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Major Management Priorities, Challenges and Risks

As markets, products, and participants that the SEC oversees and regulates increase in size and complexity, the agency's mandate to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation becomes more challenging. To maximize the use of the SEC's resources for the agency's mission, the agency continually strives to allocate its time and funds towards the highest and best uses. As the agency turns from rule writing to implementation and enforcement of the Dodd-Frank Act and JOBS Act, agency resources need to stretch further to cover the statutory expansions in the SEC's jurisdiction. The SEC also constantly must reevaluate its operations to identify risks and ensure the agency is operating most efficiently to achieve agency priorities.

In light of these challenges, the SEC has developed its FY 2017 budget request with five main management priorities in mind:

- Increasing examination coverage of investment advisers and other key entities who deal with retail and institutional investors;
- Further leveraging cutting-edge technology to permit the SEC to better keep pace with the entities and markets we regulate;

- Protecting investors by expanding our enforcement program's investigative capabilities and strengthening our ability to litigate against wrongdoers;
- Strengthening the SEC's economic and risk analysis functions; and
- Hiring experts capable of permitting the agency to fulfill its expanded rulemaking and oversight responsibilities.

These priorities are discussed in further detail in the Executive Summary and in relevant chapters of this report.

Management Challenges

The SEC's FY 2015 Annual Financial Report (www.sec.gov/about/secpar/secapr2015.pdf), Other Information Section, provides a summary of the most serious management and performance challenges facing the SEC as identified by the Office of the Inspector General (OIG). The AFR provides details on current actions being taken to address these challenges.

The following table describes how the resources requested for FY 2017 will help address the challenges identified by the Inspector General.

Management Challenge Identified by the Inspector General	How the FY 2017 Budget Addresses the Challenge
Regulatory Oversight	The President's Budget Request for the SEC in FY 2017 seeks additional staff to allow the SEC to accomplish several key and pressing priorities, including bolstering examination coverage for investment advisers and other key areas; continuing the agency's investments in the technologies needed to keep pace with today's high-tech, high-speed markets; strengthening our enforcement program's efforts to detect, investigate, and prosecute wrongdoing; and enhancing the agency's oversight of the rapidly changing markets and ability to carry out its increased regulatory responsibilities.

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**Management Challenge
Identified by the
Inspector General****How the FY 2017 Budget Addresses the Challenge (continued)****Information Security**

In FY 2017, the SEC will continue ongoing efforts to continuously strengthen its cyber security posture and protect information stored, processed, and transmitted by SEC information systems. In today's threat landscape, agencies must possess advanced protocols and capabilities to proactively defend against sophisticated data breaches and cyber intrusions. The SEC will continue efforts to enhance its continuous monitoring program consistent with the federal government's Information System Continuous Monitoring (ISCM) methodology. Continuous monitoring is a critical capability in assessing the security posture of an environment and maintaining a situational awareness of weaknesses and vulnerabilities, thereby reducing the risk of security incidents. The SEC plans to leverage ISCM in integrating an Ongoing Authorization approach consistent with guidance from the National Institute of Standards and Technology. This approach will help the SEC build upon its organization-wide risk management process and better ensure information security risk can be managed more effectively, to include risks presented by shared services and externally-operated systems. Additionally, the SEC plans to focus on bolstering its capability to rapidly respond to unauthorized or anomalous user activity through enhancing its security logging and analysis mechanisms.

Acquisition Management

In FY 2017, the Office of Acquisitions (OA) will use its resources to continue the Contracting Officers' Representative (COR) Improvement Initiative, aimed towards providing greater efficient and functional control, transparency, and management of the COR program across the SEC. OA also will continue to enhance training and monitoring for the Program/Project Management programs, as a tool to ensure that significant investments are appropriately managed and controlled.

Financial Management

The annual financial audit for FY 2015 found that the SEC had no significant issues in its internal controls over financial reporting. However, the SEC will continue to press ahead with efforts to strengthen and automate controls. For example, we will continue developing our monitoring program, to self-assess and proactively address any control weaknesses that may arise. During FY 2016 and FY 2017, the Office of Financial Management (OFM) also will concentrate on further improving systems that support the SEC's financial processes and controls, such as those pertaining to disgorgements and penalties, filing fees, and asset management. Finally, OFM expects to complete the build out of the Internal Controls Branch in FY 2017.

**Human Capital
Management**

The SEC is committed to consistently attracting, hiring, developing, and retaining a high-performing and diverse workforce. To further enhance the SEC's recruitment goals, the Office of Human Resources (OHR) plans to finalize the SEC Workforce Plan in FY 2016. In FY 2017, OHR will conduct periodic reviews to assess whether the plan aligns with current agency workforce and succession planning efforts. Overall, OHR's FY 2017 allocation will further the strategic management of the SEC's human capital by attracting and retaining a diverse and talented workforce, administering programs to enhance employee engagement and leadership development, implementing advanced technologies to enhance and streamline work processes, and establishing policies and procedures to ensure compliance with Federal regulations and negotiated agreements. Also, in FY 2017, the SEC is requesting one additional position for the Office of Minority and Women Inclusion (OMWI) to support the continuous monitoring and performance evaluation for all of the Agency's diversity and inclusion initiatives, as well as one data analyst for the Office of Equal Employment Opportunity (OEEO) to assist in conducting barrier analysis, preparing internal and external reports, improving operational efficiencies, and enhancing internal controls.

Operational Risk Management

The SEC has further enhanced operational effectiveness via an agency-wide Operational Risk Management program. Risk management processes and procedures are being institutionalized and consistently applied within all operating units, to ensure that internal operating risks are identified, analyzed, and managed at all levels of the organization. The Operational Risk Management Oversight Committee (RMOC)

provides oversight of the development and implementation of operational risk policies, frameworks, and methodologies, and it provides leadership and monitoring of agency-wide operational risks. In FY 2016 and FY 2017, the SEC expects to make adjustments to its risk management practices based on upcoming guidance from the Office of Management and Budget, as appropriate.

Cross Agency Collaboration

Working with partners across regulatory boundaries, market segments, and national borders furthers the SEC's ability to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. The SEC values these partnerships and understands that these collaborations are critical for the SEC to meet its strategic goals. Examples of these collaboration efforts are discussed below.

Strategic Goal 1

To establish an effective regulatory environment, several SEC divisions and offices regularly collaborate with both internal and external partners.

For example, the SEC participates in international regulatory organizations such as the Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO). Through these entities, the SEC addresses international regulatory issues by developing international guidance, recommendations and standards, and assessing the implementation of foreign financial market reforms and their ramifications for U.S. investors. The SEC is involved in multiple IOSCO policy committees, working groups and task forces, and influences IOSCO's contributions to the FSB. For example, the SEC is working with IOSCO to develop a toolbox of approaches for regulating market conduct. These organizations also issued papers in FY 2015 related to, among other topics, cross-border regulation, credit rating agencies, and methodologies for determining non-bank, non-insurance systemically relevant entities.

The SEC also participates in bilateral dialogues with foreign counterparts on securities markets issues, including dialogues led by the Treasury Department such as the U.S.-EU Financial Markets Regulatory Dialogue, NAFTA Financial Services Committee, U.S.-EU Financial Services Committee, US-China Strategic and Economic Dialogue, and U.S.-India Financial Regulatory Dialogue. In FY 2017, the SEC anticipates that the pace of regulatory action in other jurisdictions will increase, particularly in the European Union, and the SEC will continue to explore opportunities for converged approaches to high quality regulatory standards. Moreover, the demand for supervisory MOUs with foreign regulators will grow as regulators look to share information and exchange views in cross-border supervisory matters.

In FY 2014, the SEC and four other regulatory agencies adopted a common rule to implement Section 619 of the Dodd-Frank Act, known as the "Volcker Rule." The Division of Trading and Markets continues to work closely with these agencies to coordinate their implementation of the common rules, including collaboration on responses to interpretive questions, collection of metrics data, and examining and supervising affected firms. This close partnership enables the Commission to fulfill its statutory mandate to issue and implement rules under Section 619 in coordination with the other rulemaking agencies. Interagency coordination also reduces the potential costs to affected firms that could arise from diverging interpretations of the common rule. Partners within the SEC include the Division of Investment Management, Division of Corporation Finance, Division of Economic and Risk Analysis, Office of Compliance Inspections and Examinations, and Office of the General Counsel. Other Federal agencies involved in this project include the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Commodity Futures Trading Commission.

The Division of Corporate Finance (CF) ensures the SEC's compliance with Section 941 of the Dodd-Frank Act, which requires the SEC to partner with other Federal financial regulators to jointly prescribe regulations on risk retention for securitizers in asset-backed securities transactions. After the agencies jointly adopted the final rules on risk retention in October 2014, CF staff collaborated with the other agencies to provide interpretive guidance on the rules, as appropriate. CF also consults with other Federal agencies on implementation of credit risk retention rules. These agencies include the Federal Reserve Board (FRB), Office of the Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC), Department of Housing and Urban Development (HUD), Federal Housing Finance Agency (FHFA), and the Department of the Treasury. Furthermore, CF routinely participates with Federal banking regulators on accounting issues in accordance to Section 241 of the Gramm-Leach-Bliley (GLB) Act which requires the SEC to consult and coordinate with the appropriate Federal banking agencies before issuing comments to banks regarding loan loss allowances.

The Office of the Chief Accountant leads the SEC's efforts to oversee accounting standard-setting by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB), and auditor oversight and standard-setting by the Public Company Accounting Oversight Board (PCAOB). In addition, OCA, together with the Office of International Affairs, will continue to manage the SEC's representation in the International Financial Reporting Standards Foundation Monitoring Board.

Strategic Goal 2

To foster and enforce compliance with the Federal securities laws, the SEC works closely with other agencies and foreign governments.

The Division of Enforcement (ENF) collaborates with a number of criminal authorities. For example, the Division, the U.S. Department of Justice, and the U.S. Attorney's Offices frequently collaborate on individual cases and broad sweeps or task forces through access grants to their respective investigative files. The Division also collaborates with the Federal Bureau of Investigation (FBI) on individual matters and through a Memorandum of Understanding to embed several Agents and Intelligence Analysts from the FBI's Economic Crimes Unit into the Division's Office of Market Intelligence (OMI) for the purpose of information sharing and combatting securities fraud by leveraging each other's resources and expertise.

ENF also coordinates with other Federal agencies, routinely exchanging tips, complaints and referrals and sharing information and intelligence. The Division primarily coordinated in this regard with the U.S. Department of Justice, the U.S. Attorney's Offices, and the Federal Bureau of Investigation, but also coordinates with other Federal and state agencies including, among others, the Consumer Financial Protection Bureau, the Commodity Futures Trading Commission, the Department of Education, the Department of Labor, the Federal Trade Commission, the Internal Revenue Service, the Financial Crimes Enforcement Network, and the Office of the Comptroller of the Currency.

The Office of Compliance, Inspections and Examinations (OCIE) is responsible for the oversight of broker-dealers and does so through many coordinated efforts with the Financial Industry Regulatory Authority (FINRA). The SEC and FINRA have regular contact to discuss strategic initiatives, examination coordination, risk assessment efforts, rule-making

issues, industry risks, etc. This type of coordination is ultimately intended to make oversight of broker-dealers more effective and to improve compliance within the industry. As an example, the two agencies coordinate to formally present Compliance Outreach Seminars. Additional SEC offices, particularly the Division of Trading and Markets, are involved heavily in this coordination as well.

OIA staff assists the SEC's Division of Enforcement with hundreds of requests for international assistance each year, particularly in the area of coordination of parallel proceedings with foreign securities and law enforcement authorities. OIA assists Enforcement with efforts to freeze and repatriate assets held in foreign nations and provides guidance to foreign counterparts in their efforts to secure the proceeds of fraud present within the U.S.

OIA actively participates in multilateral efforts to enhance international enforcement cooperation, representing the SEC on multiple International Organization of Securities Commissions (IOSCO) committees and steering groups. OIA coordinates with foreign counterparts to develop policies relating to enforcement matters, and to promote international cooperation among securities regulators in their respective investigations and cases. In addition, OIA coordinates with the Division of Enforcement and the CFTC on joint and parallel investigations of possible violations of U.S. securities and commodities and futures laws where international issues exist. OIA also works with the Department of Justice and foreign law enforcement agencies on joint and parallel investigations of possible violations of U.S. securities laws where international issues exist.

Strategic Goal 3

The SEC frequently works with other entities to facilitate access to the information investors need to make informed investment decisions.

For example, the Office of Investor Education and Advocacy (OIEA) is an active member of IOSCO Committee 8, the primary mandate of which is to conduct IOSCO's policy work on retail investor education and financial literacy. On May 6, IOSCO published results of the Committee's survey on anti-fraud messaging, which described strategies used by securities market regulators to educate individual investors about how to protect themselves against investment fraud. OIEA led the project working in coordination with various IOSCO members.

OIEA also worked with FINRA to issue two Joint Investor Alerts: “Dormant Shell Companies – How to Protect Your Portfolio from Fraud” and “Automated Investment Tools”. These alerts warn investors about aggressively promoted “penny” stocks that may be stocks of companies that have no or nominal business operations or non-cash assets for an extended period of time, and gave the public information on automated investment tools.

CF and OMWI staff also work with the Small Business Administration (SBA) to develop outreach events to educate the public about the changes made by the JOBS Act.

Strategic Goal 4

To enhance the Commission’s performance through effective alignment and management of human, information, and financial capital the Commission’s administrative offices often work collaboratively with other agencies. Below are just a few examples of activities the SEC participates in to help further enhance the effectiveness of our core operations.

The Office of Human Resources is developing a Financial Rotation Program in collaboration with Treasury, FDIC, CFPB, Federal Reserve and CFTC. This program will provide an opportunity for front line employees to be able to share knowledge and best practices across the financial community. OHR also participates in quarterly discussions to benchmark the benefits and worklife program offerings among the FIRREA agencies. The shared goal is to benchmark program areas, understand each other’s organizational climate, and

explore best practices. Participants include the FDIC, the CFTC, the Federal Housing Finance Administration, the OCC, NCUA, and the Farm Credit Administration

The Project Management Office (PMO) within the Chief Operating Officer’s Office (COO) participates in a roundtable with the CFTC and the CFPB. The purpose of the roundtable is to build relationships between Project Management Office (PMO) staff across Federal agencies, to share lessons learned in PMO development and project delivery, to establish a forum for partnership and idea-sharing, and to help each pursue excellence in mission delivery within our respective organizations. The Office of Risk Management (ORM), also within the COO, participates in another roundtable called the Program Management Community of Practice. Collaboration activities include sharing best practices; comparing risk management technology; benchmarking program maturity; and sharing tools, templates, and methodologies with other risk management professionals across Federal agencies.

The Office of Information Technology is another office at the SEC that routinely works with other agencies. For example, OIT is involved in a project with GSA called GSA Networkx. The goal of this project is to provide a flexible, responsive and cost effective vehicle for telecommunications and data services from the nations’ telecommunication providers. OIT also works with the National Telecommunications & Information Administration (NTIA) within the Department of Commerce (DOC) so the SEC may have use of DOC/NTIA’s radio frequencies, assesses interference concerns, and assure spectrum efficiency.

Evidence Building

Internal and external evaluations play a significant role in monitoring and improving SEC program performance. Through objective measurement and analysis, agency managers determine the extent to which programs are achieving mission objectives allowing them to direct SEC resources accordingly. In FY 2015, there were nine Government Accountability Office (GAO) reports and eleven Office of Inspector General reports related to agency operations. Beyond this, examples of reviews and evaluations that the agency has initiated and plan to continue include:

- The agency initiated and advanced broad-based reviews of core agency programs involving equity market structure and the effectiveness of its public company disclosure rules to protect investors and promote capital formation. These initiatives will continue in FY 2017.
- The Division of Trading and Markets will continue to explore options to improve the market structure for trading fixed income securities, including municipal and corporate bonds. Current and ongoing initiatives include the adoption of riskless principal markup disclosure

rules by FINRA and the Municipal Securities Rulemaking Board (MSRB), development of best execution guidance for the corporate and municipal bond markets, and development of SEC rules designed to improve pre-trade price transparency in these markets.

- In FY 2017, the Division of Investment Management (IM) will continue to focus on a set of initiatives to enhance investment management industry resilience to portfolio composition risk and operational risk.
- Through customer satisfaction surveys and other research, the Office of Investor Education and Advocacy and the Office of the Investor Advocate will seek additional information regarding the behavior of individual investors, the types of information they need and use when making investment decisions, and the usefulness of SEC's investor education programs and materials.
- The SEC reviews performance goal data on a quarterly basis through the Chair's Quarterly Operating Report (CQOR), which was created to establish a performance measure monitoring process for the agency. Once per quarter, the SEC's Performance Improvement Officer and the Chair's Office review the status of performance goals and indicators and determine whether the agency is on target for achieving the performance goals for the fiscal year. The report includes the quarterly result for each performance goal or indicator and the progress achieved towards meeting the target for the fiscal

year. The SEC's quarterly review process is in line with OMB and Performance Improvement Council recommendations for frequent data-driven reviews.

While the SEC is not required to comply with OMB Memorandum M-14-06, the agency is supportive of the aims to make greater use of existing administrative data where possible. The SEC is already implementing activities that are consonant with the guidance outlined in the Memorandum. Examples of such activities are highlighted below.

- The SEC's Division of Economic and Risk Analysis (DERA) established the Quantitative Research and Analytic Data Support (QRADS) program, with a formal governance committee to manage the flow of SEC data/analytic projects.
- The SEC manages a website to provide investors and others with the ability to interactively explore a range of new market metrics and access empirical research and analyses that further inform the broader public debate on market structure. The website is located at www.sec.gov/marketstructure. It serves as a central location for the SEC to publicly share evolving data, research, and analysis as the agency continues its review of equity market structure. The data and related observations address the nature and quality of displayed liquidity across the full range of U.S.-listed equities – from the lifetime of quotes and the speed of the market to the nature of order cancellations.

Hyperlinks to Other Information and Resources

SEC Strategic Plan for 2014-2018	www.sec.gov/about/sec-strategic-plan-2014-2018.pdf
FY 2015 Agency Financial Report	www.sec.gov/about/secafr2015.shtml
Prior Year Congressional Budget Justifications	www.sec.gov/about/secreports.shtml
SEC's Investor.gov	www.investor.gov
SEC Office of the Whistleblower	www.sec.gov/whistleblower
SEC Enforcement Actions	www.sec.gov/spotlight/enf-actions-fc.shtml
The Laws that Govern the Securities Industry	www.sec.gov/about/laws.shtml
Glossary of Terms and Acronyms	www.sec.gov/fast-answers