 million to settle the SEC's charges.
- The SEC charged Wells Fargo Advisors LLC with failing to maintain and enforce procedures reasonably designed to prevent employees from misusing material nonpublic information obtained from retail customers and clients, unreasonably delaying its production of documents during an SEC investigation, and providing an internal document related to a compliance review of a broker's trading that had been altered by a compliance officer. This is the SEC's first action against a broker-dealer for such failures to protect a customer's information that had been misappropriated by an employee. The SEC's action against Wells Fargo arose out of a prior insider trading case against a Wells Fargo broker who learned confidentially from his customer that Burger King was being acquired. The broker then traded on that information ahead of the public announcement and tipped others who also traded. Wells Fargo agreed to settle the SEC's charges by admitting wrongdoing, paying a $5 million penalty, and agreeing to retain an independent consultant.

Market Structure, Exchanges, and Broker-Dealers

The proliferation of sophisticated trading technologies and trading venues has radically transformed the markets. Enforcement is keenly focused on keeping pace with these changes by leveraging the knowledge of its specialized units, closely collaborating with the other SEC divisions and OCIE, and employing technology to more effectively use "big data." During FY 2014, Enforcement amplified its focus on market structure issues and filed a number of actions against market participants who pose a risk to the markets by failing to operate within the rules. These included significant cases against exchanges, ATSs, broker-dealers, and other key market participants relating to failures in controls, failures to safeguard customer information, and manipulative trading.

- The SEC charged the New York Stock Exchange LLC and two affiliated exchanges for repeatedly engaging in business practices that either violated exchange rules or required a rule when the exchanges had none in effect. The exchanges agreed to settle the SEC's charges by retaining an independent consultant and, together with an affiliated routing broker who was also charged, paying a $4.5 million penalty.
- The SEC charged Liquidnet Inc., a brokerage firm that operates an ATS known as a "dark pool," with improperly using subscribers' confidential trading information in marketing its services. The SEC's order found that Liquidnet violated Regulation ATS, which, among other things, requires all ATSs to have safeguards and

procedures to protect their subscribers' confidential trading data. Liquidnet agreed to pay a $2 million dollar penalty to settle the charges.

- LavaFlow, a brokerage firm operating an ATS known as an electronic communications network, agreed to pay $5 million to settle the SEC's charges that it failed to protect the confidential trading data of its subscribers. The settlement included a $2.85 million penalty – the largest penalty to date against an ATS. The SEC also charged LavaFlow with aiding and abetting an affiliate's broker-dealer registration violations.
- The SEC charged three brokerage subsidiaries of ConvergEx Group, a global trading services provider, plus two former employees of certain subsidiaries, with fraud for deceiving customers about hidden fees to buy and sell securities. In a separate action, the SEC also charged the former CEO of a broker-dealer subsidiary of ConvergEx for deceiving customers in connection with the same scheme. The SEC alleged that the former CEO concealed the fees and encouraged traders under his management to do the same. The ConvergEx subsidiaries agreed to pay more than $107 million and admit wrongdoing to settle the SEC's charges. The two former employees also settled the SEC's charges.
- The SEC charged Latour Trading LLC, a high frequency trading firm, and its former Chief Operating Officer (COO) for the firm's repeated violations of the net capital rule and related recordkeeping provisions and filing requirements. The SEC's order found that Latour routinely failed to maintain its required minimum net capital by millions of dollars. To settle these charges, Latour agreed to pay a $16 million penalty – the largest ever penalty for net capital rule violations – and the former COO agreed to pay a $150,000 penalty.
- The SEC charged the owner of a New Jersey-based brokerage firm with a manipulative trading practice known as "layering." The alleged scheme involved the owner tricking others into buying or selling stocks at artificial prices driven by orders that he later cancelled. The SEC also charged the owner and others with registration violations. The two firms and five individuals charged by the SEC agreed to, among other things, pay a combined total of nearly $3 million to settle the charges and the owner agreed to a bar from the securities industry.

Insider Trading

Unlawful insider trading always receives significant enforcement attention, and this fiscal year was no exception. In FY 2014, the SEC brought 52 insider trading actions. These cases, which sent a strong deterrent message to would be-violators, involved a wide range of entities and individuals including financial professionals, lawyers, and corporate insiders who breached their duties in pursuit of their own personal gain. Notable examples included:

- The SEC charged a former trader for the hedge fund Level Global Investors, L.P., with insider trading in the securities of Carter's Inc., a youth clothing company. The trader caused Level Global to trade in advance of market-moving news concerning Carter's after receiving tips through a consulting agreement with a former Carter's VP of investor relations. The total profits and losses avoided on the trades exceeded $3 million.
- The SEC charged three founders of Lawson Software with insider trading ahead of the company's sale by misusing nonpublic information to take unfair advantage of incorrect media speculation and analyst reports about the company's acquisition. They agreed to pay nearly $5.8 million to settle the charges.
- The SEC charged a stockbroker and a managing clerk at a major law firm with insider trading in a $5.6 million scheme in which the clerk tipped the stockbroker through a middleman about more than a dozen corporate transactions for which his law firm provided advice. The middleman, who the SEC also charged for his role in the scheme, met the stockbroker at Grand Central Terminal where he would show the stockbroker a piece of paper with the relevant ticker symbol and then eat the tip to destroy the evidence.
- The SEC charged four individuals in a $12 million serial insider trading scheme that lasted more than three years in which they traded in Ross Stores stock options based on nonpublic information about monthly sales results leaked by a former Ross Stores' employee.

Financial Reporting/Accounting and Disclosure Fraud

In FY 2014, Enforcement intensified its focus on financial reporting and accounting fraud. Comprehensive, accurate, and reliable financial reporting is critical to ensuring that investors

and the markets receive information needed to make informed decisions. Enforcement actions in this area are essential to ensuring public confidence in our securities markets.

- CVS Caremark Corp. paid $20 million to settle SEC charges that it misled investors about significant financial setbacks and used improper accounting that artificially boosted its financial performance. The SEC alleged that in offering documents for a $1.5 billion bond offering, CVS fraudulently omitted that it had recently lost significant Medicare Part D and contract revenues in the pharmacy benefits segment. In addition, the SEC alleged that CVS further misled investors by manipulating how it calculated its retention rate, a key metric for pharmacy benefits managers. CVS also allegedly made improper accounting adjustments that overstated the financial results for its retail pharmacy line of business. The retail controller who was charged with orchestrating these improper adjustments agreed to settle the SEC's charges by paying a $75,000 penalty and being barred for at least one year from practicing as an accountant on behalf of any publicly traded company or entity regulated by the SEC.

- The SEC charged five executives and finance professionals in connection with a $150 million fraudulent bond offering by Dewey & LeBoeuf LLP, the international law firm where they worked. The SEC alleged that the senior financial officers inflated the firm's profitability by millions of dollars to conceal breaches of debt covenants in the firm's loan agreements and that this information was then incorporated into bond offering documents. The SEC further alleged that the firm continued to conceal its improper accounting by making fraudulent quarterly certifications in connection with the offering.

- The SEC charged Diamond Foods, Inc., a snack foods company, and its former Chief Financial Officer (CFO) in an accounting scheme to falsify walnut costs in order to boost earnings and meet analyst estimates. The former CEO was also charged for his role in the company's false financial statements filed with the SEC, which included omitting material facts from representations to Diamond's outside auditors. Diamond agreed to pay $5 million to settle the SEC's charges. The former CEO, who returned or forfeited more than $4 million in bonuses and other benefits, also agreed to pay a $125,000 penalty to settle the SEC's charges.

- The SEC charged Lions Gate Entertainment Corp. with failing to fully and accurately disclose to investors a set of extraordinary corporate transactions that put millions of newly issued company shares in the hands of a management-friendly director in order to thwart a hostile takeover bid. Lions Gate admitted the facts underlying the misconduct and paid $7.5 million to settle the SEC's charges.

- The SEC used its authority under the "clawback" provision of the Sarbanes-Oxley Act of 2002 to require the former CEO of Saba Software, Inc. to reimburse the company $2.5 million in bonuses and stock profits he received while an accounting fraud occurred at the company. At the same time, the SEC charged Saba Software and two former executives behind the accounting fraud scheme in which U.S.-based managers directed consultants in India to falsify timesheets so that the company could achieve quarterly revenue and margin targets. Saba Software agreed to pay $1.75 million to settle the SEC's charges and the two former executives agreed to settle the case as well. The clawback provision does not require a finding that a CEO personally engage in misconduct in order to trigger a reimbursement obligation.

Gatekeepers

Enforcement remained focused on gatekeepers to our financial system, including attorneys, accountants, fund directors, board members and other industry professionals who play a critical role in the functioning of the securities industry. Gatekeepers are integral to protecting investors in our financial system because they are best positioned to detect and prevent the compliance breakdowns and fraudulent schemes that cause investor harm. Actions against gatekeepers included:

- The SEC charged AgFeed Industries, Inc., an animal feed company, and eight of its executives with conducting a massive accounting fraud in which they repeatedly reported fake revenues from their China operations to meet financial targets and prop up the company's stock price. Among those charged was the company's U.S.-based audit committee chair who learned of the misconduct. The SEC alleged that instead of taking meaningful action after learning of the fraud, the audit committee chair, along with the company's CFO at the time, engaged in efforts to raise capital for expansion

and acquisitions. The SEC settled its charges against the former interim CEO, who agreed to be barred from serving as an officer or director of a public company, and paid a $100,000 penalty. A former CFO of the company who cooperated with the SEC's investigation also settled the SEC's charges by agreeing to an order suspending him from practicing as an accountant for at least five years. AgFeed subsequently agreed to pay $18 million to settle the SEC's charges. Under the proposed settlement, which is subject to court approval, the $18 million will be distributed to victims of the company's fraud.

- The SEC charged transfer agent Registrar and Transfer Company (R&T) and its CEO for violations of the registration provisions of the securities laws and failing to supervise firm employees who enabled an unlawful, unregistered distribution of the shares of Heathrow Natural Food & Beverage, Inc. Heathrow, a microcap company, was the subject of a "pump and dump" scheme orchestrated by its CEO, who the SEC also charged. An SEC examination of R&T revealed that it repeatedly failed to detect and address red flags in connection with more than 54 share issuance requests from Heathrow's CEO. R&T and its CEO agreed to settle the charges by paying a combined total of more than $150,000 and R&T's CEO also agreed to be suspended for 12 months from serving in a supervisory capacity with a transfer agent.

- The SEC charged Sherb & Co., LLP, an audit firm, and four auditors for their roles in the failed audits of three China-based companies. An SEC investigation found that Sherb & Co. and its auditors falsely represented in audit reports that their audits were done in accordance with U.S. auditing standards. In reality, the audits were replete with failures and improper professional conduct, and one of the companies they audited was charged by the SEC with financial fraud. To settle the charges, Sherb & Co. and the four individual auditors agreed to be barred from practicing as accountants on behalf of any publicly traded company or other entity regulated by the SEC, and the firm also agreed to pay a $75,000 penalty.

- The SEC also brought actions under a risk-based initiative internally designated "Operation Broken Gate," which seeks to identify auditors who may have violated the Federal securities laws or failed to comply with U.S. auditing standards during their audits and reviews of financial statements for publicly traded companies. This ongoing initiative has led to multiple actions against auditors and their affiliated firms, resulting in suspensions from auditing public companies.

Microcap Fraud

Enforcement sent a strong message that the SEC is bringing its resources to bear to halt microcap fraud. During the last fiscal year, Enforcement took proactive steps to combat microcap fraud by more frequently suspending trading in securities that are the objects of pump and dumps, targeting repeat players who help facilitate these schemes, and building on the SEC's relationships with its regulatory and law enforcement counterparts. Enforcement's efforts in this area included:

- Suspending trading in 255 dormant shell companies, any of which might have been the next vehicle for stock manipulators.

- Charging a penny stock promoter, who ran a pair of well-known websites that disseminated emails promoting penny stocks, with a fraudulent practice known as "scalping." The SEC alleged that the promoter disseminated emails to approximately 700,000 people recommending a penny stock, but the emails failed to disclose that the promoter held more than 1.4 million shares of the stock that he intended to sell immediately. The SEC obtained an emergency asset freeze to prevent the promoter from liquidating $1.9 million in trading profits he made from exploiting the run up in the price of a microcap stock he touted. The promoter settled the charges by consenting to a judgment that required him to pay $3.73 million in sanctions, barred him from participating in any penny stock offering, and enjoined him from recommending stocks without making certain disclosures.

- Charging four penny stock promoters for manipulating the securities of six different thinly-traded penny stock companies in an alleged $2.5 million scheme involving pre-arranged, manipulative matched orders and wash trades that created the illusion of an active trading market.

- Charging six penny stock promoters and the CEO of a microcap company in a joint law enforcement effort focused on penny stock fraud. The SEC alleged that

five of the penny stock promoters engaged in various manipulation schemes involving undisclosed payments to induce purchases of microcap stock to generate the false appearance of market interest. The same day, the SEC announced charges against a microcap company and its CEO for orchestrating a pair of illicit kickback schemes and an insider trading scheme involving the company's stock. The SEC also charged a sixth promoter for his role in the insider trading scheme.

Municipal Securities

In FY 2014, the SEC continued its focus on the municipal securities market, bringing significant, novel actions charging the full spectrum of market participants. Areas of focus this year included conflicts of interest, pay-to-play schemes, and a new initiative to encourage self-reporting of certain securities law violations by municipal issuers and underwriters.

- Enforcement launched the Municipalities Continuing Disclosure Cooperation (MCDC) initiative to encourage issuers and underwriters of municipal securities to self-report certain violations of the Federal securities laws relating to the continuing disclosure obligations specified in Rule 15c2-12 under the Exchange Act. Under the initiative, Enforcement agreed to recommend standardized, favorable settlement terms to settle actions with municipal issuers and underwriters who self-report violations.
- The SEC filed its first action under the MCDC initiative against Kings Canyon Joint Unified School District, which resulted in Kings Canyon settling charges concerning an inaccurate continuing disclosure affirmation made in connection with a 2010 bond offering. Kings Canyon consented to an order to cease and desist from committing or causing any future violations of Section 17(a) of the Securities Act and agreed to, among other things, adopt written policies for its continuing disclosure obligations.
- The SEC charged the state of Kansas with fraud for failing to disclose its multi-billion-dollar pension liability in bond offering documents, which created a repayment risk for investors in those bonds. Kansas settled the SEC's charges by consenting to an order requiring it to cease and desist from committing future violations. Kansas also adopted new policies and procedures to improve disclosures about its pension liabilities. This enforcement action stemmed from a nationwide review of municipal bond disclosures that had resulted in prior actions against the states of New Jersey and Illinois.

Investment Advisers

Investment advisers and the funds they manage remained a key focus of Enforcement during FY 2014. Enforcement brought actions against a wide range of investment advisers, including those who engaged in fraudulent conduct, had deficient compliance programs, and breached their fiduciary duties to their clients.

- The SEC charged Barclays Capital Inc. with failing to maintain an adequate internal compliance system to ensure the firm did not violate any Federal securities laws after its wealth management business in the U.S. acquired the advisory business of Lehman Brothers in September 2008. An SEC examination and subsequent investigation found that Barclays failed to enhance its compliance infrastructure to integrate and support the acquisition and rapid growth of the advisory business from Lehman. According to the SEC's order, the deficiencies in its compliance systems contributed to other securities law violations by Barclays. To settle the SEC's charges, Barclays agreed to pay a $15 million penalty and undertake remedial measures, including engaging an independent compliance consultant.
- The SEC charged Western Asset Management Company, an investment adviser, with fraud for concealing investor losses that resulted from a coding error and engaging in cross trading that favored some clients over others. Western Asset settled the SEC's charges by agreeing to distribute more than $17 million to harmed clients, to pay a $2 million penalty, and to retain an independent compliance consultant to address these failures.
- The SEC charged Ambassador Capital Management, an investment advisory firm, and its portfolio manager for deceiving the trustees of a money market fund and failing to comply with rules that limit risk in a money market fund's portfolio. The action stemmed from an ongoing analysis of money market fund data by the SEC's Division of Investment Management, which recognized that the performance of the money market fund was consistently different from the rest of the

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market. In September 2014, Enforcement received a favorable initial decision in this matter, which among other things, permanently barred Ambassador Capital from association with any investment company, censured the portfolio manager, and ordered Ambassador Capital and the portfolio manager to pay combined civil penalties of more than $800,000.

- The SEC charged three investment advisory firms for violating the "custody rule" that requires them to meet certain standards when maintaining custody of their clients' funds or securities. The SEC's investigation of these firms stemmed from referrals by the Agency's OCIE examiners. These investigations found that New York-based Further Lane Asset Management, Massachusetts-based GW & Wade, and Minneapolis-based Knelman Asset Management Group failed to maintain client assets with a qualified custodian or engage an independent public accountant to conduct surprise exams. The SEC also charged the CEO of Further Lane and the CEO and Chief Compliance Officer of Knelman for custody rule and other violations. All agreed to settle the charges and pay monetary sanctions in addition to other relief.

International Enforcement

In coordination with the SEC's Office of International Affairs (OIA), Enforcement continued to expand its international enforcement efforts. FY 2014 included several significant actions that involved cooperation with the SEC's law enforcement and regulatory counterparts both at home and abroad.

- The SEC charged global aluminum producer Alcoa, Inc. with FCPA violations related to illicit payments by subsidiaries to government officials in Bahrain to maintain a key source of business. The SEC alleged that more than $110 million in corrupt payments were made to Bahraini officials with influence over contract negotiations between Alcoa and a major government-operated aluminum plant. Alcoa agreed to pay $175 million to settle the SEC's charges as part of a $384 million settlement that also resolved a parallel criminal case announced by the United States Department of Justice (DOJ).
- The SEC charged Hewlett-Packard Company with violating the FCPA when its subsidiaries in Russia, Poland, and Mexico made improper payments in excess of $3.5 million to government officials to obtain or retain lucrative public contracts. Hewlett-Packard agreed to pay more than $31 million to settle the SEC's charges as part of a $108 million settlement with the SEC and the DOJ.
- The SEC charged Weatherford International Ltd. with violating the FCPA by authorizing bribes and improper travel and entertainment for foreign officials in the Middle East and Africa to win business, including kickbacks in Iraq to obtain United Nations Oil-for-Food contracts. Weatherford agreed to pay the SEC more than $65 million as part of a global settlement of more than $250 million to resolve the SEC's charges and parallel actions by the DOJ and three other agencies.

OIA continued to facilitate international cooperation and assistance to support the SEC's enforcement efforts. Among other accomplishments in FY 2014:

- OIA's Enforcement Cooperation Group handled 960 SEC Enforcement Division requests for international assistance, 548 requests for assistance from foreign regulatory and law enforcement authorities, and 878

tips, complaints and referrals (TCRs) with international aspects (incoming and outgoing).

- Through work with the International Organization of Securities Commissions (IOSCO), OIA worked to increase to 103 the signatories to the Multilateral Memorandum of Understanding (MMoU), which constitutes a net addition of six signatories from the end of FY 2013. The MMoU is the principal framework by which securities regulators around the world exchange information critical to the investigation and prosecution of cross-border securities violations.
- OIA also opened 30 formal investigations to assist the SEC's foreign regulatory counterparts.

Complex Financial Instruments

In FY 2014, the SEC brought a number of actions involving complex financial instruments, which built on the SEC's already strong record of pursuing financial crisis-related cases.

- The SEC charged Bank of America Corporation with failing to disclose known uncertainties about potential increased costs related to mortgage loan repurchase claims stemming from more than $2 trillion in residential mortgage sales. Bank of America admitted this failure and agreed to settle these charges in addition to securities fraud charges that the SEC filed in 2013 relating to a residential mortgage-backed securities (RMBS) offering. The bank agreed to pay $245 million to resolve the SEC's charges as part of a major global settlement with the DOJ and other government agencies.
- The SEC charged RBS Securities Inc., a subsidiary of the Royal Bank of Scotland plc, with misleading investors in a 2007 subprime mortgage-backed security offering. The SEC alleged that RBS represented that the loans backing the offering generally met the lender's underwriting guidelines even though nearly 30 percent of the loans fell short and should have been excluded from the offering. According to the SEC's complaint, this gave investors a misleading impression of the quality of the loans backing the offering and the likelihood of their repayment. RBS agreed to pay more than $150 million to settle the matter, which will be used to compensate harmed investors.
- The SEC also charged three Morgan Stanley entities with misleading investors in two RMBS securitizations that the firms underwrote, sponsored, and issued. The SEC's order found that Morgan Stanley misrepresented the current or historical delinquency status of mortgage loans underlying the two securitizations. Morgan Stanley agreed to settle the charges by paying $275 million, which will be distributed to harmed investors.

Pursuing Compliance-Based Violations

In FY 2014, the SEC brought a number of large, complex cases, but also remained focused on pursuing smaller, compliance-related violations through streamlined investigative and settlement approaches.

- Enforcement's Compliance Program Initiative, which targets firms that have been previously warned by SEC examiners about compliance deficiencies but failed to effectively remediate them, generated actions in which the SEC sanctioned three investment advisory firms for repeatedly ignoring problems with their compliance programs. The firms settled the SEC's charges by agreeing to pay financial penalties and hire compliance consultants.
- In another noteworthy effort, the SEC charged 34 individuals and entities in a novel Enforcement initiative designed to root out those who repeatedly fail to comply with Federal securities laws requiring them to promptly report information about their holdings and transactions in company stock. Enforcement staff used quantitative data analytics to identify individuals and companies with especially high rates of filing deficiencies. All but one of the 34 individuals and companies charged agreed to settle the charges and pay financial penalties totaling $2.6 million.
- Enforcement also continued its successful initiative to target violations of Rule 105, an anti-manipulation rule that prohibits firms from improperly participating in public offerings after short-selling those same stocks during a restricted period – generally five business days before a public offering. In a second sweep under this initiative, the SEC obtained a combined total of more than $9 million in disgorgement, interest and penalties in settlements with 19 firms and one individual trader for their Rule 105 violations.

Trial Victories

Enforcement had a number of important trial victories in FY 2014.

- After a lengthy trial, a jury returned a verdict in favor of the SEC on all claims in its action against two corporate insider brothers. The SEC alleged that the brothers engaged in a 13-year fraudulent scheme to hold and trade tens of millions of securities of public companies while they were members of the boards of directors of those companies, without disclosing their ownership and their trading of those securities. The SEC also alleged that the brothers realized gains in excess of $550 million as a result of the scheme. Prior to trial, the brothers' former attorney, who was also charged by the SEC, agreed to settle the SEC's charges by admitting certain facts, paying almost $795,000 in disgorgement and prejudgment interest, and consenting to an order suspending him from appearing or practicing as an attorney before the SEC. Following the liabilities and remedies phase of the trial, the court issued an opinion and order requiring the brothers to pay disgorgement totaling more than $187 million in addition to prejudgment interest for the entire period of the fraud.

- Following a five-week trial, a jury returned a verdict in favor of the SEC on its fraud claims against a Minneapolis attorney; a real estate finance fund; and the fund's manager, which the attorney owned. The SEC alleged that the defendants engaged in securities fraud in connection with their offer and sale of interests in the real estate fund. The attorney and the other defendants raised over $21 million from investors while making materially false and misleading statements that effectively hid the real estate fund's deteriorating financial condition. In June 2014, the court issued an order imposing permanent injunctions against all three defendants, barring the attorney from serving as an officer or director of a publicly-traded company for a period of ten years, and imposing financial sanctions exceeding $14.5 million against the real estate fund, $3.3 million against the attorney and the fund's advisor, jointly and severally, and $1.8 million against the attorney individually.

- The SEC won its jury trial against a Connecticut-based hedge fund manager and his firms, which he used to facilitate a multi-billion dollar Ponzi scheme operated by Minnesota businessman. The SEC alleged that the fund manager funneled several hundred million dollars of investor money into the scheme and falsely assured investors that their money would be protected. In September 2014, the court issued an opinion and order imposing permanent injunctions and monetary sanctions of over $80 million against the fund manager and his firms.

- The SEC obtained a jury verdict in its favor on all counts against AIC, Inc., Community Bankers Securities, LLC, and an individual who was their founder, President and CEO. The SEC alleged that the founder devised and orchestrated an offering fraud in which he sold millions of dollars of AIC promissory notes and stock. The defendants misrepresented and omitted material information to investors, many of whom were elderly, about a variety of important matters, including the safety and risk, associated with the investments. In August 2014, the court issued an opinion and final judgments against the defendants imposing permanent injunctive relief, disgorgement and prejudgment interest, and civil penalties. Altogether, the court imposed nearly $70 million in disgorgement, prejudgment interest, and civil penalties against the defendants and relief defendants.

- In August 2014, a jury returned a verdict against Sage Advisory Group, LLC and its principal in a fraud case filed by the SEC. The SEC charged that the principal engaged in a scheme to induce his former brokerage customers to transfer their assets to Sage, his new advisory firm. The SEC further charged that the founder made a number of materially false and misleading statements to his customers about moving their accounts to his new firm and that the founder failed to disclose that the switch would result in significant savings that would flow to him and Sage rather than the advisory clients.

Continued Excellence in the Examination Program

OCIE plays a critical role in protecting investors and the integrity of our capital markets. Every year, OCIE examiners conduct risk-based examinations of many kinds of registered entities, including broker-dealers, investment advisers, investment companies, national securities exchanges, self-regulatory organizations (SROs), transfer agents, and clearing agencies

to evaluate their compliance with applicable regulatory requirements. OCIE uses the findings from these examinations to address deficiencies directly with registrants and, more broadly, to improve industry compliance, detect and prevent fraud, inform policy, and identify risks.

In FY 2014, OCIE conducted more than 1,850 formal examinations of registrants, an increase over each of the prior four fiscal years. As described below, in addition to examinations, OCIE also performed thousands of desk reviews to evaluate the business activities of its registrants. OCIE's examinations resulted in the return of more than $40 million to investors. More than $300 million in fines, penalties, and disgorgement was assessed as a result of enforcement actions concluded in FY 2014 that involved a referral to Enforcement from an OCIE examination.

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Developing Technology and Data Analytics

In FY 2014, OCIE continued to make significant enhancements in data analytics. This effort has made OCIE more efficient and effective in analyzing massive amounts of data from registrants to detect potential violations of laws, rules, and regulations.

For several years, OCIE's Risk Assessment and Surveillance Group (RAS) has aggregated and analyzed data from SEC filings concerning registrants and individuals to identify activity that may warrant examination. In FY 2014, RAS significantly expanded its data analysis and monitoring efforts to surveil data from sources internal and external to the Commission, including, for example, data collected by or filed with other regulators, SROs, and exchanges; and information that registrants provide to data aggregators, regarding, for example, their business activities and marketing-related efforts. This expanded data collection and analysis has not only enhanced OCIE's ability to identify operational red flags throughout entire industries – such as firms with aberrant swings in reported assets under management, changes in key individuals, business activities, and affiliates, and other possible indicia of heightened risk – but has also enabled examiners to better understand each firm's business activities prior to conducting an examination.

Other OCIE teams have also leveraged technology to evaluate large amounts of data for signs of fraud and suspicious activity. OCIE has hired highly skilled technologists in its Quantitative Analytics Unit (QAU) to develop tools that bring powerful analytic capabilities to each examiner in the National Examination Program. In FY 2014, the QAU developed the "National Exam Analytics Tool," commonly referred to as "NEAT," which enables examiners to access and systematically analyze years' worth of a registrant's trading data in minutes. NEAT replaced what was formerly a labor-intensive process that often consumed weeks or months of examiner time and resulted in a sampling of a limited time period of such data, as opposed to the systematic and complete analysis of years' worth of data that NEAT facilitates. QAU has also been developing technologies to help examiners detect suspicious activity in areas such as money laundering and high frequency trading that will further expand and enhance OCIE's capabilities to fight and deter fraud.

OCIE's Risk Analysis Examination Group (RAE) has also leveraged technology to examine clearing firms and large broker-dealers. The RAE team analyzes all transactions cleared by selected firms over a period of years and then subjects that data to a broad range of queries designed to identify problematic behavior. Applying such methods, the RAE team identified a wide range of problematic behavior across multiple firms, including unsuitable recommendations, misrepresentations, inadequate supervision, churning, and reverse churning. In FY 2014, RAE collected and analyzed approximately 1.3 billion transactions from 350 firms, which, in turn, resulted in referrals for focused examinations by OCIE and investigation by Enforcement.

Continuing to Promote and Improve Industry Compliance

OCIE improves industry compliance with the Federal securities laws and promotes better industry risk management practices through examinations, communication, and outreach initiatives with the industry. In FY 2014:

- OCIE published its second annual public statement of examination priorities to inform investors and registrants about areas that the staff believes present heightened risk and to support the SEC's mission. The examination priorities were selected through a collaborative process in which OCIE's senior management and senior representatives of other SEC Divisions and Offices worked side-by side to analyze and perform a risk-based assessment of a voluminous amount of information from a number of sources. These sources included information reported by registrants in required filings, as well as information gathered through examinations; communications with other Federal, state and foreign regulators; comments and tips received from investors and registrants; data maintained in third-party databases; interactions with registrants, industry groups, and service providers outside of examinations; and industry and media publications.
- OCIE issued public "Risk Alerts," one of which summarized OCIE staff observations on due diligence practices of certain investment advisers that manage or recommend alternative investments to their clients, and the other of which provided information about OCIE's initiative to assess cyber-security preparedness.
- OCIE conducted over 55 outreach conferences with the industry and securities regulators, both regionally and nationally, and OCIE staff appeared at more than 240 events in order to promote transparent communications and coordination among industry participants and regulators.
- OCIE engaged directly with senior management, heads of control functions, and independent directors of the largest broker-dealer holding companies and management organizations to emphasize the critical role of compliance in those institutions' enterprise risk management.
- OCIE launched a number of focused examination initiatives to promote compliance and increase awareness of regulatory risks with certain entities. For example, OCIE commenced an initiative to examine investment advisory firms that have been registered with the Commission for at least three years, but have not yet been examined. OCIE also commenced an initiative to focus on newly registered Municipal Advisors that registered under SEC rules, which went into effect during FY 2014.

Continuing to Identify and Prevent Fraud

OCIE identifies and prevents fraud and other misconduct through examinations. When OCIE uncovers information in an examination that establishes or suggests misconduct, examiners refer the matter to Enforcement for investigation and appropriate action. In FY 2014, OCIE made more than 200 referrals, many of which resulted in enforcement investigations and/or actions. Notable examples of enforcement actions that have involved OCIE referrals include:

- The Commission charged a Detroit-based investment advisory firm, Ambassador Capital Management (ACM), and a portfolio manager for deceiving the trustees of one of ACM's money market funds and failing to comply with rules that limit risk in a money market fund's portfolio.
- Based on a referral from OCIE, the Commission charged Liquidnet, Inc., the operator of an ATS, commonly known as a "dark pool," for failing to protect its clients' confidential trading information.
- An OCIE examination resulted in the SEC charging the operators of a South Florida-based boiler room scheme with defrauding seniors and other investors, whom they pressured into purchasing stock in a company that purportedly developed ground-breaking technology for the National Football League to use in the Super Bowl. The SEC alleged that two business partners induced investors into investing over $2.4 million in a Miami Beach-based company, Thought Development Inc. (TDI), by representing that their investments would be used to develop TDI's technology. In fact, 75 percent of the offering proceeds were allegedly retained by the respondents' own company or paid to sales agents through undisclosed commissions and fees.
- Based on facts discovered during an OCIE examination of Manhattan-based private equity adviser Camelot Acquisitions Secondary Opportunities Management (Camelot), Enforcement obtained an emergency court order to freeze the assets of Camelot, its principal,

another individual, and three entities involved in the alleged theft of more than $9 million in investor funds.

- In a matter involving a transfer agent, Illinois Stock Transfer Company, and its owner, OCIE examiners determined that the firm and its owner were misusing funds belonging to corporate clients and the clients' shareholders to fund payroll and business obligations. OCIE promptly referred the matter to Enforcement, which resulted in a Commission action to freeze assets and place control of the transfer agent under a court-appointed third-party receiver.
- In a matter involving a broker-dealer, based on a referral from OCIE, the SEC charged an employee of that broker-dealer, with misappropriating hundreds of thousands of dollars from elderly clients.
- In a matter involving another broker-dealer, Crucible Capital Group, Inc., OCIE examiners determined that the broker-dealer submitted falsified financial records to OCIE staff. Accordingly, OCIE referred the matter to Enforcement, which ultimately resulted in charges against the firm for failing to maintain minimum net capital and failing to maintain accurate records.
- Based on examination referrals from OCIE, the SEC charged several investment advisers for violating the "custody rule" under the Investment Advisers Act of 1940. The custody rule promotes the safety of investor assets by requiring advisers to meet certain standards when maintaining custody of their clients' funds or securities. The SEC alleged that New York-based Further Lane Asset Management, Massachusetts-based GW & Wade, and Minneapolis-based Knelman Asset Management Group failed to maintain client assets with a qualified custodian or engage an independent public accountant to conduct surprise exams. The SEC also charged the CEO of Further Lane and the CEO and Chief Compliance Officer of Knelman for custody rule and other violations. All agreed to settle the charges and pay monetary sanctions in addition to other relief.

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

Continuing to Inform Policy

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

- OCIE provided substantial input into the Commission's Dodd-Frank rulemaking process participating in more than 15 working groups to interface with the policy divisions on such rulemaking. OCIE's Dodd-Frank rulemaking involvement was most notable in the following areas:
  - the final rules for municipal advisors;
  - the proposed rules related to Title VIII concerning payment, clearing and settlement supervision; and
  - the proposed rules under Title VII concerning swap data repositories and cross-border swap transactions.
- In addition to its valuable contributions to Dodd-Frank rule-making, OCIE staff also participated in several other rule-makings, which are in various stages, including the crowdfunding JOBS Act-related rule-makings, Regulation SCI, the money market reform rules, the transfer agent concept release, and removal of references to credit rating agencies.
- OCIE also provided useful information from examinations to the rule-making divisions of the SEC for a number of other purposes. For example, OCIE staff highlighted to rule-making divisions instances in which, based on observations in examinations registrants have misinterpreted the rules and instances in which more guidance may be needed. OCIE staff also provided valuable insight into certain risk management practices and profiles.

Continuing to Identify New and Emerging Risks

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

- OCIE has continued to expand the use of targeted examinations as a technique to identify and address higher risk activities such as, for example:
  - the potential misuse by mutual funds of payments to intermediaries as payment for distribution;
  - the use of purported "alternative" investment strategies by registered investment companies;
  - the fulfillment of fiduciary and contractual obligations by investment advisers when advising wrap fee programs;
  - compliance with exemptive orders and relevant no-action letters in securities lending arrangements;
  - representations of investment advisers and broker-dealers and sales practices when recommending to customers a movement of retirement plan assets into rollover vehicles;
  - broker-dealers' compliance with Exchange Act Rule 15c3-5 when having direct market access to exchanges or ATSs; and
  - cyber-security practices of broker-dealers and investment advisers.
- OCIE continued its monitoring and examination efforts with respect to some of the nation's largest broker-dealers. Among other things, OCIE has coordinated efforts within the Commission and with other regulators to increase coverage in important areas affecting these broker-dealers, such as operational risk, technology governance, automated trading and controls, liquidity risk management, and effectiveness of control functions, including strategic initiatives to remediate control deficiencies and meet future enhanced requirements.
- RAS has continued to devote significant resources to help guide OCIE's risk-based examination strategy across the following program areas: broker-dealer, investment adviser, investment company, and market oversight. In addition to RAS' development of its data gathering and analytics described above, other examples of RAS' efforts include:
  - close collaboration with the regions and others throughout the Commission, including the Division of Economic and Risk Analysis (DERA) and the rule-making offices, to focus examinations on registrants and practices that pose the greatest risk to capital markets and investors;
  - ongoing surveillance of registrants and markets and communicate risks to OCIE staff; and
  - enhancing information gathering and data analysis techniques to use information submitted by private fund advisers on Form PF, as well as information about disciplinary and employment histories of bad actors in the financial industry to utilize such intelligence to identify risks to investors and the markets.
- OCIE's QAU has continued to develop OCIE's quantitative system architecture through software projects. In addition to the QAU-developed NEAT, the QAU has supported individual exam teams in OCIE's Investment Adviser/Investment Company examination program nationwide, the development of improved risk identification methods, and collaboration with DERA and RAS.
- OCIE's Technology Controls Program (TCP), the successor to the Division of Trading and Markets' (Trading and Markets) Automated Review Program, continues to develop its technology controls examination program. OCIE has leveraged TCP's strong technology knowledge base to support other examination programs nationally, including by serving as technical risk experts for exam teams. TCP has also regularly liaised with other regulators to share identified technology risks and communicate those to OCIE's examination programs as appropriate.
- OCIE's Office of Market Oversight continued its successful approach to monitoring and assessing risk at the national securities exchanges and FINRA. Examinations in this area included reviews of the regulatory service

agreements and equity order types at the exchanges, and FINRA district offices, as well as FINRA home office enforcement. The Market Oversight Office also conducted examinations of many registrants to ensure compliance with Section 31 of the Exchange Act, which requires each SRO to pay certain fees to the Commission based on the aggregate dollar amount of certain sales of securities.

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

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

Promoting Effective Disclosure

Effective disclosure is crucial to informed investment decision-making. In FY 2014, the Divisions of Corporation Finance (Corporation Finance) and Investment Management continued to work to ensure that companies disclose material information appropriately and effectively.

- Through its review program, Corporation Finance continued to improve the effectiveness of company disclosures and enhance investor protection through focused comments on periodic reports and offering documents, including the registration statements for several high-profile initial public offerings.

- Corporation Finance has continued to look at ways to improve the quality and consistency of its comments as well as the overall effectiveness of its filing review process.

- Corporation Finance also published significant interpretive guidance to assist companies in improving their disclosures, such as updates to Corporation Finance's Financial Reporting Manual and the publication of guidance reminding CFOs of the need to properly tag and report their company financial information in eXtensible Business Reporting Language (XBRL).

- Corporation Finance launched efforts to identify ways to make disclosure rules more effective. The staff will continue its comprehensive review of the disclosure requirements and make recommendations on how to update them to facilitate timely, material, and more meaningful disclosure by companies to their shareholders. As part of this review, staff members are coordinating with the Financial Accounting Standards Board to identify ways to improve the effectiveness of disclosures in corporate financial statements, and to minimize duplication with other existing disclosure requirements.

- Investment Management continued to protect investors and promote informed investment decisions through review and comment on disclosures of mutual funds, exchange-traded funds, variable annuities, and other investment companies. In its review of investment company disclosures, Investment Management focused on a number of areas, including fees, investment strategies, and industry trends such as the growth in "alternative" mutual funds, the use of derivatives by funds, and changes to existing variable annuity products.

- Investment Management monitored fund industry operations that could be affected by certain world events, including fund exposures to Russia-related securities and the potential impact on liquidity, valuation, and the risk disclosures provided to investors. Investment Management also focused on exchange-traded funds (ETFs) creation and redemption activity, liquidity, spreads, and risk planning in light of Office of Foreign Assets Control (OFAC) sanctions. In addition, following the downgrade of certain Puerto Rican municipal securities, Investment Management monitored funds' exposure to that debt and related risk disclosures.

- Investment Management published Guidance Updates on several topics related to disclosures, including the use of fund names that suggest safety or protection from loss.

An Ongoing Commitment to Robust Economic Analysis

DERA has continued its use of sophisticated and transparent economic analysis to support a broad range of Commission activities. DERA's data-driven economic analyses, which inform rulemakings and other policy initiatives, garnered praise broadly and in the context of specific rulemakings. The Division also supports many data-driven initiatives and programs, including risk assessment activities and the use of structured data, and leads a significant effort to process data and develop data analytics. The DERA staff includes a broad spectrum of experts, including PhD financial economists, accountants, statisticians, database administrators, operational research analysts, attorneys, and program managers, and works with nearly every division and office throughout the Agency.

Incorporating Economic Analysis in Rulemaking

DERA's financial economists and other market experts are fully integrated into the Commission's rulemaking process. From the earliest stages of policy development, economists provide economic insights to inform Commission action.

- Economists were closely involved in the development of the money market fund reform rulemaking adopted by the Commission. The fully integrated economic analysis reflected in that rulemaking contained sophisticated qualitative and quantitative analyses of the potential impact and economic effects of the Commission's policy choices.
- DERA staff continued its data-driven approach to analyzing issues related to the application of the Dodd-Frank Act Title VII rules to cross-border security-based swaps. Using data on the credit default swaps market, DERA provided a number of novel data analyses of the characteristics of the security-based-swaps market to better understand the impacts of the Commission's rules.
- DERA is also part of several cross-agency monitoring efforts, including those related to private offerings, money market funds, and credit default swaps. DERA staff collaborates closely with colleagues in Corporation Finance, Investment Management, and Trading and Markets to ensure the ongoing availability of data related to market activity in these, and other, areas.

Engaging in Cutting-edge Research

DERA staff produces papers and studies on significant economic issues to help support the Commission's mission. These staff-authored white papers and memoranda are publicly available on the DERA website and are often cross-referenced in Commission rulemakings or other policy initiatives. These papers showcase DERA's expert staff's academically rigorous, research that informs policy as it is being developed. Notable contributions include:

- Two significant papers on ATS and over-the-counter (OTC) trading, which were cross-posted on the SEC's new market structure website. These papers provide new and sophisticated data analyses of the off-exchange market. The first white paper provided the first publicly available measurement of ATS market share that did not rely on self-reported data. It also documented that trade sizes in dark pools appear surprisingly similar to trade sizes on exchanges, despite assertions that these venues are used to effect block transactions. The second white paper focused on a little-studied area, examining the off-exchange market other than ATSs. That paper found that the non-ATS portion of the off-exchange market is a larger share of the market than the ATS portion. Contrary to the prevailing belief that this part of the market is largely retail, the paper finds that while a few "retail" market makers seem to capture a large portion of the non-ATS off-exchange volume, other trading comprises the majority of off-exchange, non-ATS trading. Additional papers are planned as part of this series and will directly inform the Commission's ongoing study and regulation of market structure.
- In a series of memoranda related to money market fund reform, DERA staff analyzed a variety of issues relevant to the Commission's consideration of further reform of money market funds. They addressed questions as to: (1) the increase in average liquidity cost for trades made during the financial crisis of 2008 relative to normal times for securities equivalent to what money market fund portfolios contain; (2) how much exposure municipal money market funds have to parents of guarantors of assets held by money market funds; (3) the usage of non-government securities by government funds; and (4) the impact, given the evidence of the supply and demand of

global safe assets, of adopting more stringent portfolio requirement for government money market funds on that market. These memoranda were made available for comment by interested parties and then directly informed the final rulemaking.

- DERA's former Chief Economist and two other DERA economists authored a white paper on interconnectedness in the credit default swap ("CDS") market. That paper studied the structure of the CDS market using connections based on a variety of metrics, and provided statistics that characterized the CDS market, the degree of counterparty concentration, and size of different contracts, and underlying contractual features. The paper directly informs the ongoing and important discussions regarding the structure and resulting fragility or stability of the CDS market as well as studying potential contagion among its participants.
- DERA staff issued a white paper on computing tools for promoting sound investment decisions, which introduced a computing tool that can assist individual retail investors to better assess the risk and return characteristics of their portfolios by displaying simulated portfolio returns.

DERA's economists and accountants also publish original research on topics germane to the SEC's mission in a range of economic, finance, and accounting journals. They frequently participate in conferences by presenting this research, critically discussing the work of others, and moderating research sessions. Through these efforts, DERA staff maintains an awareness and understanding of significant financial market issues and potential solutions to potential failures or risks. These articles and presentations showcase the staff's expertise, inform the public of new and interesting work, and ensure an ongoing exchange of ideas with the academic community. By producing cutting-edge research and engaging the academic community of financial researchers, DERA staff incorporates the most recent market insights into their work at the Commission and receives valuable feedback on that work from the academic community. This interplay helps ensure that the SEC's rulemaking, surveillance activity, and examination work keep pace with industry innovations and financial market risks.

- DERA hosted more than 19 academics from leading universities around the country to present their research at the SEC, covering topics that included securitization, OTC derivatives, high frequency trading, dark pools, executive compensation, fair value accounting, credit ratings, and systemic risk, ensuring that these new scholarly insights were accessible to staff from across the SEC.
- On an ongoing basis, DERA also facilitates a variety of programs to bring market experts to the SEC. Leading academics frequently present their work through the DERA Seminar Series and Brown Bag Series. In FY 2014, DERA organized an Outside Perspective Series, which features SEC-wide lectures from both academic and industry experts. DERA has also recently established a Visiting Scholar Series where prominent academics visit the DERA for a week and present research and training seminars to the staff.
- DERA staff has published numerous articles and participated in each of the major conferences on securities market issues.

Continuing the Commitment to Structured Data

DERA has continued to deploy its expertise to support the use of structured data across the Commission. DERA staff works closely with various divisions and offices to provide technical input on the structuring of Commission forms, providing expert input on the content and structure of the forms. These efforts are central to ensuring that the information submitted to the Commission is useable and accessible by investors and other users.

Further, in its commitment to ensuring that the data submitted to the Commission through forms and filings is useful to investors, market participants, and the Commission, DERA staff are monitoring the quality of the submitted XBRL data. Throughout the year, DERA staff conducted a variety of outreach efforts such as conferences, webcasts, and frequently asked questions, or "FAQs," to provide further guidance to filers regarding XBRL related issues.

- The staff recently completed an initial assessment of custom tag rate use in XBRL exhibits and posted the results on the SEC XBRL website. Among the findings, staff reported that some of the perceived quality issues associated with XBRL data are related to third-party

providers of XBRL software and services, but that overall, there has been a steady decline in custom tag use by larger filers, indicating improvements in the U.S. GAAP taxonomy and companies' selections of tags. The study also highlighted that many of the reporting challenges reside with smaller filers.

- The staff also completed an assessment of required calculations in XBRL exhibits, observing that smaller filers accounted for 98 percent of filers with problematically low submissions of required calculations, with the vast majority using the same three third-party providers. Based on DERA staff's assessment, Corporation Finance published guidance to CFOs on the need to tag and report financial information properly.

Supporting Sophisticated Data-Driven Analytics

In September 2013, DERA launched its Quantitative Research Analytical Data Support ("QRADS") Program. This program focuses significant contractor support on a variety of complicated data-driven initiatives, in particular, the generation of standardized quantitative reports of financial markets and registrant activity, and the refinement of large and sophisticated datasets needed for Commission rulemaking and risk assessment activities. As with many of DERA's initiatives, this program engages staff from across the agency in a broad effort to proactively identify the types of data and data analytics that are key to understanding the capital markets. The program is flexible and is designed to meet the growing and changing data needs of the Commission. Currently, QRADS is processing and analyzing FINRA-produced financial market data, OTC market transactions data involving security-based swaps, and mutual fund flow data. The availability of this kind of consolidated data will allow for proactive identification of market issues, including the build-up of pockets of risk in the financial market and a better understanding of asset flows.

Developing Tools to Identify Financial Market Risks

DERA staff continues to develop and use sophisticated tools and data analytics to support the risk assessment activities of various offices and divisions. For example, DERA works closely with Enforcement's Financial Reporting and Audit Task Force and with Corporation Finance to assist in identifying financial reporting irregularities that may indicate financial fraud and help assess corporate issuer risk. In addition, DERA continues its already-robust support of OCIE and Enforcement with the deployment and ongoing refinement of data-driven tools that assist with risk-targeting firms and issues for inquiries, investigations, and examinations. Importantly, by developing these models in close collaboration with staff in these other divisions and offices, DERA staff is able to incorporate feedback from SEC staff to help ensure that the models are effective in assisting staff to identify potential risks.

Protecting Investors Through Education

Providing investors with the information they need to avoid securities fraud and make informed investment decisions remained a high priority for the Commission in FY 2014. The SEC's Office of Investor Education and Advocacy (OIEA) continued to support the Commission's investor protection mission by:

- posting educational content to Investor.gov, which was recognized by a popular global business magazine on its list of "5 Federal websites people use (and actually work)" based on the website's high customer satisfaction scores, which significantly exceeded Federal government benchmarks. Investor.gov attracted over one million new visitors, an increase of 140 percent compared to FY 2013, due in part to its growing digital and social media presence, including over 40,000 followers on Twitter;
- publishing a record number of 28 investor alerts and bulletins warning investors of possible fraudulent schemes, including affinity fraud and schemes involving virtual currencies, and educating them on investment-related matters;
- conducting in-person outreach, in partnership with FINRA, state securities regulators, law enforcement agencies, and outside groups; and
- distributing educational publications through the General Services Administration's Federal Citizen Information Center.

In addition, OIEA continued to handle investment-related complaints and questions from tens of thousands of individual investors, participated in the Elder Justice Coordinating Council

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

and supported IOSCO's Committee on Retail Investors, whose primary mandate is to conduct policy work on retail investor education and financial literacy.

Continued International Collaboration

In today's global securities markets, internationally active registrants and cross-border transactions are commonplace. As part of the SEC's effort to ensure rigorous oversight of the U.S. market, it continues to focus on coordinated international approaches in key regulatory areas. The work of the SEC staff is mainly coordinated through OIA's Regulatory Policy Group. Through its work with IOSCO, the Financial Stability Board (FSB) and the OTC Derivatives Regulators Group, among others, the SEC continues to promote international regulatory convergence toward high-quality standards and practices.

In FY 2014, the SEC worked tirelessly with its international counterparts to address regulatory issues of common interest. Such issues included considering the impact of minimum haircuts for certain secured financing transactions on financial stability, seeking understandings on key elements for developing consistent approaches to regulating participants in the OTC derivatives market, reducing reliance on credit ratings, developing and refining toolkits for cross-border regulation of internationally active entities, and bringing securities market regulator expertise to bear in ongoing assessments and peer reviews of financial regulatory reforms by IOSCO, the FSB and other international bodies.

Enhanced Operational Efficiencies

Strong operational performance, financial controls, and information systems allow the SEC to maximize the impact of its staff, resources and budget in pursuit of the agency's vital mission. The SEC's Office of the Chief Operating Officer (OCOO) continues to significantly improve performance in each of these areas.

Improved Financial Management and Performance

- OCOO employed strategic sourcing initiatives to produce cost savings in a number of ways, such as negotiating better, longer-term and less costly contracts, and broadening the search for diverse suppliers with competitive prices. In FY 2014, 75 percent of contract dollars were awarded competitively, and 57 percent of eligible spending dollars went to small businesses.
- OCOO reorganized and restructured the agency's Library, realigned staff and purged outdated materials, dramatically reducing the library's footprint and operating budget.

- In addition, OCOO continued to optimize the SEC's space utilization rate through consolidation and realignment of office space, leveraging benefits from the agency's expanded telework program.

Investing in Talent

- The SEC's Office of Human Resources (OHR) streamlined the hiring process and reduced the hiring timeline by 10 percent between the first and fourth quarter of FY 2014.
- OHR continued to build a comprehensive suite of e-learning, training, and educational resources for employees covering securities market structure and trading issues, legal and accounting skills, management strategies and other areas needed for effective operations, investor protection, and regulatory oversight.

Technological Advancements

- The SEC continues to modernize its technology systems, enhancing agency effectiveness, public responsiveness and oversight of the financial markets.
- The Office of Information Technology made further enhancements to the sec.gov website – the general public's primary portal to the SEC. The website now offers 148,000 static web pages and 21 million company filings and, with more than 1.2 billion hits per month, has become the most visited government website.
- The agency upgraded its TCR Intake and Resolution System to allow the public to submit tips and documentation regarding suspicions or evidence of wrongdoing in a more user-friendly manner, and to provide SEC staff the ability to access real-time, centralized TCR data and apply more robust analytics tools.

These technological capabilities further augment ongoing IT upgrades, efficiencies and contract renegotiations, which are yielding operations savings of millions of dollars a year.

Looking Forward

In FY 2015, the SEC will continue to promote, policies and programs to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. The agency will continue to build upon its robust enforcement and examination programs using innovative data analysis and cutting-edge technology. The SEC will also continue to make progress on important rulemakings – both those mandated by Congress and those that cover other mission-critical areas; and will push forward on initiatives to strengthen the resiliency and operational integrity of our securities markets. In FY 2015, the SEC will also strive to enhance its operations, bolster its investor outreach and use sophisticated data analytics to improve its efficiency and effectiveness.

Rulemaking for a Dynamic Economy

In the coming fiscal year, the Commission will seek to complete the remaining major rulemakings required by the Dodd-Frank and JOBS Acts. As this rulemaking is completed, the SEC will also continue to focus on discretionary rulemaking in areas of critical importance for investors and other market participants, including asset management, equity and fixed income market structure, and financial infrastructure.

The Dodd-Frank Act

With over 90 percent of the required rules proposed or adopted, the Commission is nearing the completion of its Dodd-Frank rulemaking in many key areas. In FY 2015, the SEC will strive to advance the final rules required to build a more stable and transparent financial system by:

- continuing to implement the comprehensive regulatory framework for over-the-counter derivatives market called for by the Dodd-Frank Act, including the adoption of rules for regulation of market participants, mandatory clearing, and transaction reporting and execution, as well as rules establishing the SEC's approach to the cross-border aspects of that market;
- accelerating the implementation of the provisions of the Dodd-Frank Act related to executive compensation, including the disclosure requirements regarding the ratio of CEO compensation to median employee pay, pay for performance, employee and director hedging, and compensation clawbacks;
- developing revised rules to require reporting issuers engaged in the commercial development of oil, natural gas, or minerals to disclose in an annual report certain payments made to the United States or a foreign government;
- targeting the removal of the final references to credit ratings in SEC rules and forms;
- evaluating recommendations from a staff report to consider a uniform fiduciary standard of conduct for investment advisers and broker-dealers when providing personalized investment advice to retail investors about securities, as well as ways to better harmonize the regulatory requirements of investment advisers and broker-dealers when they are providing the same or substantially similar services to retail investors; and
- advancing the remaining reviews, studies and reports required by the Dodd-Frank Act, including a review of the important definition of the term "accredited investor" to determine whether there should be any adjustments or modifications to it.

The JOBS Act

The SEC is also working to complete the remaining rulemakings required by the JOBS Act, encouraging greater capital formation for small businesses and emerging growth companies while preserving strong investor protections by:

- seeking to adopt final rules to implement exemptions under the Securities Act for securities-based crowdfunding offerings and offerings conducted pursuant to "Regulation A+";
- considering final amendments to enhance the Commission's ability to evaluate the development of market practices in Rule 506 offerings and to address concerns that may arise in connection with permitting issuers to engage in general solicitation and general advertising in such offerings;

- continuing to work to implement the changes to the thresholds for registration and deregistration under Section 12(g) of the Exchange Act, which were effective immediately upon enactment of the JOBS Act; and
- continuing to provide interpretive guidance to issuers and their advisers on the implementation and application of the JOBS Act, and review emerging practices in the securities market following the implementation of JOBS Act rules.

Other Major Regulatory Initiatives

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

- advance a comprehensive set of rules for improving equity market structure, including through enhanced oversight of trading algorithms, dealer registration requirements for active proprietary traders, membership requirements for dealers that trade in off-exchange venues, enhanced order routing disclosures by broker-dealers, expanded public information concerning alternative trading system (ATS) operations, and an anti-disruptive trading rule applicable to active proprietary traders to address the use of aggressive, destabilizing trading strategies in vulnerable market conditions;
- develop potential rules for enhanced pre-trade transparency in the fixed income markets, including in the trading of municipal securities;
- continue to work toward a stronger financial responsibility framework for broker-dealers, including through new capital and liquidity requirements;
- advance improvements to the quality of reports and other information provided to investors in mutual funds and variable annuities;
- consider significant enhancements to the risk management practices of investment funds and advisers, including through new requirements addressing liquidity risk management, stress testing, the use of derivatives, and transition planning;
- enhance content and usability of data reporting by investment as well as mutual funds, ETFs and other registered investment companies to facilitate data analysis and risk monitoring;
- assess potential new requirements for mitigating the conflicts of interest at credit rating agencies that are inherent in the "issuer pay" model; and
- review potential updates and improvements to core agency programs, including the disclosure framework for public companies, the regulatory framework for transfer agents, and the regulatory treatment of exchange-traded funds and target date funds.

Continuing Strong Enforcement and Examination Efforts

Enforcement and OCIE will continue to build on their very strong results from FY 2014 by focusing on current and emerging high-priority areas, and on enhancing their use of cutting-edge technology and analytics. Enforcement's priorities for the coming year include a continued focus complex financial products, gatekeepers, financial reporting, market structure, insider trading, investment advisers and private funds, and municipal securities. OCIE will continue to invest in and use data analytics that enable preemptive detection of risk throughout entire industries and more effective identification of fraud in examinations.

- Enforcement filed a series of financial reporting cases in the last fiscal year and will continue the momentum in pursuing financial reporting and accounting fraud. These efforts will include leveraging the work of Enforcement's Financial Reporting and Audit Task Force, which is focused on identifying violations relating to the preparation of financial statements, issuer reporting and disclosure, and audit failures.
- Enforcement's Broker-Dealer Task Force will remain focused on bolstering efforts to address current issues and practices within the broker-dealer community. This includes developing and rolling out nationwide initiatives to combat problematic practices in this area such as churning and the failure to comply with anti-money laundering requirements.

- Enforcement's Microcap Fraud Task Force will continue its proactive efforts to root out microcap fraud through the use of strategies like trading suspensions and efforts to target repeat players and gatekeepers in this area.
- Enforcement will continue its focus on halting pyramid schemes, including taking steps to disrupt these schemes through a coordinated effort of timely, aggressive enforcement actions along with community outreach and investor education.
- Enforcement will continue to use technology to better process and understand large volumes of data. This includes employing technology to identify and investigate potential violations, including high-risk areas that could harm investors, markets or regulated entities.
- OCIE will continue to focus on issues affecting investors' retirement accounts, including sales and marketing practices related to financial advisers' recommendations that retirement plan assets be placed in investment vehicles offered by their firms.
- OCIE will make governance and supervision of information technology systems a priority, including operational capability, business continuity planning, and cybersecurity.
- OCIE will track individuals that have prior disciplinary histories and assess the compliance programs of firms that hire or conduct business with such individuals.
- OCIE will examine certain areas of higher risk in broker-dealers' trading activities, including execution of trades in fixed income securities, equity order routing, and trades in sub-accounts.
- OCIE will conduct reviews to assess implementation of compliance frameworks at municipal advisors in light of rules finalizing registration requirements adopted in FY 2013.

Enhancing Market Stability

The SEC continues to advance a broad-based program for improving the operational integrity and operation of our securities markets, seeking improvements in critical market infrastructure and enhancing data and analytical capabilities.

In FY 2015, the SEC will finalize rules to improve the design, deployment, integrity and operation of automated systems controlled by exchanges and other key market participants to help ensure that they are prepared to respond quickly and effectively to system errors and malfunctions. The SEC will continue to work closely with the exchanges and FINRA on the development of measures that will focus on certain market infrastructure systems that can halt or severely disrupt trading when a problem occurs.

The SEC will continue to support the development of a consolidated audit trail by the exchanges and FINRA and will also leverage existing data analytics in its evaluation of additional market structure initiatives.

Continuing to Refine and Use Cutting-edge Data Analytics

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

- DERA recently created the Office of Risk Assessment (ORA), which reflects the Commission's ongoing focus on deploying data-driven analytics to assist with the identification of financial market risk.
- ORA will build on DERA's successes by centralizing many of the resources needed to develop, apply, and support risk analysis methods and tools. ORA will provide financial and risk modeling expertise and support to Divisions and Offices with broker-dealer, corporate issuer, and investment adviser risk assessment and oversight responsibilities.
- ORA will also support OCIE and other Agency staff with examination planning, including providing guidance on the collection and analysis of data to help promote risk-based examination programs.
- DERA is working closely with Corporation Finance to assist in identifying financial reporting irregularities that may indicate financial fraud and help assess corporate issuer risk.
- DERA and Corporation Finance will also use information collected from Form D to track the use of general solicitation and general advertising in Rule 506 offerings

to assess the impact of its use on capital raising in private markets, including the impact on the size of offerings, number of participating investors, and the use of placement agents and other intermediaries.

- Trading and Markets will continue to refine the Commission's equity market structure web site, updating it with trading data and research papers concerning various types of trading.
- Trading and Markets will also continue to expand its analytical work in the equity options market, using advanced technologies to analyze options trade and quote data to inform on a wide variety of SRO rule proposals.
- Investment Management will enhance its capability to track and categorize disclosure filings, including substantive disclosure and accounting comments made to mutual funds and other registered investment companies, which, in turn, will enhance its analysis of emerging trends, frequency of issues, and related patterns in fund disclosure and product development activity.

Commissioner Daniel M. Gallagher

- Investment Management also plans to conduct analysis of money market fund monthly portfolio data, obtained through the Form N-MFP, as part of its overall focus on implementation of the money market mutual fund reforms adopted by the Commission in FY 2014.
- OCIE will continue to develop advanced technology, including text analytics, visualization, search and predictive analysis, through its risk analysis and quantitative teams, to review large volumes of trade data sets from a wide range of financial firms, seeking to identify improper trading activity and other serious risks to investors.

Promoting Investor Education

In FY 2015, the SEC will continue to look for new and innovative ways to educate investors including:

- increasing investor education outreach to target audiences, including seniors, millennials, affinity groups, and the military to convey key investor education messages, including, among others, understanding fees, and identifying fraud;
- using research to inform and enhance investor education initiatives, including feedback from Investor.gov's customer satisfaction survey; and
- educating individuals about the importance of checking the registration status of an investment professional before investing. OIEA will aim to increase online searches of the SEC's Investment Adviser Public Disclosure database.

Continuing to Enhance Operations

The SEC considers continuous improvement in all aspects of its finances and operations critical to its mission, and will continue to enhance its ability to deliver effective and efficient services in FY 2015.

Workforce

The SEC's strongest asset is its staff. In FY 2015, the agency will seek to continue hiring and retaining a diverse, dedicated and talented workforce.

The SEC will also work to identify additional training needs, and procure or develop high-quality training that will continue to allow SEC staff to perform at the highest levels.

Technology

Since FY 2013, the SEC has been working on a multi-year technology transformation plan called "Working Smarter." Under the Working Smarter initiative, the agency has worked to standardize enterprise-wide platforms, modernize SEC.gov and the EDGAR filer system, develop advanced search and discovery capabilities, and build complex, predictive analytical capabilities. In FY 2015, the agency will continue to build on this initiative in an effort to lower costs, deliver better services to both employees and the public, and increase accountability, transparency, and security.

In FY 2015, the SEC will also continue to enhance its electronic discovery tools, and to improve its document storage, organization, and analytic capabilities.

In addition, the agency plans to review its current disclosure systems and processes and identify ways to use technology to improve the submission and analysis of disclosure documents.

Finance

The SEC is committed to further improving its financial systems, processes, and controls. The agency is building a financial data mart, as part of a broader SEC-wide Electronic Data Warehouse initiative. This data mart is designed to integrate data from a variety of SEC systems, facilitating financial decision-making by providing comprehensive management and financial reporting on a regular basis.

The SEC also will continue to participate in the Federal government-wide deployment of a new travel system, work to replace the system supporting budget execution and formulation, and focus on reforming the systems related to filing fees and disgorgements and penalties.

In addition, the agency will continue to search for cost savings, such as through its efforts with the General Services Administration to optimize the use of leased space across our real estate portfolio.

Commissioner Kara M. Stein

Conclusion

In FY 2014, the SEC continued to achieve important results by leveraging technology, employing sophisticated data analytics and pursing focused rulemaking and policy initiatives, aggressive enforcement and risk-based examinations. Through the work of its talented and dedicated staff, the SEC is committed to building on its successes in FY 2015. The agency will continue to promote its strategic values of integrity, accountability, effectiveness, teamwork, fairness and a commitment to excellence through improving collaboration and coordination among its divisions and offices, employing new technology, and supporting the more than 4,000 talented men and women who work tirelessly to fulfill the agency's important mission.

Financial Highlights

This section provides an analysis of the financial position, results of operations, and the underlying causes for significant changes in balances presented in the SEC's FY 2014 financial statements.

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

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

Sequestration Order for FY 2014

On March 1, 2013, the President issued the Sequestration Order for FY 2013 which reduced FY 2013 budget authority. As determined by the Office of Management and Budget (OMB), for FY 2014, the sequestration order was applicable to mandatory appropriations and spending authority from offsetting collections, which included the Reserve Fund and the Investor Protection Fund, of the SEC as follows:

Reserve Fund

The budget authority of $75 million was reduced by 7.2 percent or $5.4 million.

Investor Protection Fund

The budget authority of $90 million was reduced by 7.2 percent or $6 million.

Rescission for FY 2014

On January 17, 2014, Congress passed the Consolidated Appropriations Act, 2014. Within the appropriation language, a $25 million rescission was applied to the unobligated balance of the Reserve Fund.

Overview of Financial Position

Assets. At September 30, 2014, the SEC's total assets were $10.6 billion, an increase of $638 million or six percent over FY 2013.

Investments, Net increased $473 million, or 37 percent, due to large Disgorgement and Penalty collections for cases that were subsequently invested and remained invested at the end of FY 2014. These investments include collections from the following cases:

- J. P. Morgan Securities LLC
- British Petroleum PLC
- RBS Securities Inc

Accounts Receivable, Net increased $120 million due to the remaining Disgorgement and Penalty receivables for Alcoa Inc., Bank of America Corporation, and AIC, Inc.

In addition to the disgorgement related receivables, the SEC experienced a $35 million increase in Section 31 Fees receivable in FY 2014 due to the increased transaction volume and the increased fee rate established in March of FY 2014, which rose from $17.40 per million to $22.10 per million transactions.

Property and Equipment, Net decreased by $14 million due, in part, to the change in the capitalization threshold implemented later in FY 2013.

CHART 1.3
FY 2014 ASSETS BY TYPE

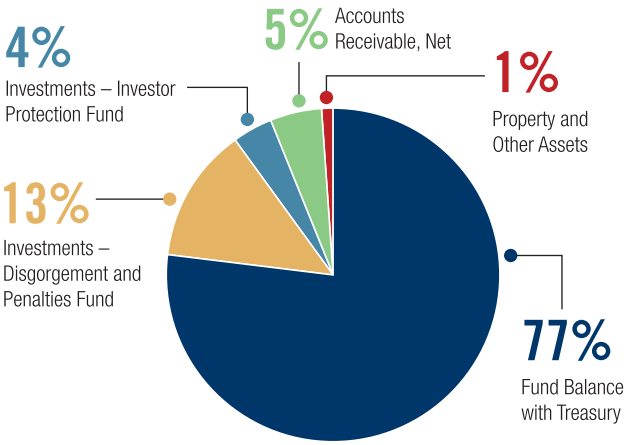


TABLE 1.2ASSETS AS OF SEPTEMBER 30, 2014 AND 2013

(DOLLARS IN MILLIONS)	FY 2014	FY 2013
Fund Balance with Treasury	$ 8,211	$ 8,155
Investments – Disgorgement and Penalties Fund	1,360	848
Investments – Investor Protection Fund	395	434
Accounts Receivable, Net	507	387
Property and Equipment, Net	113	127
Other Assets	4	2
Total Assets	**$ 10,590**	**$ 9,953**

Liabilities. The SEC's total liabilities were $2.9 billion as of September 30, 2014, an increase of $602 million or 26 percent from FY 2013. The change was mainly related to the increase in the liabilities for Disgorgement and Penalty cases recorded during FY 2014, such as against:

- Morgan Stanley and Company
- RBS Securities Inc.
- AIC Inc.
- Amerindo Investment Advisors Inc.

The increase in liabilities was offset by distributions to harmed investors totaling $195 million.

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

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

Ending Net Position. The SEC's net position, comprised of both unexpended appropriations and the cumulative results of operations, increased approximately by $35 million, or less than one percent, between September 30, 2014 and 2013.

CHART 1.4
FY 2014 LIABILITIES BY TYPE

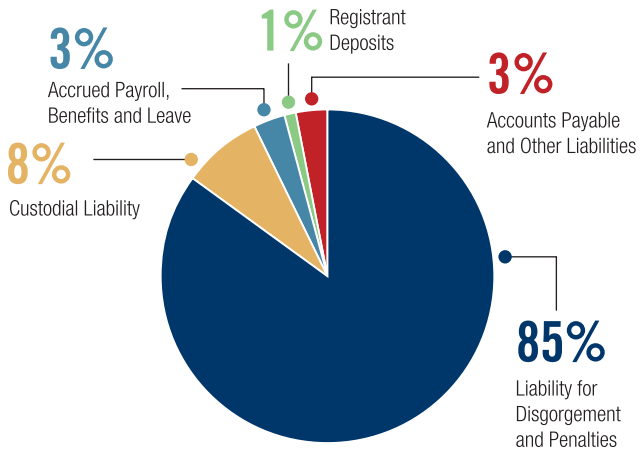


TABLE 1.3
LIABILITIES AS OF SEPTEMBER 30, 2014 AND 2013

(DOLLARS IN MILLIONS)	FY 2014	FY 2013
Liability for Disgorgement and Penalties	$ 2,451	$ 2,065
Custodial Liability	223	69
Accrued Payroll, Benefits and Leave	101	70
Accounts Payable	72	44
Registrant Deposits	35	33
Other Liabilities	18	17
Total Liabilities	**$ 2,900**	**$ 2,298**

Results of Operations

Earned Revenues. Total earned revenues for the year ended September 30, 2014 increased by $142 million or eight percent when compared to that of FY 2013. As a result of higher transaction volume, and an increase in the transaction fee rate effective in March 2014, revenue for Section 31 Transaction Fees increased by $69 million in FY 2014.

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

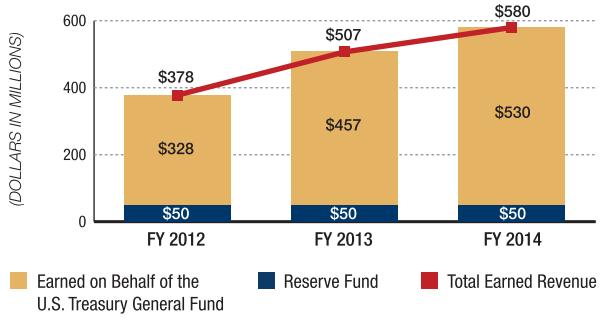
TABLE 1.4
EARNED REVENUES FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

(DOLLARS IN MILLIONS)	FY 2014	FY 2013
Section 31 Securities Transaction Fees	$ 1,326	$ 1,257
Securities Registration, Tender Offer, and Merger Fees (Filing Fees)	580	507
Total Earned Revenues	**$ 1,906**	**$ 1,764**

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

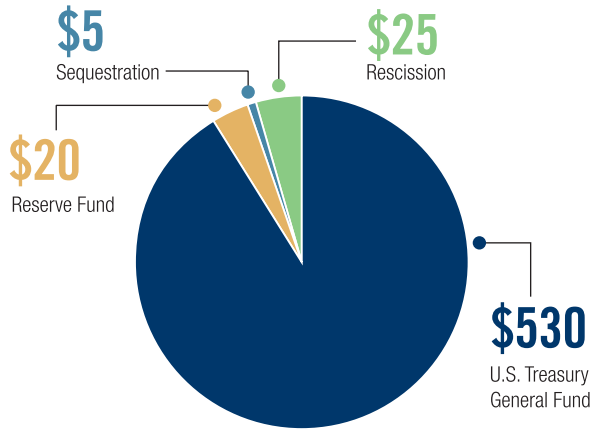
For the fiscal year ended September 30, 2014, filing fee revenues were $580 million. Fifty million dollars was deposited into the Reserve Fund, of which $25 million was rescinded and $5.4 million was sequestered. The excess of $530 million was earned on behalf of the U.S. Treasury General Fund.

CHART 1.5
RESERVE FUND EARNED REVENUE
(DOLLARS IN MILLIONS)



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

CHART 1.6
FY 2014 FILING FEE DEPOSITS
(DOLLARS IN MILLIONS)

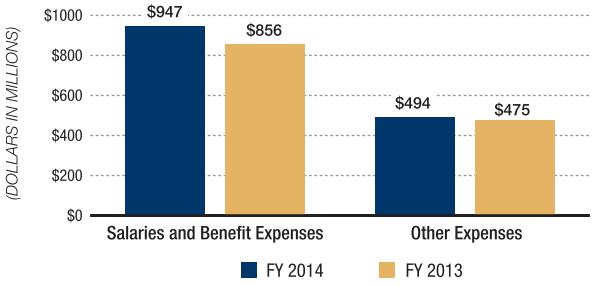


Reserve Fund resources totaling $66 million were obligated, with $35 million in delivered orders paid, as of September 30, 2014, for both capitalized and non-capitalized information technology related hardware, software, and contracting, leaving a remaining amount of $327 thousand of available resources.

Program Costs. Total Program Costs were $1.4 billion for the year ended September 30, 2014, an increase of $110 million or eight percent when compared to the prior year. Salary and Benefit Expenses increased more than $91 million, because the SEC had higher expenses in the areas of Pay and Benefits as the result of increased staffing and compensation. Other Expenses remained stable when comparing FY 2014 to FY 2013, with the exception of accrued Whistleblower payments from the SEC's Investor Protection Fund, which totaled more than $25 million.

The SEC had increased expenses in the areas of personnel compensation and benefits which correlates to an increase of 127 full-time equivalent employees; information technology service contracts and licensing; capitalized and non-capitalized information systems software and hardware; and whistleblower award payments.

CHART 1.7
PROGRAM COSTS



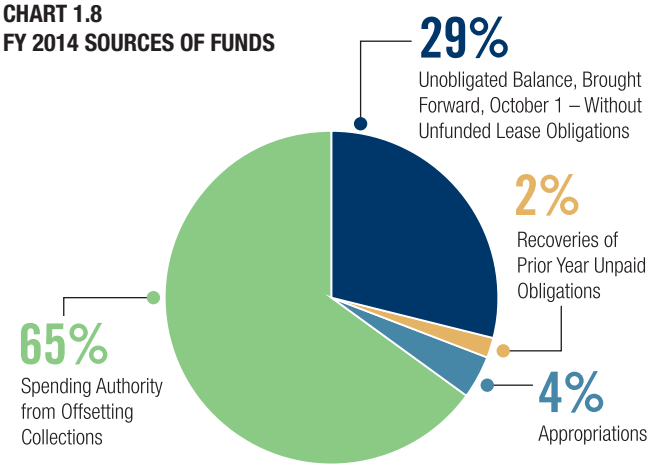
Budgetary Resources

In FY 2014, the SEC's total budgetary resources equaled $1.551 billion, an 11 percent increase above the FY 2013 amount of $1.402 billion. Significant components of the SEC's Total Budgetary Resources are described below.

Unobligated Balance Brought Forward – Unfunded Lease Obligations. The SEC's unobligated balance, brought forward was $441 million for FY 2014. The balance reflects the funding actions and recoveries related to the unfunded lease obligations plus the carry-over authority in the Salaries and Expenses Fund and the Reserve Fund.

Unfunded lease obligations totaled $358 million as of September 30, 2014. This represents a reduction relative to the FY 2013 amount, because of funding actions of $83 million.

CHART 1.8
FY 2014 SOURCES OF FUNDS



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

Spending Authority from Offsetting Collections. The Spending Authority from Offsetting Collections increased $84 million primarily for two reasons. Firstly, an increase in fees collected of $18 million occurred in FY 2014.

Secondly, the $66 million sequestered during FY 2013 was reverted to Unapportioned Authority during the first quarter of FY 2014. Since then, this amount was reclassified during the third quarter of FY 2014 to a temporary reduction/cancellation returned by appropriation. This is in line with Treasury and OMB guidance, as these funds are not available in FY 2014.

TABLE 1.5
TOTAL BUDGETARY RESOURCES FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

(DOLLARS IN MILLIONS)	FY 2014	FY 2013
Unobligated Balance, Brought Forward, October 1:		
Salaries and Expenses Fund – Without Unfunded Lease Obligations	$ 108	$ 102
Salaries and Expenses Fund – Effect of Change in Legal Interpretation for Lease Obligations	(441)	(523)
Reserve Fund	44	13
Investor Protection Fund	434	451
Total Unobligated Balance, Brought Forward, October 1	145	43
Recoveries of Prior Year Unpaid Obligations	34	31
Downward Adjustments of Prior Year Unfunded Lease Obligations	–	2
Appropriation (Discretionary and Mandatory)		
Salaries and Expenses Fund	59	48
Reserve Fund	22	72
Investor Protection Fund	(1)	(2)
Spending Authority from Offsetting Collections	1,292	1,208
Total Budgetary Resources	**$ 1,551**	**$ 1,402**

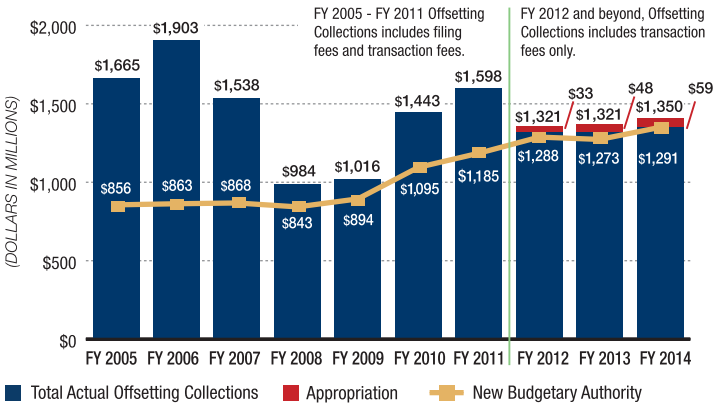
Spending Authority from Offsetting Collections and Appropriations

During the fiscal year, the SEC receives an appropriation to fund its operations. This appropriation establishes the SEC's new budget authority in its Salaries and Expenses Fund for the fiscal year. The SEC's new budget authority of $1.35 billion was for FY 2014.

The SEC's Section 31 fee collections are used to offset the appropriation, and the appropriated authority is returned to the U.S. Treasury General Fund. On March 18, 2014, the increase in the Section 31 fee rate from $17.40 to $22.10 per million dollars transacted became effective. With an increase in transaction volume during FY 2014, the Section 31 transaction fee rate has led to increased earnings between the periods ending September 30, 2014 and 2013.

The SEC's Section 31 fee collections totaled $1,291 million for FY 2014. Therefore, the SEC retained appropriated authority equal to $59 million.

CHART 1.9
OFFSETTING COLLECTIONS VS. APPROPRIATION
SECTION 31 EXCHANGE AND FILING FEES



Investor Protection Fund

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

For FY 2014, the balance of the Investor Protection Fund (Fund Balance with Treasury and Investments, net of Liabilities) decreased by $24 million between October 1, 2013 and September 30, 2014. The Investor Protection Fund recognized non-exchange revenues totaling $579 thousand, from interest earned on investments in U.S. Treasury Securities. In addition, the Investor Protection Fund accrued expenses of $25 million for whistleblower awards and $47 thousand for salary and benefit cost in the OIG's Employee Suggestion Program.

Additional information regarding the Investor Protection Fund and the Office of the Whistleblower is available in the 2013 Annual Report on the Dodd-Frank Whistleblower Program. This report may be found at *www.sec.gov/whistleblower*.

TABLE 1.6
INVESTOR PROTECTION FUND ACTIVITY
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

(DOLLARS IN THOUSANDS)	FY 2014	FY 2013
Balance of Fund at beginning of fiscal year, October 1	$439,197	$453,429
Amount of earnings on investments during the fiscal year	579	651
Amount paid from the Fund during the fiscal year to whistleblowers	(25,069)	(14,832)
Amount paid from the Fund during the fiscal year for expenses incurred by Employee Suggestion Program	(47)	(51)
Balance of the Fund at the end of the reporting period	**$ 414,660**	**$ 439,197**

Note: Table 1.6 is presented as "Dollars in Thousands" in order to detail Investor Protection Fund Activity.

Limitations of the Financial Statements

The principal financial statements included in this report have been prepared by SEC management to report the financial position and results of operations of the SEC, pursuant to the requirements of 31 U.S. Code Section 3515(b). While the statements have been prepared from the books and records of the SEC in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity.

Performance Highlights

The SEC's performance data provides a foundation for both programmatic and organizational decision-making and is critical for gauging the agency's success in meeting its objectives. The SEC is committed to using performance management best practices to promote greater accountability. This section provides information on its key performance measures for FY 2014. It outlines the SEC's strategic and performance planning framework, provides information on the costs incurred by the agency's four strategic goals and 10 national programs, and highlights the agency's progress toward reaching key performance targets.

The SEC's FY 2014 Annual Performance Report (APR) will be issued with the agency's FY 2016 Congressional Budget Justification, and will provide a complete discussion of all of the agency's strategic goals, including a description of performance goals and objectives, data sources, performance results and trends, and information about internal reviews and evaluations. A summary of the SEC's verification and validation of all performance data also will be included in the APR. The SEC's APR is expected to be available in February 2015 at *www.sec.gov/about/secreports.shtml*.

Verification and Validation of Performance Data

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

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

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

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

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

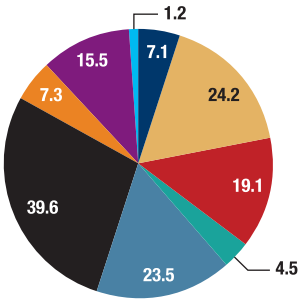
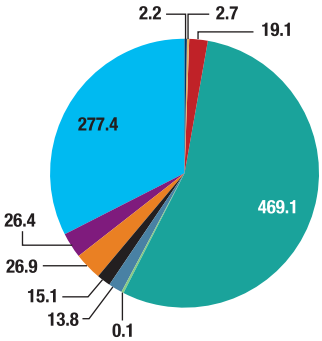
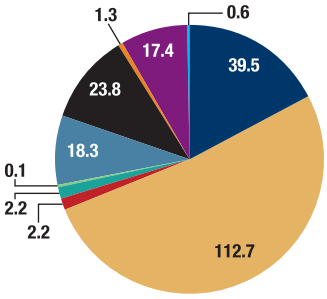
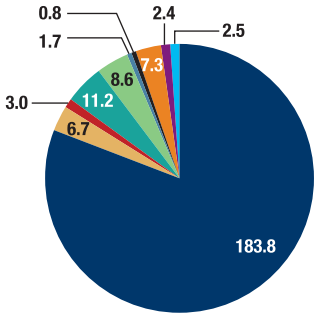
(3) The divisions and offices calculate and report the performance goals to the Office of Financial Management, and the performance goals are approved by the division directors and office heads. This process ensures that the data used in the calculation of performance goals is accurate and reliable and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

Strategic and Performance Planning Framework

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

Table 1.7 displays the agency's FY 2014 costs for its four strategic goals, as well as how these costs are divided among the SEC's programs described in Table 1.1.

TABLE 1.7

Strategic Goal	Strategic Objective	Contributing Programs *($ in millions)*
Establish and maintain an effective regulatory environment **Cost: $142.0 million**	The SEC establishes and maintains a regulatory environment that promotes high-quality disclosure, financial reporting and governance, and that prevents abusive practices by registrants, financial intermediaries and other market participants. The SEC promotes capital markets that operate in a fair, efficient, transparent and competitive manner, fostering capital formation and useful innovation. The SEC adopts and administers regulations and rules that are informed by robust economic analysis and public comment and that enable market participants to understand clearly their obligations under the securities laws. The SEC engages with a multitude of stakeholders to inform and enhance regulatory activities domestically and internationally.	
Foster and enforce compliance with the Federal securities laws **Cost: $852.8 million**	The SEC fosters compliance with the Federal securities laws. The SEC promptly detects and deters violations of the Federal securities laws. The SEC prosecutes violations of Federal securities laws and holds violators accountable through appropriate sanctions and remedies.	
Facilitate access to the information investors need to make informed investment decisions **Cost: $218.1 million**	The SEC works to ensure that investors have access to high-quality disclosure materials that facilitate informed investment decision-making. The SEC works to understand investor needs and educate investors so they are better prepared to make informed investment decisions.	
Enhance the Commission's performance through effective alignment and management of human, information, and financial capital **Cost: $228.1 million**	The SEC promotes a results-oriented work environment that attracts, engages, and retains a technically proficient and diverse workforce, including leaders who provide motivation and strategic direction. The SEC encourages a collaborative environment across divisions and offices and leverages technology and data to fulfill its mission more effectively and efficiently. The SEC maximizes the use of agency resources by continually improving agency operations and bolstering internal controls.	

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

The SEC expended about $1,441 million in FY 2014 to achieve its four strategic goals and 12 strategic objectives. Seventy four percent of the total costs in FY 2014 were directed toward achieving Strategic Goal 2 *Foster and enforce Federal securities laws* and Strategic Goal 3 *Facilitate access to the information investors need to make informed investment decisions*. The agency's APR will provide a complete explanation of how many planned performance goal targets were exceeded, met, and not met. Where the agency met or exceeded its planned performance targets, the report will provide a discussion of the increased efficiencies and improved processes employed by the agency. When a planned performance target was not met, the report will provide a description of actions that will be taken to achieve the target in the future.

Performance Achievements

The SEC seeks to encourage a strong culture of compliance among organizations, to foster ethical behavior and decision-making. As part of its efforts to promote compliance within the industry, the Office of Compliance Inspections and Examinations (OCIE) exceeded its target by conducting 63 outreach and education programs during the year, including Compliance Outreach seminars, targeted sessions with never before examined advisers, and various other outreach initiatives with registrants and regulators (Performance Goal 2.1.1). Further, the National Examination Program issued two National Risk Alerts and participated in a number of other outreach efforts, including speaking at more than 240 industry conferences and other related engagements that are not reflected in the numbers below. The program will continue to expand and improve on these efforts during FY 2015 and FY 2016 as these are critical elements in fostering and promoting compliance with Federal securities laws.

TABLE 1.8

PERFORMANCE GOAL 2.1.1
Number of industry outreach and education programs targeted to areas identified as raising particular compliance risks

Description: Targeted communication with industry participants on topics shaping the examination program is intended to enhance compliance practices and prevent violations before they occur. This metric identifies the number of major outreach efforts conducted including the SEC's national and regional compliance outreach events, published risk alerts, and other educational programs and initiatives.

Fiscal Year	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014 Plan	FY 2014 Actual	FY 2014 Results
Number of major outreach efforts	N/A	6	5	12	15	16	63	Exceeded

Responsible Division/Office: Office of Compliance Inspections and Examinations

Data Source: Internal tracking, although the events noted above are referenced on the SEC'S Website at *www.sec.gov/ocie*.

While the agency did not meet its targets for the percentage of investment companies examined during the year, the agency did exceed its targets for percentage of investment advisors and broker dealers examined during the year (Performance Goal 2.2.1). Staff continued to exert considerable time and effort in FY 2014 on enhancing risk assessment and surveillance capabilities to ensure that resources were focused on those firms presenting the highest risk. Staff collected and analyzed data about registrants to ensure that the agency focused on the highest risk entities and selected appropriate candidates for onsite examination. Examinations of high-risk firms often take significant time to complete and are frequently of large and complex entities. For example, the investment advisers examined in FY 2014 represented more than 30 percent of the overall assets under management of currently registered advisers. In addition, examination resources in FY 2014 were allocated to other efforts intended to improve the long-term performance, including industry outreach initiatives, rule-making efforts and other program improvement efforts.

TABLE 1.9

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

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

Fiscal Year	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014 Plan	FY 2014 Actual	FY 2014 Results
Investment advisers	10%	9%	8%	8%	9%	9%	10%	Exceeded
Investment companies	29%	10%	13%	12%	11%	12%	10%	Not Met
Broker-Dealers (exams by SEC and SROs)	54%	44%	58%	49%	46%	48%	49%	Exceeded

Responsible Division/Office: Office of Compliance Inspections and Examinations

Data Source: Tracking and Reporting Exam National Documentation System (TRENDS), Commission Filings, and SRO Databases (BD SRO Data)

Plan for Improving Program Performance: During FY 2015, staff will continue to implement improved processes and procedures that have been identified as part of OCIE's ongoing improvement process. Significant improvement initiatives in the areas of strategy, people, processes, and technology have been completed in the last few years or are currently underway. The agency expects that these improvements, which include enhancements to the exam program's risk assessment processes, will lead to more effective coverage of registered entities. Furthermore, certain targeted initiatives aimed at high risk firms and activities have already been implemented and it is anticipated that these efforts will result in improved coverage levels in FY 2015.

Filing enforcement actions in a timely manner is an important measure of the Division of Enforcement's (Enforcement) effectiveness. In FY 2014, the average months between opening a matter under inquiry (MUI) or investigation and commencing an enforcement action was 21 months, which is the same as the prior fiscal years (Performance Goal 2.3.3). Timely actions have an increased deterrent impact. However, many of Enforcement's cases are complex and can take extended periods of time to develop successfully, which will negatively impact the timeliness of actions. Indeed, many of the cases filed by Enforcement in FY 2014 involved complex financial products, market transactions, and other types of conduct that are difficult to investigate. Enforcement continues to focus on complex areas of the marketplace, including emerging threats involving new trading technologies such as high-frequency and algorithmic trading, large volume trading, systemic insider trading and manipulation schemes, and financial disclosure, among other complex areas.

TABLE 1.10

PERFORMANCE GOAL 2.3.3
Average months between opening a matter under inquiry or an investigation and commencing an enforcement action

Description: This metric captures the average number of months between the opening of an investigation and the filing of the first enforcement action arising out of that investigation. If the investigation was preceded by a matter under inquiry, the metric draws on the date of opening of the matter inquiry. In conducting investigations, the enforcement program continually strives to balance the need for complete, effective, and fair investigation with the need to file enforcement actions in as timely a manner as possible. While not all investigations result in the filing of enforcement actions, this metric provides information concerning the pace of investigations that do lead to such actions and supplements the previous goal, which measures the percentage of first enforcement actions filed within two years.

Fiscal Year	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014 Plan	FY 2014 Actual	FY 2014 Results
Months	N/A	N/A	22	21	21	20	21	Not met

Responsible Division/Office: Division of Enforcement

Data Source: HUB case management and tracking system for the Division of Enforcement

Plan for Improving Program Performance: To achieve its goal of 20 months on this metric, Enforcement will continue to look for ways to manage investigations effectively in order to promote speed and efficiency while maintaining an appropriate degree of thoroughness and completeness. Enforcement will strive to improve through effective management of cases, as well as by leveraging various processes and initiatives designed to promote efficiencies in investigations, such as technology, training, and regular case assessments. Enforcement leadership also will encourage appropriate use of tools such as subpoena enforcement actions in order to ensure that investigations proceed on an appropriate timeframe.

Providing investors with the information they need to avoid securities fraud and make informed investment decisions remained a high priority for the agency in FY 2014. The SEC's Office of Investor Education and Advocacy (OIEA) continued to support the agency's investor protection mission through the Investor.gov website, which provides key information for citizens to inform their investment decisions. Investor.gov attracted over one million new visitors due in part to its growing digital and social media presence, and the website's high customer satisfaction scores significantly exceeded the Federal Government benchmark (Performance Goal 3.2.3). Moreover, OIEA published a record number of 28 investor alerts and bulletins warning investors of possible fraudulent schemes, including affinity fraud and schemes involving virtual currencies, and educating them on investment-related matters.

TABLE 1.11

PERFORMANCE GOAL 3.2.3 Customer satisfaction rating of OIEA's online investor education resources								
Description: This metric gauges the effectiveness, helpfulness, and usability of OIEA's online investor education resources.								
Fiscal Year	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014 Plan**	**FY 2014 Actual**	**FY 2014 Results**
Satisfaction index	Prior-year data not available				81	73	83	Exceeded
Responsible Division/Office: Office of Investor Education and Advocacy								
Data Source: ForeSee results online portal								

Management Assurances

In FY 2014, the SEC demonstrated its continued commitment to maintaining strong internal controls. Internal control is an integral component of effective agency management, providing reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with laws and regulations. The Federal Managers' Financial Integrity Act of 1982 (FMFIA) establishes management's responsibility to assess and report on internal accounting and administrative controls. Such controls include program, operational, and administrative areas, as well as accounting and financial management. The FMFIA requires Federal agencies to establish controls that reasonably ensure obligations and costs are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to maintain accountability over the assets. The FMFIA also requires agencies to annually assess and report on the internal controls that protect the integrity of Federal programs (FMFIA § 2) and whether financial management systems conform to related requirements (FMFIA § 4). Guidance for implementing the FMFIA is provided through Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*. In addition, it requires agencies to provide an assurance statement on the effectiveness of programmatic internal controls and financial system conformance, and internal control over financial reporting.

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

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

Annual Assurance Statement

Assurance Statement On Internal Control Over Operations: The SEC management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). In accordance with OMB Circular A-123, the SEC conducted its annual assessment of the effectiveness of internal controls. Based on the results of the assessment for the period ending September 30, 2014, the SEC is able to provide an unqualified statement of assurance that the internal controls and financial systems, both for the agency as a whole and for the Investor Protection Fund, meet the objectives of the FMFIA. No material weaknesses were found in the design or operation of the internal controls for the fiscal year ended September 30, 2014.

Assurance Statement On Internal Control Over Financial Reporting (ICFR): In accordance with Appendix A of OMB Circular A-123, the SEC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations. Based on the results of the assessment, the SEC is able to provide reasonable assurance that internal control over financial reporting, both for the agency as a whole and for the Investor Protection Fund, met the objectives of FMFIA and were operating effectively as of September 30, 2014. No material weaknesses were found in the design or operation of controls.

SEC also conducted reviews of its financial management systems in accordance with OMB Circular A-123 Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA)*. Based on the results of these reviews, SEC can provide reasonable assurance that its financial management systems substantially comply with the requirements of the FFMIA as of September 30, 2014.

Mary Jo White
Chair
November 13, 2014

Kenneth A. Johnson
Chief Financial Officer
November 13, 2014

Management's Responsibility for Internal Control

The FMFIA requires the head of the agency, based on the agency's internal evaluation, to provide an annual Statement of Assurance on the effectiveness of their management, administrative, and financial reporting controls. OMB Circular A-123, *Management's Responsibility for Internal Control*, implements the FMFIA and defines management's responsibility for internal control in Federal agencies. The FY 2014 annual assurance statements for FMFIA and ICFR are provided on the preceding page.

FMFIA § 2 requires agencies to establish internal controls and financial systems which provide reasonable assurance that the following objectives are achieved:

- Effective and efficient operations,
- Compliance with applicable laws and regulations, and
- Reliability of financial reporting.

The Chair's FMFIA assurance statement is primarily based on individual assurance statements from each division director and office head. The individual statements assessed internal controls related to the effectiveness of the controls over programs and operations, financial reporting, and compliance with laws and regulations. These statements were based on self-assessments and internal reviews supported by enhanced control testing, as well as recommendations for improvement from audits, investigations, and reviews conducted by the Office of Inspector General (OIG) and Government Accountability Office (GAO).

The results of these statements were considered with other sources of information when determining whether any management control deficiencies or non-conformances needed to be reported in the annual assurance statement. Other information sources included, but were not limited to, the following:

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

FMFIA § 4 requires that agencies annually evaluate and report on whether financial management systems conform to government-wide requirements. The SEC evaluated its financial management systems for the fiscal year ending September 30, 2014, in accordance with the FFMIA and OMB Circular A-123 Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996*, as applicable.

Appendix A of OMB Circular A-123 requires the agency head to provide a separate statement of assurance on the effectiveness of ICFR, in addition to the overall FMFIA assurance statement. SEC management assessed internal control at the entity-level, process, transaction, and application level. This report also provides a Summary of Financial Statement Audits and Management Assurances under the section entitled Other Accompanying Information, as required by OMB Circular A-136, *Financial Reporting Requirements*.

The effectiveness of process level controls was assessed through detailed test procedures related to the agency's financial reporting objectives. As part of this effort, the agency performed a comprehensive risk assessment in which SEC management identified:

- Significant financial reports;
- Significant line items and accounts;
- Major classes of transactions;

- Relevant assertions, risks of material misstatement and control objectives;
- Reporting and regulatory requirements; and
- Existing deficiencies and corrective action plans.

From the results of the risk assessment, SEC management selected processes fundamental to the agency's financial management. SEC management updated documentation of the business processes and control activities designed to mitigate significant financial reporting and compliance risks.

These control activities were tested for design and operating effectiveness. The agency also tested the operating effectiveness of control activities that were found to be deficient in prior years. These test results served as a basis for management's assessment of the effectiveness of ICFR.

The results of testing completed prior to and as of September 30th formed the basis of the annual management assurance statement. SEC management also analyzed the magnitude of the internal control deficiencies and the level of assurance provided under the FMFIA requirements. SEC management analyzed the internal control deficiencies, both individually and in the aggregate, to determine if a material weakness[1] existed in the financial reporting processes. ICFR testing conducted during FY 2014 did not identify any deficiencies that rose to the level of a material weakness.

Significant factors considered for assessing each deficiency included the following:

- Nature of the control deficiency (e.g., design, operation);
- Internal control objectives and activities impacted;
- Potential impact on financial statement line items, accounts, and disclosures;
- The interaction of control deficiencies with other deficiencies; and
- The materiality of account balances impacted by the deficiency.

Each year, the agency's Financial Management Oversight Committee (FMOC) advises the Chair as to whether the SEC had any deficiencies in internal control or financial system design significant enough to be reported as a material weakness or non-conformance. This advice is based on the assurance statements from directors and office heads and other supplemental sources of information.

Other Reviews

The SEC's financial statements were audited by GAO. The objective of GAO's audit was to express an opinion on the financial statements and on internal control over financial reporting, and to report on tests of compliance with selected laws and regulations.

The OIG conducts, coordinates, and supervises independent audits and evaluations of the SEC's programs and operations. As described in the OIG's semiannual reports to Congress, during FY 2014, the OIG issued five audit and evaluation reports that contained numerous recommendations for corrective action.

Improper Payments Information Act

Please refer to the Other Information Section, *Improper Payments Elimination and Recovery Act Reporting Details,* of this report on the SEC's compliance with the Improper Payments Elimination and Recovery Improvement Act (IPERIA).

Financial Management System Conformance

The FFMIA requires that each agency implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level. The purpose of the FFMIA is to advance Federal financial management by verifying that financial management systems provide accurate, reliable, and timely financial management information in order to manage daily operations, produce reliable financial statements, maintain effective internal control, and comply with

[1] *A material weakness is a significant deficiency, or combination of significant deficiencies, that create a reasonable possibility that program objectives are not met, or results in the risk of control failure not being mitigated.*

legal and regulatory requirements. Although the SEC is exempt from the requirement to determine substantial compliance with FFMIA, the agency assesses its financial management systems annually for conformance with the requirements of OMB Circular A-123, Appendix D and other Federal financial system requirements.

The SEC used the methodology provided in OMB Circular A-123 Appendix D. It is a risk and evidence based assessment model that leverages existing audit tests, evaluations, and reviews that auditors, agency management, and others already performed. The SEC assessed each of its financial systems and mixed systems to determine the risk category for each financial management goal. The systems were reviewed individually for compliance, and then collectively a risk rating was determined for the agency's system compliance. Based on the results of the FY 2014 review, the SEC concluded that its risk rating was low and its financial system and mixed systems were in substantial compliance with Section 803(a) of the FFMIA requirements. This was based in part on notable progress made by SEC management and staff in implementing remediation activities in response to a significant deficiency noted by GAO in FY 2013 in information security.

Summary of Current Financial System and Future Strategies

The FY 2014 ICFR assessment demonstrated that a low risk rating would be appropriate and therefore, it can be concluded that the agency substantially complied with the requirements of Section 803(a) of the FFMIA. The SEC's financial system, Delphi, is a Financial Systems Integration Office (FSIO) certified system and met all of the requirements of FFMIA.

FY 2014 marks our second full year of operations with the Delphi financial system and contracted services provided by a Federal Shared Service Provider (FSSP), the Department of Transportation's (DOT) Enterprise Services Center (ESC). This year, we continued our progress in achieving more efficient and effective financial operations under the FSSP model. In FY 2014, the SEC also continued its efforts to strengthen the agency's internal controls program. For example, the agency streamlined the key controls for all process cycles, and fully implemented a quarterly internal controls self-assessment. In FY 2015, the SEC will continue to build on this progress by further strengthening its internal controls program and remediating deficiencies identified by GAO.

Federal Information Security Management Act

The Federal Information Security Management Act (FISMA) requires Federal agencies to "develop, document, and implement an agency-wide information security program to provide information security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source." In addition, FISMA requires Federal agencies to conduct annual assessments of their information security and privacy programs, to develop and implement remediation efforts for identified weaknesses and vulnerabilities, and to report compliance to OMB. The SEC's OIG, Chief Information Security Officer, and Privacy Officer annually perform a joint review of the Commission's compliance with FISMA requirements. The Commission will submit its 2014 report to OMB on or before November 14, 2014.

Oversight and Compliance

The SEC's Office of Information Technology (OIT), collaborating with business owners, completed assessment and authorization activities for 17 reportable systems. As a result, the SEC has now assessed and authorized a total of 58 reportable systems in accordance with OMB policy and guidance from the National Institute of Standards and Technology (NIST). OIT completed contingency testing on the majority of the SEC's authorized systems as part of disaster recovery exercises, unscheduled events, and weather occurrences. OIT Security's assessment team visited one of the 11 SEC regional offices (Fort Worth) as part of a three-year review cycle and performed a technical assessment of both the local network infrastructure and physical security. Two additional regional offices were given remote technical assessments (Denver and Philadelphia). The assessment team also conducted a disaster recovery simulation exercise at the Fort Worth Regional Office. The exercises included a successful failover to alternate servers. OIT facilitated the remediation of 308 self-identified deficiencies associated with the SEC's network infrastructure and major applications, closed 20 OIG recommendations and submitted artifacts to support resolution of 42 matters for consideration to GAO. GAO accepted OIT's work and concurred with closure of the 42 items.

OIT conducted 85 privacy reviews, which included the approval and publishing of 12 privacy impact assessments (PIAs). OIT also published six systems of record notices (SORNs) in the Federal Register.

Training and Communications

OIT delivered on-line cyber security and privacy awareness training to the SEC user community and achieved 99 percent completion. The Privacy Office conducted two on-site regional office assessments. In-person privacy training focused on the safe handling of personally identifiable information (PII) and was delivered to approximately 78 percent of users in those regional offices. OIT published monthly newsletters providing guidance and tips about data protection and cyber security tips.

Policy and Technology

OIT continues updating governance documentation to be consistent with OMB policy and NIST guidance. The SEC continues to safely explore cloud computing technologies and solutions based on Federal information protection requirements. SEC leveraged three cloud providers that have been through the Federal Risk and Authorization Management Program (FedRAMP) and is exploring additional cloud service providers that are registered in FedRAMP but have not yet received provisional authorization from either an agency or the Joint Authorization Board (JAB).

FINANCIAL SECTION

This section of the Agency Financial Report contains the U.S. Securities and Exchange Commission's (SEC) financial statements and other additional information for FY 2014 and FY 2013. Information presented here satisfies the financial reporting requirements of the Accountability of Tax Dollars Act of 2002 and Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The SEC prepares these statements and accompanying notes in conformity with U.S. generally accepted accounting principles (GAAP) for the Federal Government and OMB Circular A-136, *Financial Reporting Requirements*.

SEC Financial Statements:

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

Investor Protection Fund Financial Statements:

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

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[i] *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.*

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

Message from the Chief Financial Officer

I am delighted to join Chair White in presenting the SEC's Agency Financial Report (AFR) for fiscal year (FY) 2014. We hope you find the AFR a useful summary of the SEC's use of resources, operating performance, financial stewardship, and internal controls.

Over the last few years, the SEC had made significant strides forward in its multi-year initiative to build and maintain a strong, sustainable internal control posture. Between 2010 and 2013, the SEC's audit results significantly improved, from two material weaknesses in FY 2010 to one significant deficiency in FY 2013, as the result of our efforts to remediate or downgrade the severity of several internal control issues. During that time the SEC also migrated to a Shared Service Provider model, both to host our financial system and handle our financial transactions.

For FY 2014, our independent auditor, the U.S. Government Accountability Office (GAO), has issued an unqualified opinion on our financial statements and internal controls. In addition, the SEC successfully downgraded the severity of the one significant deficiency from FY 2013 related to internal controls over information technology security. We achieved these results through steps that included:

- Fully integrating the operation and support of the Electronic Data Gathering, Analysis, and Retrieval system (EDGAR) into Office of Information Technology (OIT) operations;
- Performing a comprehensive security assessment and authorization (SA&A) of EDGAR; and
- Expanding OIT Security continuous monitoring efforts by rolling out more sensors and improving reporting.

In FY 2014, the SEC will once again have one significant deficiency in the area of accounting for disgorgements and penalties. We found that judgments and orders were not always getting recorded into the accounting records on a timely basis. Therefore, the SEC enhanced the controls in this area late in the fiscal year to address the timely recording of transactions. The Office of Financial Management has begun working more regularly with the agency's case management specialists, who have deep institutional knowledge with respect to individual cases. We expect the ongoing communication to help ensure proper recording of judgments and orders. This will continue to be an area of focus for us in FY 2015.

In the coming year we also expect to concentrate on further improving the systems that support financial processes and controls. The SEC will participate in the Federal government-wide deployment of a new travel system, work to replace the system supporting budget execution and formulation, and focus on reforming the systems related to filing fees and property management. The SEC also is in the early stages of building a financial data mart, which is expected to integrate data from various systems for more comprehensive management and financial reporting.

This section provides citizens with detailed information about the SEC's finances and its internal controls over financial reporting. It contains the results of the FY 2014 audit conducted by GAO and the agency's response. The section also includes the SEC's financial statements and notes, both for the entity as a whole and for the Investor Protection Fund, as required under Section 922 of the Dodd-Frank Act.

Thank you for taking the time to learn about the SEC's activities in FY 2014. We hope you will find these materials both useful and informative.

Sincerely,

Kenneth A. Johnson
Chief Financial Officer
November 14, 2014

Report of Independent Auditors

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

Independent Auditor's Report

To the Chair of the United States Securities and Exchange Commission

In our audits of the 2014 and 2013 financial statements of the United States Securities and Exchange Commission (SEC) and the Investor Protection Fund (IPF), we found

- SEC's and IPF's financial statements as of and for the fiscal years ended September 30, 2014, and 2013, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- although internal controls could be improved, SEC maintained, in all material respects, effective internal control over financial reporting for SEC and IPF as of September 30, 2014; and
- no reportable noncompliance in fiscal year 2014 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

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

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

The Accountability of Tax Dollars Act of 2002 requires that SEC annually prepare and submit audited financial statements to Congress and the Office of Management and Budget.[3] The Securities Exchange Act of 1934, as amended in 2010 by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), requires that SEC provide separate annual audited financial statements for IPF to Congress.[4] IPF's financial transactions are also included in SEC's overall financial statements. We audited the financial statements of SEC and IPF pursuant to our authority conferred by the Chief Financial Officers Act of 1990, as amended by the Government Management and Reform Act of 1994.[5] Further, in accordance with the Dodd-Frank Act, we have assessed the effectiveness of the internal control structure and SEC's procedures for financial reporting, evaluated SEC's assessment of such effectiveness, and are

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

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

[3]31 U.S.C. § 3515.

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

[5]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).

attesting to SEC's assessment of its internal control over financial reporting.[6] SEC's financial statements comprise the balance sheets as of September 30, 2014, and 2013; 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, 2014, and 2013; 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 for SEC and IPF as of September 30, 2014, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

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

Management's Responsibility

SEC management is responsible for (1) the preparation and fair presentation of its financial statements and those of IPF in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (5) evaluating the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and (6) providing its assertion about the effectiveness of internal control over financial reporting as of September 30, 2014, based on its evaluation, included in the Management Assurance section of the annual financial report.

Auditor's Responsibility

Our responsibility is to express opinions on SEC's and IPF's financial statements and opinions on SEC's 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

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

by management, as well as evaluating the overall presentation of the financial statements. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk, and testing relevant internal control over financial reporting.[7] Our audit of internal control also considered the entity's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA. Our audits also included performing such other procedures as we considered necessary in the circumstances.

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

Definitions and Inherent Limitations of Internal Control over Financial Reporting

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

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

Opinion on SEC's Financial Statements

In our opinion, SEC's financial statements present fairly, in all material respects, SEC's financial position as of September 30, 2014, and 2013, 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.

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

Opinion on 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, 2014, and 2013, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Opinions on Internal Control over Financial Reporting

Although certain internal controls could be improved, SEC maintained, in all material respects, effective internal control over financial reporting for SEC and IPF as of September 30, 2014, based on criteria established under FMFIA. Our opinions on SEC's internal control are consistent with SEC's assertion that its internal control over financial reporting, both for the agency as a whole and for IPF, was operating effectively as of September 30, 2014, and that no material weaknesses were found in the design or operation of the controls.[8]

However, during our fiscal year 2014 audit, we identified continuing and new deficiencies in SEC's internal control over disgorgement and penalty transactions[9] that constituted a significant deficiency in SEC's internal control over financial reporting.[10] This significant deficiency pertained to SEC's overall financial reporting but not that of IPF because IPF does not include disgorgement and penalty transactions.

We have reported deficiencies in SEC's controls over disgorgement and penalty transactions in prior years. In fiscal year 2013, we concluded that these deficiencies did not individually or collectively represent a material weakness or significant deficiency. Nonetheless, these deficiencies warranted SEC management's attention and were included in our report to SEC management in May 2014.[11] In fiscal year 2014, SEC took action to address some of these deficiencies; however, our testing results this year identified new deficiencies in accounting for disgorgement and penalty transactions, which, combined with the remaining control deficiencies from our prior audits, are important enough to merit the attention of those charged with governance of SEC. Therefore, while not considered a material weakness, we consider these issues to collectively represent a significant deficiency in SEC's internal control over financial reporting as of September 30, 2014.

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[8]Dodd-Frank Act, Pub. L. No. 111-203, § 963, 124 Stat. 1376, 1910 (2010), *codified at* 15 U.S.C. § 78d-8, requires that (1) SEC submit annual reports to Congress describing management's responsibility for establishing and maintaining an adequate internal control structure and procedures for financial reporting and assessing the effectiveness of such internal control during the fiscal year, (2) the SEC Chair and Chief Financial Officer attest to SEC's reports, and (3) GAO attest to and report on the assessment made by SEC. SEC conducted an evaluation of its internal control over financial reporting in accordance with the Office of Management and Budget's Circular No. A-123, *Management's Responsibility for Internal Control*, based on criteria established under FMFIA.

[9]A disgorgement is the repayment of illegally gained profits (or avoided losses) for distribution to harmed investors whenever feasible. A penalty is a monetary payment from a violator of securities law that SEC obtains pursuant to statutory authority. A penalty is fundamentally a punitive measure, although penalties occasionally can be used to compensate harmed investors.

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

[11]GAO, *Management Report: Improvements Needed in SEC's Internal Controls and Accounting Procedures*, GAO-14-416R (Washington, D.C.: May 12, 2014).

For all significant errors and issues that were identified, SEC made necessary adjustments to the financial statements, the notes accompanying the financial statements, and other required supplementary information, as appropriate. Consequently, SEC was able to prepare financial statements that were fairly presented in all material respects for fiscal years 2014 and 2013. Although the significant deficiency in internal control did not materially affect SEC's fiscal year 2014 financial statements, misstatements may occur in other financial information reported by SEC and not be prevented or detected and corrected on a timely basis because of this significant deficiency. This significant deficiency is discussed in more detail below.

During fiscal year 2014, SEC made progress in addressing other internal control deficiencies we reported in fiscal year 2013. Specifically, SEC sufficiently addressed the deficiencies in its information security such that we no longer consider the remaining control deficiencies in this area, individually or collectively, to represent a significant deficiency as of September 30, 2014.

During our 2014 audit, we also identified deficiencies in SEC's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant SEC management's attention. We have communicated these matters to SEC management and, where appropriate, will report on them separately.

Significant Deficiency over Accounting for Disgorgement and Penalties

As part of its enforcement responsibilities, SEC issues orders and administers judgments ordering, among other things, disgorgement, civil monetary penalties, and interest against violators of federal securities laws. When SEC is designated in an order or a final judgment to collect the assessed disgorgement, penalties, and interest on behalf of harmed investors or for payment to the general fund of the U.S. Treasury (Treasury), SEC records an accounts receivable for the amount the violator owes, accompanied by an equal and offsetting liability to reflect the amount payable to the harmed investors or to the Treasury. SEC recognizes amounts collected that are to be deposited in the general fund of the Treasury as revenue on its Statement of Custodial Activity. In fiscal year 2014, SEC recorded approximately $3.7 billion of new disgorgement and penalty accounts receivables. As of September 30, 2014, SEC's disgorgement and penalties accounts receivable balance, net of an allowance for uncollectible amounts, was $381 million. SEC's custodial revenue collected from disgorgement and penalties and transferred to the general fund of the Treasury during fiscal year 2014 was $825 million.

During this year's audit, we noted continuing and new deficiencies in SEC's accounting for disgorgement and penalty transactions that increase the likelihood that the affected balance sheet amounts and custodial balances could be misstated and not be detected and corrected in a timely manner. Specifically, we found continuing deficiencies related to (1) insufficient procedures for ensuring funds availability before transferring disgorgement and penalty-related funds to the Treasury, (2) ineffective monitoring of disgorgement and penalty-related cases filed in courts to ensure all cases that should be recorded as receivables are timely identified, and (3) insufficient safeguarding controls at service providers that collect SEC cash receipts, including payments from violators for disgorgement, penalties, and related interest on SEC's behalf. We reported these issues to SEC management in May 2014.[12]

During fiscal year 2014, we also found new deficiencies related to disgorgement and penalties. Specifically, we found that SEC's controls were not effective in ensuring that disgorgement and penalty transactions were recorded timely and accurately in SEC's general ledger, and were not

[12]GAO-14-416R.

effective in timely detecting and correcting any errors. For example, SEC's routine monitoring procedures did not consistently detect and correct errors in a timely manner. Instead, as individual errors were found and brought to its attention, SEC would investigate further to identify any similar issues, and it was these ad hoc reviews that would result in the identification and correction of additional errors. The errors we found this year were largely caused by (1) ineffective policies or procedures for tracking and recording accounts receivable transactions, (2) a lack of consistent information sharing between the Office of Financial Management (OFM) and the Division of Enforcement, and (3) ineffective implementation of existing policies.

Specifically, we tested a statistical sample of 72 disgorgement and penalty accounts receivable amounts and found that 4 of the sample items were not recorded in the general ledger in the proper accounting period. These errors were caused by ineffective procedures for tracking, analyzing, and recording civil court judgments and resulted in understatements to gross accounts receivables of about $42 million. We also found that SEC recorded certain disgorgement and penalty accounts receivable before the money was determined to be owed to SEC, resulting in an overstatement to gross accounts receivable of about $10 million. According to SEC policy,[13] an accounts receivable amount and the related liability amount should be recorded after issuance of a final civil court judgment or administrative order. However, we found that 6 of the 72 accounts receivable amounts we tested in our statistical sample were adjustments to correct amounts that SEC had originally recorded based on civil court judgments that were not final. These errors were caused by a lack of systematic information sharing between OFM, which is responsible for recording disgorgement and penalty transactions in the general ledger, and the Division of Enforcement, which is responsible for conducting investigations into possible violations of the federal securities laws and prosecuting SEC's civil suits in the federal courts as well as in its administrative proceedings. We found that the OFM staff did not always have sufficient information to properly record these transactions, and did not have a process in place to consistently obtain such information from the Division of Enforcement.

Further, we found that SEC had not established controls to ensure that all offsets of disgorgement-related accounts receivables were recorded in the general ledger in a timely manner.[14] Specifically, we noted that SEC did not have a process in place to ensure that OFM received all relevant documentation of offsets in a timely and consistent manner from the Division of Enforcement. OFM must, at times, rely on the Division of Enforcement to provide documentation related to offsets, such as when an offset depends on restitution in a criminal court case. We also noted that final court judgments may include language that would necessitate SEC recording both a new accounts receivable amount for amounts ordered payable to SEC as well as an offset amount. However, limitations in SEC's general ledger system do not allow it to record both the accounts receivable amount and offset at the same time, which has resulted in SEC relying on a manual process to enter the offset amount at a later time.

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[13]United States Securities and Exchange Commission, Office of Financial Management, "Investments and Disgorgement Management: Enforcement Accounts Receivable Procedures Guide," ch. 46.07 in *OFM Reference Guide* (April 2014), p.13.

[14]SEC records an offset when a court orders that an SEC debt may be satisfied in part or fully by the amount of criminal restitution or forfeiture imposed (or paid) in a parallel criminal action or when balances are reduced or collections paid to other entities in which the debtor receives credit toward the SEC debt.

Finally, we found that SEC recorded certain disgorgement and penalty transactions to incorrect customer numbers in the general ledger.[15] This was caused by ineffective implementation of existing SEC policies. For example, we found that one of the 45 accounts receivable amounts we tested as part of a statistical sample was recorded to an incorrect customer number. In addition, SEC identified a disgorgement and penalty accounts receivable amount that was recorded twice in the general ledger because it was initially recorded to an incorrect customer number, resulting in an overstatement of SEC's gross accounts receivable of $4.4 million, which was subsequently corrected. SEC's procedures require staff to determine whether an accounts receivable has already been recorded before initiating the recording of a new receivable and require review of new receivables as they are recorded. However, we noted that OFM staff did not sufficiently review the customer number as part of their review.

Although the deficiencies we identified did not result in material misstatements to the financial statement balances, without effective controls to help ensure that amounts are recorded timely and accurately, SEC is at increased risk of misstatement in its financial statements related to disgorgement and penalty accounts receivable. We consider these issues collectively to represent a significant deficiency in internal control over disgorgement and penalty transactions for fiscal year 2014.

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.[16] Although not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

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

[15]Customer number refers to the field in the general ledger that SEC uses to identify the specific securities law violator.

[16]The RSI is comprised of *Management's Discussion and Analysis* and the *Statements of Budgetary Resources by Fund*, which are included with the financial statements.

an opinion on SEC's and IPF's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

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

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2014 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to SEC and IPF. Accordingly, we do not express such an opinion.

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

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

Agency Comments

In commenting on a draft of this report, SEC's Chair expressed her pleasure that GAO found that SEC remediated the significant deficiency identified in 2013 related to information security, and attributed this accomplishment to the hard work and dedication of staff in SEC's Office of Information Technology. The Chair stated that SEC will continue to strengthen controls over information security, while focusing on the newly identified significant deficiency in the area of accounting for disgorgements and penalties. The Chair added that SEC will undertake a thorough assessment of the controls and organizational approach in that area, specifically by

taking corrective actions to consistently implement and evidence effective internal control over the timely recording of judgments and orders. The Chair stated that OFM is working closely with the Division of Enforcement to review orders in individual cases, and that SEC expects this ongoing communication to help ensure proper recording of judgments and orders. The Chair further commented that in the coming year, SEC expects to concentrate on further improving the systems that support its financial processes and controls to further SEC's endeavors to maintain a strong, sustainable internal controls environment. The complete text of SEC's comments is reprinted in enclosure I.

James R. Dalkin
Director
Financial Management and Assurance

November 14, 2014

Enclosure I: Management's Response to Audit Opinion

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

THE CHAIR

November 12, 2014

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

Dear Mr. Dalkin:

Thank you for the opportunity to review and comment on the audit report of the Government Accountability Office (GAO). I am pleased that the GAO's FY 2014 audit found that the SEC's financial statements and notes were presented fairly, in all material respects, and in conformity with U.S. generally accepted accounting principles.

Furthermore, I am pleased the GAO found that the SEC no longer has a significant deficiency related to information security as was identified in 2013. This accomplishment was the result of the hard work and dedication of staff in the SEC's Office of Information Technology. We will continue to strengthen our controls in this area, while focusing on the newly identified significant deficiency in the area of accounting for disgorgements and penalties. We will undertake a thorough assessment of our controls and organizational approach in this area. The agency also will take specific corrective actions to consistently implement and evidence effective internal control over the timely recording of judgments and orders. The Office of Financial Management is working closely with the Division of Enforcement to review orders in individual cases, and we expect this ongoing communication to help ensure proper recording of judgments and orders.

In the coming year, we also expect to concentrate on further improving the systems that support our financial processes and controls. The SEC will participate in the federal government-wide deployment of a new travel system; work to replace the system supporting budget execution and formulation; and focus on reforming the systems related to filing fees, disgorgement and penalties, and property management. We expect these efforts to further our endeavors to maintain a strong, sustainable internal controls environment.

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

Sincerely,

Mary Jo White
Chair

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Financial Statements

U.S. SECURITIES AND EXCHANGE COMMISSION

Balance Sheets

As of September 30, 2014 and 2013

(DOLLARS IN THOUSANDS)	FY 2014	FY 2013
ASSETS (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 8,210,610	$ 8,154,737
Investments, Net (Note 5)	1,755,689	1,282,642
Accounts Receivable (Note 6)	19	—
Advances and Prepayments	3,488	1,623
Total Intragovernmental	9,969,806	9,439,002
Cash and Other Monetary Assets (Note 4)	731	389
Accounts Receivable, Net (Note 6)	506,605	387,027
Property and Equipment, Net (Note 7)	113,292	126,871
Total Assets	$ 10,590,434	$ 9,953,289
LIABILITIES (Note 8):		
Intragovernmental:		
Accounts Payable	$ 7,249	$ 5,675
Employee Benefits	4,017	3,086
Unfunded FECA and Unemployment Liability	1,286	1,308
Custodial Liability	223,363	68,831
Liability for Non-Entity Assets	3,752	3,069
Total Intragovernmental	239,667	81,969
Accounts Payable	64,830	38,313
Actuarial FECA Liability	6,821	7,155
Accrued Payroll and Benefits	37,931	15,405
Accrued Leave	58,498	51,706
Registrant Deposits	34,766	32,857
Liability for Disgorgement and Penalties (Note 16)	2,451,397	2,065,202
Other Accrued Liabilities (Note 8)	5,830	5,509
Total Liabilities	2,899,740	2,298,116
Commitments and Contingencies (Note 10)		
NET POSITION:		
Unexpended Appropriations – All Other Funds	764	764
Cumulative Results of Operations – Funds from Dedicated Collections (Note 11)	7,688,738	7,653,217
Cumulative Results of Operations – All Other Funds	1,192	1,192
Total Net Position – Funds from Dedicated Collections	7,688,738	7,653,217
Total Net Position – All Other Funds	1,956	1,956
Total Net Position	$ 7,690,694	$ 7,655,173
Total Liabilities and Net Position	$ 10,590,434	$ 9,953,289

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

U.S. SECURITIES AND EXCHANGE COMMISSION

Statements of Net Cost

For the years ended September 30, 2014 and 2013

(DOLLARS IN THOUSANDS)	FY 2014	FY 2013
PROGRAM COSTS (Note 12):		
Enforcement	$ 487,047	$ 451,072
Compliance Inspections and Examinations	281,738	265,348
Corporation Finance	146,276	141,777
Trading and Markets	79,246	76,213
Investment Management	57,328	50,366
Economic and Risk Analysis	43,366	29,504
General Counsel	42,826	41,417
Other Program Offices	61,830	51,768
Agency Direction and Administrative Support	232,575	216,077
Inspector General	8,764	7,032
Total Program Costs	1,440,996	1,330,574
Less: Earned Revenue Not Attributed to Programs (Note 12)	1,906,258	1,764,267
Net (Income) Cost from Operations (Note 15)	$ (465,262)	$ (433,693)

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

Statements of Changes in Net Position

For the years ended September 30, 2014 and 2013

	FY 2014		
(DOLLARS IN THOUSANDS)	**Funds from Dedicated Collections**	**All Other Funds**	**Consolidated Total**
CUMULATIVE RESULTS OF OPERATIONS:			
Beginning Balances	$ 7,653,217	$ 1,192	$ 7,654,409
Budgetary Financing Sources:			
Appropriations Used	59,013	—	59,013
Non-Exchange Revenue	579	—	579
Other	—	—	—
Other Financing Sources:			
Imputed Financing (Note 13)	39,556	—	39,556
Other (Note 17)	—	(528,889)	(528,889)
Total Financing Sources	99,148	(528,889)	(429,741)
Net Income (Cost) from Operations	(63,627)	528,889	465,262
Net Change	35,521	—	35,521
Cumulative Results of Operations (Note 11)	7,688,738	1,192	7,689,930
UNEXPENDED APPROPRIATIONS:			
Beginning Balances	—	764	764
Budgetary Financing Sources:			
Appropriations Received	59,013	—	59,013
Other Adjustments	—	—	—
Appropriations Used	(59,013)	—	(59,013)
Total Budgetary Financing Sources	—	—	—
Total Unexpended Appropriations	—	764	764
Net Position, End of Period	$ 7,688,738	$ 1,956	$ 7,690,694

	FY 2013		
(DOLLARS IN THOUSANDS)	**Funds from Dedicated Collections**	**All Other Funds**	**Consolidated Total**
CUMULATIVE RESULTS OF OPERATIONS:			
Beginning Balances	$ 7,596,330	$ 1,195	$ 7,597,525
Budgetary Financing Sources:			
Appropriations Used	47,546	—	47,546
Non-Exchange Revenue	655	—	655
Other	6	—	6
Other Financing Sources:			
Imputed Financing (Note 13)	32,958	—	32,958
Other (Note 17)	(10)	(457,964)	(457,974)
Total Financing Sources	81,155	(457,964)	(376,809)
Net Income (Cost) from Operations	(24,268)	457,961	433,693
Net Change	56,887	(3)	56,884
Cumulative Results of Operations (Note 11)	7,653,217	1,192	7,654,409
UNEXPENDED APPROPRIATIONS:			
Beginning Balances	—	764	764
Budgetary Financing Sources:			
Appropriations Received	47,641	—	47,641
Other Adjustments	(95)	—	(95)
Appropriations Used	(47,546)	—	(47,546)
Total Budgetary Financing Sources	—	—	—
Total Unexpended Appropriations	—	764	764
Net Position, End of Period	$ 7,653,217	$ 1,956	$ 7,655,173

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

Statements of Budgetary Resources

For the years ended September 30, 2014 and 2013

(DOLLARS IN THOUSANDS)	FY 2014	FY 2013
BUDGETARY RESOURCES:		
Unobligated Balance, Brought Forward, October 1	$ 144,766	$ 43,672
Recoveries of Prior Year Unpaid Obligations	33,554	30,777
Downward Adjustments of Prior Year Unfunded Lease Obligations (Note 14.C)	—	2,009
Unobligated Balance from Prior Year Budget Authority, Net	178,320	76,458
Appropriations (Discretionary and Mandatory)	79,763	117,811
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,292,430	1,208,208
Total Budgetary Resources	$ 1,550,513	$ 1,402,477
STATUS OF BUDGETARY RESOURCES:		
Obligations Incurred (Note 14):	$ 1,426,869	$ 1,257,711
Unobligated Balance, End of Year:		
Apportioned	455,849	518,816
Exempt from Apportionment	327	43,749
Unapportioned	(332,532)	(417,799)
Total Unobligated Balance, End of Year	123,644	144,766
Total Budgetary Resources	$ 1,550,513	$ 1,402,477
CHANGE IN OBLIGATED BALANCE:		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1 (Gross)	$ 854,647	$ 954,598
Obligations Incurred	1,426,869	1,257,711
Outlays (Gross)	(1,332,116)	(1,324,876)
Recoveries of Prior Year Unpaid Obligations	(33,554)	(30,777)
Downward Adjustments of Prior Year Unfunded Lease Obligations (Note 14.C)	—	(2,009)
Unpaid Obligations, End of Year	915,846	854,647
Uncollected Payments:		
Uncollected Payments, Federal Sources, Brought Forward, October 1	(252)	(189)
Change in Uncollected Payments, Federal Sources	(183)	(63)
Uncollected Payments, Federal Sources, End of Year	(435)	(252)
Obligated Balance, End of Year	915,411	854,395
Memorandum (non-add) entries:		
Obligated Balance, Start of Year	$ 854,395	$ 954,409
Obligated Balance, End of Year	$ 915,411	$ 854,395
BUDGET AUTHORITY AND OUTLAYS, NET:		
Budget Authority, Gross (Discretionary and Mandatory)	$ 1,372,193	$ 1,326,019
Actual Offsetting Collections (Discretionary and Mandatory)	(1,292,247)	(1,274,195)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory)	(183)	(63)
Budget Authority, Net (Discretionary and Mandatory)	$ 79,763	$ 51,761
Outlays, Gross (Discretionary and Mandatory)	$ 1,332,116	$ 1,324,876
Actual Offsetting Collections (Discretionary and Mandatory)	(1,292,247)	(1,274,195)
Outlays, Net (Discretionary and Mandatory)	39,869	50,681
Distributed Offsetting Receipts	(1,929)	(3,150)
Agency Outlays, Net (Discretionary and Mandatory)	$ 37,940	$ 47,531

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

U.S. SECURITIES AND EXCHANGE COMMISSION

Statements of Custodial Activity

For the years ended September 30, 2014 and 2013

(DOLLARS IN THOUSANDS)	FY 2014	FY 2013
REVENUE ACTIVITY:		
Sources of Cash Collections:		
Disgorgement and Penalties	$ 825,027	$ 518,592
Other	2,702	1,355
Total Cash Collections	827,729	519,947
Accrual Adjustments	154,532	6,334
Total Custodial Revenue	982,261	526,281
DISPOSITION OF COLLECTIONS:		
Amounts Transferred to:		
Department of the Treasury	827,729	519,947
Amounts Yet to be Transferred	154,532	6,334
Total Disposition of Collections	982,261	526,281
NET CUSTODIAL ACTIVITY	$ —	$ —

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

Notes to the Financial Statements

U.S. SECURITIES AND EXCHANGE COMMISSION

As of September 30, 2014 and 2013

NOTE 1. Significant Accounting Policies

A. Reporting Entity

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

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

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

The SEC reporting entity includes the Investor Protection Fund (See *Note 1.T, Investor Protection Fund*). In addition to being included in the SEC's financial statements, the Investor Protection Fund's financial activities and balances are also presented separately as stand-alone financial statements, as required by Exchange Act Section 21F(g)5.

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

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

B. Basis of Presentation and Accounting

The accompanying financial statements present the financial position, net cost of operations, changes in net position, budgetary resources, and custodial activities of the SEC as required by the Accountability of Tax Dollars Act of 2002. The statements may differ from other financial reports submitted pursuant to Office of Management and Budget (OMB) directives for the purpose of monitoring and controlling the use of the SEC's budgetary resources, due to differences in accounting and reporting principles discussed in the following paragraphs. The SEC's books and records serve as the source of the information presented in the accompanying financial statements.

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

entities. Intragovernmental costs are payments or accruals due to other Federal entities.

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

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

C. Use of Estimates

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

D. Intra- and Inter-Agency Relationships

The SEC is comprised of a single Federal agency with limited intra-entity transactions. The Investor Protection Fund can finance the operations of the SEC Office of Inspector General's Employee Suggestion Program and the Office of the Whistleblower 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.

E. Fund Accounting Structure

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

(1) Funds from Dedicated Collections:

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

- **Investor Protection Fund:** The Investor Protection Fund is a fund for dedicated collections that provides funding for the payment of whistleblower awards as required by the Dodd-Frank Act. The Investor Protection Fund is financed by a portion of monetary sanctions collected by the SEC in judicial or administrative actions brought by the SEC. Persons may receive award payments from the Fund if they voluntarily provide original information to the SEC that results in a successful enforcement action and other conditions are met. In addition, the Fund can be used to finance the operations of the Office of the Whistleblower and the SEC Office of Inspector General's Employee Suggestion Program for the receipt of suggestions for improvements in work efficiency and effectiveness, and allegations of misconduct or mismanagement within the SEC. This activity is recognized in Fund X5567, *Monetary Sanctions and Interest, Investor Protection Fund, Securities and Exchange Commission (Investor Protection Fund)*. See *Note 1.T, Investor Protection Fund*.

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

(2) Miscellaneous Receipt Accounts:

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

(3) Deposit Funds:

- The Deposit Funds hold disgorgement, penalties, and interest collected and held on behalf of harmed investors, registrant monies held temporarily until earned by the SEC, and collections awaiting disposition or reclassification. This activity is recognized in Fund X6561, *Unearned Fees, Securities and Exchange Commission* and Fund X6563, *Disgorgement and Penalty Amounts Held for Investors, Securities and Exchange Commission*. Deposit Funds do not impact the SEC's Net Position and are not reported on the Statement of Changes in Net Position.

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

F. Funds from Dedicated Collections

A fund from dedicated collections is financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. The SEC collects specifically identified revenues and is required to use those revenues for designated activities, benefits or purposes and to account for them separately from the Government's general revenues. As described in *Note 1.E, Fund Accounting Structure*, 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*.

G. 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 deposit accounts that have not been returned to registrants.

H. Fund Balance with Treasury

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

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

I. Investments

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

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

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

J. Accounts Receivable and Allowance for Uncollectible Accounts

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

Entity Accounts Receivable

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

Non-Entity Accounts Receivable

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

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

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

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

Allowance for Uncollectible Amounts

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

The SEC calculates the allowance for uncollectible amounts and the related provision for estimated losses for filing fees and other accounts receivable using an analysis of historical collection data. No allowance for uncollectible amounts or related provision for

estimated losses has been established for securities transaction fees payable by SROs, as these amounts are fully collectible based on historical experience.

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

K. 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.

L. 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.

M. 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 deposit accounts that have not been returned to registrants, disgorgement and penalties collected and receivable, and amounts collected or receivable on behalf of the U.S. Treasury. Refer to *Note 1.G, Entity and Non-Entity Assets*, for additional information.

Enforcement Related Liabilities

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

In accordance with the provisions of the Dodd-Frank Act, collections not distributed to harmed investors may be transferred to either the Investor Protection Fund or the U.S. Treasury General Fund. Collections not distributed to harmed investors are transferred to the Investor Protection Fund if the Fund's balance does not exceed $300 million at the time of collection. Refer to *Note 16, Disgorgement and Penalties* for additional information.

Liability Classification

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

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

The SEC also recognizes liabilities not covered by budgetary resources. Budgetary and financial statement reporting requirements sometimes differ on the timing for the required recognition of an expense. For example, in the financial statements, annual leave expense must be accrued in the

reporting period when the annual leave is earned. However, in the budget, annual leave is required to be recognized and funded in the fiscal year when the annual leave is either used or paid out to a separating employee, not when it is earned. As a result of this timing difference, accrued annual leave liability is classified as a liability "not covered by budgetary resources" as of the financial statement date.

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

N. Employee Retirement Systems and Benefits

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

All employees are eligible to contribute to a Thrift Savings Plan (TSP). For those employees participating in FERS, the TSP is automatically established, and the SEC makes a mandatory 1 percent contribution to this plan. In addition, the SEC matches contributions ranging from 1 to 4 percent for FERS-eligible employees who contribute to their TSP. Employees participating in CSRS do not receive matching contributions to their TSP. The SEC contributes the employer's matching amount to the Social Security Administration under the Federal Insurance Contributions Act, which fully covers FERS participating employees.

The SEC 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.

O. Injury and Post-employment Compensation

The Federal Employees' Compensation Act (FECA), administered by the U.S. Department of Labor (DOL), provides income and medical cost protection to covered Federal civilian employees harmed on the job or who have contracted an occupational disease, and dependents of employees whose death is attributable to a job-related injury or occupational disease. The DOL bills the SEC annually as claims are paid, and the SEC in turn accrues a liability to recognize the future payments. Payment on these bills is deferred for two years to allow for funding through the budget process. Similarly, employees that the SEC terminates without cause may receive unemployment compensation benefits under the unemployment insurance program also administered by the DOL, which bills each agency quarterly for paid claims.

In addition, the SEC records an estimate for the FECA actuarial liability using the DOL's FECA model. The model considers the average amount of benefit payments incurred by the SEC for the past three fiscal years, multiplied by the medical and compensation liability to benefits paid ratio for the whole FECA program.

P. Annual, Sick, and Other Leave

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

Q. Revenue and Other Financing Sources

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

Exchange Revenue

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

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

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

Non-exchange Revenue

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

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

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

R. Budgets and Budgetary Accounting

Salaries and Expenses

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

amount of Category B funds related to reimbursable activity, which are exempt from quarterly apportionment. Refer to *Note 1.E*, *Fund Accounting Structure*.

Investor Protection Fund

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

Reserve Fund

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

S. Disgorgement and Penalties

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

T. Investor Protection Fund

The Investor Protection Fund was established through a permanent indefinite appropriation to provide financing for payments to whistleblowers and can be used for the expenses of the Office of the Whistleblower and the SEC Office of Inspector General's Employee Suggestion Program. The Investor Protection Fund is financed by transferring a portion of monetary sanctions collected by the SEC in judicial or administrative actions brought by the SEC under the securities laws that are not added to a disgorgement fund or other funds intended for harmed investors under Section 308 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7246). Sanctions collected by the Commission payable either to the SEC or the U.S. Treasury General Fund will be transferred to the Investor Protection Fund if the balance in that fund is less than $300 million on the day of collection.

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

NOTE 2. Entity and Non-Entity Assets

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

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

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

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

At September 30, 2013, SEC entity and non-entity assets consisted of the following:

(DOLLARS IN THOUSANDS)	Entity	Non-Entity	Total
Intragovernmental:			
Fund Balance with Treasury:			
SEC Funds	$ 7,133,643	$ —	$ 7,133,643
Registrant Deposits	—	32,857	32,857
Disgorgement and Penalties (Note 16)	—	988,237	988,237
Investments, Net:			
Disgorgement and Penalties (Note 16)	—	848,441	848,441
Investor Protection Fund	434,201	—	434,201
Accounts Receivable	—	—	—
Advances and Prepayments	1,623	—	1,623
Total Intragovernmental Assets	7,569,467	1,869,535	9,439,002
Cash and Other Monetary Assets:			
SEC Funds	2	—	2
Disgorgement and Penalties (Note 16)	—	387	387
Accounts Receivable, Net:			
SEC Funds	86,628	—	86,628
Disgorgement and Penalties (Note 16)	—	297,098	297,098
Custodial and Other Non-Entity Assets	—	3,301	3,301
Property and Equipment, Net (Note 7)	126,871	—	126,871
Total Assets	$ 7,782,968	$ 2,170,321	$ 9,953,289

NOTE 3. Fund Balance with Treasury

The Fund Balance with Treasury by type of fund and Status of Fund Balance with Treasury as of September 30, 2014 and 2013 consists of the following:

(DOLLARS IN THOUSANDS)	FY 2014	FY 2013
Fund Balances:		
General Funds	$ 7,109,249	$ 7,053,301
Special Funds	133,148	80,342
Other Funds	968,213	1,021,094
Total Fund Balance with Treasury	$ 8,210,610	$ 8,154,737
Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available	$ 60,875	$ 128,327
Unavailable	128,869	96,422
Obligated Balance not Yet Disbursed	557,376	413,616
Non-Budgetary Fund Balance with Treasury	7,463,490	7,516,372
Total Status of Fund Balance with Treasury	$ 8,210,610	$ 8,154,737

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

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

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

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

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

NOTE 4. Cash and Other Monetary Assets

The SEC had a cash balance of $731 thousand as of September 30, 2014. The SEC receives disgorgement and penalties 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 $389 thousand as of September 30, 2013.

NOTE 5. Investments

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

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

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

At September 30, 2013, investments consisted of the following:

(DOLLARS IN THOUSANDS)	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investment, Net	Market Value Disclosure
Non-Marketable Market-Based Securities						
Disgorgement and Penalties	$ 849,368	S/L	$ (3,932)	$ 3,005	$ 848,441	$ 845,551
Investor Protection Fund – Entity	434,009	S/L	56	136	434,201	434,211
Total	$ 1,283,377		$ (3,876)	$ 3,141	$ 1,282,642	$ 1,279,762

Intragovernmental Investments in Treasury Securities

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

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

NOTE 6. Accounts Receivable, Net

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

(DOLLARS IN THOUSANDS)	Gross Receivables	Allowance	Net Receivables
Intragovernmental Entity Accounts Receivable:			
Reimbursable Activity	$ 19	$ —	$ 19
Entity Accounts Receivable:			
Securities Transaction Fees	$ 121,731	$ —	$ 121,731
Other	406	—	406
Non-Entity Accounts Receivable:			
Disgorgement and Penalties (Note 16)	2,327,142	1,946,559	380,583
Filing Fees	6,013	2,261	3,752
Other	2,181	2,048	133
Subtotal Non-Intragovernmental Accounts Receivable	2,457,473	1,950,868	506,605
Total Accounts Receivable	$ 2,457,492	$ 1,950,868	$ 506,624

At September 30, 2013, accounts receivable consisted of the following:

(DOLLARS IN THOUSANDS)	Gross Receivables	Allowance	Net Receivables
Intragovernmental Entity Accounts Receivable:			
Reimbursable Activity	$ —	$ —	$ —
Entity Accounts Receivable:			
Securities Transaction Fees	$ 86,295	$ —	$ 86,295
Other	333	—	333
Non-Entity Accounts Receivable:			
Disgorgement and Penalties (Note 16)	1,660,940	1,363,842	297,098
Filing Fees	4,477	1,411	3,066
Other	1,222	987	235
Subtotal Non-Intragovernmental Accounts Receivable	1,753,267	1,366,240	387,027
Total Accounts Receivable	$ 1,753,267	$ 1,366,240	$ 387,027

Refer to *Note 1.J, Accounts Receivable and Allowance for Uncollectible Accounts* for methods used to estimate allowances. The SEC estimates that accumulated interest on accounts receivable considered to be uncollectible is $2.0 million and $985 thousand, respectively, as of September 30, 2014 and 2013. This estimate does not include interest accumulated on debts written off or officially waived.

As of September 30, 2014 and 2013, the balances include disgorgement and penalty accounts receivable, net of allowance, of $223.2 million and $68.6 million, respectively, designated as payable to the U.S. Treasury General Fund per court order. As discussed in *Note 1.M, Liabilities*, these receivables, their offsetting liabilities, and the associated revenues, are classified as custodial.

As discussed in *Note 1.J, 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 2014, property and equipment consisted of the following:

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

At September 30, 2013, property and equipment consisted of the following:

Class of Property *(DOLLARS IN THOUSANDS)*	Depreciation/ Amortization Method	Capitalization Threshold for Individual Purchases	Capitalization Threshold for Bulk Purchases	Service Life (Years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Book Value
Furniture and Equipment	S/L	$ 50	$ 50	3-5	$ 134,392	$ 71,120	$ 63,272
Software	S/L	300	300	3-5	132,845	98,202	34,643
Leasehold Improvements	S/L	300	N/A	10	95,634	66,678	28,956
Total					$ 362,871	$ 236,000	$ 126,871

NOTE 8. Liabilities Covered and Not Covered by Budgetary Resources

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

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

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

Liabilities that do not require the use of budgetary resources include registrant deposit accounts that have not been returned to registrants and offsetting liabilities that correspond to non-entity assets that the SEC holds, such as collections and receivables from disgorgements and penalties, as discussed in *Note 1.M, Liabilities*. Liabilities that do not require the use of budgetary resources are covered by assets that do not represent budgetary resources to the SEC.

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

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

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

At September 30, 2013, liabilities consisted of the following:

(DOLLARS IN THOUSANDS)	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Liabilities Not Requiring Budgetary Resources	Total
Intragovernmental:				
Accounts Payable	$ 5,675	$ —	$ —	$ 5,675
Other Intragovernmental Liabilities				
Accrued Employee Benefits	3,086	—	—	3,086
Unfunded FECA and Unemployment Liability	—	1,308	—	1,308
Custodial Liability	—	—	68,831	68,831
Liability for Non-Entity Assets	—	—	3,069	3,069
Subtotal – Other Intragovernmental Liabilities	3,086	1,308	71,900	76,294
Total Intragovernmental	8,761	1,308	71,900	81,969
Accounts Payable	38,313	—	—	38,313
Actuarial FECA Liability	—	7,155	—	7,155
Other Liabilities				
Accrued Payroll and Benefits	15,405	—	—	15,405
Accrued Leave	—	51,706	—	51,706
Registrant Deposits	—	—	32,857	32,857
Liability for Disgorgement and Penalties (Note 16)	—	—	2,065,202	2,065,202
Other Accrued Liabilities				
Recognition of Lease Liability (Note 9)	—	5,145	—	5,145
Other	2	—	362	364
Subtotal – Other Liabilities	15,407	56,851	2,098,421	2,170,679
Total Liabilities	$ 62,481	$ 65,314	$ 2,170,321	$ 2,298,116

Other Liabilities (Intragovernmental and Governmental) totaled $2,247 million as of September 30, 2013, of which all but $57 million was current. The non-current portion of Other Liabilities includes the appropriate portions of the Unfunded FECA and Unemployment Liability, Accrued Leave, and Lease Liability. Current liabilities not covered by budgetary resources totaled $1.3 million as of September 30, 2013.

NOTE 9. Leases

Operating Leases

At September 30, 2014, the SEC leased office space at 15 locations under operating lease agreements that expire between FY 2015 and FY 2029. The SEC paid $95.3 million and $103 million for rent for the years ended September 30, 2014 and 2013, respectively.

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

Under existing commitments, expected future lease payments through FY 2020 and thereafter are as follows:

Fiscal Year *(DOLLARS IN THOUSANDS)*	Non-Cancelable Expected Future Lease Payments
2015	$ 81,763
2016	77,597
2017	78,692
2018	78,976
2019	65,301
2020 and thereafter	53,292
Total	$ 435,621

As discussed in *Note 14.C, Other Budgetary Disclosures*, $358 million of the above $435.6 million are unfunded obligations.

Expense Recognition of "Rent Holiday"

In FY 2005, the SEC moved into temporary office space in New York due to renovations in the new leased office space. This temporary space was provided to the SEC for only the lessor's operating costs. As a result, the SEC accrued $8 million of rent expense discount, which is being amortized on a straight-line basis over the 15 year life of the new lease. Amortization of the discount recognized for the year ended September 30, 2014 and 2013 totaled $533 thousand in each period, respectively. The unamortized balance of this location's discount totaled $3.5 million and $4.0 million at September 30, 2014 and 2013 respectively.

In November 2011, the SEC occupied leased office space in Atlanta, Georgia. The lease term is 15 years and includes a one year rent payment holiday. The SEC expects to amortize $1.4 million of rent expense discount over the non-cancelable term of the lease which is 10 years. Amortization of the discount as an adjustment of rent payments began in November 2012. The unamortized balance of this location's discount totaled $1.0 million and $1.1 million at September 30, 2014 and 2013 respectively

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

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

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

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

Recognition of Rent Holiday Discounts as of September 30, 2013 (amounts in thousands)

Location	Total discount	Amortized discount	Accrued lease liability
New York, New York	7,995	3,997	3,998
Atlanta, Georgia	1,420	273	1,147
Miami, Florida	0	0	0
Total (See Note 8)	9,415	4,270	5,145

NOTE 10. Commitments and Contingencies

A. Commitments: Securities Investor Protection Act

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

SIPA authorizes SIPC to create a fund to maintain all monies received and disbursed by SIPC. SIPA gives SIPC the authority to borrow up to $2.5 billion from the SEC in the event that the SIPC Fund is or may appear insufficient for purposes of SIPA. To borrow the funds, SIPC must file with the SEC a statement of the uses of such a loan and a repayment plan, and then the SEC must certify to the Secretary of the Treasury that the loan is necessary to protect broker-dealer customers and maintain confidence in the securities markets and that the repayment plan provides as reasonable assurance of prompt repayment as may be feasible under the circumstances. The Treasury would make these funds available to the SEC through the purchase of notes or other obligating instruments issued by the SEC. Such notes or other obligating instruments would bear interest at a rate determined by the Secretary of the Treasury. As of September 30, 2014, the SEC had not loaned any funds to the SIPC, and there are no outstanding notes or other obligating instruments issued by the SEC.

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

B. Commitments and Contingencies: Investor Protection Fund

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

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

The SEC did not recognize a contingent liability for potential whistleblower awards for the period ended September 30, 2014 and September 30, 2013. As of September 30, 2014, potential whistleblower payments for cases where positive Preliminary Determinations have not been made, but are reasonably possible, are estimated to range from $25.7 million to $77.1 million given the amount of current collections on those cases. Such claims do not meet the criteria for recognition as contingent liabilities in FY 2014. In FY 2013, an estimated $500,000 in potential additional whistleblower claims did not meet the criteria for recognition as contingent liabilities.

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, 2014 net obligations for all of the SEC's activities were $915.4 million, of which $114.0 million was delivered and unpaid. As of September 30, 2013, net obligations for all of SEC's activities were $854.4 million, of which $62.5 million was delivered and unpaid.

D. Other Contingencies

The SEC is party to various routine administrative proceedings, legal actions, and claims brought against it, including threatened or pending litigation involving labor relations claims, some of which may ultimately result in settlements or decisions against the Federal Government. The SEC recognizes contingent liabilities when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable. As of September 30, 2014 and September 30, 2013, no contingent liabilities were recognized.

NOTE 11. Funds from Dedicated Collections

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

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

(DOLLARS IN THOUSANDS)	Salaries & Expenses	Investor Protection Fund	Reserve Fund	Eliminations	Total Funds From Dedicated Collections
Balance Sheet as of September 30, 2014					
ASSETS					
Fund Balance with Treasury	$7,108,486	$ 42,627	$ 90,521	$ —	$7,241,634
Cash and Other Monetary Assets	21	—	—	—	21
Investments, Net	—	395,169	—	—	395,169
Accounts Receivable, Net	122,156	—	—	—	122,156
Property and Equipment, Net	82,635	—	29,465	—	112,100
Advances and Prepayments	3,488	—	—	—	3,488
Total Assets	$7,316,786	$ 437,796	$ 119,986	$ —	$7,874,568
LIABILITIES					
Accounts Payable	$ 41,801	$ 23,136	$ 7,142	$ —	$ 72,079
FECA and Unemployment Liability	8,107	—	—	—	8,107
Accrued Payroll and Benefits	41,948	—	—	—	41,948
Accrued Leave	58,498	—	—	—	58,498
Other Accrued Liabilities	5,198	—	—	—	5,198
Total Liabilities	155,552	23,136	7,142	—	185,830
NET POSITION					
Cumulative Results of Operations	7,161,234	414,660	112,844	—	7,688,738
Total Net Position	7,161,234	414,660	112,844	—	7,688,738
Total Liabilities and Net Position	$7,316,786	$ 437,796	$ 119,986	$ —	$7,874,568
Statement of Net Cost for the year ended September 30, 2014					
Gross Program Costs	$1,391,435	$ 25,116	$ 23,642	$ (47)	$1,440,146
Less Earned Revenues Not Attributable to Program Costs	1,326,566	—	50,000	(47)	1,376,519
Net (Income) Cost from Operations	$ 64,869	$ 25,116	$ (26,358)	$ —	$ 63,627
Statement of Changes in Net Position for the year ended September 30, 2014					
Cumulative Results of Operations:					
Net Position, Beginning of Period	$7,127,534	$ 439,197	$ 86,486	$ —	$7,653,217
Budgetary Financing Sources:					
Appropriations Used	59,013	—	—	—	59,013
Non-Exchange Revenue	—	579	—	—	579
Other	—	—	—	—	—
Other Financing Sources:					
Imputed Financing	39,556	—	—	—	39,556
Other	—	—	—	—	—
Net Income (Cost) from Operations	(64,869)	(25,116)	26,358	—	(63,627)
Net Change	33,700	(24,537)	26,358	—	35,521
Cumulative Results of Operations	7,161,234	414,660	112,844	—	7,688,738
Unexpended Appropriations:					
Budgetary Financing Sources:					
Appropriations Received	59,013	—	—	—	59,013
Other Adjustments (Recissions, etc.)	—	—	—	—	—
Appropriations Used	(59,013)	—	—	—	(59,013)
Total Unexpended Appropriations	—	—	—	—	—
Net Position, End of Period	$7,161,234	$ 414,660	$ 112,844	$ —	$7,688,738

For FY 2013, the assets, liabilities, net position, and net income from operations relating to funds from dedicated collections consisted of the following:

(DOLLARS IN THOUSANDS)	Salaries & Expenses	Investor Protection Fund	Reserve Fund	Eliminations	Total Funds From Dedicated Collections
Balance Sheet as of September 30, 2013					
ASSETS					
Fund Balance with Treasury	$7,052,538	$ 4,996	$ 75,346	$ —	$7,132,880
Cash and Other Monetary Assets	2	—	—	—	2
Investments, Net	—	434,201	—	—	434,201
Accounts Receivable, Net	86,628	—	—	—	86,628
Property and Equipment, Net	109,957	—	15,721	—	125,678
Advances and Prepayments	1,623	—	—	—	1,623
Total Assets	$7,250,748	$ 439,197	$ 91,067	$ —	$7,781,012
LIABILITIES					
Accounts Payable	$ 39,407	$ —	$ 4,581	$ —	$ 43,988
FECA and Unemployment Liability	8,463	—	—	—	8,463
Accrued Payroll and Benefits	18,491	—	—	—	18,491
Accrued Leave	51,706	—	—	—	51,706
Other Accrued Liabilities	5,147	—	—	—	5,147
Total Liabilities	123,214	—	4,581	—	127,795
NET POSITION					
Cumulative Results of Operations	7,127,534	439,197	86,486	—	7,653,217
Total Net Position	7,127,534	439,197	86,486	—	7,653,217
Total Liabilities and Net Position	$7,250,748	$ 439,197	$ 91,067	$ —	$7,781,012
Statement of Net Cost for the year ended September 30, 2013					
Gross Program Costs	$1,302,673	$ 14,883	$ 13,504	$ (51)	$1,331,009
Less Earned Revenues Not Attributable to Program Costs	1,256,792	—	50,000	(51)	1,306,741
Net (Income) Cost from Operations	$ 45,881	$ 14,883	$ (36,496)	$ —	$ 24,268
Statement of Changes in Net Position for the year ended September 30, 2013					
Cumulative Results of Operations:					
Net Position, Beginning of Period	$7,092,911	$ 453,429	$ 49,990	$ —	$7,596,330
Budgetary Financing Sources:					
Appropriations Used	47,546	—	—	—	47,546
Non-Exchange Revenue	—	655	—	—	655
Other	—	6	—	—	6
Other Financing Sources:					
Imputed Financing	32,958	—	—	—	32,958
Other	—	(10)	—	—	(10)
Net Income (Cost) from Operations	(45,881)	(14,883)	36,496	—	(24,268)
Net Change	34,623	(14,232)	36,496	—	56,887
Cumulative Results of Operations	7,127,534	439,197	86,486	—	7,653,217
Unexpended Appropriations:					
Budgetary Financing Sources:					
Appropriations Received	47,641	—	—	—	47,641
Other Adjustments (Recissions, etc.)	(95)				(95)
Appropriations Used	(47,546)	—	—	—	(47,546)
Total Unexpended Appropriations	—	—	—	—	—
Net Position, End of Period	$7,127,534	$ 439,197	$ 86,486	$ —	$7,653,217

NOTE 12. Intragovernmental Costs and Exchange Revenue

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

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

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

The Statements of Net Cost, for the years ended September 30, 2014 and 2013, with a breakout of intragovernmental and public costs is presented below.

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

	FY 2013		
(DOLLARS IN THOUSANDS)	Intragovernmental Gross Cost	Gross Cost with the Public	Total
SEC Programs:			
Enforcement	$ 75,436	$ 375,636	$ 451,072
Compliance Inspections and Examinations	44,376	220,972	265,348
Corporation Finance	23,711	118,066	141,777
Trading and Markets	12,745	63,468	76,213
Investment Management	8,423	41,943	50,366
Economic and Risk Analysis	4,934	24,570	29,504
General Counsel	6,926	34,491	41,417
Other Program Offices	8,658	43,110	51,768
Agency Direction and Administrative Support	36,136	179,941	216,077
Inspector General	1,176	5,856	7,032
Total Program Costs	$ 222,521	$ 1,108,053	1,330,574
Less: Exchange Revenues			
Securities Transaction Fees			1,256,644
Securities Registration, Tender Offer, and Merger Fees			507,473
Other			150
Total Exchange Revenues			1,764,267
Net (Income) Cost from Operations			$ (433,693)

Intragovernmental exchange revenue was $96 thousand for the year ended September 30, 2014. Intragovernmental exchange revenue was $97 thousand for the year ended September 30, 2013.

NOTE 13. Imputed Financing

A portion of the retirement, health, and life insurance benefits provided to SEC employees is funded by OPM. In accordance with Federal accounting standards, the SEC recognizes identified costs paid by OPM on behalf of the SEC as an expense. The funding for this expense is reflected as imputed financing on the Statement of Changes in Net Position. Costs paid by OPM on behalf of the SEC were $39.6 million and $33 million in FY 2014 and FY 2013, respectively.

NOTE 14. Status of Budgetary Resources

A. Apportionment Categories of Obligations Incurred

Category A funds are those amounts that are subject to quarterly apportionment by OMB, meaning that a portion of the annual appropriation is not available to the agency until apportioned each quarter. Category B funds represent budgetary resources distributed by a specified time period, activity, project, object, or a combination of these categories. The SEC's Category B funds represent amounts apportioned at the beginning of the fiscal year for the SEC's reimbursable and Investor Protection Fund activities. The SEC's Reserve Fund is exempt from apportionment. For additional information, see *Note 1.E, Fund Accounting Structure*, and *Note 1.R, Budgets and Budgetary Accounting*. For the years ended September 30, 2014 and 2013, the SEC incurred obligations against Category A, Category B, and Exempt funds as follows:

Obligations Incurred *(DOLLARS IN THOUSANDS)*	**FY 2014**	**FY 2013**
Direct Obligations		
Category A	$ 1,335,969	$ 1,201,369
Category B — Investor Protection Fund	25,116	14,883
Exempt From Apportionment — Reserve Fund	65,605	41,343
Total Direct Obligations	1,426,690	1,257,595
Reimbursable Obligations		
Category B	179	116
Total Obligations Incurred	$ 1,426,869	$ 1,257,711

In addition, the amounts of budgetary resources obligated for undelivered orders include $801.8 million and $792.2 million at September 30, 2014 and 2013, respectively.

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

A comparison between the FY 2014 Statement of Budgetary Resources (SBR) and the actual FY 2014 data in the Budget of the U.S. Government (Budget) cannot be presented, as the FY 2016 Budget, which will contain FY 2014 actual data is not yet available. The comparison will be presented in next year's financial statements. The comparison as of September 30, 2013 is presented below:

(DOLLARS IN MILLIONS)	**Budgetary Resources**	**Obligations Incurred**	**Distributed Offsetting Receipts**	**Outlays, Net**
Combined Statement of Budgetary Resources	$ 1,402	$ 1,258	$ (3)	$ (51)
FY 2013 Ending Balance: Comptroller General Decision B 322160, *Recording of Obligation for Multiple Year Contract*	441	—	—	—
OMB's application of cumulative unobligated balances used to liquidate deficiency	(108)	—	—	—
Rounding	(1)	(1)	1	—
Budget of the U.S. Government for FY 2015	$ 1,734	$ 1,257	$ (2)	$ (51)

The differences between the FY 2013 SBR and the prior year column of the FY 2015 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 Budget titled "Unfunded Deficiencies."

A detailed reconciliation of the data elements follows:

- Based on an agreement with OMB, the SEC is funding the deficiency over time as the prior year unfunded lease obligation amounts are recovered, and as new budget authority becomes available for current year lease operations. At the end of FY 2013, the SEC's SBR included $441 million in remaining unfunded obligations after the SEC funded $80 million for the current year lease operations and recorded a downward adjustment of $2 million to previously unfunded obligations. The SEC's SBR presents the unfunded obligations as part of the beginning of the year unobligated balance brought forward.
- At the end of FY 2013, the "Unfunded Deficiencies" schedule in the SEC's section of the Budget reported $333 million in remaining unfunded obligations. The $108 million difference in remaining unfunded obligations reflects the difference in presentation between the SEC's SBR and the Budget: OMB applies year-end unobligated balances in Fund X0100, *Salaries and Expenses*, against the unfunded deficiency reported in the Budget. As a result, the "Unfunded Deficiencies" schedule in the Budget reflects the application of the FY 2011 year-end unobligated balance ($47 million) and the FY 2012 increase in the unobligated balance ($55 million) in Fund X0100, *Salaries and Expenses*, as a reduction in the beginning of the year unfunded deficiency. The FY 2013 increase of the year-end unobligated balance ($6 million) was also applied to the unfunded deficiency as part of new budget authority used to liquidate deficiencies.
- A portion of the activity in the "Unfunded Deficiencies" schedule is also reflected in the Budgetary Resources section of the SEC's Salaries and Expense Account in the Budget. The $88 million in "New budget authority used to liquidate deficiencies" in the "Unfunded Deficiencies" schedule is broken out in the SEC's Salaries and Expense Account as follows: $86 million in "Adjustments for new budget authority used to liquidate deficiencies" and $2 million in "Adjustment for unfunded deficiencies" (downward adjustments). The $86 million is the sum of the $80 million that the SEC used to liquidate the lease obligations in FY 2013 plus the $6 million unobligated balance at the end of FY 2013 considered to be applied to the unfunded obligations in the "Unfunded Deficiencies" schedule.

C. Other Budgetary Disclosures

General Provisions of Appropriation

The SEC's annual Appropriations Act contains general provisions that limit the amount that can be obligated for international conferences, International Organization of Securities Commission (IOSCO) dues, and representation expenses. The act also requires the SEC to fund its Office of Inspector General with a minimum of $7,092,000 and the Division of Economic and Risk Analysis with a minimum of $44,353,000.

The SEC's annual Appropriations Act for FY 2012 temporarily rescinded $25 million in appropriations recognized in the SEC's Reserve Fund in FY 2012. This rescission ended on September 30, 2012, leaving that $25 million available starting in FY 2013. The SEC's FY 2014 appropriation bill included a provision that rescinds $25 million in appropriations recognized in the SEC's Reserve Fund. Refer to *Note 1.E, Fund Accounting Structure, "Reserve Fund,"* for more information.

Change in Legal Interpretation for Lease Obligations

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

The SEC recorded obligations in the same manner for all its leasing actions between the time the agency was granted independent leasing authority in 1990 and 2010. Further, the agency did not have sufficient remaining unobligated funds in the years in which the various leases were entered to cover the full obligations associated with those leases. As a result, the agency recorded unfunded obligations totaling $778 million for leases executed between 1990 and 2010 in FY 2011. The SEC appropriately obligated the Government's total financial responsibility for lease actions that were executed in FY 2011 and FY 2012.

Unfunded lease obligations totaled $358 million and $441 million as of September 30, 2014 and 2013, respectively. The change in unfunded obligations is due to the SEC funding previously unfunded obligations totaling $83 million. Accrual accounting requires expenses to be recognized in the period in which the expenses are incurred. Because future lease expenses are not an expense of the current fiscal year, they are not reported as expenses or liabilities in the current fiscal year. See *Note 9, Leases*, for additional information.

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

NOTE 15. Reconciliation of Net Cost of Operations to Budget

For the years ended September 30, 2014 and 2013:

(DOLLARS IN THOUSANDS)	FY 2014	FY 2013
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated:		
Obligations Incurred (Note 14)	$1,426,869	$ 1,257,711
Less: Spending Authority from Offsetting Collections, Recoveries, and Downward Adjustments to Prior Year Unfunded Lease Obligations	(1,325,984)	(1,307,044)
Less: Reserve Fund Appropriations	(50,000)	(50,000)
Net Obligations	50,885	(99,333)
Other Resources:		
Imputed Financing from Cost Absorbed by Others (Note 13)	39,556	32,958
Total Resources Used to Finance Activities	90,441	(66,375)
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered But Not Yet Provided	(11,352)	104,435
Resources that Finance the Acquisition of Assets Capitalized on the Balance Sheet	(47,553)	(83,218)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(58,905)	21,217
Total Resources Used to Finance the Net Cost of Operations	31,536	(45,158)
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD:		
Components Requiring or Generating Resources in Future Periods:		
Change in Accrued Leave Liability	6,792	3,175
Change in Revenue Receivables Not Generating Resources Until Collected	(35,509)	16,684
Change in Lease Liability	31	(563)
Change in Unfunded Liability	(356)	(3,786)
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	(29,042)	15,510
Components not Requiring or Generating Resources:		
Depreciation and Amortization	60,596	53,801
Revaluation of Assets or Liabilities	537	117
Non-Entity Filing Fee Revenue, Net	(528,858)	(457,915)
Other Costs that will not Require or Generate Resources	(31)	(48)
Total Components of Net Cost of Operations that will not Require or Generate Resources in Future Periods	(467,756)	(404,045)
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	(496,798)	(388,535)
Net (Income) Cost from Operations	$ (465,262)	$ (433,693)

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

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

NOTE 16. Disgorgement and Penalties

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

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

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

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

(DOLLARS IN THOUSANDS)	FY 2014	FY 2013
Fund Balance with Treasury:		
Beginning Balance	$ 988,237	$ 341,886
Collections	1,478,207	1,545,037
Purchases and Redemptions of Treasury Securities	(510,901)	(326,159)
Disbursements	(197,069)	(53,935)
Transfers and Deposits to the U.S. Treasury General Fund	(825,027)	(518,592)
Total Fund Balance with Treasury (Note 2)	933,447	988,237
Cash and Other Monetary Assets:		
Beginning Balance	387	1,058
Net Activity	323	(671)
Total Cash and Other Monetary Assets (Notes 2 and 4)	710	387
Investments, Net:		
Beginning Balance	848,441	521,444
Net Activity	512,079	326,997
Total Investments, Net (Notes 2 and 5)	1,360,520	848,441
Accounts Receivable, Net:		
Beginning Balance	297,098	130,616
Net Activity	83,485	166,482
Total Accounts Receivable, Net (Notes 2 and 6)	380,583	297,098
Total Disgorgement and Penalties	$ 2,675,260	$ 2,134,163

NOTE 17. Statement of Changes in Net Position

In FY 2014, the negative $528,889 thousand in "Other" Financing Sources reported in the Statement of Changes in Net Position consists of $528,858 thousand in securities registration, tender offer, merger, and other fees from registrants ("filing fees") and $31 thousand in Freedom of Information Act (FOIA) fees collected, or to be collected, for deposit into the U.S. Treasury General Fund.

In FY 2013, the negative $457,974 thousand consists of $457,915 thousand in filing fees and $49 thousand in FOIA revenues collected, or to be collected, for deposit into the U.S. Treasury General Fund, and $10 thousand in losses on the sale of investments in U.S. Treasury securities.

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

Statements of Budgetary Resources by Fund

For the year ended September 30, 2014:

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

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

For the year ended September 30, 2013:

(DOLLARS IN THOUSANDS)	Salaries and Expenses and Other Funds	Investor Protection Fund	Reserve Fund	Total
	X0100, 09/10 0100, 1435, 3220	5567	5566	
BUDGETARY RESOURCES:				
Unobligated Balance, Brought Forward, October 1	$ (420,430)	$ 451,460	$ 12,642	$ 43,672
Recoveries of Prior Year Unpaid Obligations	30,777	—	—	30,777
Downward Adjustments of Prior Year Unfunded Lease Obligations (Note 14.C)	2,009	—	—	2,009
Unobligated Balance from Prior Year Budget Authority, Net	(387,644)	451,460	12,642	76,458
Appropriations (Discretionary and Mandatory)	47,546	(2,185)	72,450	117,811
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,208,208	—	—	1,208,208
Total Budgetary Resources	$ 868,110	$ 449,275	$ 85,092	$ 1,402,477
STATUS OF BUDGETARY RESOURCES:				
Obligations Incurred (Note 14)	$ 1,201,485	$ 14,883	$ 41,343	$ 1,257,711
Unobligated Balance, End of Year:				
Apportioned	84,424	434,392	—	518,816
Exempt from Apportionment	—	—	43,749	43,749
Unapportioned	(417,799)	—	—	(417,799)
Total Unobligated Balance, End of Year	(333,375)	434,392	43,749	144,766
Total Budgetary Resources	$ 868,110	$ 449,275	$ 85,092	$ 1,402,477
CHANGE IN OBLIGATED BALANCE:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1 (Gross)	$ 942,240	$ —	$ 12,358	$ 954,598
Obligations Incurred	1,201,485	14,883	41,343	1,257,711
Outlays (Gross)	(1,285,339)	(14,883)	(24,654)	(1,324,876)
Recoveries of Prior Year Unpaid Obligations	(30,777)	—	—	(30,777)
Downward Adjustments of Prior Year Unfunded Lease Obligations (Note 14.C)	(2,009)	—	—	(2,009)
Unpaid Obligations, End of Year	825,600	—	29,047	854,647
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	(189)	—	—	(189)
Change in Uncollected Payments, Federal Sources	(63)	—	—	(63)
Uncollected Payments, Federal Sources, End of Year	(252)	—	—	(252)
Memorandum (non-add) entries:				
Obligated Balance, Start of Year	$ 942,051	$ —	$ 12,358	$ 954,409
Obligated Balance, End of Year	$ 825,348	$ —	$ 29,047	$ 854,395
BUDGET AUTHORITY AND OUTLAYS, NET:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 1,255,754	$ (2,185)	$ 72,450	$ 1,326,019
Actual Offsetting Collections (Discretionary and Mandatory)	(1,274,195)	—	—	(1,274,195)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory)	(63)	—	—	(63)
Budget Authority, Net (Discretionary and Mandatory)	$ (18,504)	$ (2,185)	$ 72,450	$ 51,761
Outlays, Gross (Discretionary and Mandatory)	$ 1,285,339	$ 14,883	$ 24,654	$ 1,324,876
Actual Offsetting Collections (Discretionary and Mandatory)	(1,274,195)	—	—	(1,274,195)
Outlays, Net (Discretionary and Mandatory)	11,144	14,883	24,654	50,681
Distributed Offsetting Receipts	(745)	(2,405)	—	(3,150)
Agency Outlays, Net (Discretionary and Mandatory)	$ 10,399	$ 12,478	$ 24,654	$ 47,531

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

Investor Protection Fund Financial Statements

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Investor Protection Fund Financial Statements

U.S. SECURITIES AND EXCHANGE COMMISSION
INVESTOR PROTECTION FUND

Balance Sheets

As of September 30, 2014 and 2013

(DOLLARS IN THOUSANDS)	FY 2014	FY 2013
ASSETS:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 42,627	$ 4,996
Investments, Net (Note 3)	395,169	434,201
Total Assets	$ 437,796	$ 439,197
LIABILITIES:		
Accounts Payable	$ 23,136	$ —
Total Liabilities	23,136	—
Commitments and Contingencies (Note 4)		
NET POSITION:		
Cumulative Results of Operations – Funds from Dedicated Collections	414,660	439,197
Total Net Position – Funds from Dedicated Collections	414,660	439,197
Total Net Position	414,660	439,197
Total Liabilities and Net Position	$ 437,796	$ 439,197

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, 2014 and 2013

(DOLLARS IN THOUSANDS)	FY 2014	FY 2013
PROGRAM COSTS (Note 5):		
Awards to Whistleblowers	$ 25,069	$ 14,832
Employee Suggestion Program	47	51
Total Program Costs	25,116	14,883
Net (Income) Cost from Operations	$ 25,116	$ 14,883

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

U.S. SECURITIES AND EXCHANGE COMMISSION
INVESTOR PROTECTION FUND

Statements of Changes in Net Position

For the years ended September 30, 2014 and 2013

(DOLLARS IN THOUSANDS)	FY 2014	FY 2013
CUMULATIVE RESULTS OF OPERATIONS – FUNDS FROM DEDICATED COLLECTIONS:		
Beginning Balances	$ 439,197	$ 453,429
Budgetary Financing Sources:		
Non-Exchange Revenue	579	655
Other	—	6
Other Financing Sources:		
Other	—	(10)
Total Financing Sources	579	651
Net Income (Cost) from Operations	(25,116)	(14,883)
Net Change	(24,537)	(14,232)
Cumulative Results of Operations	414,660	439,197
Net Position, End of Period	$ 414,660	$ 439,197

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

U.S. SECURITIES AND EXCHANGE COMMISSION
INVESTOR PROTECTION FUND

Statements of Budgetary Resources

For the years ended September 30, 2014 and 2013

(DOLLARS IN THOUSANDS)	FY 2014	FY 2013
BUDGETARY RESOURCES:		
Unobligated Balance, Brought Forward, October 1	$ 434,392	$ 451,460
Appropriations (Discretionary and Mandatory)	(1,399)	(2,185)
Total Budgetary Resources	$ 432,993	$ 449,275
STATUS OF BUDGETARY RESOURCES:		
Obligations Incurred – Category B (Note 6)	$ 25,116	$ 14,883
Unobligated Balance, End of Year:		
Apportioned	407,877	434,392
Total Unobligated Balance, End of Year	407,877	434,392
Total Budgetary Resources	$ 432,993	$ 449,275
CHANGE IN OBLIGATED BALANCE:		
Unpaid Obligations:		
Obligations Incurred (Note 6)	$ 25,116	$ 14,883
Outlays (Gross)	(1,980)	(14,883)
Unpaid Obligations, End of Year	$ 23,136	$ —
BUDGET AUTHORITY AND OUTLAYS, NET:		
Budget Authority, Gross (Discretionary and Mandatory)	$ (1,399)	$ (2,185)
Budget Authority, Net (Discretionary and Mandatory)	$ (1,399)	$ (2,185)
Outlays, Gross (Discretionary and Mandatory)	$ 1,980	$ 14,883
Outlays, Net (Discretionary and Mandatory)	1,980	14,883
Distributed Offsetting Receipts	(490)	(2,405)
Agency Outlays, Net (Discretionary and Mandatory)	$ 1,490	$ 12,478

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, 2014 and 2013

NOTE 1. Significant Accounting Policies

A. Reporting Structure

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

B. Basis of Presentation and Accounting

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

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

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

The Balance Sheet, Statement of Net Cost and Statement of Changes in Net Position are prepared using the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred without regard to the receipt or payment of cash. These principles differ from budgetary accounting and reporting principles on which the Statement of Budgetary Resources is prepared. A reconciliation of differences, if any, between the accrual-based Statement of Net Cost and the budgetary-based Statement of Budgetary Resources is presented in *Note 7, Reconciliation of Net Cost of Operations to Budget*.

C. Use of Estimates

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

D. Intra- and Inter-Agency Relationships

Transactions with Other SEC Funds

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

Transactions with Other Federal Agencies

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

E. Funds from Dedicated Collections

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

F. Entity Assets

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

G. Fund Balance with Treasury

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

H. Investments

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

I. Liabilities

The SEC records liabilities for probable future outflows or other sacrifices of resources as a result of events that have occurred as of the Balance Sheet date. The Investor Protection Fund's liabilities consist of amounts payable to whistleblowers and reimbursable expenses that the Office of Inspector General incurs to operate the Employee Suggestion Program.

The Dodd-Frank Act and the SEC implementing regulations establish the eligibility criteria for whistleblower awards. Refer to *Note 4, Commitments and Contingencies* for additional information regarding the disclosure and recognition of actual and contingent liabilities for whistleblower awards.

J. Program Costs

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

K. Non-Exchange Revenue

Disgorgement and Penalty Transfers

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

Interest Earnings on Investments with Treasury

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

L. Budgets and Budgetary Accounting

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

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

NOTE 2. Fund Balance with Treasury

The Fund Balance with Treasury by type of fund and Status of Fund Balance with Treasury as of September 30, 2014 and 2013 consisted of the following:

(DOLLARS IN THOUSANDS)	FY 2014	FY 2013
Fund Balances:		
Special Fund	$ 42,627	$ 4,996
Total Fund Balance with Treasury	$ 42,627	$ 4,996
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ 13,011	$ 406
Unavailable	6,480	4,590
Obligated Balance not Yet Disbursed	23,136	—
Subtotal	42,627	4,996
Total Status of Fund Balance with Treasury	$ 42,627	$ 4,996

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

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

Cash flow

The Investor Protection Fund cash flows are reflected in investments and in the Statement of Budgetary Resources. Such cash flows during FY 2014 consisted of net investment redemptions of $39.2 million, net interest received of $412 thousand (which includes $648 thousand of interest collections, less $258 thousand of premiums paid, and $22 thousand in discounts received), expenses incurred for whistleblower awards totaling $25 million of which $2 million was paid during FY 2014, and the cost of operating the OIG Employee Suggestion Program of $47 thousand.

Cash flows during FY 2013 consisted of net investment redemptions of $16.4 million, net interest received of $2.5 million (which includes $ 3.2 million of interest collections and $765 thousand of premiums paid, and $89 thousand in discounts received), payments to whistleblowers totaling $14.8 million, and the cost of operating the OIG Employee Suggestion Program of $51 thousand.

NOTE 3. Investments

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

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

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

At September 30, 2013, investments consisted of the following:

(DOLLARS IN THOUSANDS)	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investment, Net	Market Value Disclosure
Non-Marketable Market-Based Securities						
Investor Protection Fund – Entity	$ 434,009	S/L	$ 56	$ 136	$ 434,201	$ 434,211

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. Commitments and Contingencies

Commitments and Contingencies: Whistleblower Program

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

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

The SEC did not recognize a contingent liability for potential whistleblower awards for the period ended September 30, 2014 and September 30, 2013. As of September 30, 2014, potential whistleblower payments for cases where positive Preliminary Determinations have not been made, but are reasonably possible, are estimated to range from $25.7 million to $77.1 million given the amount of current collections on those cases. Such claims do not meet the criteria for recognition as contingent liabilities in FY 2014. In FY 2013, the SEC disclosed an estimated $500,000 in additional whistleblower claims that did not meet the criteria for recognition as contingent liabilities.

NOTE 5. Intragovernmental Costs

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

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

In FY 2013, the Employee Suggestion Program incurred $51 thousand of intragovernmental costs. The Dodd-Frank whistleblower program incurred $14.8 million of costs with the public (awards to whistleblowers) in FY 2013.

NOTE 6. Status of Budgetary Resources

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

A comparison between the FY 2014 Statement of Budgetary Resources (SBR) and the actual FY 2014 data in the President's budget cannot be presented, as the FY 2016 President's budget which will contain FY 2014 actual data is not yet available; the comparison will be presented in next year's financial statements. There are no differences between the FY 2013 SBR and the FY 2013 data in the President's budget.

B. Other Budgetary Disclosures

There were no budgetary resources obligated for undelivered orders as of September 30, 2014 and 2013.

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 Budget

For the years ended September 30, 2014 and 2013, Obligations Incurred equaled the Net Cost of Operations and there were no reconciling items.

Other Information

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

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

Schedule of Spending (Unaudited)

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

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

U.S. SECURITIES AND EXCHANGE COMMISSION

Schedule of Spending

For the years ended September 30, 2014 and 2013

(DOLLARS IN THOUSANDS)	FY 2014	FY 2013
What Money is Available to Spend?		
Total Resources	$ 1,550,513	$ 1,402,477
Less Amount Available but Not Agreed to be Spent	456,176	562,565
Less Amount Not Available to be Spent	(332,532)	(417,799)
Total Amounts Agreed to be Spent	$ 1,426,869	$ 1,257,711
How was the Money Spent/Issued?		
Enforcement		
Personnel Compensation and Benefits	$ 286,868	$ 271,202
Contractual Services	124,255	138,883
Acquisition of Assets	8,809	19,376
Other	25,072	4,679
	445,004	434,140
Compliance Inspections and Examinations		
Personnel Compensation and Benefits	193,531	178,607
Contractual Services	43,055	52,047
Acquisition of Assets	6,039	4,803
Other	4	3,271
	242,629	238,728
Corporation Finance		
Personnel Compensation and Benefits	100,661	95,607
Contractual Services	18,262	26,398
Acquisition of Assets	3,368	6,850
Other	—	1,712
	122,291	130,567
Trading and Markets		
Personnel Compensation and Benefits	54,514	51,755
Contractual Services	9,832	13,968
Acquisition of Assets	1,758	3,536
Other	—	929
	66,104	70,188

(continued on next page)

Schedule of Spending *(continued)*

For the years ended September 30, 2014 and 2013

(DOLLARS IN THOUSANDS)	FY 2014	FY 2013
Investment Management		
Personnel Compensation and Benefits	40,206	35,029
Contractual Services	6,580	8,828
Acquisition of Assets	1,260	2,101
Other	—	596
	48,046	46,554
Economic and Risk Analysis		
Personnel Compensation and Benefits	22,028	17,414
Contractual Services	19,487	16,152
Acquisition of Assets	1,281	7,104
Other	—	317
	42,796	40,987
General Counsel		
Personnel Compensation and Benefits	29,865	28,428
Contractual Services	5,578	7,554
Acquisition of Assets	898	1,730
Other	216	587
	36,557	38,299
Other Program Offices		
Personnel Compensation and Benefits	42,556	35,209
Contractual Services	8,803	10,222
Acquisition of Assets	1,369	2,164
Other	—	646
	52,728	48,241
Agency Direction and Administrative Support		
Personnel Compensation and Benefits	127,648	109,668
Contractual Services	179,520	81,829
Acquisition of Assets	56,418	9,371
Other	49	2,765
	363,635	203,633
Inspector General		
Personnel Compensation and Benefits	5,507	3,877
Contractual Services	1,374	2,166
Acquisition of Assets	198	257
Other	—	74
	7,079	6,374
Total Amounts Agreed to be Spent	$ 1,426,869	$ 1,257,711
Who did the Money go to?		
Non-Federal Individuals and Organizations	$ 1,372,177	$ 1,199,233
Federal Agencies[1]	54,692	58,478
Total Amounts Agreed to be Spent	$ 1,426,869	$ 1,257,711

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

Inspector General's Statement on Management and Performance Challenges

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

OFFICE OF
INSPECTOR GENERAL

MEMORANDUM

September 30, 2014

To: Mary Jo White, Chair

From: Carl W. Hoecker, Inspector General, Office of Inspector General

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

The Reports Consolidation Act of 2000 requires the U.S. Securities and Exchange Commission (SEC) Office of Inspector General (OIG) to identify and report annually on the most serious management challenges that the SEC faces. To identify management challenges, we review past and ongoing audit, investigation, and evaluation work. In deciding whether to identify an issue as a challenge, we consider its significance in relation to the SEC's mission; its susceptibility to fraud, waste, and abuse; and the SEC's progress in addressing the challenge. We compiled this statement on the basis of the work we completed over the past year; our knowledge of the SEC's programs and operations; and feedback from SEC staff and the U.S. Government Accountability Office (GAO) auditors who conduct the SEC's annual financial statement audit.

MANAGEMENT AND PERFORMANCE CHALLENGES

Regulatory Oversight

Over the past decade, the markets, products, and participants that the SEC oversees and regulates—including investment advisers, mutual and exchange-traded funds, and broker-dealers—have grown in size and complexity, creating several challenges for the SEC as it carries out its mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. For example, following the 2007 – 2009 financial crisis and enactment of the Dodd-Frank Wall Street Reform and Consumer Protection (Dodd-Frank) Act, the SEC's responsibilities for providing regulatory oversight expanded significantly. The Dodd-Frank Act mandated that the agency undertake the largest and most complex rulemaking agenda in its history. Specifically, the Dodd-Frank Act includes some 90 provisions that require SEC rulemaking and more than 20 other provisions that require studies or reports. In addition, the Jumpstart Our Business Startups (JOBS) Act requires the SEC to write new rules and issue studies on capital formation, disclosure, and registration requirements. In her September 9, 2014, testimony before the United States Senate Committee on Banking, Housing, and Urban Affairs, the SEC Chair stated that the Commission has proposed or adopted rules with respect to approximately 90 percent of the provisions of the Dodd-Frank Act that mandate Commission rulemaking. However, more remains to be done on both the Dodd-

Frank and JOBS Act rulemakings, and the agency's ability to effectively prioritize and manage its resources will be key to the successful and timely completion of this work.

In addition to the resources needed for rulemaking, the SEC has identified an immediate and pressing need for ensuring sufficient examination coverage of registered investment advisers. According to the Chair's recent Congressional testimony, during fiscal year (FY) 2013, due to significant resource constraints, the SEC examined only about 9 percent of these advisers, although the total amount of assets managed by SEC-registered advisers increased from $43.8 trillion in April 2011 to $62.3 trillion in August 2014. The Chair further testified that the number of examiners per trillion dollars in investment adviser assets under management dropped from 19 in 2004 to 8 in 2014. In its first Report on Objectives, the SEC's Office of Investor Advocate, which was established by the Dodd-Frank Act, described the agency's ability to properly oversee registered investment advisers as a "substantial and continuing risk to investors." To ensure the SEC can adequately protect investors, the Office of Investor Advocate recommended that Congress immediately appropriate funds to increase the number of SEC staff who examine registered investment advisers, and authorize the SEC to collect fees from investment advisers to create a more stable and scalable source of revenue for investment adviser examinations in future years.

Finally, to keep pace with increasingly complex markets, the SEC is investing in its information technology infrastructure, developing new analytic capabilities, and deploying tools and platforms to store and process increasing volumes of data. Such improvements include

- standardizing enterprise-wide platforms;
- modernizing the agency's SEC.gov website and the Electronic Data Gathering, Analysis and Retrieval (EDGAR) filer systems;
- integrating structured and unstructured data sources;
- improving internal search and electronic discovery capabilities and providing complex, predictive analytical capabilities; and
- assisting with automated triage and early detection of fraud or abuse at the earliest possible stage.

We are planning audit work in these areas to assess the SEC's approaches for addressing newly expanded responsibilities, effectively targeting and monitoring market participants based on risk and available resources, and establishing an effective approach to modernizing its information technology infrastructure.

Information Security

The SEC generates and collects commercially valuable, market-sensitive, proprietary, and other nonpublic information. To accomplish the SEC's mission, the agency shares sensitive information internally among its divisions and offices and externally with the regulated community and financial regulators. During FY 2014, we completed several evaluations and investigations of weaknesses in the agency's controls over information security.

For example, we completed our FY 2013 evaluation of the effectiveness of the SEC's information security programs and practices and whether the SEC's Office of Information Technology (OIT) has policies, procedures, and practices consistent with Federal Information Security Management Act (FISMA) requirements (*Federal Information Security Management Act: Fiscal Year 2013 Evaluation*, Report No. 522, issued March 31, 2014). Overall, we found several areas in which the SEC has improved controls over its information security. Specifically, OIT has made significant progress establishing (1) a risk management program; (2) an incident response and reporting program; and (3) an enterprise-wide business continuity and disaster recovery program, consistent with FISMA requirements and Office of Management and Budget and National Institute of Standards and Technology guidelines. However, as we previously reported in 2013, we found that OIT had not taken corrective action on some issues identified during the prior FISMA evaluations. We also found that the agency needs to enhance its efforts regarding contractor systems, multi-factor authentication, user accounts, and configuration management. The agency is taking steps to address our concerns.

In addition, in our *Review of the SEC's Practices for Sanitizing Digital Information System Media*, Report No. 521, issued May 30, 2014, we identified deficiencies in the agency's digital media sanitization and disposal practices, which increased the risk of unauthorized release of information that is potentially damaging to the agency, its employees and contractors, and entities that the SEC regulates. We recommended improvements in the SEC's storage of media awaiting sanitization; processes for ensuring all laptop computer hard drives are encrypted; controls over inventorying and tracking hard drives during the sanitization process; sanitizing failed disks that were part of the agency's data center redundant storage arrays; and controls over the third-party destruction of media. The agency concurred with the recommendations and has developed a corrective action plan. During the course of the review, we also found on the SEC's enterprisewide network drives a large amount of sensitive, nonpublic information that was available to all employees and contractors with access to the network – a situation the agency took immediate action to correct.

In FY 2014, the OIG also investigated allegations that a departing SEC employee may have stolen sensitive documents. Specifically, the OIG learned that the SEC's Office of Records Management Services had identified sensitive information in materials that were being shipped from the SEC to the employee's new employer, a private firm, and SEC management was concerned about the potential release of nonpublic information. The OIG reviewed the employee's documents, identified nonpublic information, prevented information from leaving the SEC, and recovered other nonpublic information from the employee's residence. As a result, the OIG recommended improvements to the agency's exit procedures and policies. In response, the SEC instituted a revised records clearance form, offered additional training, and has regularly reminded employees via email about proper care of nonpublic information.

We opened another investigation into concerns about the unauthorized disclosure of nonpublic information from an Executive Session of a "closed" (nonpublic) Commission meeting. The OIG was notified that information about the Commission's deliberations and voting during the closed Commission meeting had been disclosed, without authorization, to a news reporter. Subsequently, nonpublic information was included in a news article by several reporters that was published before information about the closed Commission meeting was made public. The OIG was unable to determine which specific individual or individuals had improperly disclosed information from the closed Commission meeting. However, we determined that an SEC employee may have confirmed to one of the news reporters certain nonpublic

information. The OIG also learned during its investigation that certain Commission-related information was transmitted using personal, nonsecure email. The OIG provided the results of its investigation to the agency for appropriate action. The SEC has taken a number of positive steps to address control weaknesses we identified.

Further, the OIG investigated allegations that a former SEC employee, who was a candidate for a position with an SEC regional office, possessed documents containing SEC nonpublic information that the former employee had obtained through his prior employment with the SEC. During the course of its investigation, the OIG interviewed the former employee, who admitted possessing copies of SEC examination reports that he had worked on while employed with the SEC. The former employee agreed to cooperate with the investigation, and we recovered SEC documents containing nonpublic information from that former employee. We determined that one of the documents that the former employee had copied and taken with him when he left the SEC was marked "Privileged & Confidential." The OIG provided a report of its findings to SEC management for informational purposes.

Finally, as part of its audit of SEC's FY 2013 and FY 2012 financial statements, GAO assessed the effectiveness of the SEC's information security controls for protecting the confidentiality, integrity, and availability of the SEC's key financial systems and information. Although GAO reported[1] that the SEC had implemented and made progress in strengthening information security controls, GAO found weaknesses in several controls over a key financial system's network, servers, applications, and databases. GAO reported that "[t]he information security weaknesses existed, in part, because SEC did not effectively oversee and manage the implementation of information security controls during the migration of this key financial system to a new location." GAO concluded that until the SEC mitigates control deficiencies and strengthens the implementation of its security program, "its financial information and systems may be exposed to unauthorized disclosure, modification, use, and disruption."

We will continue to review the SEC's controls over sensitive, nonpublic information, including OIT's security controls for the SEC's information systems.

Acquisition Management

Although the SEC has made progress in improving its acquisitions policies and procedures, the OIG continues to find the SEC's monitoring of its contracts to be a challenge. For example, during our *Review of the SEC's Practices for Sanitizing Digital Information System Media*, we observed that SEC policy and the contract with the agency's media disposal vendor required the vendor to provide certificates of destruction that included the name of the individual(s) who witnessed the destruction and indicated the type and quantity of media destroyed and the destruction method used. However, SEC employees did not always witness the vendor's destruction of the agency's digital media (including computer hard drives, compact discs, digital video discs, and data tapes used to process and store often sensitive information), or ensure that the vendor provided accurate or complete certificates of destruction. According to the Contracting Officer's Representative for the media disposal contract, the vendor provided certificates that included only an inventory of the media by weight. Without recording hard drive serial numbers or other identifying information for destroyed devices, there is no proof of which devices were destroyed. For example, one

[1] GAO, *Information Security: SEC Needs to Improve Controls over Financial Systems and Data*, GAO-14-419 (April 17, 2014).

certificate of destruction from a regional office indicated that 15 hard drives were destroyed when, in fact, 15 boxes of hard drives were destroyed. In response to our draft report, SEC management stated that the contract with the media disposal vendor is being transferred from the Facilities Branch to OIT, and it will be the Contracting Officer's Representative's responsibility to ensure the correctness of certificates of destruction.

In addition, we completed the *Audit of the SEC's Physical Security Program*, Report No. 523, issued on August 1, 2014, and reported that the SEC's Office of Security Services outsourced security systems responsibilities to a contractor but did not provide sufficient oversight to monitor the contractor's performance. Also, the competencies of contractor security specialists did not always match their assigned roles and responsibilities.

We will perform additional work in FY 2015 to assess the SEC's progress in improving its acquisitions management and contract oversight.

Financial Management

GAO's audit of the SEC's FY 2013 financial statements[2] found that the SEC's financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.[3] In addition, GAO reported that, during FY 2013, the SEC made notable progress in addressing internal control deficiencies that GAO had reported in FY 2012. Specifically, in December 2013, GAO reported that the SEC "sufficiently addressed the deficiencies in its financial reporting for budgetary resources and property and equipment such that [GAO] no longer consider[s] the remaining control deficiencies in these areas, individually or collectively, to represent significant deficiencies as of September 30, 2013." However, as previously discussed, GAO's FY 2013 audit identified new deficiencies in the SEC's internal control over information security. GAO also reported that the SEC was not able to adequately address certain control deficiencies in information security reported in FY 2012. GAO considered the aggregate of these deficiencies in information security to represent a significant deficiency in SEC's internal control over financial reporting.[4]

In addition, in May 2014, GAO reported identifying several new deficiencies in the SEC's internal control over financial reporting that GAO did not consider to be material weaknesses or significant deficiencies, either individually or collectively, but nonetheless warranted SEC management's attention.[5] These deficiencies were related to

- procedures for transferring disgorgement and penalty-related funds to the Department of the Treasury;
- monitoring of disgorgement and penalty related cases filed in courts;

[2] GAO's FY 2013 financial statement audit included the SEC's general purpose and Investor Protection Fund (IPF) financial statements.

[3] GAO, *Financial Audit: Securities and Exchange Commission's Financial Statements for Fiscal Years 2013 and 2012*, GAO-14-213R (December 16, 2013).

[4] This significant deficiency pertained to SEC's overall financial reporting, but not that of IPF because of the nature of IPF's financial transactions during FY 2013.

[5] GAO, *Management Report: Improvements Needed in SEC's Internal Controls and Accounting Procedures*, GAO-14-416R (May 12, 2014).

- segregation of duties for recording disgorgement and penalty-related financial data;
- safeguarding of SEC cash receipts received at its service provider;
- recording of property and equipment transactions; and
- management's review of legal contingencies and significant events.

GAO made 9 new recommendations to address these deficiencies in the SEC's controls over financial reporting and noted that, with these new recommendations, the SEC has 25 recommendations that need to be addressed. Corrective action is in progress for all outstanding recommendations. We will continue to monitor the SEC's financial management and reporting controls and actions to address open recommendations.

Human Capital Management

In 2013, we reported that GAO had assessed the SEC's organizational culture and its personnel management challenges and efforts to address those challenges. In its July 2013 report,[6] GAO concluded that the SEC "has not consistently or fully implemented effective personnel management" and, although the agency had taken some steps, most of its efforts were in the early stages and could be enhanced. GAO identified four key areas where continued improvement was needed: (1) workforce planning; (2) performance management; (3) communication and collaboration; and (4) personnel management assessment. GAO made seven recommendations to improve the SEC's personnel management, including developing comprehensive workforce plans,[7] implementing mechanisms to monitor how supervisors use the performance management system, conducting periodic validations of the system, exploring collaboration practices of leading organizations, and regularly assessing these efforts. SEC management agreed with GAO's recommendations and, on May 5, 2014, the Office of Human Resources submitted a proposal to GAO to close the recommendations.

In June 2014, the Office of Personnel Management (OPM) issued a report on its evaluation of the SEC. OPM reported "commendable [human resources] process improvement initiatives and a system of transparency and accountability which resulted in continuous improvement of human resources programs." OPM also reported improvements to the agency's delegated examining operations since a previous evaluation in 2010. However, OPM found issues that were repeat findings from the 2010 review, including the "lack of evidence of an effective quality review process, incorrect [job opportunity announcement] content, insufficient applicant notifications, insufficient documentation of minimum qualifications, and problems with auditing of certificates." OPM also reported that the SEC still did not have a comprehensive workforce plan, although the agency had a workforce planning process conducted by the senior executive within each office. Finally, OPM identified a violation of merit promotion procedures under 5 CFR 335.103(c)(1)(iv). In February 2013, the SEC discontinued the promotion practice that caused the violation; however, OPM required the SEC to take corrective action and recommended other actions to improve the SEC's human capital management.

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[6] GAO, *Securities and Exchange Commission Improving Personnel Management Is Critical for Agency's Effectiveness*, GAO-13-621 (July 2013).

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

Lastly, as an employer, the SEC seeks to hire and retain a skilled and diverse workforce, and to ensure that all decisions affecting employees and applicants are fair and ethical. Attracting, engaging, and retaining a technically proficient and diverse workforce is one of the agency's stated strategic objectives.[8] Section 342 of the Dodd-Frank Act required specific federal financial agencies, including the SEC, to establish, by January 21, 2011, an Office of Minority and Women Inclusion, responsible for matters relating to diversity in management, employment, and business activities. In fiscal year 2014, we initiated an audit of the representation of minorities and women in the SEC's workforce to help identify factors that may impact the SEC's ability to increase the representation of minorities and women at the SEC, in general, and in senior management positions, in particular. We anticipate completing this work and issuing a report in FY 2015.

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

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

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

Management's Response to Inspector General's Statement

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

THE CHAIR

November 10, 2014

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

Dear Mr. Hoecker:

Thank you for your "Statement on the SEC's Management and Performance Challenges," issued on September 30, 2014. We remain committed to enhancing the financial and operational effectiveness of the SEC and appreciate the Office of Inspector General's role in the effort. Below is an overview of the actions—taken and planned to be taken—to address each of the challenges identified in your statement.

Regulatory Oversight

During the past decade the SEC's regulatory responsibilities have increased in size and complexity. The Dodd-Frank Wall Street Reform and Consumer Protection (Dodd-Frank) and the Jumpstart Our Business Startups (JOBS) Acts gave the SEC significant new duties and required the agency to undertake the largest rulemaking agenda of its history. While the SEC has made significant progress, more remains to be done on both our Dodd-Frank Act and JOBS Act rulemakings, and we continue to work with intensity focused on creating fundamental and lasting reforms supported by robust economic analysis.

As I have indicated previously, our overall responsibilities cannot be handled appropriately with the agency's existing resource levels, particularly as we turn from rule writing to implementation and enforcement of the Dodd-Frank and JOBS Act rules. While the SEC will continue to do its utmost to maximize the use of its resources, current funding levels make it increasingly difficult for the SEC to detect, pursue, and prosecute violations of our securities laws; continue to improve transparency through our disclosure program; and enhance market structure as the size, speed, and complexity of the markets grow around us.

The President's Budget Request for the SEC in FY 2015 seeks additional staff and technology investments to allow the SEC to accomplish several key and pressing priorities, including bolstering examination coverage for investment advisers and other key areas; continuing the agency's investments in the technologies needed to keep pace with today's high-tech, high-speed markets; strengthening our enforcement program's efforts to detect, investigate, and prosecute wrongdoing; and enhancing the agency's oversight of the rapidly changing markets and ability to carry out its increased regulatory responsibilities.

Information Security

Our Office of Information Technology (OIT) continues to take corrective actions on issues identified during prior Federal Information Security Management Act evaluations. This year, OIT Security initiated a targeted review on select contractor systems to ensure they are compliant with the government-mandated control baseline for cloud computing systems, and began assisting OIT Operations in a manual account validation of all Unix system accounts to ensure all accounts are necessary for the proper operation of our Unix environment. OIT Operations undertook a project to centralize account validation to ensure timely response in the future. In addition, OIT Operations is in the final stages of a project to enable the use of our Personal Identity Verification cards for authentication to our network.

To address the proper sanitizing of digital information system media, OIT Security assumed responsibility for the main media destruction contract. The staff coordinated a SEC-wide inventory of digital media awaiting disposal, updated formal policies and procedures, and initiated backlog disposal pickups at both Headquarters and all Regional Offices. OIT Security also began working with OIT Operations and Asset Management to ensure and verify all laptop computer hard drives are encrypted.

In response to the Government Accountability Office's (GAO) audits of the financial statements in FY 2012 and FY 2013, OIT completed numerous corrective actions to address all but a small number of identified weaknesses. Those that remain are actively being addressed and should be remediated in the coming months.

To strengthen controls over non-public information, the Office of Records Management Services implemented procedures that require all departing SEC personnel, regardless of the type or duration of their appointment, to provide formal acknowledgement on SEC Form 2888, Record Clearance Form, that they have not removed documentary materials upon separation unless they have obtained the proper approvals. This records clearance form includes a signature from the departing employee's supervisor or other approving official attesting that they have conducted a review of documents that the employee plans to remove from the SEC.

Acquisition Management

We remain focused on implementing effective contract management. As noted above, OIT Security assumed responsibility for the main media destruction contract to address the proper sanitizing of digital information system media. With respect to the agency's physical security program, the Office of Security Services (OSS) is working to increase oversight and performance monitoring of the agency's security systems contractor by having the access control notifications and intrusion detections replicated in the SEC's Command Center.

In addition, we are planning to provide training opportunities for Physical Security Specialists to ensure they meet or exceed the baseline knowledge and core competency skills developed by OSS in accordance with Interagency Security Committee standards.

Financial Management

Fiscal year 2014 marks our second full year of operations with the Delphi financial system and contracted services provided by a Federal Shared Service Provider (FSSP), the Department of Transportation's (DOT) Enterprise Services Center (ESC). This year, we continued our progress in achieving more efficient and effective financial operations under the FSSP model.

For 2013, GAO identified one significant deficiency in internal controls over financial reporting, in the area of information security. During 2014 the SEC focused on improving the internal controls related to risk management and project oversight in its information systems operations. The 2014 GAO audit report found that this significant deficiency has been remediated.

GAO's 2013 report also identified several control deficiencies in the SEC's internal controls over financial reporting that are not considered to be material weaknesses or significant deficiencies. The SEC made significant improvements to remediate these control deficiencies, as specified below.

- Procedures for transferring disgorgement and penalty-related funds to the Department of the Treasury. The SEC developed and implemented specific procedures for validating funds availability prior to transferring disgorgement and penalty-related funds to Treasury.

- Monitoring of disgorgement and penalty related cases filed in courts. The SEC enhanced the process for monitoring the daily automated feed of court case information, so we can properly capture and record the accounting events that result from such cases.

- Segregation of duties for recording disgorgement and penalty-related financial data. We enhanced the access controls for *ImageNow,* a workflow system used to warehouse all of our judgments and orders and to transmit all disgorgement and penalty-related information to ESC, our shared-service provider. We increased the segregation of duties for recording disgorgement and penalty data and instituted recurring monitoring of user accounts.

- Safeguarding SEC cash receipts received at its service provider. The SEC tested the controls over cash receipts at its service provider for FY 2014. The service provider will include an assessment of these controls in its SSAE-16 report for FY 2015.

- Recording of property and equipment transactions. The agency worked to improve processes for capturing and recording property and capitalized assets on a timely basis.

- Management's review of legal contingencies and significant events. The SEC implemented control procedures for timely assessment and recording of significant events with financial consequences.

In FY 2014, the SEC also continued its efforts to strengthen the agency's internal controls program. We streamlined the key controls for all process cycles, and fully implemented a quarterly internal controls self-assessment. In FY 2015, the SEC will continue to build on this progress, by further strengthening its internal controls program and remediating deficiencies identified by GAO.

Human Capital Management

The SEC made substantial progress with implementing GAO's recommendation to improve personnel management. Below are updates on the key areas referenced in your Statement on Management and Performance Challenges.

Workforce planning. SEC is currently developing a comprehensive workforce plan, including a plan to assist the agency in identifying future leaders. Although we have established a robust succession plan, which has been approved by the Office of Personnel Management (OPM), the succession plan is just the initial building block for the workforce plan. Additional steps are being taken in FY 2015 to finalize SEC-wide strategic initiatives and we will work to incorporate all elements of effective workforce planning into the overall plan, to be completed by the end of FY 2015.

Performance management. The SEC recently agreed with its union, National Treasury Employee Union (NTEU), to work collaboratively to create a new four-tier bargaining unit performance management system that will differentiate pay based upon merit. Once the new four-tier system is in place, the SEC and NTEU have agreed to implement a new performance-based raise and bonus program, which will further allow the SEC to reward outstanding performance.

SEC non-bargaining unit employees are currently under a five-tier Evidence Based Performance management system that assesses employees' overall performance each year. Once the bargaining unit system has been completed, the SEC will work to bring both systems into alignment with GAO's recommendations, which is anticipated to occur in FY 2016.

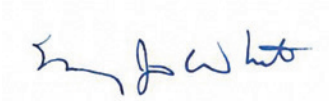
Communication and collaboration. Based on GAO's recommendations, SEC made significant efforts to improve communication and collaboration. In an effort to optimize communications and collaboration, the SEC benchmarked and implemented a variety of best practices used both within the public and private sector, including cross-agency working groups, an agency-wide culture change initiative and a more robust internal communication strategy. Work continues in this area to ensure that employees across the SEC are sharing critical information.

OPM review. The purpose of OPM's audit was to determine SEC's adherence to merit system principles, laws, and regulations, and to assess the efficiency and effectiveness in administering human resources programs under the Talent Management System of the Human Capital Framework. OHR is currently in the process of addressing all of the required and recommended actions identified in the OPM audit and anticipates that all recommendations will be resolved by the end of FY 2015.

* * * *

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

Sincerely,



Mary Jo White
Chair

Summary of Financial Statement Audit and Management Assurances

TABLE 3.1
SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion: Unmodified

Restatement: No

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

TABLE 3.2
SUMMARY OF MANAGEMENT ASSURANCES

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

Statement of Assurance: Unqualified

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

Effectiveness of Internal Control over Operations (FMFIA § 2)

Statement of Assurance: Unqualified

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

Conformance with Financial Management System Requirements (FMFIA § 4)

Statement of Assurance: Conformance

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

Improper Payments Elimination and Recovery Act Reporting Details

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

Risk Assessment

In Fiscal Year (FY) 2014, the U.S. Securities and Exchange Commission (SEC) reviewed the programs and activities it administers to identify those which may be susceptible to significant erroneous payments. The risk assessment included 1) consideration of certain risk factors that are likely to contribute to a susceptibility to significant improper payments, and 2) transaction testing on a sample basis of payments made during the first six months of FY 2014. The risk assessment was performed for the following programs:

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

Based on the results of transaction testing applied to a sample of payments, consideration of risk factors, and reliance on the internal controls in place over the payment, refund, and distribution process, the SEC determined that none of its programs and activities are susceptible to significant improper payments at or above the threshold levels set by OMB. Significant erroneous payments are defined as annual erroneous payments in the program exceeding both $10 million and 1.5 percent of total program outlays, or $100 million of improper payments if less than 1.5 percent of total annual program outlays. In accordance with Appendix C of Circular A-123, the SEC is not required to determine a statistically valid estimate of erroneous payments or develop a corrective action plan if the program is not susceptible to significant improper payments.

In FYs 2007 and 2008, SEC's testing of its largest programs resulted in improper payment percentages that were well below one-half percent and less than $30,000 for each program. In FYs 2009 through 2013, the SEC performed a risk assessment for all programs and determined that its programs are not susceptible to significant erroneous payments.

If the level of risk in each program is determined to be low and baseline estimates have been established, the SEC is only required to conduct a formal risk assessment every three years unless the program experiences a significant change in legislation and/or a significant increase in funding level. The SEC will conduct a follow on review in FY 2015 of its programs and activities to determine whether the programs have experienced any significant changes in legislation or funding levels. If so, the SEC will re-assess the programs' risk susceptibility and make a statistically valid estimate of erroneous payments for any programs determined to be susceptible to significant erroneous payments.

Recapture of Improper Payments

In FY 2014, the SEC did not administer any grant, benefit or loan programs. Implementation of recapture auditing, if determined to be cost-effective, would apply to vendor payments, disgorgement and penalty distributions, refunds of registration filing fee deposits, and payroll payments. Because the definition of payment in the IPERA legislation means any payment or transfer of Federal funds to any non-Federal person or entity, the SEC is not required to review, and has not reviewed, intragovernmental transactions.

The SEC has determined that implementing a payment recapture audit program for vendor payments, disgorgement and penalty distributions, refunds of registration filing fee deposits, and payroll payments is not cost-effective. That is, the benefits or recaptured amounts associated with implementing and overseeing the program do not exceed the costs, including staff time and resources, or payments to a contractor for implementation, of a payment recapture audit program. In making this determination, the SEC considered its low improper payment rate based on testing conducted over the past seven years. The SEC also considered whether sophisticated software and other cost-efficient matching techniques could be used to identify significant overpayments at a low cost per overpayment, or if labor intensive manual reviews of paper documentation would be required. In addition, the SEC considered the availability of tools to efficiently perform the payment recapture audit and minimize payment recapture audit costs.

The SEC will continue to monitor its improper payments across all programs and activities it administers and assess whether implementing payment recapture audits for each program is cost-effective. If the SEC determines, through future risk assessments, that a program is susceptible to significant improper payments and implementing a payment recapture program may be cost-beneficial, the SEC will implement a pilot payment recapture audit to measure the likelihood of cost-effective payment recapture audits on a larger scale.

Even though the SEC has determined that implementing a payment recapture audit program for its programs is not cost-effective, the agency strives to recover any overpayments identified through other sources, such as payments identified through statistical samples conducted under the IPIA. The amounts identified and recovered, by program, are shown in Table 3.3 below.

TABLE 3.3

OVERPAYMENTS RECAPTURED OUTSIDE OF PAYMENT RECAPTURE AUDITS *(IN DOLLARS)*

Source	Amount Identified (CY)	Amount Recovered (CY)	Amount Identified (PYs)	Amount Recovered (PYs)	Cumulative Amount Identified (CY+PYs)	Cumulative Amount Recovered (CY+PYs)
Vendor Payments						
Improper Payments Sampling	$ 449	$ —	$ 59,895	$ 13,085	$ 60,344	$ 13,085
Disgorgement and Penalty Distributions						
Improper Payments Sampling	$ —	$ —	$ —	$ —	$ —	$ —
Refunds of Registration Filing Fee Deposits						
Improper Payments Sampling	$ —	$ —	$ 321	$ 321	$ 321	$ 321
Payroll Payments						
Improper Payments Sampling	$ —	$ —	$ —	$ —	$ —	$ —

Do Not Pay

IPERIA mandates a review, as appropriate and before issuance, of all payments and awards for all programs through the Do Not Pay system. The SEC, in coordination with its Federal Shared Service Provider and the Do Not Pay Business Center, has incorporated the performance of pre-award, pre-payment, and post-payment reviews into its existing business processes and programs. During FY 2014, such processes identified approximately 163 matches against these data sources which the agency scrutinized in its efforts to help prevent improper payments. Through further analysis, the SEC identified that each matched recipient was eligible for the payment under a Federal benefit program. The dollar amounts and the number of payments reviewed for improper payments utilizing the Do Not Pay system between October 1, 2013, and September 30, 2014, are shown in Table 3.4 below.

TABLE 3.4

IMPLEMENTATION OF THE DO NOT PAY INITIATIVE TO PREVENT IMPROPER PAYMENTS *(IN DOLLARS)*

	Number (#) of Payments Reviewed for Improper Payments	Dollars ($) of Payments Reviewed for Improper Payments	Number (#) of Payments Stopped	Dollars ($) of Payments Stopped	Number (#) of Improper Payments Reviewed and Not Stopped	Dollars ($) of Improper Payments Reviewed and Not Stopped
Reviews with the Death Master File Only (Required for FY 2014)	15,341	$ 494,657,871.79	0	$ —	0	$ —
Reviews with Other Databases (Optional for FY 2014)	15,350	$ 316,728,312.94	0	$ —	0	$ —

APPENDICES

APPENDIX A: Chair and Commissioners

Provides biographies of the presidentially appointed Chair and Commissioners.

APPENDIX B: Major Enforcement Cases

Outlines the major enforcement cases of FY 2014.

APPENDIX C: SEC Divisions and Offices

Provides contact information for the SEC's divisions and offices.

APPENDIX D: Glossary of Selected Terms

Definitions provided of technical terms used throughout the report.

APPENDIX E: Acronyms

Defines acronyms cited in the report. Acronyms are listed in alphabetical order.

Appendix A: Chair and Commissioners

Mary Jo White

CHAIR

Mary Jo White was sworn in as the 31st Chair of the SEC on April 10, 2013. She was nominated to be SEC Chair by President Barack Obama on February 7, 2013, and confirmed by the U.S. Senate on April 8, 2013.

Chair White arrived at the SEC with decades of experience as a federal prosecutor and securities lawyer. As the U.S. Attorney for the Southern District of New York from 1993 to 2002, she specialized in prosecuting complex securities and financial institution frauds and international terrorism cases. Under her leadership, the office earned convictions against the terrorists responsible for the 1993 bombing of the World Trade Center and the bombings of American embassies in Africa. She is the only woman to hold the top position in the 200-year-plus history of that office.

Prior to becoming the U.S. Attorney for the Southern District of New York, Chair White served as the First Assistant U.S. Attorney and later Acting U.S. Attorney for the Eastern District of New York from 1990 to 1993. She previously served as an Assistant U.S. Attorney for the Southern District of New York from 1978 to 1981 and became Chief Appellate Attorney of the Criminal Division.

After leaving her U.S. Attorney post, Chair White became chair of the litigation department at Debevoise & Plimpton in New York, where she led a team of more than 200 lawyers. Chair White previously was a litigation partner at the firm from 1983 to 1990 and worked as an associate from 1976 to 1978.

Chair White earned her undergraduate degree, Phi Beta Kappa, from William & Mary in 1970, and her master's degree in psychology from The New School for Social Research in 1971. She earned her law degree in 1974 at Columbia Law School, where she was an officer of the Law Review. She served as a law clerk to the Honorable Marvin E. Frankel of the U.S. District Court for the Southern District of New York.

Chair White has won numerous awards in recognition of her outstanding work both as a prosecutor and a securities lawyer. The 2012 Chambers USA Women in Law Awards named her Regulatory Lawyer of the Year. Among other honors she has received are the Margaret Brent Women Lawyers of Achievement Award, the George W. Bush Award for Excellence in Counterterrorism, the Sandra Day O'Connor Award for Distinction in Public Service, and the "Women of Power and Influence Award" given by the National Organization for Women.

Chair White is a fellow in the American College of Trial Lawyers and the International College of Trial Lawyers. She also has served as a director of The NASDAQ Stock Exchange and on its executive, audit, and policy committees. Chair White is a member of the Council on Foreign Relations.

Luis A. Aguilar

COMMISSIONER

Luis A. Aguilar has been a Commissioner at the U.S. Securities and Exchange Commission since July 31, 2008. He was appointed by President George W. Bush and was reappointed by President Barack Obama.

Prior to his appointment, his practice included matters pertaining to general corporate and business law, international transactions, investment companies and investment advisers, securities law, and corporate finance.

Commissioner Aguilar represents the Commission as its liaison to both the North American Securities Administrators Association and to the Council of Securities Regulators of the Americas.

Commissioner Aguilar has received various honors and awards, including: recipient of Honorary Doctor of Public Service, awarded by Georgia Southern University (2013); recipient of the Atlanta Falcons "2012 NFL Hispanic Heritage Leadership Award" (2012); named by Poder.Hispanic Magazine as one of the "100 Most Influential Hispanics in the Nation" (2011); named by Latino Leaders Magazine as one of the "Top 101 Most Influential Latinos in the United States" (2009 through 2012); named to the NACD Directorship 100, the Who's Who of the Boardroom (2009 through 2014); recipient of The Center for Accounting Ethics, Governance, and the Public Interest "Accounting in the Public Interest Award" (2010); and listed in Best Lawyers in America (2005 through 2008).

He is a graduate of the University of Georgia School of Law, and also received a master of laws degree in taxation from Emory University.

Commissioner Aguilar serves as sponsor of the SEC's Hispanic and Latino Opportunity, Leadership, and Advocacy Committee, the African American Council, and the Caribbean American Heritage Committee.

Daniel M. Gallagher

COMMISSIONER

Commissioner Gallagher was confirmed by the Senate on October 21, 2011, and returned to the Securities and Exchange Commission, where he had previously served, on November 7, 2011.

Commissioner Gallagher was on the staff of the SEC beginning in January 2006, when he served as a counsel to SEC Commissioner Paul S. Atkins and later as a counsel to SEC Chairman Christopher Cox. He worked primarily on major matters before the Commission involving the Division of Trading and Markets and the Division of Enforcement.

He joined the Division of Trading and Markets as a Deputy Director in 2008, where he played a key role in the SEC's response to the financial crisis and other significant issues before the Commission, including those involving credit rating agencies and credit default swaps. He served as an Acting Director of the Trading and Markets Division from April 2009 to January 2010, after which he left the agency to become a partner in the Washington, DC office of WilmerHale.

Prior to his initial SEC service, Commissioner Gallagher was the General Counsel and Senior Vice President of Fiserv Securities, Inc., where he was responsible for managing all of the firm's legal and regulatory matters. Commissioner Gallagher began his career in private practice, advising clients on broker-dealer regulatory issues and representing clients in SEC and SRO enforcement proceedings.

Commissioner Gallagher earned his J.D. degree, magna cum laude, from the Catholic University of America, where he was a member of the law review. He graduated from Georgetown University with a B.A. degree in English.

Kara M. Stein

COMMISSIONER

Kara M. Stein was appointed by President Barack Obama to the U.S. Securities and Exchange Commission and was sworn in on August 9, 2013.

Ms. Stein joined the Commission after serving as Legal Counsel and Senior Policy Advisor for securities and banking matters to Senator Jack Reed. From 2009 to 2013, she was Staff Director of the Securities, Insurance, and Investment Subcommittee of the Senate Committee on Banking, Housing, and Urban Affairs. During that time, Ms. Stein played an integral role in drafting and negotiating significant provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

As Staff Director for the Senate Banking Subcommittee of primary jurisdiction over the SEC, Ms. Stein also organized and participated in over twenty hearings on such issues as the:

- evolution of market microstructure,
- regulation of exchange traded products,
- state of the securitization markets,
- risks to investors in capital raising processes, including through public offerings,
- role of the accounting profession in preventing another financial crisis,
- establishment of swap execution facilities, and
- role of the tri-party repurchase markets in the financial marketplace.

Ms. Stein was Legal Counsel and Senior Policy Advisor to Senator Reed from 2007 to 2009 and served as both the Majority and Minority Staff Director on the Banking Committee's Subcommittee on Housing and Transportation from 2001 to 2006. She served as Legal Counsel to Senator Reed from 1999 to 2000, following two years as a Legislative Assistant to Senator Chris Dodd.

Before working on Capitol Hill, Ms. Stein was an associate at the law firm of Wilmer, Cutler & Pickering, a Skadden Public Interest Fellow, an Advocacy Fellow with the Georgetown University Law Center, and an assistant professor with the University of Dayton School of Law.

Ms. Stein received her B.A. from Yale College and J.D. from Yale Law School.

Michael S. Piwowar

COMMISSIONER

Michael S. Piwowar was appointed by President Barack Obama to the U.S. Securities and Exchange Commission and was sworn in on August 15, 2013.

Most recently, Dr. Piwowar was the Republican chief economist for the U.S. Senate Committee on Banking, Housing, and Urban Affairs under Senators Mike Crapo and Richard Shelby. He was the lead Republican economist on the four SEC-related titles of the Dodd-Frank Act and the JOBS Act. Dr. Piwowar also worked on a number of important SEC-related oversight issues under the jurisdiction of the Committee.

During the financial crisis and its immediate aftermath, Dr. Piwowar served in a one-year fixed-term position at the White House as a senior economist at the President's Council of Economic Advisers (CEA) in both the George W. Bush and Barack Obama Administrations. While at the CEA, he also served as a staff economist for the Financial Regulatory Reform Working Group of the President's Economic Recovery Advisory Board (PERAB). Before joining the White House, Dr. Piwowar worked as a Principal at the Securities Litigation and Consulting Group (SLCG).

Dr. Piwowar's first tenure at the SEC was in the Office of Economic Analysis (now called the Division of Economic and Risk Analysis) as a visiting academic scholar on leave from Iowa State University and as a senior financial economist. Dr. Piwowar was an assistant professor of finance at Iowa State University where he focused his research on market microstructure and taught undergraduate and graduate courses in corporate finance and investments. He published a number of articles in leading academic publications and received several teaching and research awards.

Dr. Piwowar received a B.A. in Foreign Service and International Politics from the Pennsylvania State University, an M.B.A. from Georgetown University, and a Ph.D. in Finance from the Pennsylvania State University.

Appendix B: Major Enforcement Cases

Introduction

Vigorous enforcement of the securities laws is central to the U.S. Securities and Exchange Commission's (SEC) mission to protect investors and maintain fair, orderly, and efficient markets. The Division of Enforcement (Enforcement), the SEC's largest division, investigates potential violations of the Federal securities laws and files civil charges in Federal district court and administrative proceedings. Each year, the SEC brings hundreds of civil enforcement actions against individuals and entities that violate the Federal securities laws. Through these enforcement efforts, the SEC stops fraud; obtains sanctions such as penalties, disgorgement of ill-gotten gains, and industry bars; and returns funds to harmed investors. In fiscal year (FY) 2014, Enforcement continued to leverage its increasing specialization and expertise while also amplifying its focus on key areas of growing concern such as financial reporting and accounting fraud, microcap fraud, and issues and practices in the broker-dealer community. The actions Enforcement filed in FY 2014 spanned the full spectrum of the securities industry and included a number of first-of-their-kind cases and actions involving record-setting penalties that sent important messages to the market and would-be violators. At the same time, Enforcement also maintained its focus on smaller, compliance-related violations and demonstrated its commitment to using technology to efficiently target and streamline cases to maximize the deterrent effect of its actions. This section highlights some of the significant enforcement cases filed in FY 2014. For further information on selected enforcement cases, please see "Litigation Releases" at *www.sec.gov/litigation/litreleases.shtml*.

Actions Related to Market Structure, Exchanges, and Broker-Dealers

In FY 2014, the SEC continued its commitment to bringing actions for compliance failures and other violations involving alternative trading platforms, stock exchanges, and other market participants. These actions helped to ensure that our markets continue to operate openly, fairly, and efficiently to benefit investors and promote capital formation. FY 2014 was marked by a number of significant actions in the market structure area that included the first actions brought under the market access rule, the largest penalty imposed to date against an alternative trading system, and the largest penalty ever imposed for net capital rule violations.

In October 2013 and June 2014, the SEC filed its first series of enforcement actions charging violations of the market access rule. The rule, adopted in 2010 as Rule 15c3-5, requires firms to have adequate risk controls in place before providing customers with access to the market. In the first action, Knight Capital Americas LLC agreed to pay $12 million and retain an independent compliance consultant to settle charges that it violated the market access rule in connection with an August 1, 2012 trading incident that disrupted the markets.[1] As a result of a computer coding error, Knight Capital sent more than 4 million orders into the market when attempting to fill just 212 customer orders resulting in Knight Capital acquiring several billion dollars in unwanted positions. The SEC's investigation found that Knight Capital violated the market access rule because it did not have adequate safeguards in place to limit the risks posed by its access to the markets, and as a result failed to prevent the entry of millions of erroneous orders. The SEC also charged Knight Capital with violations of provisions of Regulation SHO, which require the proper marking of short sale orders and locating of shares to borrow for short sales.

In the second action, the SEC charged Wedbush Securities, one of the largest volume market access providers in the United States, and two individuals, with violating the market access rule and other regulatory requirements as a result of trading by its market access customers.[2] According to the SEC's order, Wedbush allowed thousands of essentially anonymous foreign traders to send orders directly to U.S. trading venues to trade billions of shares every month, but failed to establish, document, and maintain a system of risk management controls and procedures reasonably designed

[1] *In the Matter of Knight Capital Americas LLC, Press Rel. 2013-222 (October 16, 2013) www.sec.gov/News/PressRelease/Detail/PressRelease/1370539879795*

[2] *In the Matter of Wedbush Securities Inc., et al., Press Rel. 2014-115 (June 6, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370542011614*

to manage the risks associated with its business. The SEC's action in this matter is continuing.

In December 2013, the SEC charged three brokerage subsidiaries of ConvergEx Group, a global trading services provider, and two former employees of certain subsidiaries with fraud for deceiving customers about hidden fees to buy and sell securities.[3] In a separate action, the SEC also charged Anthony G. Blumberg, the former Chief Executive Officer (CEO) of a broker-dealer subsidiary of ConvergEx, for deceiving customers in connection with the same scheme.[4] The SEC alleged that Blumberg concealed the fees and encouraged traders under his management to do the same. The ConvergEx subsidiaries agreed to pay more than $107 million and admit wrongdoing to settle the SEC's charges. The two former employees, who are cooperating in the SEC's investigation, settled the SEC's charges by agreeing to pay a combined total of more than $1 million. The SEC seeks to return the money collected in these settlements to harmed customers through a Fair Fund distribution. The SEC's action against Blumberg is ongoing.

The following month, the SEC filed charges against another brokerage firm for providing flawed "blue sheet" trading data.[5] Blue sheets contain the details of each equity or options trade that is routed through clearing broker-dealers. The SEC's order found that Scottrade violated the recordkeeping provisions of the Federal securities laws by failing to provide accurate and complete blue sheet submissions on 1,231 occasions over a six-year period. To settle the charges, Scottrade agreed to admit wrongdoing, pay a $2.5 million penalty, and retain an independent consultant to review its policies and procedures related to blue sheet submissions.

The SEC also charged Credit Suisse Group AG for providing cross-border brokerage and investment advisory services to thousands of U.S. clients without first registering with the SEC.[6] According to the SEC's order, Credit Suisse began providing these services as early as 2002, amassing more than 8,000 client accounts that contained more than $5 billion in securities assets. The SEC's order found that although Credit Suisse was aware of the registration requirements, it failed to effectively implement or monitor initiatives designed to prevent such violations. Credit Suisse settled the SEC's charges by agreeing to pay more than $196 million, admitting wrongdoing, and retaining an independent consultant.

In April, the SEC charged Joseph Dondero, the owner of a brokerage firm, with a manipulative trading practice known as "layering."[7] The alleged scheme involved Dondero tricking others into buying or selling stocks at artificial prices driven by orders that he later cancelled. The SEC also charged Dondero and others for registration violations. The two firms and five individuals charged by the SEC agreed to, among other things, pay a combined total of nearly $3 million to settle the charges and Dondero agreed to a bar from the securities industry.

The following month, the SEC charged the New York Stock Exchange LLC, NYSE Arca, Inc., and NYSE MKT LLC for failing to comply with exchange rules.[8] The NYSE exchanges' affiliated routing broker was also charged for failures associated with an error trading account and net capital violations. The SEC's order found that, among other things, the exchanges repeatedly engaged in business practices that either violated exchange rules or required a rule when the exchanges had none in effect. The exchanges agreed to settle the charges by retaining an independent consultant and together with the routing broker paying a $4.5 million penalty.

In June, the SEC charged Liquidnet Inc., a brokerage firm that operates an alternative trading system (ATS) known as a "dark

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[3] *In the Matter of G-Trade Services LLC, et al.; In the Matter of Jonathan Samuel Daspin; and In the Matter of Thomas Lekargeren, Press Rel. 2013-266 (December 18, 2013) www.sec.gov/News/PressRelease/Detail/PressRelease/1370540521484*

[4] *SEC v. Anthony G. Blumberg, Press Rel. 2014-160 (August 7, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370542601370*

[5] *In the Matter of Scottrade, Inc., Press Rel. 2014-17 (January 29, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370540696906*

[6] *In the Matter of Credit Suisse Group AG, Press Rel. 2014-39 (February 21, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370540816517*

[7] *In the Matter of Visionary Trading LLC, et al., Press Rel. 2014-67 (April 4, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370541406190*

[8] *In the Matter of New York Stock Exchange LLC, et al., Press Rel. 2014-87 (May 1, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370541706507*

pool," with improperly using subscribers' confidential trading information in marketing its services.[9] SEC rules require ATS's to have safeguards to protect such information. The SEC's order found that Liquidnet violated its regulatory obligations and its own promises to its ATS subscribers during a nearly three-year period when it improperly allowed a business unit outside the dark pool operation to access the confidential trading data and use that information in marketing services. The SEC's order also found that Liquidnet used the information in two sales tools. Liquidnet agreed to pay a $2 million penalty to settle the charges.

The following month, the SEC charged LavaFlow Inc., a type of ATS known as an electronic communications network (ECN), with violating Regulation ATS for failing to protect its subscribers' confidential trading data.[10] According to the SEC's order, LavaFlow allowed an affiliate operating a technology application known as a smart order router to access and use confidential information related to non-displayed orders of the ECN's subscribers. The SEC's order found that LavaFlow failed to disclose that it was allowing such access and because the order router was located outside of the ECN's operations, LavaFlow did not have adequate safeguards and procedures to protect the confidential customer information the order router accessed. The SEC's order also found that LavaFlow aided and abetted violations of the broker-dealer registration provisions by the same entity that operated the smart order router. LavaFlow agreed to pay $5 million to settle the SEC's charges, including a $2.85 million penalty—the largest to date against an ATS.

In another action involving a record-setting penalty, the SEC charged Latour Trading LLC, a high frequency trading firm that at times accounted for as much as 9 percent of the trading volume in equity securities for the entire U.S. market, and its former Chief Operating Officer (COO) for the firm's repeated violations of the net capital rule and related recordkeeping provisions and filing requirements.[11] The SEC's order found that Latour routinely failed to maintain its required minimum net capital by millions of dollars. To settle the charges, Latour agreed to pay a $16 million penalty – the largest penalty ever for net capital rule violations – and the former COO agreed to pay a $150,000 penalty.

In September, the SEC charged Wells Fargo Advisors LLC with failing to maintain and enforce procedures reasonably designed to prevent employees from misusing material nonpublic information obtained from retail customers and clients, unreasonably delaying its production of documents during an SEC investigation, and providing an altered internal document related to a compliance review of a broker's trading.[12] The SEC's action against Wells Fargo arose out of a prior insider trading case against a Wells Fargo broker who learned confidentially from his customer that Burger King was being acquired. The broker then traded on that information ahead of the public announcement and tipped others who also traded. Wells Fargo agreed to settle the SEC's charges by admitting wrongdoing, paying a $5 million penalty, and agreeing to retain an independent consultant.

Actions Related to Financial Fraud, Issuer Disclosure, and Gatekeepers

In FY 2014, the SEC continued to combat accounting and financial fraud, issuer disclosure problems, and reporting violations at public companies. The SEC also maintained its focus on holding "gatekeepers," including attorneys, accountants, and compliance professionals, accountable for the important roles they play in the securities industry. Building upon the momentum created by initiatives like "Operation Broken Gate," which seeks to identify auditors who fail to carry out their duties and responsibilities consistent with professional standards, the SEC brought a number of actions against gatekeepers.

In November, the SEC charged Sherb & Co., LLP, an audit firm, and four auditors for their roles in the failed audits of three China-based companies.[13] An SEC investigation found that Sherb & Co. and its auditors falsely represented in audit

[9] *In the Matter of Liquidnet, Inc., Press Rel. 2014-114 (June 6, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370542011574*

[10] *In the Matter of LavaFlow, Inc., Press Rel. 2014-147 (July 25, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370542371114*

[11] *In the Matter of Latour Trading LLC, et al., Press Rel. 2014-199 (September 17, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370542972403*

[12] *In the Matter of Wells Fargo Advisors, LLC, Press Rel. 2014-207 (September 22, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370543012047*

[13] *In the Matter of Sherb & Co., LLP, et al., Press Rel. 2013-238 (November 7, 2013) www.sec.gov/News/PressRelease/Detail/PressRelease/1370540289271*

reports that their audits were done in accordance with U.S. auditing standards. In reality, the audits were replete with failures and improper professional conduct, and one of the companies they audited was charged by the SEC with financial fraud. To settle the charges, Sherb & Co. and the four individual auditors agreed to be barred from practicing as accountants on behalf of any publicly traded company or other entity regulated by the SEC, and the firm also agreed to pay a $75,000 penalty.

A month later, the SEC charged Fifth Third Bancorp and its former Chief Financial Officer (CFO) with improper accounting of commercial real estate loans during the financial crisis. According to the SEC's order, Fifth Third experienced a substantial increase in non-performing assets as the real estate market declined and borrowers failed to repay their loans as required.[14] The order found that Fifth Third decided to sell large pools of these troubled loans, but failed to classify or value them correctly. The SEC's order also found that the CFO was familiar with the sale efforts, but failed to direct the bank to classify and value the loans as required. Fifth Third agreed to settle the SEC's charges by paying $6.5 million, and its former CFO agreed to pay a $100,000 penalty and be suspended from practicing as an accountant for any publicly traded company or other entity regulated by the SEC.

In January, the SEC charged Diamond Foods, Inc., a snack foods company, and its former CFO in an accounting scheme to falsify walnut costs in order to boost earnings and meet analyst estimates.[15] The former CEO was also charged for his role in the company's false financial statements filed with the SEC, which included omitting facts from representations to Diamond's outside auditors. Diamond agreed to pay $5 million to settle the SEC's charges. The former CEO, who returned or forfeited more than $4 million in bonuses and other benefits, also agreed to pay a $125,000 penalty to settle the SEC's charges. The SEC's litigation continues against the former CFO.

The SEC also charged five executives and finance professionals in connection with a $150 million fraudulent bond offering by Dewey & LeBoeuf LLP, the international law firm where they worked.[16] The SEC alleged that the senior financial officers inflated the firm's profitability by millions of dollars to conceal breaches of debt covenants in its loan agreements and that this information was then incorporated into bond offering documents. In addition, the SEC alleged that the firm continued to conceal its improper accounting by making fraudulent quarterly certifications in connection with the offering. The SEC's action in this matter is ongoing.

Later the same month, the SEC charged AgFeed Industries, Inc., an animal feed company, and eight of its executives with conducting a massive accounting fraud in which they repeatedly reported fake revenues from their China operations to meet financial targets and prop up the company's stock price.[17] Among those charged was the company's U.S.-based audit committee chair who learned of the misconduct in 2011. The SEC alleged that instead of taking meaningful action after learning of the fraud, the audit committee chair, along with the company's CFO at the time, engaged in efforts to raise capital for expansion and acquisitions. The SEC settled its charges against the former interim CEO, who consented to an officer and director bar and paid a $100,000 penalty. One of the company's former CFOs, who cooperated with the SEC's investigation, also settled the SEC's charges by agreeing to an order suspending him from practicing as an accountant for at least five years. In September, AgFeed also agreed to pay $18 million to settle the SEC's charges.[18] Under the proposed settlement, which is subject to court approval, the $18 million will be distributed to victims of the company's fraud.

Also in March, the SEC charged Lions Gate Entertainment Corp. with failing to fully and accurately disclose to investors a set of extraordinary corporate transactions that put millions of newly issued company shares in the hands of a management-friendly

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[14] *In the Matter of Fifth Third Bancorp, et al., Press Rel. 2013-255 (December 4, 2013) www.sec.gov/News/PressRelease/Detail/PressRelease/1370540445508*

[15] *SEC v. Diamond Foods, Inc.; SEC v. Steven Neil; and In the Matter of Michael Mendes, Press Rel. 2014-4 (January 9, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370540598296*

[16] *SEC v. Steven H. Davis, et al., Press Rel. 2014-45 (March 6, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370540889964*

[17] *SEC v. AgFeed Industries, Inc., et al.; In the Matter of John A. Stadler; In the Matter of Clayton T. Marshall, Press Rel. 2014-47 (March 11, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370541102314*

[18] *SEC v. AgFeed Industries, Inc., et al., Press Rel. 2014-194 (September 15, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370542938017*

director in order to thwart a hostile takeover bid.[19] Lions Gate agreed to pay $7.5 million and admit wrongdoing to settle the SEC's charges.

The following month, CVS Caremark Corp. paid $20 million to settle SEC charges that it misled investors about significant financial setbacks and using improper accounting that artificially boosted its financial performance.[20] The SEC alleged that in offering documents for a $1.5 billion bond offering, CVS fraudulently omitted that it had recently lost significant Medicare Part D and contract revenues in the pharmacy benefits segment. In addition, the SEC alleged that CVS further misled investors by manipulating how it calculated its retention rate, a key metric for pharmacy benefits managers. CVS also allegedly made improper accounting adjustments that overstated the financial results for its retail pharmacy line of business. The retail controller who was charged with orchestrating these improper adjustments agreed to settle the SEC's charges by paying a $75,000 penalty and being barred for at least one year from practicing as an accountant on behalf of any publicly traded company or entity regulated by the SEC.

In July, the SEC charged Ernst & Young LLP with violating key auditor independence rules as a result of its subsidiary lobbying congressional staff on behalf of two audit clients – the first action charging violations of the independence rules in this context.[21] Such lobbying activities were impermissible under the SEC's auditor independence rules because they put the firm in the position of being an advocate for those audit clients. According to the SEC's order, Ernst & Young repeatedly represented that it was "independent" in audit reports issued on the clients' financial statements despite being involved in these lobbying activities. Ernst & Young agreed to pay $4 million to settle the SEC's charges.

The SEC also filed several actions involving deficiencies in internal accounting controls. In July, the SEC charged the CEO and former CFO of QSGI Inc., a computer equipment company, for misrepresenting to external auditors and the investing public the state of its internal controls over financial reporting.[22] Enforcement alleged that Marc Sherman, the CEO, and Edward L. Cummings, the former CFO, each certified that they had disclosed all significant deficiencies in internal controls to the outside auditors when, in reality, they misled the auditors. According to the SEC's order, Sherman and Cummings misled the company's auditors by withholding information about inadequate inventory controls and a series of maneuvers to accelerate the recognition of certain inventory and accounts receivables in QSGI's books and records. To settle the SEC's charges, Cummings agreed to pay a $23,000 penalty, to be barred from serving as an officer or director of a publicly traded company for five years, and agreed to be suspended for at least five years from practicing as an accountant on behalf of any publicly traded company or other entity regulated by the SEC. The SEC's action in this matter against Sherman is ongoing.

In September, the SEC charged JDA Software Group Inc. for having inadequate internal accounting controls over its financial reporting, which resulted in misstated revenues in public filings. An SEC investigation found that JDA failed to properly recognize and report revenue from certain software license agreements it sold to customers because its internal accounting controls failed to consider information needed for determining a critical component of revenue recognition for software companies.[23] As a result of these internal control failures, some of JDA's financial statements for the period from 2008 through 2011 were materially misstated. JDA restated those financial statements in August 2012, reporting that it had overstated its revenue for fiscal year 2010 by 4 percent and overstated earnings

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[19] *In the Matter of Lions Gate Entertainment Corp., Press Rel. 2014-51 (March 13, 2014)*
www.sec.gov/News/PressRelease/Detail/PressRelease/1370541123111

[20] *SEC v. CVS Caremark Corp. and In the Matter of Laird Daniels, CPA, Press Rel. 2014-69 (April 8, 2014)*
www.sec.gov/News/PressRelease/Detail/PressRelease/1370541437806

[21] *In the Matter of Ernst & Young LLP, Press Rel. 2014-136 (July 14, 2014)*
www.sec.gov/News/PressRelease/Detail/PressRelease/1370542298984

[22] *In the Matter of Marc Sherman and In the Matter of Edward L. Cummings, CPA, Press Rel. 2014-152 (July 30, 2014)*
www.sec.gov/News/PressRelease/Detail/PressRelease/1370542561150

[23] *In the Matter of JDA Software Group, Inc., Press Rel. 2014-216 (September 25, 2014)*
www.sec.gov/News/PressRelease/Detail/PressRelease/1370543042731

before interest, taxes, depreciation and amortization (EBITDA) by approximately 18 percent. JDA agreed to settle the SEC's charges by paying a $750,000 penalty.

That same month, the SEC charged Bank of America Corporation with violating internal controls and recordkeeping provisions of the Federal securities laws after it assumed a large portfolio of structured notes and other financial instruments as part of its acquisition of Merrill Lynch & Co., Inc.[24] According to the SEC's order, Bank of America overstated its regulatory capital in its regulatory filings, eventually by billions of dollars, because it failed to deduct realized losses on the notes as they occurred. Bank of America internally discovered the overstatements in mid-April 2014, disclosed them in a Form 8-K filing, cooperated with SEC staff during the investigation, and voluntarily took steps to remediate the insufficiencies that led to the regulatory capital overstatements. Bank of America agreed to pay a $7.65 million penalty to settle the charges stemming from the overstatements that it made due to its internal accounting control deficiencies and books and records failures.

In another action filed in September, the SEC used its authority under the "clawback" provision of the Sarbanes-Oxley Act of 2002, to require the former CEO of Saba Software, Inc., Babak "Bobby" Yazdani, to reimburse the company $2.5 million in bonuses and stock profits he received while an accounting fraud occurred at the company.[25] At the same time, the SEC charged Saba Software and two former executives, Patrick Farrell and Sajeev Menon, for the accounting fraud scheme in which U.S.-based managers directed consultants in India to falsify timesheets so that the company could achieve quarterly revenue and margin targets. Saba Software agreed to pay $1.75 million to settle the SEC's charges and the two former executives agreed to settle the case as well. The clawback provision does not require a finding that a CEO personally engaged in misconduct to trigger a reimbursement obligation.

Actions Related to Insider Trading

The SEC built on its impressive record of pursuing insider trading by filing a number of significant insider trading cases in FY 2014. In November 2013, the SEC charged Mark Megalli, a former hedge fund trader at Level Global Investors, L.P., with insider trading in the securities of Carter's Inc., an Atlanta-based clothing marketer.[26] The SEC alleged that Megalli used nonpublic information about Carter's to give Level Global a $3.2 million trading edge. According to the SEC's complaint, Megalli obtained inside information in advance of market-moving announcements through a consulting agreement with a former Carter's vice president of investor relations, who the SEC previously charged. Megalli's trades enabled Level Global to avoid losses of approximately $2.4 million and make over $850,000 in illicit profits. The SEC's action in this matter is ongoing.

The following month, the SEC charged Brian D. Jorgenson, a senior portfolio manager at Microsoft Corporation and his friend, Sean T. Stokke, with insider trading in advance of upcoming Microsoft announcements that Jorgenson learned about through his work.[27] The friends reaped over $390,000 in illicit profits through their scheme, which was intended to generate enough profits to allow them to create their own hedge fund. The SEC's action in this matter is ongoing.

In February, the SEC charged Frank "Perk" Hixon Jr., a Wall Street investment banker, with an insider trading scheme that reaped nearly $1 million in illicit profits.[28] The SEC alleged that Hixon Jr. made the trades in accounts held by his former girlfriend and his father, but when his firm confronted him about the trading in these accounts he pretended not to recognize the names of his father or former girlfriend. Text messages revealed that Hixon Jr. was generating the illegal proceeds to pay child support to his former girlfriend. The SEC's action in this matter is ongoing.

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[24] *In the Matter of Bank of America Corporation, Press Rel. 2014-220 (September 29, 2014)*
www.sec.gov/News/PressRelease/Detail/PressRelease/1370543065483

[25] *In the Matter of Saba Software, Inc., et al. and In the Matter of Babak ("Bobby") Yazdani, Press Rel. 2014-214 (September 24, 2014)*
www.sec.gov/News/PressRelease/Detail/PressRelease/1370543035992

[26] *SEC v. Mark Megalli, Press Rel. 2013-244 (November 14, 2013)*
www.sec.gov/News/PressRelease/Detail/PressRelease/1370540374789

[27] *SEC v. Brian D. Jorgenson, et al., 2013-268 (December 19, 2013)*
www.sec.gov/News/PressRelease/Detail/PressRelease/1370540525813

[28] *SEC v. Frank P. Hixon Jr., Press Rel. 2014-40 (February 21, 2014)*
www.sec.gov/News/PressRelease/Detail/PressRelease/1370540831992

In March, the SEC charged Vladimir Eydelman, a stockbroker, and Steven Metro, a managing clerk at a major law firm, with insider trading around more than a dozen mergers or other corporate transactions for illicit profits of $5.6 million during a four-year period.[29] The SEC alleged that Metro obtained information about corporate clients involved in pending deals and tipped a middleman, who met Eydelman in Grand Central Terminal. According to the SEC's complaint, the middleman would show Eydelman a piece of paper with the relevant ticker symbol and then eat it to destroy the evidence. In September, the SEC also charged Frank Tamayo, the middleman who helped facilitate the scheme.[30] The SEC's action in this matter is ongoing.

In April, the SEC charged Keith A. Seilhan, a former employee of BP p.l.c. and experienced crisis manager, with insider trading in BP securities during the 2010 Deepwater Horizon oil spill based on confidential information about the magnitude of the disaster.[31] The SEC alleged that Seilhan sold his family's securities after he received confidential information about the severity of the spill that the public did not know. Seilhan agreed to settle the charges by paying over $200,000 disgorgement, interest, and penalties.

In May, the SEC charged three founders of Lawson Software with insider trading ahead of the company's sale by misusing nonpublic information to take unfair advantage of incorrect media speculation and analyst reports about the company's acquisition.[32] The SEC alleged that Richard Lawson, the co-chairman of the board, conveyed information about the true state of merger talks to two former board members who were able to profit by selling their shares at prices higher than the eventual acquisition price. They agreed to pay nearly $5.8 million to settle the charges.

The SEC also charged four individuals in a $12 million serial insider trading scheme that lasted more than three years in which they traded in Ross Stores stock options based on nonpublic information about monthly sales results leaked by a former Ross Stores' employee.[33] The SEC alleged that Saleem Khan was routinely tipped by his friend Roshanlal Chaganlal, who was a director in the finance department at Ross Stores. According to the complaint, Khan used the confidential information to trade on more than 40 occasions and tipped two of his work colleagues who also traded. The SEC's action in this matter is continuing.

Actions Related to Foreign Corrupt Practices Act (FCPA)

FCPA enforcement continues to be a high priority area for the SEC's enforcement program and FY 2014 included a number of significant actions. In November, the SEC charged Weatherford International LTD. with violating the FCPA by authorizing bribes and improper travel and entertainment for foreign officials in the Middle East and Africa to win business, including kickbacks in Iraq to obtain United Nations Oil-for-Food contracts.[34] Weatherford agreed to pay the SEC more than $65 million as part of a global settlement of more than $250 million to resolve the SEC's charges and parallel actions by the U.S. Department of Justice (DOJ) and three other agencies.

In December, the SEC charged global food processor Archer-Daniels-Midland (ADM) with violating the FCPA by failing to prevent its foreign subsidiaries from paying bribes to Ukrainian government officials.[35] An SEC investigation found that ADM's subsidiaries in Germany and Ukraine paid $21 million in bribes to secure the release of value-added tax refunds, and disguised the illicit payments by falsifying the books and

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[29] *SEC v. Vladimir Eydelman, et al., Press Rel. 2014-55 (March 19, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370541172895*

[30] *SEC v. Frank Tamayo, Press Rel. 2014-204 (September 19, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370542993471*

[31] *SEC v. Keith A. Seilhan, Press Rel. 2014-77 (April 17, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370541517274*

[32] *SEC v. Herbert Richard Lawson, et al., Press Rel. 2014-93 (May 12, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370541795596*

[33] *SEC v. Saleem Khan, et al., Press Rel. 2014-117 (June 13, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370542082577*

[34] *SEC v. Weatherford International LTD., Press Rel. 2013-252 (November 26, 2013) www.sec.gov/News/PressRelease/Detail/PressRelease/1370540415694*

[35] *SEC v. Archer-Daniels-Midland Company, Press Rel. 2013-271 (December 20, 2013) www.sec.gov/News/PressRelease/Detail/PressRelease/1370540535139*

records and improperly recording the transactions as insurance premiums and other business expenses. To settle the SEC's charges, ADM agreed to pay more than $36 million.

In January, the SEC charged global aluminum producer Alcoa, Inc. with FCPA violations related to illicit payments by subsidiaries to government officials in Bahrain to maintain a key source of business with a government-operated aluminum plant.[36] The SEC's investigation found that more than $110 million in corrupt payments were made to Bahraini officials with influence over contract negotiations between Alcoa and a major government-operated aluminum plant. Alcoa agreed to pay $175 million to settle the SEC's charges as part of a $384 million settlement that also resolved a parallel criminal case announced by the DOJ.

The following month, the SEC concluded its case against former Siemens executives who were charged in 2011 with bribery in Argentina.[37] The SEC obtained final judgments of over $1.8 million against Uriel Sharef, a former officer and Siemens board member, Andres Truppel, a former CFO of Siemens Argentina, and Ulrich Bock and Stephan Signer, both former senior Siemens managers based in Germany. The final judgment against Bock and Signer, among other things, ordered them to each pay a civil penalty of $524,000 – the highest penalties assessed against individuals in an FCPA case.

The SEC also charged Hewlett-Packard Company with violating the FCPA when its subsidiaries in Russia, Poland, and Mexico made improper payments in excess of $3.5 million to government officials to obtain or retain lucrative public contracts.[38] Hewlett-Packard agreed to pay more than $31 million to settle the SEC's charges as part of a $108 million settlement with the SEC and DOJ.

Actions Related to Market Manipulation and Microcap Fraud

In FY 2014, Enforcement continued its crackdown on market manipulation and microcap fraud and took proactive steps to suspend trading in the securities of microcap issuers in addition to targeting the gatekeepers and repeat players who facilitate fraud and other misconduct in this area. In February, the SEC suspended trading in 255 dormant shell companies ripe for abuse in the over-the-counter market.[39] This was the latest action in the initiative known as "Operation Shell-Expel" through which Enforcement's Office of Market Intelligence has been cleaning up the microcap marketplace by scrutinizing penny stocks nationwide and identifying clearly inactive companies. This initiative has allowed the SEC to proactively suspend trading in dormant shell companies before fraudsters have the opportunity to manipulate them.

The following month, the SEC charged Worldwide Capital, Inc. and its owner, Jeffrey W. Lynn, with violating Rule 105 in connection with 60 public stock offerings from October 2007 to February 2012.[40] Rule 105 is an anti-manipulative rule that prohibits traders from improperly participating in public offerings soon after short-selling securities that are the subject of the offerings. Worldwide Capital and Lynn settled the SEC's charges by agreeing to pay $7.2 million, the largest-ever monetary sanction for Rule 105 short selling violations.

Enforcement also continued its successful initiative to target violations of Rule 105 through a second sweep that resulted in the SEC charging 19 firms and one individual trader with Rule 105 violations.[41] Each firm and the individual trader agreed to settle the charges by paying a combined total of more than $9 million in disgorgement, interest, and penalties.

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[36] *In the Matter of Alcoa Inc., Press Rel. 2014-3 (January 9, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370540596936*

[37] *SEC v. Uriel Sharef, et al., Litigation Rel. 22923 (February 10, 2014) www.sec.gov/litigation/litreleases/2014/lr22923.htm*

[38] *In the Matter of Hewlett-Packard Company, Press Rel. 2014-73 (April 9, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370541453075*

[39] *SEC Continues Microcap Fraud Crackdown, Proactively Suspends Trading in 255 Dormant Shell Companies, Press Rel. 2014-21 (February 3, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370540714936*

[40] *In the Matter of Worldwide Capital, Inc., et al., Press Rel. 2014-43 (March 5, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370540883326*

[41] *SEC Sanctions 19 Firms and Individual Trader for Short Selling Violations in Advance of Stock Offerings, Press Rel. 2014-195 (September 16, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370542963767*

In March, the SEC charged penny stock promoter John Babikian, who ran a pair of well-known websites that disseminated emails promoting penny stocks, with committing a type of securities fraud known as "scalping."[42] The SEC alleged that Babikian disseminated emails to approximately 700,000 people recommending a penny stock, but the emails failed to disclose that Babikian held more than 1.4 million shares of the stock that he intended to sell immediately. The SEC obtained an emergency asset freeze to prevent Babikian from liquidating $1.9 million in trading profits he made from exploiting the run up in the price of the stock he touted in his emails. Babikian settled the charges by consenting to a judgment that required him to pay $3.73 million in sanctions, barred him from participating in any penny stock offering, and enjoined him from recommending stocks without making certain disclosures.[43]

In May, the SEC charged six penny stock promoters and the CEO of a microcap company in the latest charges arising out of a joint law enforcement effort focused on penny stock fraud.[44] The SEC alleged that five of the penny stock promoters engaged in various manipulation schemes involving undisclosed payments to induce purchases of microcap stock to generate the false appearance of market interest. The same day, the SEC announced charges against a microcap company and its CEO for orchestrating a pair of illicit kickback schemes and an insider trading scheme involving the company's stock. The SEC also charged a sixth penny stock promoter for his role in the insider trading scheme. This joint effort in which the SEC has worked closely with the U.S. Attorney's Office for the Southern District of Florida and the Federal Bureau of Investigation has resulted in charges against 48 individuals and 25 companies involved in the microcap world.

A few months later, the SEC charged four penny stock promoters for manipulating the securities of six different thinly traded penny stock companies in a $2.5 million scheme involving pre-arranged, manipulative matched orders and wash trades that created the illusion of an active trading market.[45] The SEC alleged that despite the appearance of an active trading market, the companies had little to no business operations at the time. These schemes were unearthed through the work of Enforcement's recently created Microcap Fraud Task Force, which is focused on rooting out serial violators in the microcap markets like the four promoters involved in this action.

In September, the SEC charged Heathrow Natural Food & Beverage Inc., a penny stock company, and Heathrow's CEO with defrauding investors by issuing false and misleading press releases touting large sales and revenue projections while the company was actually failing.[46] The SEC alleged that Michael S. Pagnano, the company's CEO, prompted the illegal, unregistered distribution of billions of Heathrow shares to several individuals and entities, including himself. According to the SEC's complaint, Pagnano reaped profits of more than $150,000 by selling millions of his shares into the market as the false press releases circulated. The SEC also charged Registrar and Transfer Company (R&T), Heathrow's transfer agent, and R&T's CEO, Thomas L. Montrone, with registration violations and failing to supervise firm employees who enabled Heathrow's unregistered distribution of stock. An SEC examination of R&T revealed that it repeatedly failed to detect and address red flags in connection with more than 54 share issuance requests from Pagnano. R&T and Montrone agreed to settle the charges by paying a combined total of more than $150,000 and Montrone also agreed to be suspended for 12 months from serving in a supervisory capacity with a transfer agent.

Actions Related to Municipal Securities

In FY 2014, the SEC remained focused on the municipal securities markets, bringing a number of important, first-of-their kind enforcement actions. In November, the SEC charged a municipal issuer in the state of Washington's Wenatchee Valley region with misleading investors in a bond offering that financed the construction of a regional events center and ice

[42] *SEC v. John Babikian, Press Rel. 2014-52 (March 13, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370541128311*

[43] *SEC v. John Babikian, Litigation Rel. 23039 (July 8, 2014) www.sec.gov/litigation/litreleases/2014/lr23039.htm*

[44] *SEC v. Richard A. Altomare; SEC v. Jeffrey M. Berkowitz; SEC v. Eric S. Brown; and SEC v. Kevin McKnight, et al., SEC v. Billy V. Ray, Jr., et al., Press Rel. 2014-105 (May 22, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370541881247*

[45] *SEC v. Mikhail Galas, et al., Press Rel. 2014-159 (August 5, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370542594818*

[46] *SEC v. Michael S. Pagnano, et al. and In the Matter of Registrar and Transfer Company, et al., Press Rel. 2014 212 (September 23, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370543021551*

hockey arena.[47] An SEC investigation found inaccuracies in the primary disclosure document accompanying the bond offering, which contained misleading statements about whether there had been an independent review of the financial projections for the event center. The SEC's order found that an independent consultant had examined the projections and raised questions about the center's economic viability, which was not disclosed to investors. The issuer agreed to settle the SEC's charges by paying a $20,000 penalty – the first-ever against a municipal issuer – and undertaking remedial efforts. The SEC also settled charges against the underwriter and outside developer of the project and three individuals involved in the offering.

The SEC also charged a charter school operator with defrauding investors in a $37.5 million bond offering for school construction by making materially misleading statements about transactions that presented a conflict of interest.[48] The SEC alleged that UNO Charter School Network Inc. and United Neighborhood Organization of Chicago not only failed to disclose a multi-million-dollar related-party contract, but also failed to inform investors about the potential financial impact the conflicted transaction had on the ability to repay the bonds. UNO settled the SEC's charges by agreeing to undertakings to improve its internal procedures and training, including the appointment of an independent monitor.

In June, the SEC obtained an emergency court order against the City of Harvey, Illinois and its comptroller to halt a fraudulent municipal bond offering. This marked the first time that the SEC has taken emergency action to stop such an offering.[49] The SEC alleged that the city was marketing new bonds without disclosing that it had previously diverted at least $1.7 million of bond proceeds from a prior bond offering to pay the city's operational costs. The SEC's action in this case is ongoing.

In another novel action, the SEC announced its first action under the Municipalities Continuing Disclosure Cooperation (MCDC) initiative, a new cooperation initiative to encourage issuers and underwriters of municipal securities to self-report certain violations of the Federal securities laws relating to the continuing disclosure obligations specified in Rule 15c2-12 under the Securities Exchange Act of 1934.[50] Under the initiative, Enforcement agreed to recommend standardized, favorable settlement terms to settle actions with municipal issuers and underwriters who self-report violations. In its first settlement under the initiative, the SEC charged Kings Canyon Joint Unified School District with misleading bond investors about its failure to provide contractually required financial information and notices in the course of a 2010 bond offering. Kings Canyon consented to an order to cease and desist from committing or causing any future violations of Section 17(a) of the Securities Act of 1933 and agreed to, among other things, adopt written policies for its continuing disclosure obligations.

In an enforcement action arising out of a nationwide review of municipal bond disclosures, the SEC charged the state of Kansas with fraud for failing to disclose its multi-billion-dollar pension liability in bond offering documents, which created a repayment risk for investors in those bonds.[51] The SEC previously brought actions against the states of New Jersey and Illinois as a result of the same nationwide review. Kansas settled the SEC's charges by consenting to an order requiring it to cease and desist from committing future violations and adopted new policies and procedures to improve disclosures about its pension liabilities.

Actions Related to Investment Advisers and Investment Companies

The SEC brought a wide range of actions against investment advisers and investment companies in FY 2014, including cases involving fraud, actions stemming from the use of proactive risk identification initiatives, actions to ensure the safety of client

[47] *In the Matter of the Greater Wenatchee Regional Events Center Public Facilities District, et al., Press Rel. 2013-235 (November 5, 2013) www.sec.gov/News/PressRelease/Detail/PressRelease/1370540262235*

[48] *SEC v. United Neighborhood Organization of Chicago, et al. Press Rel. 2014-110 (June 2, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370541965772*

[49] *SEC v. City of Harvey, Illinois, et al., Press Rel. 2014-122 (June 25, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370542163027*

[50] *In the Matter of Kings Canyon Joint Unified School District, Press Rel. 2014-133 (July 8, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370542256676*

[51] *In the Matter of the State of Kansas, Press Rel. 2014-164 (August 11, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370542629913*

assets, and groundbreaking cases enforcing the investment adviser pay-to-play rules and the SEC's new whistleblower anti-retaliation authority. In October, the SEC charged three investment advisory firms for violating the "custody rule," which requires firms to meet certain standards when maintaining custody of their clients' funds or securities.[52] This rule is central to investor protection and goes to the foundation of the relationship between investment advisers and their clients. The investigation of these firms followed referrals by SEC examiners. The SEC orders found that Further Lane Asset Management, GW & Wade, and Knelman Asset Management Group failed to maintain client assets with a qualified custodian or engage an independent public accountant to conduct surprise exams as required by the custody rule. The SEC also charged the CEO of Further Lane and the CEO and chief compliance officer of Knelman for custody rule and other violations. All agreed to settle the charges and pay monetary sanctions in addition to other relief.

In November, the SEC announced a deferred prosecution agreement with a hedge fund administrator – the first-ever with an individual – who helped the SEC take quick action against a hedge fund manager who stole investors assets.[53] As a result of voluntary and significant cooperation from Scott Herckis, the hedge fund administrator, the SEC filed an emergency action against Berton M. Hochfeld and Hochfeld Capital Management, L.L.C. for misappropriating more than $1.5 million from a hedge fund Hochfeld managed and overstating its performance to investors.[54] The SEC's action halted the fraud and froze the assets of the hedge fund and Hochfeld, which are now being used to compensate defrauded investors.

That same month, the SEC charged Ambassador Capital Management, an investment advisory firm, and Derek Oglesby, its portfolio manager, for deceiving the trustees of a money market fund and failing to comply with rules that limit risk in a money market fund's portfolio.[55] The enforcement action stemmed from an ongoing analysis of money market fund data by the SEC's Division of Investment Management, which recognized that the performance of the money market fund was consistently different from the rest of the market. In September, Enforcement received a favorable initial decision in this matter, which, among other things, permanently barred Ambassador Capital from association with any investment company, censured Oglesby, and ordered Ambassador Capital and Oglesby to pay combined civil penalties of more than $800,000.[56]

In another case arising out of a proactive risk monitoring effort known as the Aberrational Performance Inquiry that uses proprietary analytics to identify hedge funds with suspicious returns, the SEC charged GLG Partners L.P., a hedge fund adviser and its former holding company, with internal controls failures that led to the overvaluation of the fund's assets.[57] The SEC's order found that as a result of the overvaluation, the firms charged inflated fees and overstated assets under management in SEC filings. GLG and its former holding company agreed to pay nearly $9 million and hire an independent consultant to settle the SEC's charges. The SEC also established a Fair Fund to distribute money to harmed fund investors.

In January, the SEC charged Western Asset Management Company for concealing investor losses that resulted from a coding error and engaging in cross trading that favored some clients over others.[58] The SEC's order found that Western Asset failed to disclose and promptly correct a coding error that caused the improper allocation of a restricted private investment that was impermissible for Employee Retirement Income Security

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[52] *In the Matter of Further Lane Asset Management, LLC, et al.; In the Matter of GW & Wade, LLC; and In the Matter of Knelman Asset Management Group, LLC, et al., Press Rel. 2013-230 (October 28, 2013) www.sec.gov/News/PressRelease/Detail/PressRelease/1370540098359*

[53] *SEC Announces First Deferred Prosecution Agreement with Individual, Press Rel. No. 2013-241 (November 12, 2013) www.sec.gov/News/PressRelease/Detail/PressRelease/1370540345373*

[54] *SEC v. Berton M. Hochfeld et al., Litigation Rel. 22545 (November 26, 2012) www.sec.gov/litigation/litreleases/2012/lr22545.htm*

[55] *In the Matter of Ambassador Capital Management, LLC, et al., Press Rel. 2013-251 (November 26, 2013) www.sec.gov/News/PressRelease/Detail/PressRelease/1370540414950*

[56] *In the Matter of Ambassador Capital Management, LLC, et al., Initial Decision (September 19, 2014) www.sec.gov/alj/aljdec/2014/id672ce.pdf*

[57] *In the Matter of GLG Partners, Inc., et al., Press Rel. 2013-259 (December 12, 2013) www.sec.gov/News/PressRelease/Detail/PressRelease/1370540491613*

[58] *In the Matter of Western Asset Management Company, et al., Press Rel. 2014-13 (January 27, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370540675955*

Act (ERISA) plans to the accounts of nearly 100 ERISA clients. The SEC order also found that after the investment plummeted in value, Western Asset failed to reimburse clients for the losses, and failed to notify its ERISA clients until nearly two years later. In a second order, the SEC found that Western Asset engaged in cross trading – the practice of moving a security from one client account to another without exposing the transaction to the market – which can pose substantial risks to clients. Western Asset settled the SEC's charges by agreeing to distribute more than $17 million to harmed clients, to pay a $2 million penalty, and to retain an independent compliance consultant.

The following month, the SEC charged Scott A. Brittenham, a private equity fund manager and his investment advisory firm, Clean Energy Capital, LLC, for fraud in the allocation of certain expenses to funds Clean Energy sold and managed without adequate disclosure to investors.[59] This marked the first action arising from a focus on fees and expenses charged by private equity firms. According to the SEC's order, the misallocated expenses included the majority of Brittenham's own compensation. The order also alleged a number of other violations by Brittenham and Clean Energy, including, among other things, unauthorized loans to the funds collateralized by the funds' own assets, changes to distribution calculations to investors without adequate disclosure, and misstatements to an investor about how much Brittenham and a co-founder had invested in one of the funds.

In March, the SEC charged two brokers, an investment advisory firm, and several others involved in a variable annuities scheme designed to profit from the deaths of terminally ill individuals.[60] According to the SEC's order, Michael A. Horowitz and Moshe Marc Cohen, the brokers charged, obtained the names of the terminally ill patients and then sold variable annuities contracts with death benefit and bonus credit features to wealthy investors. The order also alleged that Horowitz and Cohen successfully deceived their respective brokerage firms to obtain approvals needed to sell the annuities, generating more than $1 million in sales commissions. Four brokers, an investment advisory firm, and two other brokers also charged for their roles in the scheme settled the SEC's charges by paying a combined total of more than $4.5 million. Horowitz, the architect of the scheme, also subsequently agreed to settle the SEC's charges by paying more than $850,000, admitting wrongdoing, and being barred from the securities industry.[61]

In the first case under the SEC's new authority to bring anti-relation enforcement actions, the SEC charged Paradigm Capital Management, Inc., a hedge fund adviser, with engaging in prohibited principal transactions and then retaliating against the employee who reported the trading activity to the SEC.[62] According to the SEC's order, the firm's former head trader made a whistleblower submission to the SEC that revealed the improper transactions and after learning of the report, Paradigm immediately engaged in a series of retaliatory actions against him. The firm's owner was also charged with causing the improper principal transactions. The firm and its owner agreed to pay $2.2 million to settle the charges with $1.7 million of that amount for distribution to investors.

In another first, the SEC charged TL Ventures Inc., a private equity firm, with violating the investment adviser pay-to-play rules, which prohibit investment advisers from providing compensatory services for two years following a campaign contribution to certain political candidates or officials.[63] The SEC's order found that TL Ventures violated the rules by providing such services within two years after an associate made contributions to two political candidates. The SEC also charged TL Ventures and an affiliated adviser with improperly acting as unregistered investment advisers. TL Ventures agreed to settle the SEC's charges by paying nearly $300,000.

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[59] *In the Matter of Clean Energy Capital, LLC, et al., Press Rel. 2014-41 (February 25, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370540849548*

[60] *In the Matter of Michael A. Horowitz, et al.; In the Matter of Harold Ten, et al.; In the Matter of Howard Feder, et al.; and In the Matter of Marc Steven Firestone, et al., Press Rel. 2014-50 (March 13, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370541121951*

[61] *In the Matter of Michael A. Horowitz, et al., Press Rel. 2014-153 (July 31, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370542573818*

[62] *In the Matter of Paradigm Capital Management, Inc., et al., Press Rel. 2014-118 (June 16, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370542096307*

[63] *In the Matter of TL Ventures Inc. and In the Matter of Penn Mezzanine Partners Management, L.P., Press Rel. 2014-120 (June 20, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370542119853*

In September, the SEC charged Barclays Capital Inc. with failing to maintain an adequate internal compliance system to ensure the firm did not violate any Federal securities laws after its wealth management business in the U.S. acquired the advisory business of Lehman Brothers in September 2008.[64] Investment advisers are required to adopt and implement written compliance policies and procedures reasonably designed to prevent violations of the Investment Advisers Act of 1940 and its rules. An SEC examination and subsequent investigation found that Barclays failed to enhance its compliance infrastructure to integrate and support the acquisition and rapid growth of the advisory business from Lehman. According to the SEC's order, the deficiencies in its compliance systems contributed to other securities law violations by Barclays. For instance, Barclays executed more than 1,500 principal transactions with its advisory client accounts without making the required written disclosures or obtaining client consent. To settle the SEC's charges, Barclays agreed to pay a $15 million penalty and undertake remedial measures, including engaging an independent compliance consultant.

Actions Related to Complex Financial Instruments

FY 2014 also included a number of actions involving complex financial instruments, which built on the SEC's already strong record of pursuing financial crisis related cases. The SEC charged RBS Securities Inc., a subsidiary of the Royal Bank of Scotland plc, with misleading investors in a 2007 subprime mortgage-backed security offering.[65] The SEC alleged that RBS represented that the loans backing the offering generally met the lender's underwriting guidelines even though nearly 30 percent of the loans fell short and should have been excluded from the offering. According to the SEC's complaint, this gave investors a misleading impression of the quality of the loans backing the offering and the likelihood of their repayment. RBS agreed to pay more than $150 million to settle the matter, which will be used to compensate harmed investors.

The SEC also charged Merrill Lynch, Pierce, Fenner & Smith Incorporated for making faulty disclosures about collateral selection for two collateralized debt obligations (CDO) that it structured and marketed to investors, and maintaining inaccurate books and records for a third CDO.[66] The SEC's order found that Merrill Lynch failed to inform investors that hedge fund firm Magnetar Capital LLC exercised significant influence over the selection of collateral for the CDOs. Magnetar then bought the equity in the CDOs, but its interests were not necessarily aligned with those of other investors because it hedged its equity positions by shorting against the CDOs. Merrill Lynch agreed to pay more than $131 million to settle the SEC's charges.

In an action relating to mortgage-backed securities, the SEC charged Jefferies LLC, a global investment bank and brokerage firm, with failing to supervise employees on its mortgage-backed securities desk.[67] According to the SEC's order, Jefferies representatives – including Jesse Litvak, who the SEC charged with securities fraud last year – lied to customers about the prices that the firm paid for certain mortgage-backed securities. Although Jefferies' policy required supervisors to review the electronic communications of its representatives to detect any misleading information provided to customers, Jefferies failed to implement the policy effectively. Jefferies agreed to return more than $11 million to customers and pay a $4.2 million penalty to the SEC as part of a settlement with the SEC and the U.S. Attorney's Office for the District of Connecticut.

The SEC also charged three Morgan Stanley entities with misleading investors in two residential mortgage-backed securities (RMBS) securitizations that the firms underwrote, sponsored, and issued.[68] The SEC's order found that Morgan Stanley misrepresented the current or historical delinquency status of mortgage loans underlying the two securitizations. Morgan Stanley agreed to settle the charges by paying $275 million, which will be distributed to harmed investors.

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[64] *In the Matter of Barclays Capital Inc., Press Rel. 2014-211 (September 23, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370543020599*

[65] *SEC v. RBS Securities Inc., Press Rel. 2013-239 (November 7, 2013) www.sec.gov/News/PressRelease/Detail/PressRelease/1370540300002*

[66] *In the Matter of Merrill Lynch, Pierce, Fenner & Smith Incorporated, Press Rel. 2013-261 (December 12, 2013) www.sec.gov/News/PressRelease/Detail/PressRelease/1370540492377*

[67] *In the Matter of Jefferies LLC, Press Rel. 2014-48 (March 12, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370541108233*

[68] *In the Matter of Morgan Stanley and Co. LLC, Press Rel. 2014-144 (July 24, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370542355594*

In August, the SEC charged Bank of America Corporation with failing to disclose known uncertainties about potential increased costs related to mortgage loan repurchase claims stemming from more than $2 trillion in residential mortgage sales.[69] Bank of America admitted this failure and agreed to settle these charges in addition to securities fraud charges that the SEC filed in 2013 relating to a RMBS offering. The bank agreed to pay $245 million to resolve the SEC's charges as part of a major global settlement with the DOJ and other government agencies.

Actions Related to Offering Frauds and Ponzi and Pyramid Schemes

Offering frauds are always an important area of focus for Enforcement and FY 2014 involved a host of significant actions targeting misconduct in this area, including several actions that halted global pyramid schemes that preyed on vulnerable investors. In October, the SEC brought an action to halt a worldwide pyramid scheme known as CKB and CKB168 that targeted members of the Asian-American community.[70] The SEC alleged that the operators and promoters of the scheme promised exponential, risk-free returns to investors in a venture that purported to sell Internet-based children's educational courses. In reality, CKB had no apparent source of revenue other than money received from new investors. The SEC's complaint alleged that the perpetrators of the scheme raised more than $20 million from U.S. investors and millions more from investors in other countries. The court granted the SEC's request for an asset freeze against the CKB entities and operators and promoters charged. The SEC's action in this matter is ongoing.

In March, the SEC shut down an international pyramid scheme targeting the Asian and Latino communities when it charged World Capital Market Inc., WCM777 Inc., and their founder "Phil" Ming Xu for directing the scheme.[71] The SEC alleged that Xu enlisted tens of thousands of investors to finance his company, which purportedly sold third-party cloud computing services and assisted high-tech companies with initial public offerings. Xu's promise of 100 percent returns in 100 days or less allowed him to attract more than $65 million in investments. According to the SEC's complaint, Xu's company was a sham that was merely engaged in the process of paying earlier investors with money obtained from new investors. The SEC alleged that instead of making high-tech investments, Xu used investor money to purchase golf courses, a warehouse, vacant land, and single family homes. In its ongoing litigation, the SEC obtained an asset freeze and court-appointed receiver over the entity defendants' assets and other related entities named as relief defendants for the purpose of recovering money from the scheme held in their possession.

The following month, the SEC shut down another large pyramid scheme when it filed charges against the scheme's operators and promoters who primarily targeted Dominican and Brazilian immigrants in the U.S.[72] The scheme involved a purported multilevel marketing company known as TelexFree that claimed to sell a telephone service based on "voice over Internet protocol" (VoIP) technology and promised annual returns of over 200 percent for those who promoted the business and recruited new members. The SEC alleged that the revenues from the VoIP sales accounted for barely one percent of the more than $1.1 billion needed to cover TelexFree's promises to investors. As a result, the SEC alleged that TelexFree was paying earlier investors with money received from newer investors rather than revenue from selling its VoIP product. In its ongoing litigation, the SEC obtained an asset freeze that secured millions of dollars of funds and prevented the potential dissipation of investor assets.

Also in April, the SEC charged Robert J. Vitale, a former stock promoter, with defrauding investors in a real estate venture, selling unregistered securities, and acting as an unregistered broker-dealer.[73] Vitale and his firm raised more than $8.7 million from investors, including many senior citizens. The SEC alleged that, among other things, Vitale claimed that the funds were

[69] *In the Matter of Bank of America Corporation, Press Rel. 2014-172 (August 21, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370542719632*

[70] *SEC v. CKB168 Holdings LTD., et al., Press Rel. 2013-223 (October 17, 2013) www.sec.gov/News/PressRelease/Detail/PressRelease/1370539880547*

[71] *SEC v. World Capital Market Inc., et al., Press Rel. 2014-60 (March 28, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370541324305*

[72] *SEC v. TelexFree, Inc., et al., Press Rel. 2014-79 (April 17, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370541520559*

[73] *SEC v. Robert J. Vitale, et al., Press Rel. 2014-83 (April 23, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370541624638*

100 percent protected when they were not and touted his honesty and integrity while failing to disclose that he had been previously charged by the SEC and barred from the brokerage industry. Vitale currently is serving a two-year prison sentence after being convicted of obstruction of justice and providing false testimony in the SEC's investigation that led to these charges.

In June, the SEC charged the Erik T. Voorhees, the co-owner of two Bitcoin-related websites, for publicly offering shares in the two ventures without registering them.[74] An SEC investigation found that Voorhees published prospectuses on the Internet and actively solicited investors to buy shares in the two ventures, but failed to register the offerings as required under the Federal securities laws. Voorhees agreed to settle the SEC's charges by paying full disgorgement of his profits plus a $35,000 penalty and also agreed to not participate in any issuance of any security in an unregistered transaction in exchange for any virtual currency for a period of five years.

In another Bitcoin-related action, the SEC obtained a final judgment against Trendon T. Shavers and Bitcoin Savings and Trust (BTCST), an online entity Shavers created and used to operate a Ponzi scheme in which he defrauded investors out of more than 700,000 Bitcoins.[75] The SEC charged Shavers and BTCST for this fraudulent conduct in July 2013, which was the first-ever enforcement action involving virtual currencies. The final judgment requires Shavers and BTCST to pay more than $40 million in disgorgement and prejudgment interest, and orders each of them to also pay a civil penalty of $150,000.

Other Significant Matters

In September, the SEC charged 34 individuals and entities in a novel Enforcement initiative designed to root out those who repeatedly fail to comply with Federal securities laws requiring them to promptly report information about their holdings and transactions in company stock.[76] Enforcement staff used quantitative data analytics to identify individuals and companies with especially high rates of filing deficiencies. This resulted in charges against 28 officers, directors, or major shareholders for violating reporting requirements and six publicly-traded companies for contributing to filing failures by insiders or failing to report their insiders' filing delinquencies. Thirty three of the 34 individuals and companies named in the SEC's orders agreed to settle the charges and pay financial penalties totaling $2.6 million.

FY 2014 also included a number of trial victories for Enforcement. After a five-week trial that concluded in October 2013, a jury returned a verdict in favor of the SEC on fraud claims against attorney Todd A. Duckson; a real estate lending fund; and a company owned by Duckson that became the real estate fund's investor adviser.[77] The SEC alleged that the defendants engaged in securities fraud in connection with their offer and sale of interests in the real estate fund. Duckson and the other defendants raised over $21 million from investors while making materially false and misleading statements that effectively hid the real estate fund's deteriorating financial condition. In June 2014, the court issued an order imposing permanent injunctions against all three defendants, barring Duckson from serving as an officer or director of a publicly traded company for a period of ten years, and imposing financial sanctions exceeding $14.5 million against the real estate fund, $3.3 million against Duckson and the fund's advisor, jointly and severally, and $1.8 million against Duckson individually.

Also in October, the SEC obtained a jury verdict in its favor on all counts against AIC, Inc., Community Bankers Securities, LLC, and Nicholas D. Skaltsounis.[78] The SEC alleged that Skaltsounis devised and orchestrated an offering fraud in which he sold millions of dollars of AIC promissory notes and stock. The SEC further alleged that the defendants misrepresented and omitted material information to investors, many of whom were elderly, about a variety of things, including the safety and risk, associated with the investments. In August 2014, the court issued an opinion and final judgments against the defendants imposing permanent injunctive relief, disgorgement and prejudgment interest, and civil penalties. Altogether, the

[74] *In the Matter of Erik T. Voorhees, Press Rel. 2014-111 (June 3, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370541972520*

[75] *SEC v. Trendon T. Shavers, et al., Litigation Rel. 23090 (September 22, 2014) www.sec.gov/litigation/litreleases/2014/lr23090.htm*

[76] *SEC Announces Charges Against Corporate Insiders for Violating Laws Requiring Prompt Reporting of Transactions and Holdings, Press Rel. 2014-190 (September 10, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370542904678*

[77] *SEC v. Todd A. Duckson, et al, Litigation Rel. 23036 (July 2, 2014) www.sec.gov/litigation/litreleases/2014/lr23036.htm*

[78] *SEC v. AIC, Inc., et al., Press Rel. 2014-157 (August 1, 2014) www.sec.gov/News/PressRelease/Detail/PressRelease/1370542590856*

court imposed nearly $70 million in disgorgement, prejudgment interest, and civil penalties against the defendants and relief defendants.

In February, the SEC won its jury trial against hedge fund manager Marlon M. Quan and his firms, which he used to facilitate a multi-billion dollar Ponzi scheme operated by Minnesota businessman Thomas Petters.[79] The SEC alleged that Quan funneled several hundred million dollars of investor money into the scheme and falsely assured investors that their money would be protected. In September 2014, the court issued an opinion and order imposing permanent injunctions and monetary sanctions of over $80 million against Quan and his firms.

In May, a jury also returned a verdict in favor of the SEC on all claims in its action against Samuel and Charles Wyly.[80] The SEC alleged that the Wylys engaged in a 13-year fraudulent scheme involving off-shore trusts to hold and trade tens of millions of securities of public companies while they were members of the boards of directors of those companies, without disclosing their ownership and their trading of those securities. The SEC further alleged that as a result of the scheme, the Wylys realized gains in excess of $550 million. Prior to trial, Michael C. French, the Wylys' former attorney, who was also charged by the SEC, agreed to settle the SEC's charges by admitting certain facts, paying almost $795,000, and consenting to an order suspending him from appearing or practicing as an attorney before the SEC.[81] In September, the court issued an opinion and order requiring the Wylys to pay disgorgement totaling more than $187 million in addition to prejudgment interest for the entire period of the fraud.

A few months later, a jury returned a verdict against Sage Advisory Group, LLC and its principal, Benjamin Lee Grant, in a fraud case filed by the SEC.[82] The SEC alleged that Grant engaged in a scheme to induce his former brokerage customers to transfer their assets to Sage, his new advisory firm. The SEC contended that Grant made a number of materially false and misleading statements to his customers about moving their accounts to his new firm and that Grant failed to disclose that the switch would result in significant savings that would flow to Grant and Sage rather than the advisory clients. The court will later determine whether and what relief to impose against the defendants.

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[79] *SEC v. Marlon Quan, et al., Litigation Rel. 23093 (September 25, 2014)*
www.sec.gov/litigation/litreleases/2014/lr23093.htm

[80] *Statement on Jury's Verdict in Case Against the Wylys (May 12, 2014)*
www.sec.gov/News/PublicStmt/Detail/PublicStmt/1370541799330

[81] *In the Matter of Michael C. French, Esq., Administrative Proceeding File No. 3-15933 (June 17, 2014)*
www.sec.gov/litigation/admin/2014/33-9601.pdf

[82] *SEC v. Sage Advisory Group, LLC, et al., Litigation Rel. 23066 (August 13, 2014)*
www.sec.gov/litigation/litreleases/2014/lr23066.htm

Appendix C: SEC Divisions and Offices

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Appendix D: Glossary of Selected Terms

Advisers Act

The Investment Advisers Act of 1940 is a U.S. Federal law that was created to regulate the actions of investment advisers.

Agency Financial Report (AFR)

An annual requirement that provides financial and high-level performance results that enable the President, Congress, and the public to assess an agency's accomplishments each fiscal year (October 1 through September 30). This report includes audited financial statements and provides an overview of an agency's programs, accomplishments, challenges, and management's accountability for entrusted resources. The report is prepared in accordance with the requirements of Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. Under Circular A-136, agencies may prepare an Agency Financial Report (AFR) and Annual Performance Report (APR), or may combine these two reports into the Performance and Accountability Report (PAR).

Alternative Trading System (ATS)

A privately operated platform to trade securities outside of traditional exchanges.

Annual Performance Report (APR)

A report that outlines goals and intended outcomes of an agency's programs and initiatives. This report provides program performance and financial information that enables the President, Congress, and the public to assess an agency's performance and accountability over entrusted resources.

Asset

An asset is a resource that embodies economic benefits or services that the reporting entity controls.

Statement of Cash Flows

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

Clawback Policies

Under the Dodd-Frank Act, all listed companies will eventually be required to institute a mechanism for reclaiming executive pay that had been granted under misstated earnings.

Collateralized Debt Obligation (CDO)

A type of structured asset-backed security (ABS) with multiple "tranches" that are issued by special purpose entities and collateralized by debt obligations including bonds and loans. Each tranche offers a varying degree of risk and return so as to meet investor demand.

Custodial Activity

Revenue that is collected, and its disposition, by a Federal agency on behalf of other entities is accounted for as a custodial activity of the collecting entity. SEC custodial collections include amounts collected from violators of securities laws as a result of enforcement proceedings.

Crowdfunding

In the JOBS Act, a new means of raising capital enabling the raising of small amounts of equity capital without having to register with the SEC.

Dark Pool

Alternative trading systems that display little or no information about customer orders are known as dark pools.

Deposit Fund

Consists of funds that do not belong to the Federal Government, such as disgorgement, penalties, and interest collected and held on behalf of harmed investors, registrant monies held temporarily until earned by the SEC, and collections awaiting disposition or reclassification.

Derivative

A contract between two parties that specifies conditions (dates, resulting values of the underlying variables, and notional amounts) under which payments are to be made between the parties.

Disgorgement

A repayment of funds received or losses forgone, with interest, as a result of illegal or unethical business transactions. Disgorged funds are normally distributed to those affected by the action, but in certain cases may be deposited in the U.S. Treasury General.

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

A Federal law that regulates the U.S. financial industry. The legislation, enacted in July 2010, created new financial regulatory processes that enforce transparency and accountability while implementing rules for consumer protection.

Entity Assets

Assets that an agency is authorized to use in its operations. For example, the SEC is authorized to use all funds in the Investor Protection Fund (IPF) for its operations.

Entity Accounts Receivable

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

Exchange Revenue

Exchange revenues are inflows of earned resources to an entity. Exchange revenues arise from exchange transactions, which occur when each party to the transaction sacrifices value and receives value in return. Examples include the sale of goods and services, entrance fees and most interest revenue.

Fair Fund

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

Federal Accounting Standards Advisory Board (FASAB)

A U.S. Federal advisory committee sponsored by the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States, whose mission is to develop generally accepted accounting principles (GAAP) for the Federal Government.

Federal Information Security Management Act (FISMA)

A law that requires Federal agencies to conduct annual assessments of their information security and privacy programs, develop and implement remediation efforts for identified weaknesses and vulnerabilities, and report on compliance to the Office of Management and Budget (OMB).

Financial Industry Regulatory Authority, Inc. (FINRA)

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

Fund Balance with Treasury (FBWT)

A Federal entity's fund balance with the U.S. Treasury (FBWT) is the amount of funds in the entity's accounts with the U.S. Treasury for which the entity is authorized to make expenditures and pay liabilities and that have not been invested in Federal securities.

Funds from Dedicated Collections

Accounts containing specifically identified revenues, often supplemented by other financing sources, that are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the Government's general revenues. For example, Investor Protection Fund (IPF) resources are funds from dedicated collections and may only be used for the purposes specified by the Dodd-Frank Act.

General Funds – Salaries and Expenses

Appropriations by Congress that are used to carry out the agency's mission and day to day operations that may be used in accordance with spending limits established by Congress.

Generally Accepted Accounting Principles (GAAP)

Framework of accounting standards, rules, and procedures defined by the professional accounting industry. The Federal Accounting Standards Advisory Board (FASAB) is the body designated by the American Institute of Certified Public Accounting (AICPA) as the source of GAAP for Federal reporting entities.

Imputed Financing

Financing provided to the reporting entity by another Federal entity covering certain costs incurred by the reporting entity. For example, some Federal employee retirement benefits are paid by the Federal Government's central personnel office, the Office of Personnel Management (OPM). The SEC recognizes a financing source and corresponding expense to represent its share of the cost of providing pension and post-retirement health and life insurance benefits to all eligible SEC employees.

Insider Trading

The buying or selling of a security by someone who has access to material, nonpublic information about the security.

Intragovernmental Costs

Costs that arise from the purchase of goods and services from other components of the Federal Government.

Investor Protection Fund (IPF)

A fund established by the Dodd-Frank Act to pay awards to whistle-blowers. The program requires the Commission to pay an award, under regulations prescribed by the Commission and subject to certain limitations, to eligible whistleblowers who voluntarily provide the Commission with original information about a violation of Federal securities laws that leads to the successful enforcement of a covered judicial or administrative action, or a related action.

Jumpstart Our Business Startups (JOBS) Act

A Federal law enacted on April 5, 2012 intended to encourage small businesses within the U.S. by easing securities regulations for those businesses.

Liability

A liability is a present obligation of the reporting entity to provide assets or services to another entity at a determinable date, when a specified event occurs, or on demand.

Market Based Treasury Securities

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

Microcap Securities

Low priced stocks issued by the smallest of companies.

Miscellaneous Receipt Account

A fund used to collect non-entity receipts from custodial activities that the SEC cannot deposit into funds under its control or use in its operations. These amounts are forwarded to the U.S. Treasury General Fund and are considered to be non-entity assets of the SEC.

NASDAQ

The NASDAQ Stock Market, also known as simply NASDAQ, is an American stock exchange. NASDAQ originally stood for National Association of Securities Dealers Automated Quotations. It is the second-largest stock exchange by market capitalization in the world, after the New York Stock Exchange.

Net Capital Rule Violations

Exchange Act Rule 15c3-1, known as the net capital rule, generally requires that every broker-dealer maintain a specified minimum level of liquid assets, or net capital.

Non-Entity Assets

Those assets that are held by an entity but are not available to the entity. Examples of non-entity assets are disgorgement, penalties, and interest collected and held on behalf of harmed investors.

Office of Management and Budget (OMB) Circular A-123

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

Office of Management and Budget (OMB) Circular A-136

Establishes a central point of reference for all Federal financial reporting guidance for Executive Branch departments, agencies, and entities required to submit audited financial statements, interim financial statements, and Performance and Accountability Reports (PAR), and Agency Financial Reports (AFR) under the Chief Financial Officers Act of 1990 (CFO Act), the Accountability of Tax Dollars Act of 2002, and Annual Management Reports under the Government Corporations Control Act.

Performance and Accountability Reports (PAR)

An annual report that provides program performance and financial information that enables Congress, the President, and the public to assess an agency's performance and accountability over entrusted resources.

Performance Indicators Results Summary

A summary of performance by outcome within each strategic goal.

Pay to Play Schemes

Payments or gifts made to influence awarding of lucrative contracts for securities underwriting business.

Public Company Accounting Oversight Board (PCAOB)

A nonprofit corporation established by Congress to oversee the audits of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports. The PCAOB also oversees the audits of broker-dealers, including compliance reports filed pursuant to Federal securities laws, to promote investor protection.

Pump and Dump Schemes

A form of micro stock fraud involving artificially inflating the price of an owned stock through false and misleading positive statements.

Reserve Fund

A fund established by the Dodd-Frank Act that may be used by the SEC to obligate amounts up to a total of $100 million in one fiscal year as the SEC determines it necessary to carry out its functions.

Scalping

The illegal practice of recommending that others purchase a security and secretly sell the same security contrary to the recommendation.

Section 31 Fees

Transaction fees paid to the SEC based on the volume of securities that are sold on various markets. Under Section 31 of the Securities Exchange Act of 1934 (Exchange Act), self-regulatory organizations (SROs) – such as the Financial Industry Regulatory Authority (FINRA) and all of the national securities exchanges (including the New York Stock Exchange) – must pay transaction fees to the SEC based on the volume of securities that are sold on their markets. These fees recover the costs incurred by the Government, including the SEC, for supervising and regulating the securities markets and securities professionals.

Securities Exchange Act of 1934 (Exchange Act)

A law governing the secondary trading of securities (stocks, bonds, and debentures) in the United States. It was this piece of legislation that established the Securities and Exchange Commission. The Exchange Act and related statutes form the basis of regulation of the financial markets and their participants in the United States.

Self-Regulatory Organization (SRO)

An organization that exercises some degree of regulatory authority over an industry or profession. The regulatory authority could be applied in addition to some form of Government regulation, or it could fill the vacuum of an absence of Government oversight and regulation. The ability of an SRO to exercise regulatory authority does not necessarily derive from a grant of authority from the Government.

Strategic Plan

A report initially required by the Government Performance and Results Act (GPRA) that defines the agency mission, long-term goals, strategies planned, and the approaches it will use to monitor its progress in addressing specific national problems, needs, challenges, and opportunities related to its mission. The Plan also presents general and long term goals the agency aims to achieve, what actions the agency will take to realize those goals, and how the agency will deal with challenges and risks that may hinder achieving result. Requirements for the Strategic Plan are presented in OMB Circular A-11, *Preparation, Submission and Execution of the Budget*.

U.S. Commodity Futures Trading Commission (CFTC)

An independent agency of the U.S. Government that regulates futures and option markets.

U.S. Exchanges

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

U.S. Securities and Exchange Commission (SEC)

The SEC is an independent agency of the U.S. Government established pursuant to the Securities Exchange Act of 1934 (Exchange Act), charged with regulating the country's capital markets. It is charged with protecting investors, maintaining fair, orderly and efficient markets; and facilitating capital formation.

Appendix E: Acronyms

ADA	Antideficiency Act
AFR	Agency Financial Report
AICPA	American Institute of Certified Public Accountants
APR	Annual Performance Report
ATS	Alternative Trading Systems
CBOE	Chicago Board Options Exchange
CDO	Collateralized Debt Obligation
CDS	Credit Default Swap
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CFTC	Commodities Futures Trading Commission
CRQA	Center for Risk and Quantitative Analysis
CSRS	Civil Service Retirement System
DERA	Division of Economic and Risk Analysis
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
DOL	U.S. Department of Labor
DOJ	U.S. Department of Justice
ECN	Electronic Communications Network
EDGAR	Electronic Data Gathering, Analysis and Retrieval
ERISA	Employee Retirement Income Security Act
ESC	Enterprise Service Center
ETF	Exchange-Traded Funds
Exchange Act	Securities Exchange Act of 1934
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FCPA	Foreign Corrupt Practices Act
FECA	Federal Employees' Compensation Act
FedRAMP	Federal Risk and Authorization Management Program
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FINRA	Financial Industry Regulatory Authority
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMOC	Financial Management Oversight Committee
FOIA	Freedom of Information Act
FSB	Financial Stability Board
FSIO	Financial Systems Integration Office
FSSP	Federal Shared Services Provider
FTC	Federal Trade Commission

FTE	Full-Time Equivalents
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GPRA	Government Performance and Results Act
GSA	U.S. General Services Administration
GSS	General Support System
IAC	Investor Advisory Committee
ICFR	Internal Control over Financial Reporting
IOSCO	International Organization of Securities Commissions
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
IPO	Initial Public Offering
IT	Information Technology
JAB	Joint Authorization Board
JOBS Act	Jumpstart Our Business Startups Act
MCDC	Municipalities Continuing Disclosure Cooperation (Enforcement Initiative)
MD&A	Management's Discussion and Analysis
MIDAS	Market Information Data and Analytics System
MMoU	Multilateral memorandum of Understanding
MSRB	Municipal Securities Rulemaking Board
NASDAQ	National Association of Securities Dealers Automated Quotations
NEAT	National Exam Analytics Tool
NEP	National Examination Program
NIST	National Institute of Standards and Technology
NMS	National Market System
NPA	Non-Prosecution Agreement
NRSRO	Nationally Recognized Statistical Rating Organization
OA	Office of Acquisitions
OAR	Office of Analytics and Research
OCIE	Office of Compliance Inspections and Examinations
OCOO	Office of the Chief Operating Officer
OFAC	Office of Foreign Assets Control
OFM	Office of Financial Management
OGC	Office of the General Counsel
OHR	Office of Human Resources
OIA	Office of International Affairs
OIEA	Office of Investor Education and Advocacy
OIG	Office of Inspector General
OIP	Order Instituting Cease-and-Desist Proceedings
OIT	Office of Information Technology
OMB	Office of Management and Budget
OPM	Office of Personnel Management

ORA	Office of Risk Assessment
OTC	Over-the-Counter (trading)
PCAOB	Public Company Accounting Oversight Board
PIA	Privacy Impact Assessment
QAU	Quantitative Analysis Unit
QRADS	Quantitative Research Analytical Data Support (program)
RAE	Risk Analysis Examination Group
RAS	Office of Risk Analysis and Surveillance
REITS	Real Estate Investment Trusts
Reserve Fund	Securities and Exchange Commission Reserve Fund
RMBS	Residential Mortgage-Backed Securities
SA&A	Security Assessment and Authorization
S/L	Straight-Line
SBR	Statement of Budgetary Resources
SEC	U.S. Securities and Exchange Commission
SFFAS	Statement of Federal Financial Accounting Standards
SIP	Securities Information Processor
SIPA	Securities Investor Protection Act of 1970
SIPC	Securities Investor Protection Corporation
SPFI	Summary of Performance and Financial Information
SRO	Self-Regulatory Organization
SWG	Specialized Working Groups
TCP	Technology Controls Program
TCR	Tips, Complaints and Referrals
TSP	Thrift Savings Plan
UDO	Undelivered Order
VOIP	Voice Over internet Protocol
XBRL	eXtensible Business Reporting Language

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